THE INFLUENCE OF ORGANIZATIONAL TECHNOLOGY STRATEGY ON SUSTAINING ETHICAL BUSINESS STRATEGIES FOR SHARIAH COMPLIANT MICRO FINANCE INSTITUTIONS IN INDONESIA

Muhammad Kurnia Rahman Abadi, kurniarahman@gmail.com
Suhami Mhd Sarif, albanjari@gmail.com

Abstract
Organizational technology strategy as functional strategy has moderating role in sustaining ethical business strategies formulation and implementation. An organization with Shariah compliant credential optimizes all capability to sustain competitiveness and performance.

Keywords: Organizational strategy, Ethical business strategies, Shariah compliant, Micro Finance Institutions.

Introduction

This research was conducted to establish the relationship between business strategies towards corporate governance practices and structures, incorporated by organizational capacity elements and information technology strategy of Islamic micro finance institutions in Indonesia. Because of poor corporate governance, which led to a decline in public trust and also equity market values per share during the financial crisis, 1997-1998, the issue of corporate governance has become a major concern of stakeholders (Davis-Friday, Eng, & Liu, 2006). Moreover, the impact this condition will be felt by its main stakeholders. Therefore, corporate governance is a study that is always considered as long as the company survives. A study by Ho and Williams (2003) provides findings which show that the need for corporate governance is different in various companies under different economic conditions (Ghezzi, 2013).

The public still have a big trauma situation due to of weak corporate governance, such as the collapse of large companies, such as Enron Corporation in late 2001 and the collapse of Global Crossing and WorldCom, and Tyco International in the United States (US), have increasingly contributed to serious issues of corporate governance. (Thomas, 2000) The same conditions are currently being faced by companies in Indonesia.

The Indonesian Financial Services Authority said that on a macro industry scale, companies in Indonesia only place 2 companies from the list of the 50 best issuers in good corporate governance practices in ASEAN. This achievement is still very far behind compared to Thailand which is able to place 23 issuers, followed by the Philippines with 11 issuers. While Singapore and Malaysia each place 8 and 6 issuers respectively (OJK, 2018). It means, the companies in Indonesia still have many problems regarding good corporate governance.

By using agency and stewardship theory, many studies have examined business strategy and corporate governance. In some findings it was found that there was an impact of board independence and leadership structure on company performance (Mahmoud Abu-Tapanjeh, 2006). The findings of this study indicate that the company's performance is influenced by the independence of the board and the leadership structure. Nevertheless, business strategy must be a trigger and right direction for the running of business for the organization. Business strategies become intrinsic references that contain various company values. Business strategies can also be a differentiator compared to competitors. For this reason it would be very interesting if this study read the success of a company from another perspective, namely the business strategy through corporate governance.

The business strategy will provide broad and clear horizons for the running of corporate governance. For example, a study in New Zealand by Prevost et al (2002) showed that the improvement in results and performance efficiency were extraordinary when the board of directors, part of corporate governance, was associated with the company's business strategy.

In addition, the findings of Gani and Jermias (2006) reveal that the consideration of the company's competition strategy is very important for a better understanding of the relationship between board independence and business strategy. In terms of the leadership structure, a study by Abu-Tapanjeh (2006) found that CEO duality does not lead to better company performance on the Amman Stock Exchange than companies registered in Jordan due to the inability of the business strategy implemented. Studies using these explanatory variables contribute to the field of corporate governance by providing findings on the impact of business strategies on corporate governance.

The link between business strategy and governance in this study will be tested using moderating variables. This variable is to examine the level of consistency of business strategy and governance relationships. That is, whether these two variables are able to be strengthened by other variables. This study will use 2 moderating variables namely organizational capacity and information technology strategies. These two variables are important to study because they have a very important role. Organizational capacity shows how strong software and soft skills companies have to compete. Organizational capacity contains various elements of value that differentiate between competitors. This is part of the uniqueness of the company. Moreover, the organizational capacity determines how strong the company is in carrying out the rhythm of the organization.

A resource-based view from a corporate perspective (RBV) has been recognized as the right theory to enlighten the problem of the influence of organizational capacity on corporate governance. Corporate governance is recognized through organizational resource capacity that has unique competencies and organizational values, which in turn, leads to competitive advantage, which is also known as the company's core competencies.

