

The Effect of Core Competency on Competitive Strategy and Its Implication on the Performance of Islamic Banking and Islamic Microfinance in the Province of Aceh, Indonesia

Muslim A Djalil

Lecturer at Dept of Accounting & Management, Faculty of Economics, University of Syiah Kuala, Banda Aceh, 23111, Indonesia

Email: muslimadjalil@gmail.com Hp : +628126980086

Abstract

The main purpose of the research are to describe and investigate the causal relationship between core competency (e.g. Valuability, Rarity, In-imitability, Non-substitutability) on the performance (e.g. revenue growth, market share, and customer satisfaction) of the Islamic banking and Islamic microfinance in the Province of Aceh, Indonesia with competitive strategy (e.g. overall low cost leadership strategy, best cost provider strategy, and focused differentiation strategy) as an intervening variable

The research employed a quantitative survey toward 252 managers (top manager, middle managers, and operational managers) selected from 79 Islamic banking and Islamic Microfinance in the entire Province of Aceh. Hence, the type of research designs used is descriptive, verificative, and explanatory survey. While the research employed a five-rating likert scale measurement, and distributed the questionnaires as a data collecting tools, the collected data are processed by using Structural Equation Model (SEM) approach – AMOS SPSS version 22.

The main finding of research indicated that core competency has a significant and positive influence on the performance of the Islamic banking and Islamic microfinance in the region either directly or through intervening variable of competitive strategy; the direct effect of core competency variable on performance is lower than that of the indirect effect of core competency on performance through intervening variables of competitive strategy. The other findings are the dimension of Rarity was the main determinant contributing to core competency, the dimension of focused differentiation strategy was a dominating dimension affecting of competitive strategy, and market share was a main determinant that forming the performance of the firm. The empirical research investigating the causal relationship between core competency and business performance employing competitive strategy as an intervening variable in the context of Islamic banking and microfinance is the novelty of the research. It is expected to give a valuable inputs for managers and stakeholders in the industry and contribute the literature of strategic management and Islamic finance and banking

Keywords: Core Competency, Competitive Strategy, Performance, Islamic Banking and Islamic Microfinance

1. Introduction

Even though the it was relatively new in the financing and banking industry, the Islamic finance and banking or more well known as an interest free or profit sharing based financing and banking are classified as the fastest growing segment in the world financial service industry sector. The Islamic financial and banking institutions has expanded to over 35 countries with the sheer number of banks exceeding 100 Islamic banks and the value of assets already exceeded \$1 trillion, with an average annual growth rate of 15-20% within this last five years. The last two decades of amazing growth and outreach have put the Islamic finance and banking as one of the largest financial service industries in the world nowadays. (Vayanos & Wackerbeck. 2009; Ariff & Rosly: 2012; Galfy & Khiyar: 2012; Ismal, Rifki. 2013.), The similar condition also applies in Indonesia, in general, and Aceh, in particular, which have a large number of Muslim community.

Based on the results of preliminary studies conducted by the author, the general Islamic banking in Aceh, did show an increase in its principal performance. However, when viewed as per indicator, the performance of Islamic banking in Aceh Province still keep a number of challenges that should be overcome by its related parties.

Some of the challenges mentioned above among others: (1) the low increase of third-party funds which impact on limited lending capacity and fund distribution in the form of financing which is a major source of revenue for any banking institutions; (2) the low market share of Islamic banking institutions which is recorded simply less than 10%, compared to the conventional banking institutions; (3) high price of financing products that have to be paid by the customer compared to those of conventional banks; (4) product differentiation in

which there is no clear distinction between the features of banking products issued by Islamic Financial Institutions and banking products released by conventional financial institutions

The inability of Islamic banking and microfinance to gain a sustainable competitive advantage as well as the improper implementation of a cooperative strategy in this volatile competition intensity shows that Islamic banking and microfinance has not yet had a competitive core competence. In fact, a core competence is obviously a core skill that has to be possessed by a company to carrying out activities that are central for the company's competitive advantage strategy and for the achievement of superior business performance.

Based on the above problems and phenomena, the purpose of research are to describe and investigate the influence of core competency on the performance of Islamic banking and Islamic Microfinance in the province of Aceh, Indonesia with an intervening variable of competitive strategy.

