

## **STRATEGY OF BUSINESS INNOVATION IN SYARI'AH BANKS CASE STUDY OF THE FINANCING TRANSACTION MODEL IN BANK BJM SYARI'AH'S PRODUCTS SURABAYA**

**Ismail Nawawi**

IAIN Sunan Ampel Surabaya

E-mail: haisnaw52@gmail.com

Ahmad Yani Street, Surabaya, 60235, East Java, Indonesia

### **ABSTRACT**

*This research attempts to analyze the model in Shariah banking business innovation strategy and its application. This research used the qualitative method, in which the data were collected by observation, interviews and documentary study. These data were chosen purposively and snowballing, consisting of the Managing Director, Director of Operations and Marketing Director BJM Bank Surabaya. These data were analyzed using Thesis (theory and data), antithesis (data and theory) and synthesis (analysis), in addition, also using process analysis data reduction and verification. It shows that the model of financing in Bank BJM syariah Surabaya using, (1) the principle of surrogate form of demand deposits (wadi'ah), (2) the principle of sharing and distribution of fund management, (3) the principle of sale and mark-up with a lump sum credit score (taqsid), (4) the principle of lease (ijara), a pure rental and leasing, (5) the principle of fee services like clearing, collection, transfers and others. In doing strategy, it must be done by looking at the object of the customers' needs, a given customer financing, investment, and ability to understand the customer. Such strategy was done by category facilitated by profit sharing (mudharaba) and partnership (Musharaka), while the distribution of the benefits of the activities of production by the sale (murabaha, salam and Isthisna').*

**Key words:** *Islamic Banking, Business Model and Innovation Strategy.*

## **STRATEGI INOVASI BISNIS DI BANK SYARI'AH STUDI KASUS MODEL TRANSAKSI PEMBIAYAAN PRODUK BANK BJM SYARI'AH SURABAYA**

### **ABSTRAK**

*Penelitian ini bertujuan untuk menganalisis model inovasi dalam strategi bisnis perbankan Syariah dan penerapannya. Penelitian ini menggunakan metode kualitatif dengan mengumpulkan data melalui observasi, wawancara, dan studi dokumentasi. Data ini dipilih secara purposive dan snowballing, yang terdiri dari Direktur Utama, Direktur Operasional dan Direktur Pemasaran Bank BJM Surabaya. Data ini dianalisis menggunakan Tesis (teori dan data), antitesis (data dan teori) dan sintesis (analisis) Di samping itu, dianalisis melalui proses reduksi data dan verifikasi. Dijelaskan bahwa model pembiayaan di Bank syariah BJM Surabaya menggunakan, (1) prinsip bentuk pengganti dari giro (wadi'ah), (2) prinsip pembagian dan distribusi pengelolaan dana, (3) prinsip penjualan dan mark-up dengan nilai kredit lump sum (taqsid), (4) prinsip sewa (ijarah), sewa dan leasing murni, (5) prinsip fee jasa seperti kliring, koleksi, transfer dan lainnya. Dalam menjalankan strategi, harus dilakukan dengan melihat objek kebutuhan nasabah, pembiayaan konsumen, investasi, dan kemampuan untuk memahami pelanggan. Strategi seperti itu dilakukan berdasarkan kategori dengan fasilitas bagi hasil (mudharabah) dan kemitraan (musyarakah), sedangkan distribusi keuntungannya dengan cara jual beli (mudharabah, salam, dan isthisna').*

**Kata Kunci:** *Perbankan Syariah, Model Bisnis dan Strategi Inovasi.*

## INTRODUCTION

The business competition in the global era has experienced rapid change. This condition requires change and innovation that must be supported by a variety of factors both in the development of telecommunications and information technologies. Besides that, consumer demands should be paid attention more critically for the provision of goods and services at low prices, high quality, and short waiting times, as well as social and economic factors in the implementation of the company's activities. These are all the aspects of corporate environmental awareness.

In business world, the number of competitors in most markets has grown very quickly; therefore, it has also become increasingly more and more competitive. This situation encourages the corporation to better prepare for and respond to anticipate the future. If not, the competency of the corporation becomes increasingly degraded and declined. As such, they should improve their performance in order to survive and develop in accordance with the demands of the business environment.

The corporate competition must be faced by performing actions that are strategic and innovative. Therefore, any process of decision making on using resources should also be implemented using innovation as a strategy. For example, the business strategy chosen should allow corporations to use its core competencies by giving opportunities to the internal and external environment (Nawawi 2011:47).

It has been noted that not all of the resources and capabilities in any corporation can be used as the basis for sustainable competitive advantage. For examples, the resources dealing with inputs in the production process, such as capital goods, the ability of the workers. In general, corporate resources can be classified into three categories: physical capital, financial, human resources and organization. This is as referred to the problem dealing with financial resources as asserted by Marthon (2007:140-142). Ac-

cording to him, this condition requires trading facilities to meet the needs of business in the form of bank. In this case, the function of a bank is to bring the intermediary institutions for seeking funds to set up a company or business activities, with a group of people who have excess funds and intends to make investments that are free of interest (ribawi).

The main problem in banking industries recently is dealt with the interest that has been practiced by conventional banks. When explored further, the problem of interest has long been a stumbling block for Muslims who must have a solution to it. The demand for the establishment and operation of Syari'ah banking system has globally recognized. For Shari'ah values, it is derived from the Quran and al-Hadith which have become the reference by our customers who have been worldwide.

In connection with this phenomenon, there exists a banking regulation in Indonesia that is based on Shariah Banking Act No 21, year 2008, eliminating the system of interest or ribawi. Such a regulation has got great attention by several banks both public and private as one of the Shari'a banking, including Bank of Shariah BJM Surabaya.

Since then, the economic system and development of Islam and Shari'a banking can be considered an instrument for eliminating interest (ribawi) transactions and apply values and ethics complied with the Islamic Shari'ah in economic activities. The existence and activities of shariah banks do not appear by its own in a sudden way. Rather, it is established through a long process by the supports coming from the ideas of experts in Shari'ah banking system and design. The main task of shariah banks can be described as the following. (1) to help provide funds for production activities, (2) to do investment to build economic and social systems, (3) to provide loans for business activities, (4) to assist in developing trade and abroad in accordance with the principles of Shari'ah, (5) to conduct a study to develop the economic activities of financial and banking (Nawawi 2011:21).

Shariah bank operation is related to both goods and services. This operation is largely based on Islamic Shari'a economic relations determined by the relation transaction (aqad) associated with five basic concepts of Shari'ah transaction (Shari'ah aqad), namely: (1) savings system, (2) the results, (3) profit margin, (4) leases, (5) service (fee), (Muhammad 2005: 86-87). The ideas proposed by Karim (2004:32) the practice of Shariah banking transactions must not violate shari'a elements, namely: (1) uncertainty (tahrir / gharar), (2) manipulation in supply (ikhtiqar), (3) manipulation of market in demand (bai' Najasy), (4) excess to the agreed from the beginning due to the exchange of goods, or the lending (ribawi), (5) speculation / gambling (maysir), and (6) bribery (riswah).

In relation to such above regulation, Bank BJM Shariah has operated their products in Surabaya to provide financing the customers. This is done by using a model of financing complied with the provisions and principles of Islamic banking. To be able to compete in inter bank competition, Bank Syariah BJM Surabaya formulated its institutional strategy in decision-making with selling and buying system, the principle of partnership and ijara or other products suited to the demands as the customers need.

Based on the strategy above, this research problems raised are related to the transaction system in Shariah banking trading. These are specified as the following. (1) How are the business model of financing products and the principles of Shariah banks conducted in business? (2) How is the institutional innovation strategy of Shariah bank transaction model designed according to the customers' need? (3) How is the buying and selling model application developed by Shariah bank?

The objectives of this research are as the follows: (1) to understand and describe the business model of financing products and the principles of Shariah bank in doing business (2) to understand and describe the institutional innovation strategy in Shariah bank

transaction model designed in accordance with the customers' needs, and (3) to understand and describe the application of trading models developed by Shariah bank.

Thus, this research is to see the development of theories of Shari'ah banking and provide inputs for Shariah banking practitioners, business people, and the development of knowledge in Shariah banking.