While the information technology strategy variable is used as a measure of company sensitivity to dynamics and changing times. In the era of industrial revolution 4.0, business organizations are constantly looking for technology to improve their core competencies and gain competitive advantage in diverse and rapidly changing markets (Yayla & Hu, 2012)). Information Technology (IT) is believed to be one of the most important strengths needed by business companies to improve their efficiency (Lusthaus, Adrien, Anderson, Carden, & Montalvan, 2002), competitiveness (Chao & Chandra, 2012), and innovation (King, Cragg, & Hussin, 2000).

Explicitly, IT significantly promotes efficiency by reducing the costs of acquiring, processing, and transmitting information, creating competitive advantage by lowering costs, increasing differentiation and quickly circulating advanced knowledge in the company (Dewett & Jones 2001), and facilitates innovation by creating a large and rich collection of knowledge for employees to draw from when they are involved in problem solving and decision making (Dewett & Jones, 2001).

In the era of globalization, business enterprises in the developing countries have to compete both domestically and internationally to survive and hence prosper. Unlike macro financial institution such as banks which have deep pockets to hire experience employees, and implement up-to-date technologies to sharpen their competitive edges, micro finance institution, especially, in the developing countries can only utilize their limited resources to optimize their efficiency, profitability, and competitiveness.

Having noted the potential benefit of IT in improving the efficiency of an organization, the alignment between business and IT strategies is believed to be the most effective solution for Islamic microfinance institutions to survive and prosper in the ever competitive environment. Futhermore, IT related issues in Islamic microfinance institutions are financial technology (Fintech). Fintech is one of the technological innovations in the financial sector (Chao & Chandra, 2012). In this modern era, all aspects of people's lives are very close to IT. The existence of Fintech is expected to provide various solutions in the field of financial transactions for the community, for example the ease of the community in accessing financial products and making it easier for them to transact. Until January 2016, the Indonesian Fintech Association noted that domestic Fintech actors operating in Indonesia reached 165 companies or grew four times compared to Q4-2014 as many as 40 companies. (Nazirman, 2017)

Fintech's rules in financial institutions have been regulated by the financial services authority no 77 / PJOK.01 / 2016 (OJK, 2018). Technology-based lending and borrowing services in financial services are bringing together among debitors and creditors in order to make agreements directly through electronic systems using the internet network. Indeed, the usage of Fintech in Islamic microfinance institutions is expected to hint users and operators. However, in accordance with Islamic vocabulary, it must return, especially in Islamic transactions to be in accordance with the guidance of the Koran and prophetic tradition (Nasirman, 2007) . For this reason, Islamic microfinance institutions are also required to carry out innovations and new breakthroughs in their business, for example, IT must also consider the principles of sharia which are the basis.

Fintech for Islamic microfinance institutions will provide a good and digitally controlled picture and service. This situation provides great benefits for the running of corporate governance. Everything that runs within the company is controlled by a measured and precise system. The end result of the implementation of the information technology strategy is the achievement of corporate governance that runs effectively and efficiently without reducing the level of stakeholder satisfaction.

Literature Review

The aim of this study is to assess the relationship between business strategy and corporate governance, moderated by organizational capacity and information technology strategy Islamic micro finance institutions in Indonesia. The introduction of the ICGI, which stresses on accountability and transparency, is expected to result in better company performance (UNESCO, 2015). Companies that comply with the recommendation of the ICGI are expected to perform better than others. Prior studies have examined the influence of corporate governance, organizational capacity and information technology strategy on company performance. However, none has investigated the moderating effect of the organizational capacity and information technology strategy on the association between corporate governance and corporate performance.

While there have been significant empirical studies focusing on identifying the association between business strategy and corporate governance, this study investigates the relationship between business strategy and corporate governance with the presence of organizational capacity and information technology strategy as moderators. Initially, this study tested the impact that corporate governance has on the performance of companies. There is some empirical evidence regarding the capacity of asses' organizations in the performance of companies regarding the relationship between business strategy and corporate governance. Meanwhile, the relationship between organizational culture and company performance and the relationship between organizational capacity and company performance has been carried out independently.

