

Differentiation Strategy of Islamic Micro Finance Institutions in Malang

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Abstract: Islam considers riba as a destructive element of society economically, socially and morally. The rise of Islamic cooperative is their solution for funding the small businesses development. Islamic cooperative is the institution to improve the small business enterprises with based on Islamic principles and the principle of cooperatives. Differentiation is one of the competitive advantages of the company to win the competition. Thorough the implementation of differentiation strategy will be realized the more sustainable Islamic cooperative. The research method was descriptive qualitative method with a phenomenological approach. The data of this research were primary data, secondary data, observation, interview and documentation. Differentiation strategy for the cooperative as an important Islamic Microfinance Institutions to implement the system so the proliferation of other microfinance institutions. Side implementation of Sharia system are not biased just waiting for the interest of the public but need a mature strategy to gain customers. The result shows this differentiation strategy is a sustainable Islamic microfinance institutions. But researcher get the high problem by the differentiation of human resources. To deliver the best services, human resources place in the main player to direct. But almost in all IMFI's have the lack management in this division. So, the differentiation does not play clearly.

Key words: Differentiation strategy, Islamic microfinance institutions, Islamic cooperatives, research, interview, cooperative

INTRODUCTION

Islamic finance has another branch of finance called Islamic microfinance. Moreover, there are around 300 Islamic Microfinance Institutions (IMFIs) operating globally. A lot of opportunities for Islamic microfinance in Muslim countries. The major markets for Islamic microfinance are Sudan, Yemen, Pakistan, Indonesia, Egypt, Qatar, Bahrain, Jordan, Mali, Lebanon, KSA, Syria Iraq, Afghanistan and others.

One of Islamic non-bank financial institutions is Islamic cooperative which bottom community-based. The rise of Islamic cooperative is their solution for funding the small businesses development. Islamic cooperative is the institution to improve the small business enterprises with based on Islamic principles and the principle of cooperatives.

The appearance of Islamic financial institutions including "Islamic Cooperative" in fact motivated by the prohibition of riba (interest) explicitly explained in the Qur'an. Linguistically, "riba" means "excess" but in the Sharia it refers to particular types of "unlawful gain". Lending for profit or with other conditions attached that

commercially benefit the lender is strictly prohibited-even if the rate charged was couched in terms of a penalty for unauthorized borrowing or for a late payment (Farrar, 2011). Islam considers riba as a destructive element of society economically, socially and morally. Therefore, the Qur'an forbids Muslims to give or take riba.

Islamic microfinance institutions have a social and business role which is attached as an identity of Islamic economic system implementation (Lasmiatun, 2014). They have been quite successful at mobilizing savings for the community and their loanto-deposit ratio is over 110% (Karim *et al.*, 2008).

Indonesia gives insight into the development of Islamic microfinance because of its dual conventional/Islamic microbanking system which includes both conventional rural banks (Bank Perkreditan Rakyat or BPRs) and Sharia-compliant rural banks (Bank Perkreditan Rakyat Syariah or BPRSs).

However, the member or customer funding (deposits) were dominant from small business sector where the behavior of his business is still closely connected with the economic behavior of the family, making the Islamic cooperatives is the liquidity risk are particularly

vulnerable. Small business community has a relative homogeneous behavior in the management of their funds.

According Minastitik and Chaula Anwarthe steps taken by a company to differentiate itself from competitors if the product has a unique and high value for consumers. Its in line with the statement by Lewit differentiation is one of the competitive advantages of the company to win the competition.

Thorough the implementation of differentiation strategy will be realized the more sustainable Islamic Micro Fiance institutions. In this study, researcher aims to examine how the implementation of the strategy of differentiation in various Islamic microfinance institutions in Malang.

Literature review: According Arsyad “Micro Finance Institutions (MFI) is an institution that provides financial services to micro-entrepreneurs and low-income communities both normal, semi-formal and informal unserved by formal financial institutions and has been market-oriented for business purposes”. Thus, MFIs function as an institution that provides a variety of services loans both for productive activities performed micro, nor for the poor families consumptive activities.