## **THEORETICAL FRAMEWORK**

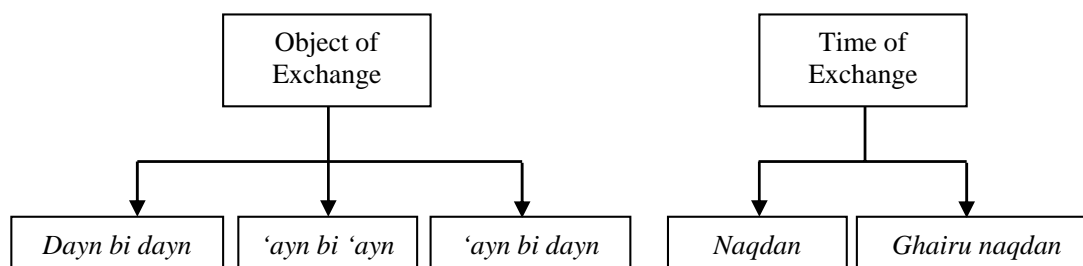
### **Shariah Bank Financing Model**

The model of Shariah banking is an institution related to investment and banking industries, which operate based on Islamic principles. The source of fund must be obtained in accordance with the shariah. In addition, the investment allocation should also aim to the economy growth, social welfare. As such, the banking services must be performed in accordance with the rules that are the values of shariah (Marthon 2007: 143-144).

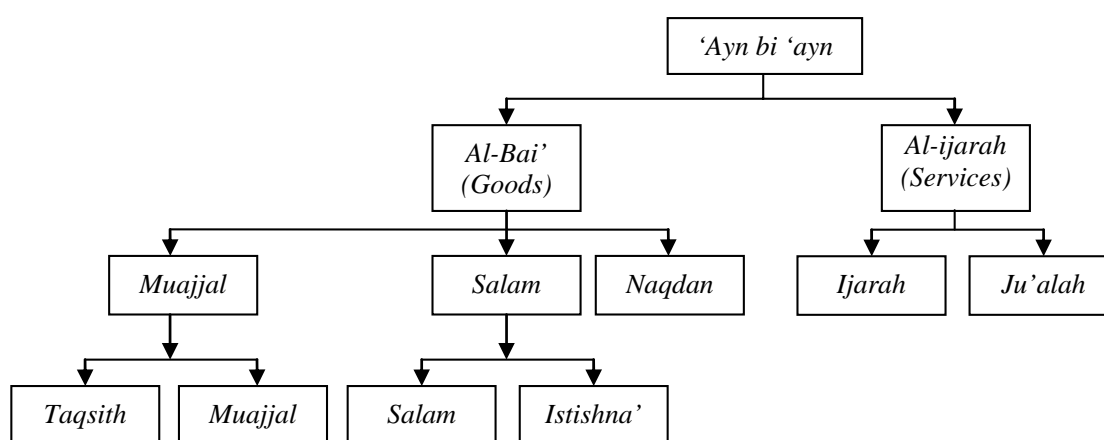
On the contrary, Firdaus et al. (2005:18-19) assert their conception of Shariah adopted from bank experts. Among others, the ideas by A. Karnaen Perwaatmadja, Islamic bank is a bank that operates in accordance with Islamic principles, with the procedures and operations to the provisions of Islamic law, and the provisions of Islamic Sharia. One of the principles that should be avoided is Islam muamalah that is a practice that contains elements of ribawi. Another opinion is by Warkum Sumitro arguing that an Islamic bank means the bank operating procedures are based on the Islamic principles, which refers to the provisions of the *Qur'an* and *hadith*.

This research uses the theory of exchange as shown in Figure 1. In this type of contract, the related parties do a transaction to each other by swapping their assets both real assets and financial assets. The object of transaction in *Fiqh mu'amalah* is distinguished into two types of object exchange, namely (1) in the form of goods and services ('Ayn/ real assets), (2) in the form of cash and securities and (Dayn/financial assets).

**Figure 1**  
**Two Pillars in the Theory of Exchange**



**Figure 2**  
**'Ayn bi Dayn or Goods with Money**



While exchange process, (1) submission of the goods/ services is done during the exchange (*Naqdan/Immediate delivery*), (2) submission done later (*ghairu naqdain / Deferred delivery*). In terms of object exchange, it can be identified in three types of exchanges, namely: (1) The exchange of real assets (Cayn) with real assets ('ayn, (2) exchange of real assets ('ayn) with financial assets (Dayn), (3) financial exchange assets (Dayn) with financial assets (Dayn) (Karim: 2004).

In this occasion, the focus of this research is on the exchange of 'Ayn and Dayn. In the exchange of 'ayn by Dayn, the object that is differentiated is the 'ayn. If the 'ayn is goods, the exchanges 'ayn and Dayn will be called trading (*al-bai'*). Meanwhile, when the 'ayn is its services, the exchange is called leasing or wages and hire (*at-ijara*).

In terms of payment, Islam permits the sale and purchase can be made in cash (now for now), or *bai'naq* and /or deferred pay-

ment, (*bai' muajjal*), or deferred delivery (*bai' Salam*). *Bay Muajjal* is paid in full (*muajjal*) or in installments (*Taqsih*). Buying and selling can be done by deferred delivery which is distinguished into (1) once full payment in advance (*bai' salam*), (2), payment is made by installments with the condition that should be paid before the goods are delivered (*bai' istishna'*). Buying and selling can be done without mentioning the profit by the seller. However, in special cases, such as buying and selling transaction with the children or with the mindless person, must be done by *murabahah* in which the seller says its profits. This process is illustrated in Figure 2.

In Shariah bank financing model, the economic relations is determined by the relationship of monetary transactions (*aqad*) financing. According to Muhammad (2005: 86-87), this relationship consists of five basic transactions (*aqad*), such as (1) savings system, (2) the leasing principle, (3) profit

margin sharing, (4) leases, (5) service (fee). Another opinion expressed by Karim (2004:97) that the principle of financing consisting of (1) the principle of sale, (2) the principle of lease, (3) the results, and (4) the principle of complementary contract. According Ayup (2007: 548-549) the principle of Murabahah financing consists principles, *Salam, Istisna'* (2) the principle of *Ijarah*, (3) *Musharakah* and *mudarabah*.

In the Islamic banking system, *murabahah* contract, for example, using a sliding calculations account, effective, flat, and progressive systems. In these systems, let alone the lay people, even the concerned bank staffs do not understand. For example, *Ijarah* in which when it gets benefit of goods, it is called lease. When it is the payments and get wages is done the goods is called a lease, whereas when applied to gain the benefits of the fee or wages it is called lease. *Ijarah* can be divided into two, namely *ijarah* payment which depends on the performance of the rent (called *Ju'alah*, success fee), and *ijarah* that payment is not dependent on the performance of the rent (called *ijarah*, salaries and rent).

### **Business Innovation Strategy in Shariah Banking**

In businesses, they utilize the productive resources (land, labor, capital goods, machinery and technical knowledge) which are categorized in scarcity and limited in number to produce a variety of goods, and distributed them to various members of the community for consumption. In short, this business is considered the economic unit of organization or entity. According to Skinner & John Ivancevich (1992) such a business is the exchange of goods and services or money or a mutual benefit.

The basic concept of this business is a service by means of sale of goods (the buying and selling of goods and services). When achieving such requirements, an economic process that should be implemented must consist of production, distribution and consumption. The business activities focused on

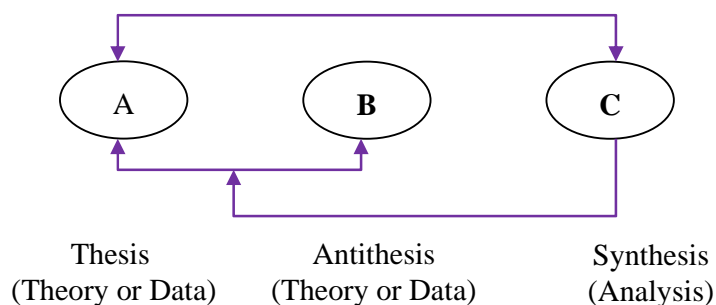
the production and distribution, while consumption by the consumer for the businessman.

