THE RELATIONSHIP BETWEEN BUSINESS PROCESS RE-ENGINEERING (BPR) AND PERFORMANCE OF ISLAMIC BANKING BRANCHES IN KEDAH FROM THE PERSPECTIVE OF MAQASID AL-SHARI’AH

By

MUHAMMAD AIZAT MD SIN

Thesis submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
In Fulfilment of the Requirement for the Master of Science (Management)
DECLARATION

I declare that the thesis work described in this research paper is my own work (unless otherwise acknowledged in the text) and that there is no previous work which has been previously submitted for any academic Master’s program. All sources quoted have been acknowledged by reference.

Signature : ______________________

Name : Muhammad Aizat Bin Md Sin

Date :
PERMISSION TO USE

In presenting this dissertation in partial fulfillment of the requirement for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this university may make it freely available for inspection. I further agree that permission for copying this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my dissertation. It is understood that any copying or publication or use of this dissertation parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation.

Request for permission to copy or to make other use of materials in this dissertation in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
ABSTRACT

The purpose of this study is to investigate the relationship between Business Process Re-Engineering (BPR) and performance of Islamic banking branches in Kedah from the perspective of Maqasid Al-Shari’ah. BPR factors are operationalized by strategic alignment, management commitment, change management, customer focus, BPR project management and IT infrastructure. The questionnaires were sent directly to branches and collected by hand. Simple random sampling was used for sample selection. 63 questionnaires were sent to managers’ Islamic banking, 59 samples were returned but only 54 samples were used for data analysis. The data was analyzed using ‘Statistical Package for Social Science’ SPSS version 21. Collectively, the result shows that the BPR are able to influence the performance of Islamic banking in Kedah branches. The BPR are able to influence overall performance of Islamic banks and others three (3) dimension of performance (educating individual, establish justice and public interest). However, for individually, analysis using multiple regression analysis indicates that only management commitment, customer focus and BPR project management are able to influence overall Islamic banking performance. In term of dimension banks performance, customer focus and BPR project management are influences dimension of educating individual. While, in dimension of establish justice and public interest, only customer focus are able to influence. Therefore, the managerial of Islamic banking in Kedah branches should focus on the management commitment, customer focus and BPR project management in order to enhance the performance of their banks. The outcome of this study provides important insights to both managers and researchers for further understanding about BPR factors and Islamic banks performance.

Keywords: Business Process Reengineering, Islamic Banking Performance, Maqasid Al-Shari’ah
ABSTRAK


Kata kunci: Perekaayasaan Proses Perniagaan, Prestasi Perbankkan Islam, Maqasid Al-Shari’ah.
ACKNOWLEDGEMENT

In the Name of Allah, the Most Forgiving, Most Merciful

All praise and gratitude be given to Allah, Lord of the Lords, for giving me such a great strength, patience, courage, and ability to complete this study. The completion of this study would not have been possible without the contribution of a number of people that help me to finish this research.

My deepest appreciation goes to Associate Prof Dr. Mohd Rizal bin Razalli who has provided unlimited amount of encouragement and professional support. Thank you for your superb positive attitude and outlook, you are incredible supervisor and an outstanding instructor. Special thanks also to bnmtelelink@bnm.gov.my and Department of Statistics Malaysia (Kedah) for your cooperative in this study.

An honest gratitude and special thanks for my family that always give support and motivation to finish this study. A sincere appreciation and special thanks also goes to friends and other lecturer in Universiti Utara Malaysia who always gave a great support during this research. Without their endless attention, care, encouragement and sacrifice, it would be hard for me to complete this study.

For the final word, for the intellect, this is the fundamental tool necessary for academic work, the physical and emotional strength to withstand academics problems and critique which are something cutting, and the ups and down seemingly unhurried lifestyles, I owe entirely to the grace almighty God to whose glory this research is dedicated. I hope this research will be of assistance of someone in the future.
TABLE OF CONTENTS

Declaration......................................................................................................................i
Permission to Use..........................................................................................................ii
Abstract......................................................................................................................iii
Abstrak........................................................................................................................iv
Acknowledgment........................................................................................................v
Table of Contents........................................................................................................vi
List of Tables................................................................................................................xi
List of Figures..............................................................................................................xii
List of Abbreviations...................................................................................................xiv

CHAPTER 1: INTRODUCTION

1.1 Background of the Study 1
1.2 Problem Statement 6
1.3 Research Questions 10
1.4 Research Objectives 11
1.5 Significance of the Study 12
1.6 Research Scope 13
1.7 Definition of Key Term 14
1.8 Outline of Study 15
CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