Besides the establishment of Islamic financial institutions are also sourced from the prohibition of riba in the Qur’an and Hadith. Ban the Qur’an relating to usury contained in surah Al-Baqarah (Ayah 275, 276, 278, 279, 280) Surah Al-Imran (Ayah 130) Surah Ar-Rum (Ayah 39) Surah An-Nisa (Ayah 161).

The high purpose of Islamic Microfinance (IMF) is an attraction for Muslim poor who can change their social status by becoming bankable and in this way, poverty can be reduced to greater extent in the muslim world (Gustina and Ihsan, 2010). The availability of Islamic microfinance brought ethical change in their behavior which is desirable and appropriate to alleviate poverty and which also improved their income, expenditure and crop production (Rahman, 2010; Rahman and Ahmad, 2010; Ahmad and Mubarak, 2014). So, the Islamic values can be applied everywhere.

MATERIALS AND METHODS

The research method was descriptive qualitative method with a phenomenological approach. The data of this research were primary data, secondary data, observation, interview and documentation. We analyzed with an interactive model: data reduction, data display and conclusion. This research purposed to examine more in depth about differentiation strategy undertaken by the

perpetrators of Islamic microfinance institutions, so this study researchers used a phenomenological approach. The phenomenological approach was chosen to understand the meaning of an event and the interrelationships that exist in it in more depth.

In addition to the above definition, phenomenological also be understood as an attempt to uncover or unload something hidden from the actors themselves. Respondent were selected or contacted, using purposive sampling and the data obtained was analyzed by using this method in order to realize its usefulness in decision making, forecasting, evaluating, mapping and strategizing towards the Differentiation strategies of Islamic cooperatives in Malang.

Location of research is in the area of Malang, East Java, by taking samples and keeping Islamic microfinance institutions. Islamic Cooperative AL-Basith; Islamic Cooperative Al-Ikhlas and islamic Cooperative Ahmad Yani.

The selection of respondents in this study was conducted by purposive sampling and by considering the respondent’s understanding of the issues in the management of IMFI’s in Malang. Researchers met each informants and interviews related to the differentiation made by each institution.

Islamic cooperatives concept: Cooperatives development is in accordance with identical populist economic development. The historical background of national and global cooperative shows that the cooperative is an institution that was created to protect the poor and vulnerable. The word “cooperatives” (cooperative) and people (people) are the two key words that connected very closely.

Based on research conducted by the PEW Research Center Indonesian Muslim population is the largest in the world (13% of total world Muslim population). Public awareness of the Islamic finance products even higher, the main value added lies in a system of Islamic cooperative for the results offered.

The differentiation strategy will create an Institute of Islamic micro finance sustainable and able to compete with other microfinance institutions. There are five variables that we will examine the differentiation strategy of Islamic Micro Finance Institutions. According to Kotler that all products can be differentiated into. Product differentiation. Product differentiation differentiation strategy has the purpose of providing high creativity in creating unique products that are more attractive, convenient, secure and thus more attractive to consumers than the competitors’s products. Quality of

service differentiation. Quality of service differentiation Achieve high creativity in combining the elements of the marketing mix with hospitality and extensive employee's insight. So that, the quality of service that exceeds expectations tasted by consumers. Personnel Differentiation. Differentiation personnel are all employees in a company. Differentiation personnel have the intention that all employees of the company have the skills (skills) is good has a good personality has a Human Resources (HR) is high, better than the company's employees competitors. Distribution channels differentiation. Differentiation of distribution channels is the company's strategy to differentiate the way to the target market product offering. Image differentiation the image of the attribute is identical with a characteristic, special or distinctive appearance of a person or object. Differentiation is the image of the right mix of imaging elements which create the image of a brand. Imaging process should build, maximize and utilize strengths and weaknesses of each element to ensure that the brand image it has good prospects on an ongoing basis.