In the competitive business, an innovative strategy is required by this system to achieve success and take advantage of business opportunities. Innovative strategy is a strategy of how the organization can compete in the business. This must be conducted by innovation process through diffusion and adoption of the new ideas and related companies. This process includes as follows: (1) Competitive Advantage, a unique advantage that comes from an organization's core competencies, as business organizations to do something different from other organizations, (2) quality of business services as a competitive advantage by providing high quality products to customers (3) Maintaining a competitive edge. In fact, all organizations have the resources (assets) and capabilities (how work is done), (Barney 2000).

Innovation strategy can be achieved when a corporation can formulate and implement a value-creating strategy. Valuable competencies that are scarce can not be replicated perfectly, and can not be replaced that is the source of sustainable competitive advantage. However, the corporate strategy and corporate competitors continually apply such strategy and meaning the corporation has a sustainable competitive advantage (El-litan 2006).

Another proponent, Gehani (1995) argues that the creation of innovation can also be through the integration and use of multiple resources in production. Some company's resources are tangible, whereas others are intangibles. The former is an activity that can be seen, touched, and/ or calculated. The latter covers ranging from intellectual property rights such as patents, trademarks, and copyrights to the human resources in relation to the part of the society and opinion such as networks, organizational culture, and reputation of the company for goods and services, and how their interactions with people (employees, suppliers and customers) are done.

**Figure 3**  
**Analysis of Three Domains: Thesis, Antithesis and Synthesis**



Sources: Bogdan and Biklen (1992)

## RESEARCH METHOD

This is a qualitative approach as referred to Strauss and Corbin (2003:4) that qualitative a research is a research in which its findings is not derived through statistical procedures. The results are presented in a model of charts, tables, and figures based on factual supporting data. Thus it concerns the data and factual phenomenon as its nature.

### The focus of research

It focuses on various issues such as (1) business operation of business products and business principles of shariah banks (2) model design of a bank transaction in Shari'ah financing (3) application of trading models developed by syari'ah banks in Indonesia.

### Informants and Data Collection Techniques

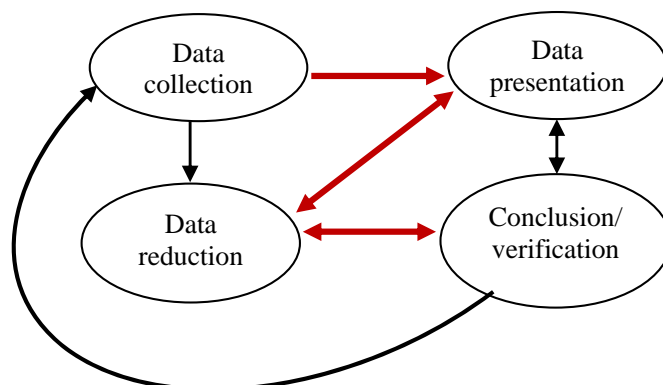
Since this is a qualitative and descriptive research model, it deals with a bibliographic / library research and field studies which is by (1) reviewing the literature and documentation, making notes and comments on the relevant data relevant to the problems formulated in this study, (2) creating memos or summaries of data in reflective stages; researchers compiled the findings of theoretical research data, (3) utilizing a variety of metaphors, analogies, and concepts for interpreting the data. The data in the field were collected by using key informants: Managing Director and Director of Operations and Marketing Director in BJM Bank Surabaya.

### Data Analysis Techniques

The theory of Bogdan and Biklen (1992:52) is adopted in which by using this techniques, the data analysis is done through the process of the searching, systematic interview transcripts, set of field notes, and other materials specified in the research, as shown in Figure 1. For the analysis of the research literature, more emphasis is put on the power of data analysis, documentation sources, and theoretical basis. By this, all data were analyzed and interpreted in wide, deep and sharp analysis. The series of data analysis are shaped up in three domains, namely: Thesis, antithesis, and synthesis as in Figure 3.

The three domains: Thesis, antithesis, and Sintess, can be seen in the "thesis" filled by the theory or data. Synthesizing position is also filled by the same thing, namely theory and data. Of course, in a different perspective as used in the previous analysis, the position of an analytical synthesis of theory and data has been set up on the thesis and synthesis position. In addition, the use of data analysis proposed by Strauss and Juliet Corbin (2003) is also done by (1) opening the coding (open coding), (2) encoding axis (axial coding) and (3) encoding selected (selective coding). Analysis leads to analyzing the data in which the researchers used qualitative analysis as proposed by Miles and Michael Huberman (1992), through the stages of data collection, data presentation, data reduction, and then data withdrawal or verification as presented in Figure 4.

**Figure 4**  
**Components of Data Analysis: Interactive Model**



Sources: Miles et al (1992).

### Validation of Data

Data validity is done by various ways such as (a) perform triangulation (verify the findings of the various sources of information), (b) conduct peer debriefing, (c) conduct member checks in which the researcher improves the results of research by involving other participants and audit trial (test the accuracy of the data through the examination of the raw data, content analysis of both internal and external analyses).

### DATA ANALYSIS AND DISCUSSION

The results as presented in this section cover the solutions to the problems formulated. It details the business products, financing strategy and design innovation as practiced in Syari'ah banks and their customers needs.

### Model of Business Products and Principles in Bank Syariah

It has been found a variety of data dealing with Shariah banks operating system, the owner of the funds they invest the bank which is not with the motive of earning interest. Instead, they just want to get profit-sharing. The funds from the customers are subsequently distributed to other parties who need it for example the capital venture capital. All these are done by profit-sharing agreement.

In general, the development of shariah banking products is classified into three groups, namely: (1) fundraising Product (2) Product Distribution Fund, and (3) product

services. In this case, production refers to the bank as the bank functions are regulated in article 1, paragraph 2 Banking Act which states that banks are business entities that raise funds from the public in the form of deposits and distribution to public in the form of credit or other forms in order to improve people's standard of living.

As stated above, the bank product deals with the whole saving and distribution. This fund is in turn distributed to the community or customers. In other words, other services are as in or under the laws in banking. In other words, the entire facility is the bank's products and services offered by the bank to the community both in terms of assets such as credit, including credit for off balance Sheet (letter of credit / bank guarantee) and the liabilities in the forms of public deposits and other services.

In providing services to customers according to CEO BJMS, it is argued that in the context of the bank's products in Indonesia, there must be transparency in relation to the product information and the use of bank customers' personal funds, as in Indonesia regulation No.7/6/PBI/2005 on bank regulation, dated 20 January 2005. Furthermore, as stated in CEO BJMS, the most important product transparency in the bank is as follows:

(1) Provide written information in the Indonesian language completely and clearly about the characteristics of each bank product.

**Table 1**  
**Business Types, Product Model and Principles of Shariah Bank**

<b>Business Type</b>	<b>Product/Services</b>	<b>Prinsip</b>
Fund Raising	Time deposit	Wadi'ah yad dhamanah
	Saving	Wadi'ah yad Dhamanah wa Mudharabah
	Deposits	Mudharabah
	Specific Saving	Mudharabah Muqayyadah
Distribution of Fund	Billing out	Qardh
	Complementary	Musyarakah
	Lease	Ijarah Muntahiyah bi Tamlik (ijarah wa iqtina')
	Working Capital	Mudharabah, Musyarakah or Murabahah
	Project	Mudharabah or Musyarakah
	Agriculture	Bay' bi Salam
	Asset acquisition	Ijarah Muntahiyah bi Tamlik
	Export	Mudharabah, Musyarakah or Murabahah
	Loan	Hiwalah
	Letter of Credit (L/C)	Wakalah
	Bank Guarantee	Kafalah
	Collection, Transfer	Wakalah and Hiwalah
	Social Loan	Qardh al-Hasan
	Security	Mudharabah, Qardh, Bay' bi al-Dayn
	Safe Deposit Box	Wadi'ah Amanah, Ujrah
	Mortgage	Rahn

(2) Information shall be provided for the customer in writing or orally.

(3) In providing such information, it is prohibited for the banks to provide misleading information and/ or unethical (misconduct).

The information about the bank products should, at least, include the following:

- (1) Product name.
- (2) The type of product.
- (3) The benefits and risks of the product.
- (4) Requirements and procedures for use of the product.
- (5) Costs inherent in the product.
- (6) Calculation of the results and profit margin
- (7) The validity of the product.
- (8) Product publication.

Some efforts that should be done by Bank Syariah BJM Surabaya are as follows.