II. Literature Review and Hypotheses

2.1. Core Competence

Despite its various differences regarding the terminologies and definitions of Core Competency, most strategic management scientists and practitioners agreed that Core Competency is a part of the Resource and Capability of the firm, which is derived from the Resource Based View (RBV) of the firm theory. Basically, the Resource Based View (RBV) theory suggested that internal environment of which consist of resources and capabilities including core competency are more important than that of external environment of which consist of general environment and industry environment. It also considered that resources and capabilities are main source of competitive advantage and a main drivers of performance improvements.(Pearce II and Robinson,2013; Dess et. al, 2012; David, 2011; Ireland, Hoskisson and Hitt, 2011; West III and Bamford , 2010; Barney and Hesterly, 2012; Wheelen and Hunger, 2012).

According to Pearce II and Robinson (2013), core competency is a capability or skill that a firm emphasizes and excels in doing while in pursuit of its overall mission. The actual core competency does not lies on the amount of existing assets in the balance sheet but rather on the intellectual-based and intellectual-capital owned by the companies (Thompson Jr, 2010). Core competency will be the basis of competitive advantage if the resources and capabilities owned are distinctive competence that is a unique resource or capability to carry out a company activities that is outperform to the competitor (Thompson Jr, 2010; Pearce II, 2013). In practice, not all resources or capabilities serve as a core competency and a source of competitive advantage. The core competency will have a perceived value in the eyes of customers and a source of sustainable competitive advantage if it is critical, scarce, trigger resources, and durable (Pearce II, 2013); or if its resources and capabilities are Valuable (it is Valuable, Rare (It is Rare), Imitation (It is difficult to Imitate), Substitution (it cannot be Substituted for), Tradable (it cannot be Traded for). The underlying characteristics of unique resources and capabilities as a source of competitive advantage are termed as a VRIST framework (West III and Bamford, 2010).

Nearly similar to previous definition, according to Wheelen and Hunger (2013), Core competency a collection of competencies that crosses divisional boundaries, is widespread within the corporation, and is something the corporation can do exceedingly well. When the core competencies are superior to those of the competition, they are called "distinctive competency". To test whether the resources and capabilities contributed to potentially competitive advantage, Barney and Hesterly (2012) proposed four questions need to be asked thoroughly or also referred it as a VRIO framework as follows;

1. The question Value: Does it provide customer value and competitive advantage?
2. The question of Rarity: Do no other competitors posses it?
3. The question of Imitability: Is it costly for others to imitate it?
4. The question of Organization: Is the firm organized to exploit the unique resource?

Based on the comparison of various references regarding core competency above and adjusted with the actual condition and object of the research and characteristic of respondents in the Province of Aceh, the dimensions or indicators that will be used in the research are divided into: Core Competency (CC) whose characteristics are (VRIN) = Valuability (CC1), Rarity(CC2), Inimitability (Costly to Imitate) or CC3, and Nonsubstituability) or CC4

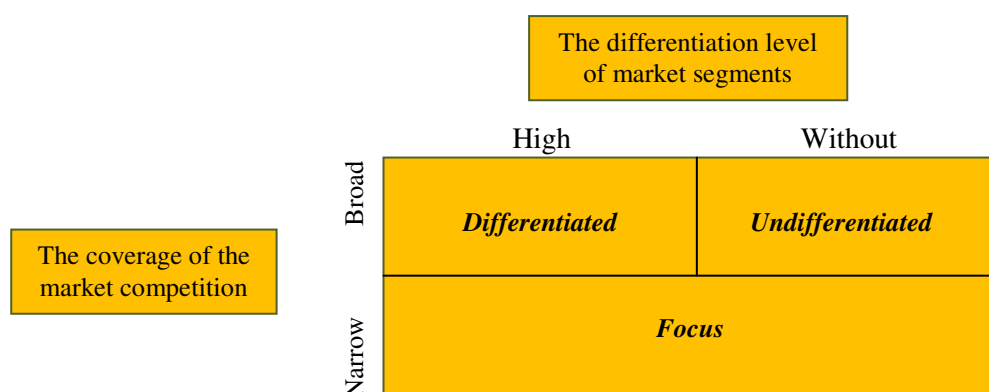
2.2. Competitive Strategy

At least, there are three approaches that attempt to define the competitive strategies, namely adaptive strategy (Miles & Snow), a framework of business definition (Abell), and Porter's Generic Competitive Strategies in Kuncoro, 2006.

Adaptive strategies of Miles and Snow version above are based on the organization's success in using the strategies to be able to adapt to an uncertain environment. In this approach there are four types of strategies, those are: prospector, defender, analyzer, and reactor.

According to Kuncoro (2006), prospector strategy is a strategy that promotes the organization's success in innovating, always creating new products and new market opportunities. Survival strategy or defender is a strategy that is usually concerned with the stability of its targeted market; generally, companies with this strategy only have a few product lines with a very narrow market segments. Analyzer strategy is a strategy that will analyze new business ideas before the organization entering the business. Reactor strategy is a strategy in which company reacts to the changing environment and makes a change only if there are pressures from the environment that forced the organization to change.