For instance, the findings of a study by Tze-Yu and Andre (2010) imply that acquiring companies having controlling shareholders, who own shares of between twenty-five per cent and thirty per cent, enhances their post-acquisition operating performance over three years after dealing in the business (Klouwenberg, Koot, & van Schaik, 1995). In addition, the findings of other studies, such as by Yuliansyah et.al (2017) found evidence that better corporate governance is associated with higher operating performance and market valuation, such as return on assets (ROA) and Tobin's Q (TO) (Yuliansyah, Gurd, & Mohamed, 2017).

While the issue of corporate governance in other countries globally was given specific attention much earlier compared, studies on corporate governance have largely emerged subsequent to the 1997/1998 Asian Financial Crisis. Several recent studies suggest that corporate governance factors, such as independent directors, CEO duality, size of the board, family members on board and ownership structure, are strong determinants of performance of companies (Ghezzi, 2013; Yuliansyah, Rammal, & Rose, 2016).

Both the agency theory and the stewardship theory are in the current study. However, the agency theory is the leading theory used in this study with respect to corporate governance. The classic agency theory explain how to organize the relationship between the party that identifies the work (the principal) and the pasty that takes the responsibility and apparently acts on behalf of the principal, knows a the agent. The agency perspective has the notion that the nearest of the owners and managers may not coincide (Abdolmohammadi & Owhoso, 2000). Thus, the agent principal theoretical timeworks emphasizes that companies can employ a variety of mechanisms to align the interest of owners and agents. The agency does so have the same view as the stewardship theory that protects and shareholder's wealth in accordance with the objectives of this partials (Klouwenberg et al., 1995). Contrary to the agency theory that motivates agents through awards, such money, promotion and authorization, the stewardship theory inspires and urges agents through intrinsic or native rewards, such as affiliation opportunity to get promoted and achievement

A company is a social system in which members of a company usually have a certain influence in the decision tool to get involved in the system during working (Yiing & Ahmad, 2009). The essence of the organizational culture theory act and make decisions not only based on the facts of a case but also in response to the culture of the organization. This theory is used as the main theory in explaining the relationship between organizational culture and company performance Studies linking organizational capacity and company performance have been carried out in the past half a decade with the emergence of the discussion involving the resources of a company. Various studies appeared to debate organizational capacity and the importance of resources to company performance (Gani & Jermias, 2006; Lusthaus et al., 2002) .

Due to the mixed and inconclusive findings with to corporate governance and corporate performance, the current study is motivated to examine the impact of corporate governance on company performance with the inclusion of the moderators. Hence, the reason for examining the issues simultaneously is to provide explanations concerning the moderating the effects of the organizational capacity elements and IT strategy on the influence of corporate governance (Aida & Imen, 2014; Sivathanu & Pillai, 2018). The current study examines the issues of corporate governance, organizational capacity and information technology strategy together because the gap in the literature concerning corporate governance, organizational capacity and information technology strategy have not been taken into consideration. Organizational capacity and information technology strategy have diverted the impact on company performance in which such impact is the reflection of the decisions made on corporate governance (Yayla & Hu, 2012). As such, the current study provides a breakdown of the impact of corporate governance on corporate performance by specifically showing that organizational capacity and information technology strategy are designed to accommodate the board decisions made through corporate governance.

Acknowledging the fact that researches on the alignment between business and IT strategies have largely emphasized on large business companies (Cragg, King, and Husnayati, 2002; Chao & Chandra, 2012), especially among the developed nations (Yayla & Hu, 2012), further studies needed to be extended to SMEs in the developing nations. Besides, having acknowledged the significant role of the organization culture in the effective adoption of IT in an organization, further explorations on the impact of organization culture on the business-IT strategic alignment are greatly needed.

However, given the definition of corporate governance as a process and structure used to manage a business in achieving the objectives of a company and the description of organizational culture as a factor that affects individuals in an organization, this study explores the link between these two variables. Previous studies have shown that the value of organizational culture is connected with corporate overcame if it is shared among corporate members. In addition, it depicts the way problems with regard to managerial issues. Hence, organizational culture emerges as a function that can assist in consolidating the organizational behaviour patterns whereby corporate governance is described as a driver of culture in an organization (Conclusions & Academic, n.d.) (Llopis, Gonzalez and Gasco, 2010).