- (1) Inform the customer of any changes, additions, and/or a reduction in product characteristic.
- (2) The Bank shall request written approval of the customer in terms of share or disseminate personal data for the clients and other

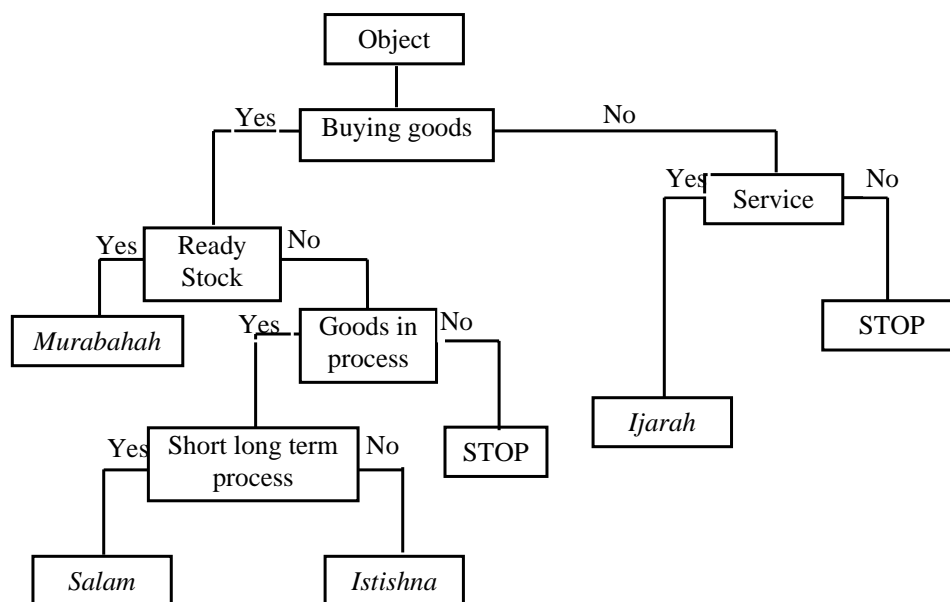
parties for commercial purposes, unless otherwise stipulated by the legislation in force.

It is very important with regard to cooperation by banks to third parties for marketing the mutual banking products with third party products. In practice, it is common that either party provide data for the customers. In this case, the bank shall inform the customer about data requested prior to the customer concerned, unless stipulated by law, as it pertains to information by the authorities, the management system of Shariah banking operations, the owner of the funds invest their money in the bank does not to get a flower motif, but in order to earn profits for the results. Customer funds are then distributed to those in need (eg venture capital), with a profit-sharing agreement as agreed. Shariah bank products given to customers are designed in accordance with customer needs.

Shariah banking products have developed into three (1) Product fundraising (2) Disbursement Product (3) Product services. Banking products offered by global Shariah Banks can be seen in Table 1.



**Figure 5**  
**Understanding Design Innovation Characteristics of Requirements**  
**by the Customer about Objects**



In practice, Syari'ah banking financing offer their prospective customers with financing as the following:

1. It is for investment activities based on profit sharing such as (1) financing investments for profit sharing or *al-mudaraba*, (2) for *al-Musharaka*. From these, the bank will earn income in the form of profit sharing and financing for various trades such as (1) financing of trade with *al-mudaraba*, (2) trade finance *al-baiu bithaman AJL*. By having such financing, the bank will get income or *profit margin*.
2. Financing of goods for buying and selling in the form of leases or the so-called *al-ijara* (2) hire purchase or called *baiu ta'jiri*. In Indonesia *al-ijara* and *baiu ta'jiri* can not be done by the bank. However, storage rental property can be categorized as *ijara* in which, the banks can get income the form of leasing.
3. Loans in Chas for virtue (*al-qardhul hasan*), without any charge except for the cost of administration such as the cost required for the validity of the debt agreement: the cost of stamp duty, notary fees, feasibility studies, and so on. From this, the bank get administrative fee.

In practice, the BJMS also provide capi-

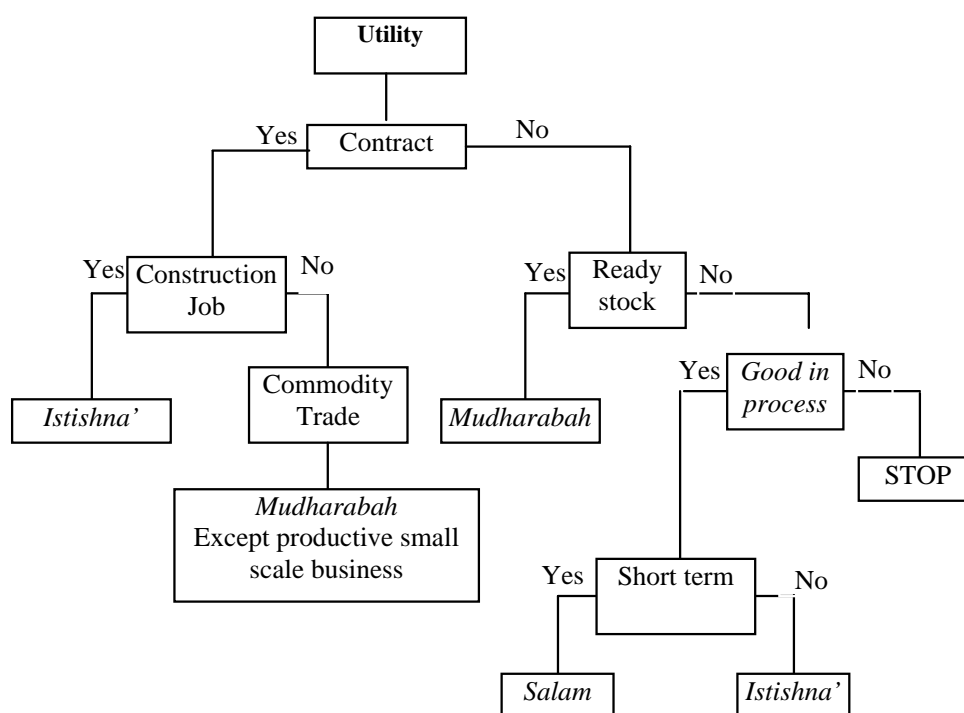
tal to small business community to purchase items of operational working capital, working tools, and other factors needed to build a small business unit. For examples, providing managerial assistance, aspects of marketing, finance and production, and facilitating a networking marketing for small and medium enterprises. For that reason, the banks make them partners in a broader scope.

### **Financing Strategy and Design Innovation of Shariah for Bank Customer Needs**

In the innovation strategy for our customers' needs, the research browses the literature, documentation, and interviews with the Bank BJMS Directors and observation towards the banks which implement Shariah banking principles and the customer needs. This is done by paying the attention to the needs, capabilities, resources, and proper contract.

In business innovation as asserted by Barney, Ellitan and Gehani, it is referred the framework concerning product excellence, service and maintaining the product quality continuously both tangible and *tanwuhud*. All these can b explained by the data and analysis as the following.

**Figure 6**  
**Characteristics of Design Innovations for Understanding Customer Needs**  
**on Working Capital**



### Object Needs

Anything that needs to be considered in designing object characteristics is required by customers. This is required by the customer's goods, the goods shall be considered available and still waiting for the production process or not. If the item is available, then it is a viable for financing of *murabaha*. If the goods are still in the process of procurement or production in the short term or long term period, financing of *salam* transaction or *istishna*. However, if the object is financing needed for services, then it is financing of *ijrah*. This practice can be seen in Figure 5.

### Utility

Understanding the needs of utility in the goods or services is required such as the purpose of goods needed for production or for consumption, which can be illustrated in Figure 6.

