

A Framework of Best Practices in Managing Business Reengineering for Islamic

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Abstract—The progressive globalization of financial markets requires financial institutions to upgrade their operational processes beyond local to global standards. As a result, many banks in developing countries strive to improve customer service quality and reduce operating costs to enhance their profitability performances. In achieving these remarkable performances, many financial institutions have reengineered their operational processes to become more competitive in the market. A study on Islamic banks in relation to business process reengineering (BPR) is limited. In fact, a study of the best practices of BRP for these banks has yet to be investigated even though the operations of these banks are admittedly different among financial institutions and scholars. Hence, this paper is trying to fill this gap by discussing the best practices of BPR for Islamic banks. We propose eight practices, namely change management, project management, management competence, customer focus, IT infrastructure, process redesign, financial resources, and less bureaucratic structure to be considered as the best practices.

Index Terms—best practices, business process reengineering, Islamic banks, Malaysia

I. INTRODUCTION

Managing business process reengineering consumes a lot of the company's resources, particularly in the planning and strategy deployment. More importantly, it requires commitment from the top management to the bottom level of employees. Everybody in the organization needs to understand that Business Process Reengineering (BPR) is not merely a business jargon. It is a change management approach for radical improvement and innovation. BPR promotes companies to do things in a better way that would result in better performances in terms of quality, speed, customer service, and costs [1].

Even though the literature on BPR implementation is widespread, there are few empirical evidences of the impact of BPR on organizational performance particularly with regards to the Islamic banking sector. Hence, there is still a need to identify the best practices that contribute to the organizational performance [2]. Therefore, the main objective of this paper is to propose a framework of best practices in relation to BPR

implementation in Islamic financial institutions in Malaysia.

In Malaysia, liberalization and globalization of the banking sector have changed the form of competitive advantage in the industry. In 1999, the domestic banking institutions have merged to consolidate operations by merger or acquisition to be able to improve their performance and compete effectively with the foreign banks. This development, however, has led to radical changes in operations and services that resulted in uncertain bank performance [3].

To survive and excel in this type of business environment, organizational performances become the main concern for the banks. One way to improve performance in the service industry is through better customer services. In fact, the quality of customer service becomes a driving force in ascertaining business survival in the banking industry [4]. Good customer service can be achieved by customizing products to the needs of customers. Malaysia is predominantly a Muslim country and Muslims have to follow Shariah law in their lives. Banking activities are no exception. Islamic banking refers to a system of banking that strictly follow the Shariah law. As a result, Islamic financing products are becoming more popular and this segment is reported to keep on growing due to the increasing demand of Islamic banking products.

The Islamic banking in Malaysia has started since 1963 with the establishment of Lembaga Tabung Haji and later enhanced with the founding of Bank Islam Malaysia in 1983. From 1993 onwards, other financial institutions were also allowed to offer Islamic banking products under the Islamic Banking Scheme (IBS). Because of this positive development, now the sector has grown to 16 full-fledged licensed Islamic financial institutions [5]. Further, this sector is expected to reach USD 2 trillion in the year of 2014 [6].

Despite this progressive development, the Islamic banks performances are found to be relatively inconsistent particularly in the aspect of efficiency [7]. In addition, all profitability indexes indicated that profits earned by Bank Islam were lower than the conventional banks [8]. On the other hand, in another study, Islamic banks were found to have superior performance than conventional banks with regard to credit performance [9]. However, we have to also note that performances of Islamic banks do not only consider profit as the main

indicator but also other indicators based on the Maqasid al-Shari'ah [10]. Hence, the conventional indicators may not be appropriate to be used as a yardstick for Islamic banks. This evidence urges us to further investigate the practices-performance link for further understanding the relationships as well as for benchmarking and improvement purposes.