Abell's competitive strategies argue that businesses can be distinguished by two important aspects, i.e. the coverage of the competition (e.g. broad or narrow market) and to what extent does the product differentiation offered. The combination of the two aspects becomes the basis for Abell to find three possible competitive strategy, those are: differentiated, undifferentiated and focus, as shown in the Figure 2.1 below.

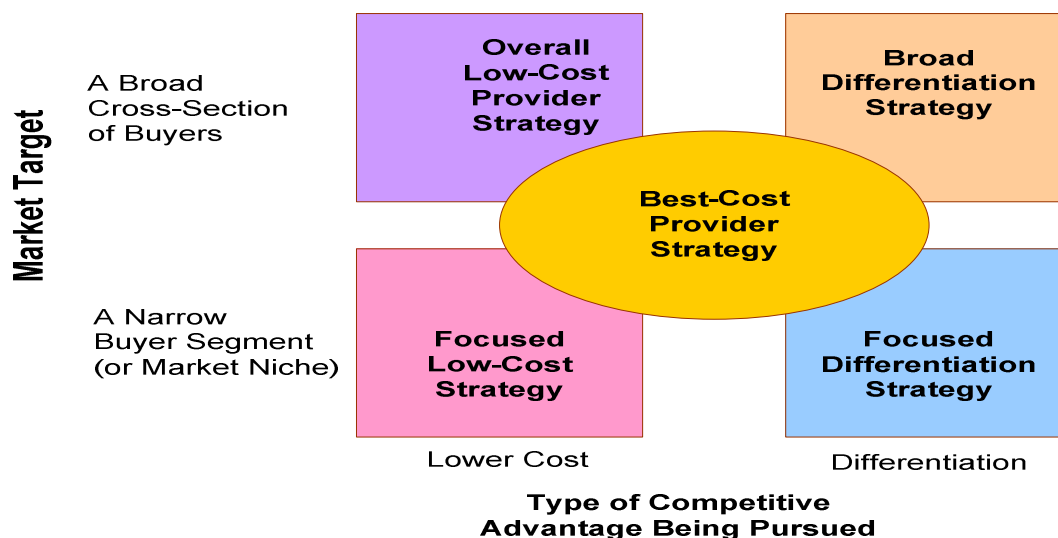


Sumber: Chrisman, et al (1988) in Kuncoro (2006, 90)

Figure 2.1 Abell's Competitive Strategies

Thompson Jr, Strickland & Gamble (2010), defined competitive strategy as a company's strategy deals exclusively with the specific of management's game plan for competing successfully its specific efforts to please customers, its offensive and defensive moves to counter the maneuvers of rivals, its responses to whatever market conditions prevails at the moment, its initiatives to strengthen its market position, and its approach to securing a competitive advantage vis-à-vis rivals. Similarly, Competitive strategy focuses on improving the competitive position of the company products and services in a particular industry or market segment served by the company (Wheelen and Hunger, 2013; Ireland & Hoskinson, and Hitt, 2011).

Furthermore, Thompson Jr, Strickland and Gamble (2010), dividing competitive strategy into five : (1) overall low cost strategy; (2) differentiation strategy in a large market; (3) best cost strategy; (4) low cost focus strategy; and (5) differentiation focus strategy. The form of this strategy can be seen in Figure 2.2 below.