When the goods are needed by the customers for production, it can be for working capital and investment. However, if for the procurement of goods, it will be given financing of *mudharabah*, but for productive small business. An exception is made only

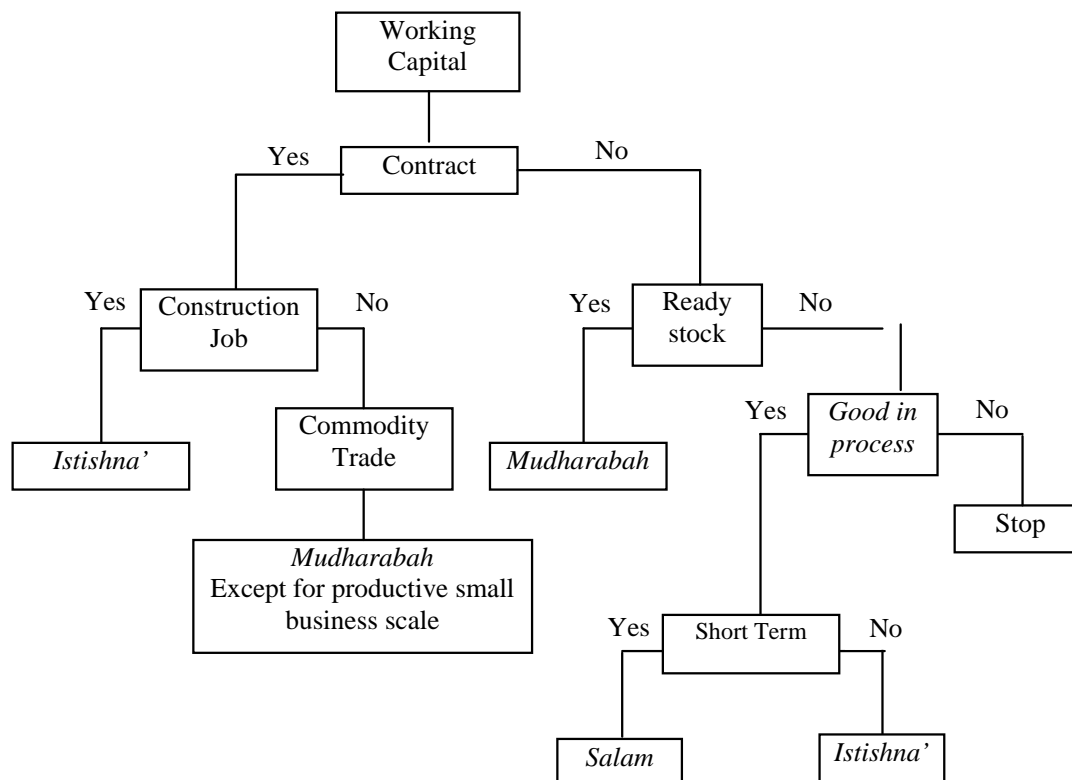
as a strategy for banks to avoid high risk. If the clients have not yet had a contract, it must be known whether the financing will be used for items of ready stock or goods in the production process (goods in process). If for ready stock, it will be *murabaha*.

However, if it is not for ready stock, but goods in process, it must be understood whether the goods they require are short or long time. When it is the short-term, funding is *Salam*. However, if the item requires a long time, it is provided with *istishna*'. All these can be seen in Figure 7.

### Investment

When the utility of the goods or services are used for investment, it must be understood whether the financing is intended for ready stock or goods in process. If it is for ready stock, they have to see whether the goods are long term or not. If so, the bank financing is *Ijarah Muntahia Bit Tamlik* (IMBT). However, if long term, it is the financing of *murabaha*. If financing is not intended to be investment of ready stock, but goods in process, they need to know whether the

**Figure 7**  
**Design Innovation Characteristics for Understanding Customer Needs**  
**on Working Capital**



goods they require are for short or long time. If it is the short-term, it will be *Salam* financing. However, if the item requires a long time, the financing provided is *istishna'*. The practice is illustrated in Figure 7.

When the purpose of financing for the consumer not for productive activities, they must know whether the financing is in the form of purchase of goods or services. This mechanism is in practice seen in Figure 9.

If it is for the purchase of goods, it is necessary to see whether the goods is in the form of ready stock or goods in process. If it is ready stock, the financing is *murabaha*. However, if it is the goods in process, it is also important to see whether the goods they require are short or long time. If it is the short-term, the financing is *Salam*. If the item requires a long time, *murabaha* financing is given. If it is for goods in process, the need to see the processing time of the products as seen in Figure 9.

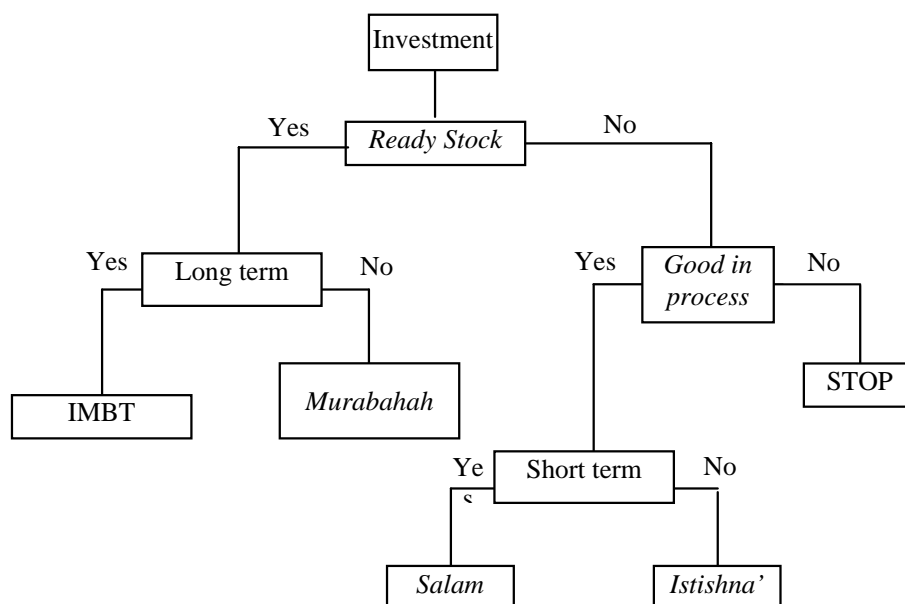
### Understanding Customer Capability

Another innovation strategy needs to be done to design an Islamic financing agreement is the ability to understand the customer capability. This is illustrated in Figure 10.

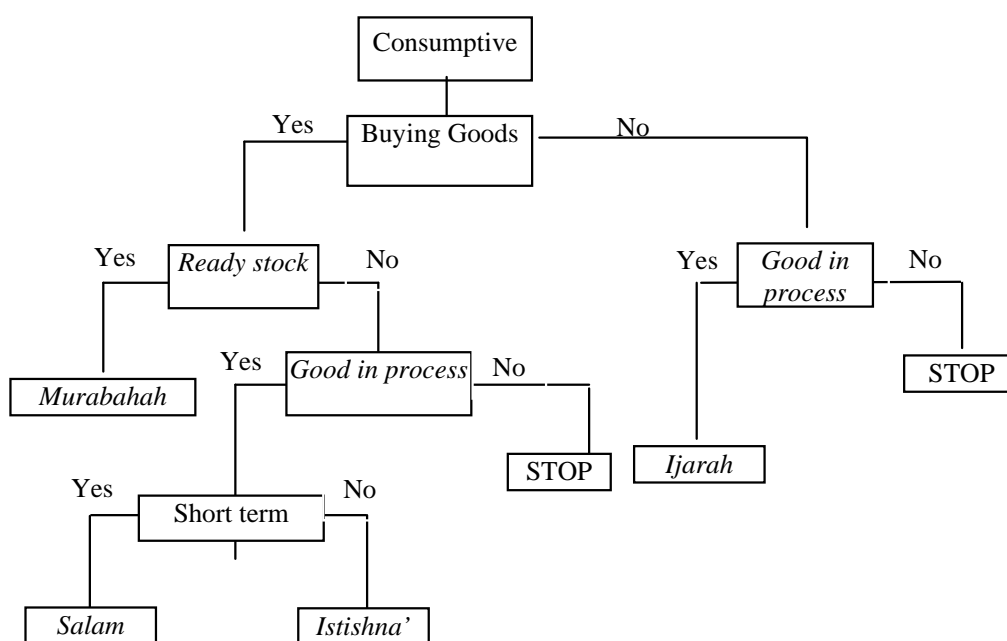
In this case, the note is highly predictable in terms of whether the source of income of the customer is very predictable or not. If the customers are highly predictable source of income, the next step to see is whether the financing for construction or procurement.