RESULTS AND DISCUSSION

The interesting thing to observe is that the phenomenon of the establishment and development of IMFI's are not limited to economic considerations. Researcher has interviewed three informants of each Islamic cooperative. Cooperatives with the application of the principles of Islam have done some good ways to get customers to deposit and financing. Various approaches in each cooperative have done differently. But here the researchers analyzed the strategy of differentiation. This means that how each cooperative effort to provide something different to the community. So that consumers will get the reason why choosing the cooperative. Here are five aspects of the strategy of differentiation were observed. First aspect: product, product differentiation is one of the models of differentiation that have an impact on the purchase decision. As the result researched by Ong and Sugiharto. So, the increase or decrease of votes konsmen to the differentiation of products significantly influence the purchasing decisions of customers. Product differentiation is closely related to the formation of a positive perception of the consumer. According to Permata each region has unique product preferences (Wulandari *et al.*, 2016).

Products by Al-Basith and Ahmad Yani Islamic cooperatives are the momentum savings programs, savings umrohku (for planning the umroh) savings Ramadan (for preparing the Ramadan needs) and savings

qurban (for the purchase of qurban when Eid al-Adha). Another product is the Savings kids (savings to education taken at the turn of the school year) and Ailah savings (1 year deposits).

While Al-Ikhlâs Islamic cooperative offers several products among others savings society, differentiation which meant by informants is with a low margin for financing, namely 1.8% and installment payments if you experience problems that are not planned then given the leeway to have the money for repayment.

Whereas the financing products explained by the informants are the Murabahah (sale and purchase agreement), Kafalah (guarantee) and Mudharabah (profit sharing). The most productive product is murabahah, the informants said that this is the simplest to apply. In the next they hope another product can run well. Second aspect: services, financial institutions appropriately perform the maximum service to the customer. According Chenet a positive perception or consumer satisfaction are formed from quality of service, trust and commitment. Of the three informants stated that services all three alternatives provide convenience both savings deposits and loan which come directly at the cooperative office directly, bank transfer and was picked up by officers of the cooperative. The service differentiation is applied by communicating the Islamic system in order to apply Islamic law completely. Two dimensions of product marketing cooperatives and dakwah islamiyah (calling for Islam) became one form of the totality of the marketing department of each Islamic cooperative.

Cooperative management of Al Basith stated that the task is quite heavy. Al-Ikhlâs Board was also stated that in reaching the cooperative society must fight various negative stigmas. Therefore, the cooperative realize total understanding to customers is a form of service differentiation. Third aspect: personnel (human resource). In the observation made by researchers at the three institutions, completeness personnel of Islamic Cooperatives Ahmad Yani good enough operational Procedure based standards exist for a financial institution. As for the other two Islamic cooperatives, namely Al-Ikhlâs and Al-Basith still have not reached the standard. According to the narratives of business Al-Ikhlâs that the lack of human resources is due to profit cooperative that is not so high while many prospective employees who expect a high salary. Meanwhile, according to the manager of Al Basith said similar things. So that, initially there were 5 personnel now there are only three personnel and multiple tasks concurrently finally to remain on cooperative activities.

Human capital encompasses individual economic value (Edvinsson, 2002). HC requires other organizational capital support such as structural capital (Rusby and Hamzah, 2013; Bontis *et al.*, 2000). Thus, strong processes and organisational value embedded in structural capital is required to assist in human capital development and in turn ensure efficiency or quality service and thus will translate into higher Islamic microfinance institutions performance. Forth aspect: distribution channels of the various products Islamic microfinance institutions, the need for strategies to deliver deals was taken by Ahmad Yani Islamic cooperative with locations in the block with a mosque, the mosque's congregation into potential consumers closest to targeted offers from the cooperative.

Islamic Cooperative Al-Baasith near the market Merjosari (one of Malang local traditional market). It has been the target location to offer a cooperative program in addition to the locations that surround the schools and colleges were among the targeted sites.