2.2 Organizational Performance

2.3 Bank Performance

2.3.1 History of Islamic Banking

2.3.2 Performance of Islamic Banks in Malaysian

2.3.3 Previous Studies on Bank Performance

2.3.4 Organizational performance measurement

2.3.5 Suitability of reengineering as radical performance improvement method

2.4 Review of BPR Factors

2.4.1 Strategic Alignment

2.4.2 Management commitment

2.4.3 Change Management

2.4.4 Customer Focus

2.4.5 BPR Project Management

2.4.6 IT infrastructure

2.5 BPR Failure Factors

2.5.1 Lack of Proper Strategy

2.5.2 Unrealistic Objectives

2.5.3 No Clear Concept of a Process

2.5.4 Lack of involvement

2.5.5 Lack of Communication

2.5.6 Lack of Commitment from Management

2.5.7 Lack of IT Infrastructure

2.5.8 Lack of Teamwork
CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction 60

3.2 Theoretical Framework 60
   3.2.1 Dependent Variables 61
   3.2.2 Independent Variables 61

3.3 Research Hypotheses 62

3.4 Operational Definitions 64
   3.4.1 Islamic banking definition 64
   3.4.2 Organizational performance 64
   3.4.3 Business process re-engineering (BPR) 66
      3.4.3.1 Strategic alignment 66
      3.4.3.2 Management Commitment 67
      3.4.3.3 Change Management 67
      3.4.3.4 Customer Focus 67
      3.4.3.5 BPR project management 67
      3.4.3.6 IT Infrastructure 68

3.5 Research Design 69

3.6 Research Population and Sample 71

3.7 Instrumentation method 74
CHAPTER 4: RESULT AND DISCUSSION

4.1 Introduction 86
4.2 Data Screening 87
4.3 Descriptive Analysis 88
4.4 Validity and Reliability Analysis 93
   4.4.1 Validity Test for Dependent Variables 93
   4.4.2 Reliability Test 94
4.5 Pearson’s Correlation Analysis 95
4.6 Multiple Regression Analysis 98
4.7 Hypotheses Summary 105
4.8 The Discussion of Hypotheses Result 107
4.9 Summary 117
# CHAPTER 5: CONCLUSION AND RECOMMENDATION

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Introduction</td>
<td>118</td>
</tr>
<tr>
<td>5.2 Research Implication</td>
<td>119</td>
</tr>
<tr>
<td>5.2.1 Practical Implication</td>
<td>119</td>
</tr>
<tr>
<td>5.2.2 Academic Implication</td>
<td>121</td>
</tr>
<tr>
<td>5.3 Recommendations from the Research</td>
<td>123</td>
</tr>
<tr>
<td>5.3.1 Recommendation from the Researcher</td>
<td>123</td>
</tr>
<tr>
<td>5.3.2 Recommendation from the Representative of Banking Sector</td>
<td>124</td>
</tr>
<tr>
<td>5.4 Limitation of the Research</td>
<td>124</td>
</tr>
<tr>
<td>5.5 Suggestion for Future Research</td>
<td>125</td>
</tr>
<tr>
<td>5.6 Conclusion</td>
<td>127</td>
</tr>
</tbody>
</table>

# REFERENCES

| REFERENCES                                                   | 129  |

# APPENDICES A & B
# LIST OF TABLES

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 List of licensed Islamic bank in Malaysia</td>
<td>14</td>
</tr>
<tr>
<td>1.2 Definition of variables</td>
<td>14</td>
</tr>
<tr>
<td>2.1 List Islamic full-pledged in Kedah</td>
<td>25</td>
</tr>
<tr>
<td>2.2 Summary of the BPR success and failure factors</td>
<td>55</td>
</tr>
<tr>
<td>3.1 Summary of hypothesis</td>
<td>62</td>
</tr>
<tr>
<td>3.2 The item to represent performance</td>
<td>65</td>
</tr>
<tr>
<td>3.3 The item to represent BPR factors</td>
<td>68</td>
</tr>
<tr>
<td>3.4 List of banks branches in Kedah</td>
<td>73</td>
</tr>
<tr>
<td>3.5 Summary of the Questionnaire</td>
<td>75</td>
</tr>
<tr>
<td>3.6 Coefficient of Cronbach’s Alpha</td>
<td>78</td>
</tr>
<tr>
<td>3.7 Reliability Statistic for Pilot Test</td>
<td>79</td>
</tr>
<tr>
<td>3.8 The Coefficient Scale and Relationship Strength of Correlation</td>
<td>82</td>
</tr>
<tr>
<td>3.9 Summary of Data Analysis Technique</td>
<td>83</td>
</tr>
<tr>
<td>4.1 Composition of Respondents by Gender</td>
<td>88</td>
</tr>
<tr>
<td>4.2 Composition of Respondents by year of experience</td>
<td>89</td>
</tr>
<tr>
<td>4.3 Composition of Respondents by job title</td>
<td>89</td>
</tr>
<tr>
<td>4.4 Composition of Respondents by number of employee in each branch</td>
<td>90</td>
</tr>
<tr>
<td>4.5 Composition of Respondents by the type of branch location</td>
<td>90</td>
</tr>
<tr>
<td>4.6 Composition of branches using result of BPR to reengineer any process</td>
<td>91</td>
</tr>
<tr>
<td>4.7 Composition of objective BPR program</td>
<td>91</td>
</tr>
<tr>
<td>4.8 Summary of Descriptive Analysis (N = 54)</td>
<td>93</td>
</tr>
<tr>
<td>4.9 Reliability Statistic for the Data Gathered from Survey</td>
<td>95</td>
</tr>
</tbody>
</table>
4.10 Pearson's Correlation between the Constructs 96
4.11 Multiple Regression Analysis for Hypothesis 1 (N=54) 100
4.12 Multiple Regression Analysis for Hypothesis 2 (N=54) 101
4.13 Multiple Regression Analysis for Hypothesis 3 (N=54) 103
4.14 Multiple Regression Analysis for Hypothesis 4 (N=54) 104
4.15 Summary of All Hypotheses (N=54) 105