If it is for construction, the financing is *istishna'*. However, if it is for procurement, the financing is *Mudharabah*, except for small-scale production. If the customer's source of income is not included in the category of highly predictable, the next to see is whether the financing is for ready stock or goods in process. If it is ready stock, the financing is *murabaha*.

**Figure 8**  
**Design Innovation for Understanding Customer Needs Characteristics about Investment**



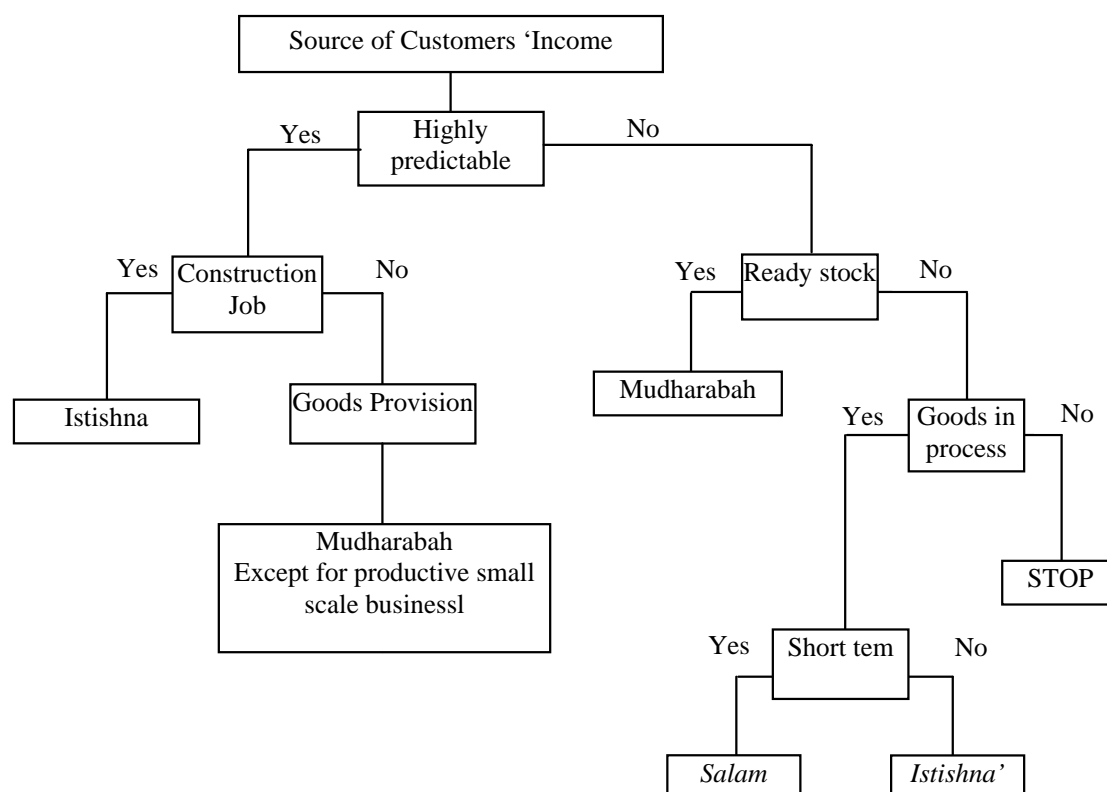
**Figure 9**  
**Design Innovation Characteristics for Understanding Customer Needs on Consumer Goods**



The results of interviews with the Managing Director of Bank Syariah BJM Surabaya on the product innovation, the financing is through Shariah banking principles by being aware of the demands and requirements of customers, quality products, excellent service continuously, described in Figure 10.

(1) Principle of Pure Savings (*Al-wadi'ah*). This is a facility provided by the Bank of Shariah to provide a chance to the excess of funds to save their money in the form of *Al-wadi'ah*. *Al-wadi'ah* facilities are usually given for investment purposes to benefit demand deposits and savings. In conventional banks, *al-wadi'ah* is synonymous with gyro.

**Figure 10**  
**Understanding Customer's Design Innovation Capability Customer Revenue Sources**



(2) For the results of the joint venture (*Syirkah*).

This system includes procedures for profit sharing between a provider of funds and the fund manager. The division's operating results can occur between banks and depositors, as well as between banks and customers who receive funds. Product forms based on this principle is *mudaraba* and *musharaka*. Furthermore, *mudaraba* principle can be used as a basis for financing the products (savings and time deposits) as well as financing, while *Musharaka* financing is more used for complementary capital.

(3) The principle of Buying-Selling (*at-Tijarah*).

This principle implements trading procedures, in which the bank will buy the items required in advance or as agent bank to appoint the customer for a purchase of goods on behalf of the bank, the bank then sells the goods to the customer at a price of a purchase price plus the profit (margin). The implication may be: *Murabaha*, *Salam*, and *Istishna'*.

(4) The principle of Lease (*al-Ijarah*).

This principle is broadly divided to two types: (1) *Ijarah*, the purely lease, like leasing tractors and other equipment products (operating lease). In technical banking, the Bank can buy the necessary equipment required by the customers, and then rent out to the customer in the time and only agreed to the customer. (2) *Bai al takjiri* or *Ijarah al muntahiya bit Tamlik* is a combination of lease and purchase, in which the tenant is entitled to have the goods at the end of the lease (lease financing).

(5) Principles of Service / Fees or service (*Al-Ajr Walumullah*)

This principle includes all non-financial services given by bank. Product forms based on this principle include Bank Guarantees, clearing, collection, Services, Transfer, and more. Shari'ah principle is based on the concept of *al Ajr wal umullah*.

The transaction (contract) and supplement (service fee) is developed as banking services contract, as follows.

(1) Instead of debts and claims (*Al-Hiwalah*), the transfer of debts and loan. In banking practice facility *hiwalah* is typically used to help suppliers get cash capital in order to continue production. Bank charges to be recovered upon removal services receivables.

(2) Mortgage (*Rahn*), guarantee repayment to the bank to provide financing. Mortgaged goods must meet the following criteria: (a) Owned by customers themselves, (b) Clearly by the size, nature and its value is determined based on the market real value; (c) Can be controlled but can not be utilized by the bank.

(3) *Al-Qard*, loan for goodness. *Al-Qard* is used to help finance customers quickly and in short term. This product is used to help small business and social purposes. These funds are derived from *zakat*, *infaq* and *Sadaqah*.

(4) *Wakalah*. The Customer authorizes the Bank to represent himself doing the work of certain services, such as: transfer, etc. in which the system is *Al-Wakalah*.

(5) *Kafalah*, bank guarantee is used to secure the payment of an obligation to pay. Bank may require the customer to put some funds for this facility as *rahn*. Banks may also receive funds with the principle of *wadiah*. The Bank may change the fees for services rendered.

In theory and practice in the field, BJM Shariah bank manager Surabaya pursues a strategy of financing innovation strategy which is guided by the required principles. Operationally, they can be grouped into three models, namely product funds, fund distribution products and banking products. It is not all of the existing theories are practiced in Shariah banking management but they adjust the demands and requirements of customers.

### Application Model and Innovation of Trading

The literature, documentation, observation and interviews with the Director of Operations of the Bank BJM are found and deliv-

ered with a variety of application models in the business of buying and selling in Shariah banking. This can be asserted as the following.

#### *Murabaha* Trading Model

*Murabaha* is derived from the word of *Ribh* which means "grow and develop" in commerce. In terms of the concept of *murabaha* in shariah banks, there are different formulations of different definitions from different proponents. For example, Usymani, (2002:125) argues that *murabaha* is a form of selling where the seller gives the buyer information about the costs which are incurred for the additional desired profit which is reflected in the sale price. The application of *murabaha* is illustrated in Figure 11.