II. BEST PRACTICES OF BUSINESS PROCESS

BPR success depends on various factors. This section pinpoints the best practices of BPR for the banking industry, particularly the Islamic banks. Eight best practice areas are identified and they include: (1) change management, (2) project management, (3) management competence, (4) customer focus, (5) IT infrastructure, (6) process redesign, (7) financial resources, and (8) less bureaucratic structure. The following sections will discuss these practices in detail.

A. Change Management

Firstly, we propose that changes in Islamic banks should be managed. In this case, people management is highly critical. Most improvement projects underestimate the cultural impact of the major process and structural change, and, as a result, do not achieve the full potential of their change effort. Change is not an event, such as calling people together and have a meeting to make a change happen. Change management is the discipline of managing change as a process, with due consideration that we are people, not programmable machines. It is about leadership with open, honest, and frequent communication. It must be okay to show resistance, to voice issues, and to be afraid of change. Reengineering is not downsizing, restructuring, or automation. Reengineering eliminates works, not jobs or people. It is concerned with how work is done not how organizations are re-structured. Reengineering enables process design, rather than providing a new mechanism for performing old ones. Change management practice can be referred to as a practice of an organization in aligning the changes of organizational activities in order to keep abreast of challenges and for meeting the needs of customers [11]. These changes in the organization should be managed by the leader or manager by incorporating the employees into the process to achieve a positive goal. Resistance to changes in organizations can be overcome through best practices such as reward and motivation, effective communication, conducive organizational culture, stimulating receptivity to change, employee's empowerment, human involvement, and training and education [12].

B. Project Management

In addition to change management, an effective project management is considered as the critical factor for successful BPR. A pilot project indicates failures and risks that provide the opportunity to make appropriate changes to the efforts, thus promoting success and preventing possible disasters. BPR project management refers to the extent of the alignment of project strategy

with the corporate strategy, effective use of consultants, effective planning and project management techniques, and adequate identification of values and performance measures of the project [13]. Successful project implementation is highly dependent on effective project management. New processes would be created to define jobs and responsibilities across the existing organizational functions [14]. There is a clear need to create a new organizational structure that determines how project teams are going to work, how human resources are integrated, and how the new jobs and responsibilities are going to be formalized. Project management is important in order to plan and manage the BPR to be correctly implemented [15]. The reengineering strategy should be closely aligned with, and tied to the corporate strategy and core competencies that are critical to the organization's success.

C. Management Competence

It is the most evident managerial practice directly affects the success of the organization [16]. Management competence practice such as the commitment from the top management will ensure that employees contribute towards the successful achievement in the organizational performance. A lack of commitment in organizations may result in insufficient resources that terminate redesigning of the processes. Top management leaders should have a clear knowledge about the company's situation. In addition, they should have enough knowledge of the project and a realistic expectation of the results. They should provide a clear direction or vision in order to help BPR team members to be directed towards the desired results [17]. If top management does not provide strong and consistent support, most likely, one of these three elements (money, resources, or leadership) will not be present over the life of the project and severely cripple the chances for success. It may be true that consultants and reengineering managers are responsible for BPR, as most current models of re-designing business processes use staff functions and consultants as the change agents, and often the targeted organizations are not inviting the change. Without top management sponsorship, implementation efforts can be strongly resisted and ineffective.

D. Customer Focus

Service quality depends significantly on the customers. Hence, a reengineering project should aim customer as the main driver of change. Customer focus includes activities related to customer research, competitive analysis, and analysis of customer requirements on products/services. Customer requirements and expectations should be defined and measured, and business processes should be defined in terms of what the customer values. An innovative organizational requires customer involvement during the BPR implementation [18]. Organizations should gather information from their customers to drive the BPR projects. This helps them to recognize their customers' needs that would result in the success of BPR project.