Abe and Iwasaki (2010) provide evidence that there are different impacts on managerial turnover in their study which focused on the CEO dismissal and renewal in Russian firms due to the differences in behavioural patterns between domestic and foreign investors (Abe & Iwasaki, 2010). This finding shows how organizational capacity could have affected the performance of companies, and, consequently, has led to an increased interest in investigating the issue in the Malaysian context In respect of the organizational capacity, which is understood as developing the resources and capabilities of an organization that are valuable, rare, imperfectly imitable and non- substitutable, the current study is also interested in exploring the link between the corporate governance and capabilities of a company. This is because organizational capabilities form part of the organization's environment that affect its performance (Lusthaus, Adrien, Anderson, Carden and Montalvan, 2002).

The relationship between corporate governance and organizational capacity can be explained by the systems of organizational capacity that represent incentives, influence patterns, and norms of legitimation that generate particular organizational tendencies to create competitive advantages and disadvantages (Carney, 2005). Drawn from several sources of competitive advantage, this study intends to show the possibility of relating the governance approach with the resource-based view of the firm (RBV) perspective Previously, studies have been conducted separately on each of the three areas (Lee and Ahmad, 2009) to determine their respective impact on corporate performance.

Therefore, the researcher is inspired to conduct an additional test by looking at the moderating effects of organizational capacity and information technology strategy on the influence of business strategy on corporate governance with the expectation to offer new findings in Indonesia.

Research Methods

Population and Data Collection

Data can be obtained in a variety of ways and depends on the type of source availability of a researcher (Sekaran, 2003). The current study utilizes data collection method comprising analysis of annual reports and a questionnaire. The questionnaire survey has a different purpose compared to which is to test the moderating influence of organizational capacity and strategic of information technology on the relationship between business strategy and corporate governance. The population for the questionnaire survey in this study is about one hundred (100) Islamic micro finance in Indonesia. The target respondents were the managers, of each company. The reason for this is because these groups of people comprise working people from specific career backgrounds, who, in their path of their job, come across and are exposed to the corporate governance surroundings, organizational capacity and also financial management experience. Hence, their participation was expected to contribute meaningful responses as the questionnaire survey was focused on the business strategy, corporate governance, organizational capacity and strategy on information technology. Although the respondents are from different groups, selection of the respondents was made based on their broad range of functions to ensure proper representation of the business strategy and corporate governance and that the resources used are comparable across companies (Lee & Yu, 2004).

Statistical Data Analysis

The choice of statistical analysis depends upon the research question, design of research or nature of the data to be tested (Kinnear and Gray, 2008). Data in this study were analysed using two different estimation approaches from the Statistical Package for the Social Sciences (SPSS) program, the multiple regression analysis and hierarchical regression analysis. The multiple regression analysis has extensively been used in the literature to test the relationship between corporate governance organizational culture, organizational capacity and various explanatory variables, such as corporate performance, earnings management and disclosure. Meanwhile, a number of prior studies have applied the hierarchical regression analysis in assessing the influence of moderating variables on the association between independent variables and dependent variables. On the statistics provide summary statistics of variables, such as mean and standard deviation. The SPSS program further highlights the correlation between the variable as presented by the Pearson correlation output. Prior to all the above mentioned analyses and statistics tests, the current study will conduct the factor analysis on the data obtained.

Hierarchical Regression Analysis

A variety of statistical analyses have been developed and introduced to measure the continuous variable from a number of independent variables. Each has its advantages and drawbacks. The hierarchical regression analysis allows the researcher to see the main effect of the independent variable on the outcome variable with the presence of the moderating variable. In other words, the association of the independent variable and the outcome variable depends on the value of the moderator. Several sequential steps are required in performing the hierarchical regression.

The normal procedure in hierarchical regression is to enter the moderators and the independent variables into the analysis in a sequence of blocks, or groups that may contain one or more variables. The hierarchical regression specifies the order in which the variables are added to the regression analysis. In the first step of the regression, the moderating variable is entered into the model to predict the dependent variable. In the following step, the independent variable is entered as the predictor of the dependent variable. Finally, the interaction term (the deviation from the mean value of both the independent variable and moderating variable, following the new value of the independent variable multiplied by the new value of the moderating variable), which represents the joint relationship between the moderator and the independent variable is entered in predicting the dependent variable. The interaction term accounts for additional variance in the explanatory variable beyond that explained by single variable alone. If the interaction term explains a statistically significant amount of variance in the explanatory variable there is an existence of the moderating effects