In a *murabaha* the selling which is conducted by BJMS Bank, in this case the Bank BJMS as a seller and as a buyer, the clients have the information about the following matters:

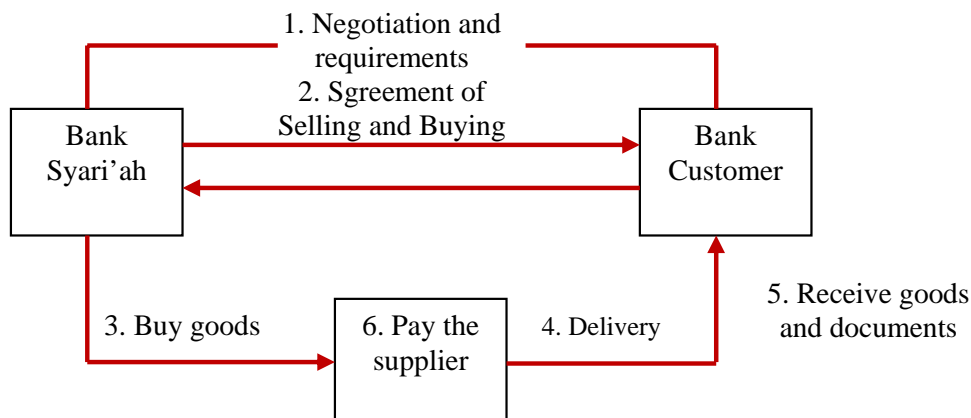
- (1) The seller deliver to the buyer's cost associated with buying and selling the goods.
- (2) The information conveyed by the seller to the buyer related to capital or the costs incurred by the seller on the buying and selling the goods.
- (3) Object of the transaction and the payment may not be an item of *Ribawi*.
- (4) There is clarity about the benefits requested by the seller in this case of the Bank BJMS as the seller.

Information which is mandatory in the selling and buying using *murabahah* is based on a belief, because the buyers believe the information provided by the seller of the desired selling price, so the seller or the bank must not betray the *murabaha* trading system.

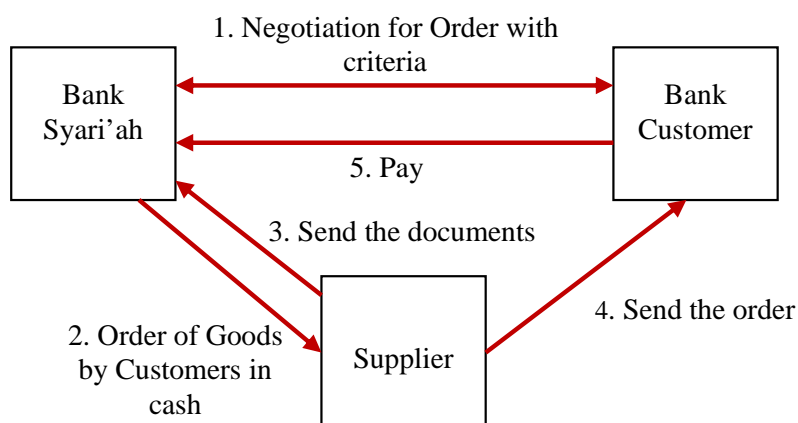
#### *Salam*

Zuhaily (1989: 598-599) describes that Buying order system (*Ba'i as-salam*) and selling of goods are among the buyers (*musalam*) with sellers (*musalam ilaih*). Specifications and price of the order must be agreed at the beginning of the transaction while the payment is made in advance in full. The implementation of the *Bai' Salam* that proposed

**Figure 11**  
**Buying and Selling Scheme Model of al-Murabahah**



**Figure 12**  
**Schematic Model of Applying Bai Buying and Selling Bai as Salam**



by Zuhaily, in buying the products should be clearly known such as the type, kind, size, quality and quantity. Opinions by the scholars of Safi'iyah and *Hanabalah salam* is a transaction-to-order with certain specifications deferred surrender at a particular time in which payment is made in cash in the contract assembly. Scholars argued Malikiyah greeting is buying and selling which is paid in cash and commodity orders are submitted after the specified period.

(1) If the production received in defect or not in accordance with the contract, the bank must be responsible for it.

(2) Since the bank does not make goods purchased or ordered as a stock, then the bank is possible to do *salam* contract to a third party (second buyer).

(3) Specifications of *Sallam*, price agreed

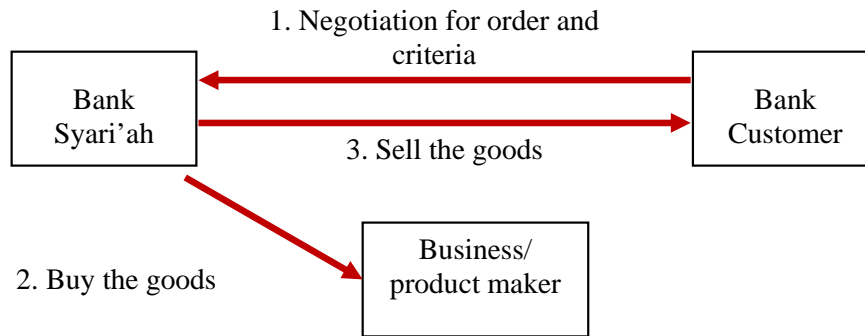
upon at the beginning of the contract and payment in full should be done in advance and the goods are deferred delivery.

(4) If the bank as *muslam* and then accept the other party to provide goods (*muslam fih*) then it is called *muslam*. The practice described above can be seen in Figure 12.

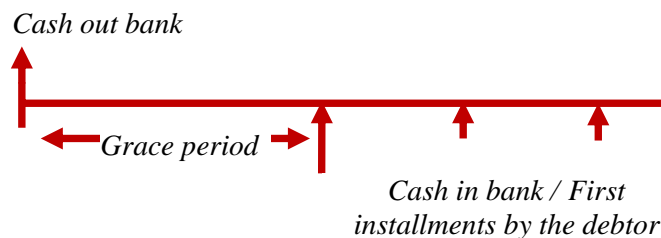
#### *Istishna'*

According Zuhaily (1989:631), Juz IV states that *Ba'i Istishna* contract is done with the manufacturer for a particular job in the mortgage or selling the goods to be made by manufacturers who also supply the raw materials, whereas if the goods are from the buyer, the transaction will be a contract of *Ijarah* (lease) the order is only hire the manufacturers to make goods. Terms *baiu al-istishna'* in general are as follows:

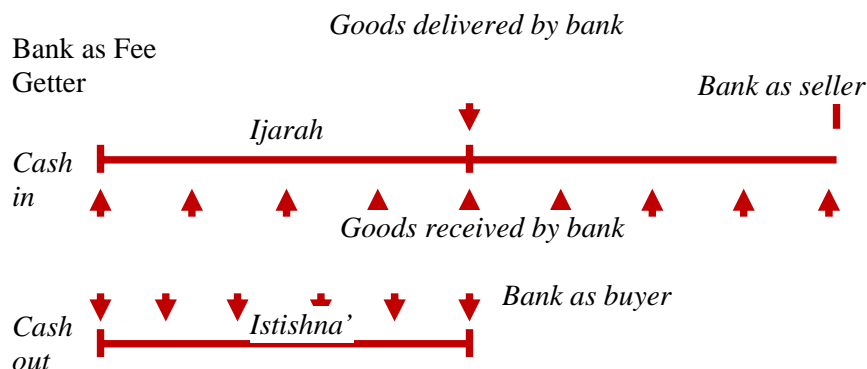
**Figure 13**  
**Schematic Model for Trading Applications of Bai al-Istishna'**



**Figure 14**  
**Model of Grace Period**



**Figure 15**  
**Model of Multiple Contracts**



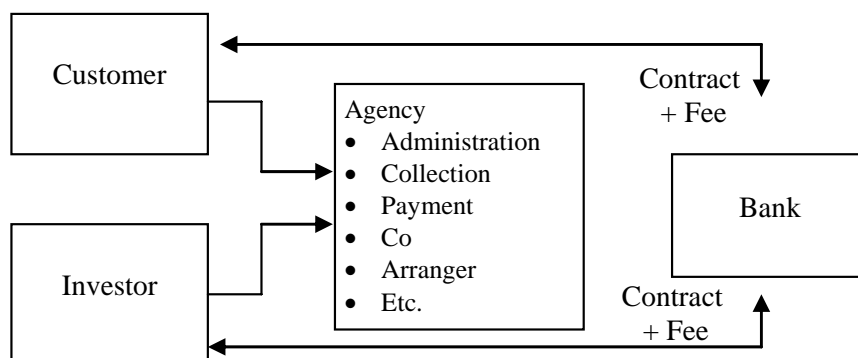
- (A) Items must be clearly ordered such as the type, kind, size, quality and quantity.  
 (B) The agreed selling price is specified in the contract and must not be changed during the validity of the contract.  
 (C) If the criteria change orders and price after the contract is signed, all the additional fixed costs should be under the customer. Operational mechanism is *bai al-istishna'*  
 (D) Specifications of *istishna'* and the prices of goods agreed is in contract beginning with payments made in stages in accordance with the agreement.  
 (E) if the bank *as shani'* appoint others to make stuff (*mashnu'*) then it is called *istishna'*.