E. IT Infrastructure

IT is the automation of processes, controls, and information production using computers, telecommunications, software and ancillary equipment, such as automated teller machines and debit cards [19]. IT infrastructure is the bank's expenditure on IT infrastructure, IT personnel training, IT consulting, IS maintenance, and computers and software. Effective alignment of IT infrastructure is the most important factor that contributes to the improvement of operational performance of a bank. ICT has enabled self-service facilities (Automated customer service machines) from where prospective customers can complete their account opening documents online. It assists customers to validate their account numbers and receive instruction on when and how to receive their checkbooks, credit and debit cards. Without this technology the BPR project will not be efficient and effective. Hence, IT infrastructure is also critical for BPR.

F. Process Redesign

Process redesign is defined in terms of the ability of an organization in finding a new way of adding value to customers [20]. For a BPR to be successful, the redesign effort must be concentrated on areas that have the most direct impact on customer value and cost [21]. Firms that are able to meet customer demands for new products and services can achieve a competitive advantage over their competitors. The key processes of the organization should be effectively redesigned so that the resulting performance enhancement would extend throughout the entire business organization. Meanwhile, the effect of the new improved process for the employees should not be neglected. They need to know how it is going to affect their future job and what they need to do to in making the BPR implementation successful. Process redesign of the organization should include: appropriate level of process knowledge, documentation of existing processes, appropriate selection of the core processes, and use of prototypes.

G. Financial Resource

BPR is normally an expensive project and requires a huge amount of money. [22]. In order for BPR to happen successfully, the organization needs to have an adequate amount of funding, sufficient to implement change and to back up unpredictable circumstances. A study has found the adequate financial resources are the strongest predictor for BPR [11].

H. Less Bureaucratic Structure

Finally, the BPR project depends on the organizational structure. The organizational structure should be less bureaucratic to enable the BPR process in terms of encouraging creativity and innovation in the organization as well as encouraging more participation and empowerment in the organization. Since innovation is essential for BPR to happen successfully, organizations should be less bureaucratic to encourage innovation [23]. Additionally, process integration is important in organizational structure in order to achieve desirable

business outcomes [14]. Successful results in BPR implementation can be achieved by significantly changing the organization's structure, with emphasis on cross-functional work teams [21], [24]. This suggests that the top management should re-evaluate their organizational structure to determine whether it is appropriate for the situation, with the rapid changing environment and tight competition in the market. Bank branches, units and departments should be empowered to operate within their budget allocation. This kind of organizational structure eliminates a delay in decision-making and enables the bank to be more responsive to its customers.

III. DISCUSSION AND CONCLUSION

These days, the development of the Islamic banking products is very promising and encouraging. Muslim and even non-Muslim are beginning to accept Islamic banking as an alternative for financing and banking. As a result, we see this particular segment is booming. The increasing demand may result in efficiency in operations. Many financial institutions have started to change the way they do business with customers in order to be more competitive. Some of them have undergone radical change or business process reengineering. There is still a lack of evidence with regard to the best practices of Islamic banks in relation to BPR. Hence, we suggest the best practices of BPR to include the eight practices as depicted in Fig. 1. These, however, are based on previous literature on BPR in the conventional banks. Therefore, we suggest further research should be conducted because the operations and performances of Islamic banks are not similar to the conventional banks. .

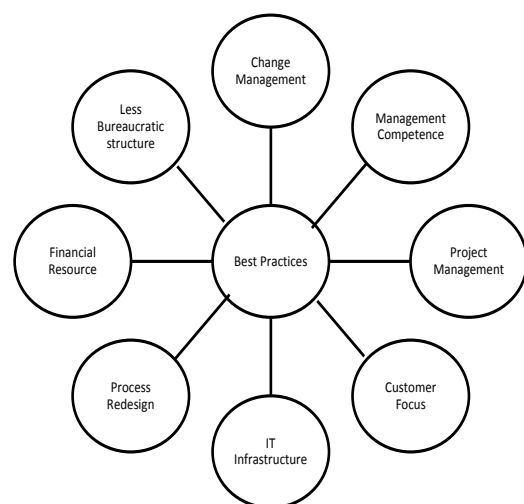


Figure 1. Framework of best practices of BPR in Islamic Banks

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