LIST OF FIGURES

ITEM 

2.1 Strategic alignment triangle
2.2 Resource-Based Theory Model
3.1 Theoretical Framework

PAGE
37 57 61
## LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
</tr>
<tr>
<td>BIMB</td>
<td>Bank Islam Malaysia Bhd.</td>
</tr>
<tr>
<td>MD</td>
<td>Managing Director</td>
</tr>
<tr>
<td>GIFF</td>
<td>Global Islamic Finance Forum</td>
</tr>
<tr>
<td>BPR</td>
<td>Business Process Re-engineering</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>RBV</td>
<td>Resource-Based View</td>
</tr>
<tr>
<td>ROI</td>
<td>Return On Investment</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per Share</td>
</tr>
<tr>
<td>ROE</td>
<td>Return On Equity</td>
</tr>
<tr>
<td>DIB</td>
<td>Dubai Islamic Bank</td>
</tr>
<tr>
<td>IDB</td>
<td>Islamic Development Bank</td>
</tr>
<tr>
<td>KSA</td>
<td>Kingdom of Saudi Arabia</td>
</tr>
<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>BBMB</td>
<td>Bank Bumiputra Malaysia Berhad</td>
</tr>
<tr>
<td>BOCB</td>
<td>Bank of Commerce (Malaysia) Berhad</td>
</tr>
<tr>
<td>SAC</td>
<td>Shariah Advisory Council</td>
</tr>
<tr>
<td>IBS</td>
<td>Islamic Banks Scheme</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>ETP</td>
<td>Economic Transformation Programs</td>
</tr>
<tr>
<td>NKEAs</td>
<td>National Key Economic Areas</td>
</tr>
<tr>
<td>EPPs</td>
<td>Entry Point Projects</td>
</tr>
<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>I-facts</td>
<td>Islamic finance advisory and consultancy services</td>
</tr>
<tr>
<td>KXP</td>
<td>Lapangan Terbang Antarabangsa Kulim</td>
</tr>
<tr>
<td>SPIKE</td>
<td>Sungai Petani-Kedah Inner Expressway</td>
</tr>
</tbody>
</table>
OYA = Othman Yeop Abdullah
SPSS = Statistical Package for the Social Science
IV = Independent variable
DV = Dependent variables
CHAPTER 1

INTRODUCTION

1.1 Background of the study

In the 21st century, the globalizations has led financial institution to conduct a changes of their operation process. Most of the companies are trying to implement several approaches to sustain in the business marketplace and gain competitive advantage. To succeed in the global economy, most of organizations must have unique and distinctive structure and process which are fast and can deliver high quality, flexible as well as low cost. As a successful developing country, most of the financial institution in Malaysia are trying to improve performance in term of quality, cost, speed, profitability and organizational performance. Based on Khong and Richardson (2003), Bank Negara Malaysia (BNM) encourages banking sector in Malaysia to respond quickly in term of changes, and for other banking sector that fails to respond quickly will be giving penalties or advice from BNM. To be an effective financial institution, strong performances are important to sustain in the global market. Khong and Richardson (2003) also emphasized that banking industry is needed to improve the quality service, cost and speed to survival in the global market.

However, the performance is not solely focus on financial performance, but financial institutions also need to focus on customer and keep good relationship with other stakeholders. As a result, the performance should be focus on giving education and knowledge for individual as well as public interest in order to enhance customer relationship management.
The contents of the thesis is for internal user only
REFFERENCE


**Online resources**

Bank Negara Malaysia, History of Islamic banking in Malaysia.

Bank Negara Malaysia, List of licensed Islamic financial institutions.

Islamic banking to achieve 40% market share in assets (Thursday, 4 September 2014), The Star Online

Islamic banks to account for 25% of Malaysian banking sector by 2017, says RAM (Wednesday, 9 April 2014)
RHB Islamic Bank pertama di Kedah dibuka (ARKIB: 01/12/2012)