Bibliography

Abdolmohammadi, M. J., & Owhoso, V. D. (2000). Auditors' ethical sensitivity and the assessment of the likelihood of fraud. *Managerial Finance*, *26*(11), 21–32. https://doi.org/10.1108/03074350010766963

Abe, N., & Iwasaki, I. (2010). Organisational culture and corporate governance in Russia: A study of managerial turnover. *Post-Communist Economies*, *22*(4), 449–470. https://doi.org/10.1080/14631377.2010.518455

Aida, K., & Imen, K. (2014). Islamic Finance for Future Entrepreneurs : Exploring Tunisian Business Students' Knowledge and Potential Usage of Islamic Financing Products. *Journal of Emerging Economies and Islamic Research*, *2*(3), 1–13.

Chao, C. A., & Chandra, A. (2012). Impact of owner's knowledge of information technology (IT) on strategic alignment and IT adoption in US small firms. *Journal of Small Business and Enterprise Development*, *19*(1), 114–131. https://doi.org/10.1108/14626001211196433

Conclusions, M., & Academic, F. (n.d.). Reyes Gonzalez , Juan Llopis , Jose Gasco ., 1–26.

Davis-Friday, P. Y., Eng, L. L., & Liu, C. S. (2006). The effects of the Asian crisis, corporate governance and accounting system on the valuation of book value and earnings. *International Journal of Accounting*, *41*(1), 22–40. https://doi.org/10.1016/j.intacc.2005.12.002

Gani, L., & Jermias, J. (2006). Investigating the effect of board independence on performance across different strategies. *International Journal of Accounting*, *41*(3), 295–314. https://doi.org/10.1016/j.intacc.2006.07.009

Ghezzi, A. (2013). *Revisiting business strategy under discontinuity*. *Management Decision* (Vol. 51). https://doi.org/10.1108/MD-05-2012-0388

King, M., Cragg, P., & Hussin, H. (2000). IT Alignment and Organisational Performance in Small Firms. *European Conference On Information Systems*, 1–7. Retrieved from https://ai2-s2-pdfs.s3.amazonaws.com/1ff2/7b79afe09915cf4b8d8fdffc68c5b11d36fa.pdf

Klouwenberg, M. K., Koot, W. J. D., & van Schaik, J. A. M. (1995). Establishing business strategy with information technology. *Information Management & Computer Security*, *3*(5), 8–20. https://doi.org/10.1108/09685229510104945

Lusthaus, C., Adrien, M.-H., Anderson, G., Carden, F., & Montalvan, P. (2002). *Organizational assessment : a framework for improving performance*. Retrieved from https://idl-bncidrc.dspacedirect.org/handle/10625/31375

Mahmoud Abu-Tapanjeh, A. (2006). An Empirical Study of Firm Structure and Profitability Relationship: The Case of Jordan. *Journal of Economic & Administrative Sciences*, *22*(1), 41–59. https://doi.org/10.1108/10264116200600003

Sivathanu, B., & Pillai, R. (2018). Smart HR 4.0 – how industry 4.0 is disrupting HR. *Human Resource Management International Digest*, *26*(4), 7–11. https://doi.org/10.1108/HRMID-04-2018-0059

UNESCO. (2015). Indonesia - Literacy for Life Skills and Entrepreneurship. https://doi.org/10.3390/s150409039

Yayla, A. A., & Hu, Q. (2012). The impact of IT-business strategic alignment on firm performance in a developing country setting: Exploring moderating roles of environmental uncertainty and strategic orientation. *European Journal of Information Systems*, *21*(4), 373–387. https://doi.org/10.1057/ejis.2011.52

Yiing, L. H., & Ahmad, K. Z. Bin. (2009). The moderating effects of organizational culture on the relationships between leadership behaviour and organizational commitment and between organizational commitment and job satisfaction and performance. *Leadership and Organization Development Journal*, *30*(1), 53–86. https://doi.org/10.1108/01437730910927106

Yuliansyah, Y., Gurd, B., & Mohamed, N. (2017). The significant of business strategy in improving organizational performance. *Humanomics*, *33*(1), 56–74. https://doi.org/10.1108/H-06-2016-0049

Yuliansyah, Y., Rammal, H. G., & Rose, E. (2016). Business strategy and performance in Indonesia’s service sector. *Journal of Asia Business Studies*, *10*(2), 164–182. https://doi.org/10.1108/JABS-07-2015-0094