In contrast to the Islamic cooperative Al-Ikhlas more keep loyal customers. According to the manager they take care of finances, a trusted and loyal customer is a priority. And the cooperative does not do marketing to various institutions because of loyal customers was going by word of mouth. Fifth aspect: image, in creating a unique image to the public, generally Islamic financial institutions imaged products with halal and blessing. The image is the reality; therefore if the communications market does not correspond to reality, the reality will normally prevail. Communication is not based in reality will only create higher expectations than reality perceived.

As a result, dissatisfaction may appear and ultimately consumers have a bad perception to the institution image. According to Trout most companies that are successful are those who "have a word or symbol" which occupies a special place in the minds of consumers. Through investment in the imaging process is carried out continuously, Islamic cooperative will enjoy market returns in the marketing concept, high in the microfinance market.

A special interest for marketing is based on Islamic rules. Islamic market orientation which is defined based on the incorporation of Islamic concepts and market orientation by discussing the characteristics of Islamic market-oriented organisations (Kazemian *et al.*, 2014).

From the narrative in three respondents stated that the contracts adequately convey what is used in the transaction. In this cooperative strategy is not enough to convey the core product but more than that is complementary with attributes that are easily remembered by customers.

Differentiation for sustainable Islamic Micro Finance

Institutions: The solutions to improve the image of the only concrete action that will also helpful. The real problems related to the organization's performance is the quality of the technical or functional exact cause image problems. Internal actions that improve organizational performance are needed if you want to repair a bad image. If the image is not known, then there is a communication problem. Another perspective by Hosen and Sa'roni (2012) the key success are capability of financial management.

Service companies need to differentiate through innovation that is preemptive in the long term. Preemptive here means the need of a new strategy implementation. Because it is the first, it can generate the skills or assets that may hinder, prevent or hinder its competitors to duplicate or create an unmatchable. Microfinance requires innovative approaches beyond the traditional financial intermediary role (Wajdi, 2008).

The case in city of Bandung where from 32 units of BMT they now have only 8 units of BMT in operation. In addition and based on the statement of PINBUK (Incubation Centre of Small Business) at the end of 1997, 1,502 units of BMT which had not been developing too well, failed and ended up in bankruptcy.

It is analyzed by Hamzah that the problem of lack of quality of Human resource owned by Islamic Micro Finance Institutions becomes a very crucial issue to be resolved by practitioners of IMFI's. Because human resources as the most crucial element in business activities to achieve the goal. One study conducted by the Faculty of Economics, University of Indonesia in 2003 tried to take photos SDI (human resources) in Islamic financial institutions. This study sought to map the educational background, scientific characteristics and resources employee recruitment Islamic financial institutions. From the aspect of scientific background, just 10% who have a background of Islamic Economic, the rest is common knowledge and no employees are graduates of educational institutions of Islamic economics.

From the interview to the informants we get the problems in getting the professional human resources for Islamic Cooperatives in Malang. The lack of profit make the institutions work hard to get them. There many people look for job making the profit oriented. It's showed by three institutions run slowly because the problem of human resources. So, the differentiation of personnel in IMFI does have to be organized by the different way (Rini, 2011). The professional training is obtained to increase the human quality. While Rahman (2010) argue that ethics and moral development is an important factor for developing human capital which is deeply related to the well-being of the clients.

The human intellectuality and competency is inadequate to ascertain the effectiveness of HRM and organisation performance. The results showed that HC alone could not contribute towards core competence of microfinance organizations (Kamaluddin and Kasim, 2013). In line with Hafiz employees are the key factor to run the IMFI's well (Mahmood *et al.*, 2015).

CONCLUSION

Differentiation strategy for the cooperative is an important Islamic microfinance institution to implement. Beside of the implementation of Islamic system are not just waiting for the interest of the public but need a mature strategy to gain customers.

From the product differentiation strategy Islamic microfinance institutions as the introduction of new financial system has become a new and certainly has an edge. The potential of the Muslim community in Indonesia would be a great opportunity to communicate the products of the Islamic principle.

Researcher gets the high problem to the differentiation of human resources. To deliver the best services, Human resources place in the main player to direct. But almost in all IMFI's have the lack management in this division. So, the differentiation does not play clearly.

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