The mechanism of Bai *al-Istishna* in the field is illustrated in Figure 13.

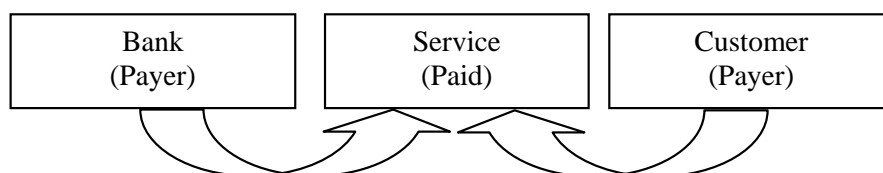
In connection with the contract *isthisna'*, in banking practices if there is periodicity of payment, the consequences received by the bank is that a bank is not going to get cash income (cash in) from the debtor during this period. Therefore, the banks are also not able to provide the results to the depositors. So, the banks need to look further if there is a period of grace period, the bank must examine whether the installment payments made or not. If it is not the installment, it means the borrowers will only pay a one-time only, i.e. at the end of the financing.



**Figure 16**  
**Schematic Working Principle of *al-Wakalah***



**Figure 17**  
**Schematic Working Principle of *al-Kafalah***



The payment models like this has a high level of risk. So, the banks should not decide to do it when the payment is done in lump sum in the end of contract.

In casuistically, when the debtors want financing of *murabahah*, for ordering a house type 72/250 to a bank, the bank can make the first payment on the house at the time of handing over. After that, there is a consequence of financing during the grace period, ie during the period of the financing agreement on booking the house type 72/250 and the period of delivery of order. By this time, the bank can cope with the grace period by way of additional contracts, the *ijara* contract. In the *ijara* contract, the debtor acts as an employer to the bank to find a house that suits the order and the bank as the party that gets the job. The *ijara* contract is that, when the party rents, the banks are entitled to get a fee each month. In a more obvious example of *murabaha* contract, it can be seen in Figure 15.

In terms of cash in the bank (cash out customers), it will not be in the form grace period. This means that since the last financing the bank will immediately receive installment payments (in cash) from the debtor. This is easier and more profitable for the

bank to get more flexibility in finding sources of funding for the third-party funds. In case there is no grace period, banks can classify into two groups, namely the payment *installment* or not. If the payment is to the installment, it can be the *muajjal murabaha* financing (cash at once at the end of the agreement).

If payment is made by the debtor installment, the bank can use *Taqsih murabaha* financing, and to meet the financing, the banks can classify into two terms, namely whether the borrower made monthly payments or in cash.

### Complementary Contract

In reference to the literature and in the practice of banking, shariah bank supplementary contract can be distinguished by a variety of ways as the following.

#### *Wakalah*

According to Al-Jazairi (1999: 534-535), it is request for representation by power of attorney is from a person to people who could replace him in the things in which the representative is allowed, for example, in buying and selling, and so forth. Each of the representatives and *muwakkil* (who represented) is perfectly required.

In practice in the field of Shari'a bank-

ing, the customer authorizes the bank to represent himself doing the work of certain services, such as: transfers, clearing, and so on. Operational Mechanism in practice, *A-Wakalah* can be described in Figure 16.

#### *Kafalah*

Al-Jazairi (1999: 530) states that the authority of the act (*kafalah*) is the person who is allowed to act and promise to fulfill the rights of others that shall be accomplished or promised to bring those rights in court. In practice, the bank guarantee is used to secure the payment of an obligation to pay. Bank may require the customer to put some funds to this facility as a pledge (*rahn*). Banks can also receive funds with the principle *wadiah*. The Bank may change the fees for services rendered. Operational mechanism in the field of *al-Kafalah* is illustrated in Figure 17. This can be the development of product and services in the form of a safe deposit box. This product is developed from the *ijara* contract.

#### Discussion

Theoretically, BJM Bank Syariah Surabaya activities can be categorized as an investment as banking and Marchan or commercial banking. This means that syari'ah banks can do economic activities related to investment in the real sector and the monetary sector.

In this case, the BJM Syariah Bank Surabaya carries on business at least five operational principles such as (1) principle of demand deposits in the form of facilities given to the excess funds to save their money in the form of deposit (*wadi'ah*), (2) the principle of for the results in the form of the way to divide the fund management, (3) the principle of sale and mark-up financing in the form of a lump sum calculated on the nominal value of loans (*taqsid*), (4) the principle of lease (*ijara*), the pure rent and lease purchase, (5) the principle of service fees which are all non-financial wealth and given as clearing, collection, transfers and so on.

In connection with business results, BJM Bank Syariah Surabaya attempts to offer services to the public as the following forms:

1. Financing for investments on the basis of

the profit sharing, from which the bank to get financing in the form of the profit sharing.

2. Funding for sharing the trading activities, the bank will obtain financing in the form of mark-up or profit margin,

3. Procurement financing for lease and sale (*ijara*), the bank can get income from *ijra*.

4. Cash loans for financing through a virtue (*al-qurdhul hasan*), from *al-qordhul* lending *hasan*, the bank can get administrative charges.

5. Banking facilities are generally not against the Shariah such as the funds in current accounts in the form of gyro *wadi'ah* given bonuses and other services to obtain remuneration (fee), such as providing security (*al-kafalah*) diversion bill (*al-hiwalah*) services special (*ju'alah*, opening L/C (*al-wakalah*) and others. From such activities, the bank will use to obtain the income in the form of fee.

#### CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATIONS

It can be generalized that the conventional banking system, besides they are acting as a bridge between the owner of the funds and the business, there is still gap between the two due to lack of transferability risk and return. However, in syari'ah banking system, although its structure is similar to conventional banks, the Shariah banks are acting as an investment manager, representative or fiduciary (custodian), from the owner of the funds for investment in real sector.

Thus, the model of financing given to the customers can be done as follows. 1) the principle of gyro in the form of entrust (*wadi'ah*), (2) the principle of profit sharing in the form of the way to distribute the proceeds from the fund, (3) the principle of buying and selling and mark-up with a lump sum financing of credit value (*taqsid*), (4) the principle of lease (*ijara*), a pure rental and leasing, (5) the principle of clearing, collection, transfers, and so on.

When connection with the implementation, BJM Bank syariah financing in Surabaya, (1) they perform and provide financial product characteristics with high transparency (2)) notify the changes of product of

financing, (3) to seek approval in writing to the customer associated with the distributing personal data to others.

The development of product and the innovation related to fund raising and distribution, as well as product design of services, they must be in accordance with the demands and needs of their customers, needs, quality products, continuous excellent service. To do such a strategy, the banks have to see the object of their customers' needs, the needs of a given customer financing, investment, ability to understand the customer. The implementation of financing model like this, it can be done by the category being facilitated with profit sharing (*mudaraba*) and partnership (*Musharaka*), while the distribution activities for the benefits of products, it can be done by buying and selling (*murabaha*, *salam* and *Isthisna*).

It can be implied that theoretically, that syari'ah bank financing does not sell money that emphasizes merely on the interest as the income. Rather, it gets income from profit sharing obtained from the entrepreneurs. Sych a system is similar to the investment as Shariah banks do. In general, product is in the nature of *mudaraba* (trust financing) and community (partnership financing), while the investment is in the form buying and selling (*murabaha*, *salam* and *isthisna*). The pattern of consumption and savings are taught in Islam that allows Muslims to have excess income that must be made productive in the form of *mudharabah* saving.

When seen in the real practice, the capital provision needed by the society is given for facilitating them with capital goods (work tools), operating working capital, and other factors that are needed to build a small business, providing managerial assistance such as financial and marketing aspects of the production, and even facilitating a marketing network (trading system) which is more efficient and beneficial. This is especially for small and medium enterprises. For that reason, shariah bank is considered a business partners in a wider and integrated environment. Conceptually, the most ideal

one is what is commensurate with the description in this finding. That is the ideal Islamic banking system in Indonesia.

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