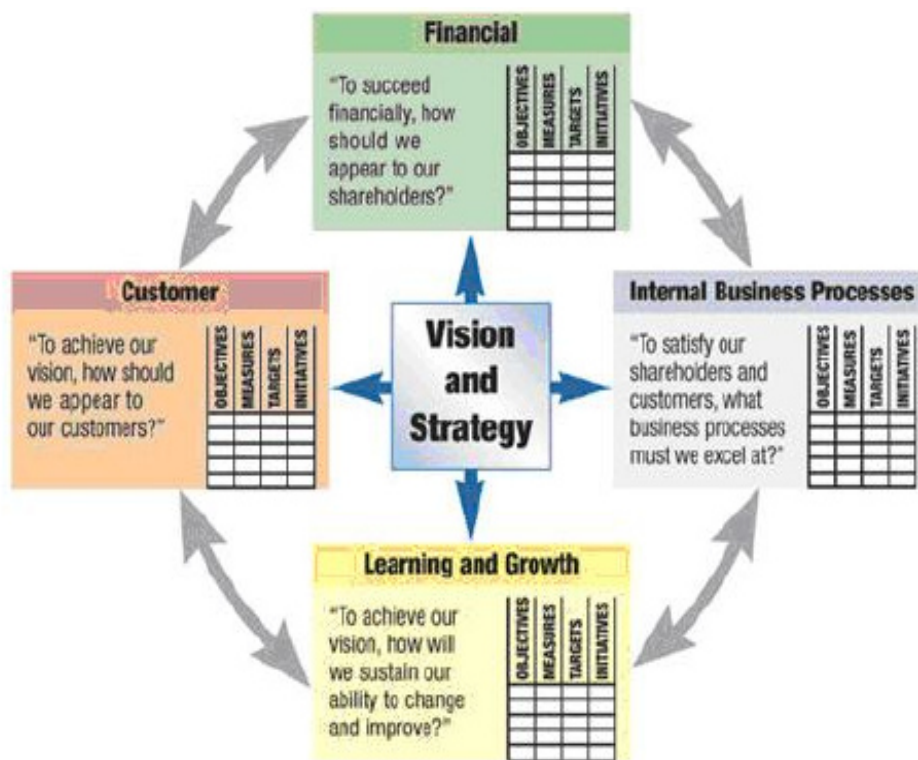
Source: Thompson Jr , Strickland and Gamble (2010)

Figure 2.2.
Competitive Strategy of Thompson Jr, Strickland and Gamble Version

The dimensions of competitive strategy (SKOM) that would be used in the research are into three : (1) Overall low cost strategy (SKOM1), (2). Best Cost Provider Strategy (SKOM2), and (3) Focused differentiation strategy (SKOM3)

2.3. Performance

Performance is the ending destination of any companies that are willing to pursue and it is a reflection of an entire achievement of process and afford the firms made. There are various approaches are used in defining performance and performance management. According to Mulyadi (2007), performance is the successful of personnel, team, or organizational unit in realizing the strategic objectives that have been set previously with the expected behavior. According to Rivai (2011), performance is a potential output of tasks achieved, by a person or by a group of a company, in accordance with one's authority and responsibility, in the efforts to pursue the goal of the company legally, morally, and ethically. In addition, Prawirosentono (2000) defines performance as a result of work accomplished within a certain time, in order to legally achieve the organization goals by not violating the law and in accordance with the moral and ethical. Bititci, Carrie & McDevitt(1997) define performance management as a "process by which the company manages its performance in line with its corporate and functional strategies and *objectives*". This definition is often used in management research studies. Bititci, Carrie & McDevitt elaborated that, it is therefore the objective of that process to provide an integrated control system, where the corporate and functional strategies are deployed to all business processes, activities, tasks and personnel, and feedback is obtained through the performance measurement system to enable appropriate management decisions. Hence, the ultimate purpose of that process is to improve performance. There are two generally used approaches to measuring the company's performance advantages (Supratikno et. al., 2005), i.e. superior above average performance of a company and corporate longevity. The above concepts of measuring performance are often referred to as the concept of Balanced Scorecard (BSC) (Pearce II & Robinson, 2012 - adopted from Kaplan and Norton).



Sumber: Pearce II and Robinson 2012, adopted from Kaplan & Norton

Figure 2.3.
Performance Measurement with Balance Scorecard (BSC)

The second approach of measuring company performance is by using a hybrid approach which is a combination of financial and non-financial measures (Gin Chong, 2008). The dimensions of each measurement both financial and non-financial can be seen in the following Table.

Table 2.1
Performance Indicators

Financial Measurement		Non-financial Measurement	
Short-term	Long-term	Short-term	Long-term
<ul style="list-style-type: none"> • Velocity of money • Return/Profit • ROI (Return On Investment) 	<ul style="list-style-type: none"> • Revenue growth rate • Employees growth rate 	<ul style="list-style-type: none"> • Costumer’s satisfaction • Waiting time guarantee on the delivery of goods to customer • Employees turnover 	<ul style="list-style-type: none"> • Market share

Source: Gin Chong (2008)

This approach is almost similar to what suggested by Ledwith and O’Dwyer, (2009), in which to measure the performance of the banking we can use financial approach and market performance with some main indicators, i.e.: sales growth, profitability, market share, the number of sales and ROI. The dimensions or indicators that would be used to measure the performance (KIN) in the research are grouped into : (1) Revenue growth (KIN12), (2). Market share (KIN12), and (3) Costumer’s satisfaction (KIN13)

2.4. Islamic Finance and Islamic Banking

According to the book of Islamic Economics issued by Center for Islamic Economics Development and Study (CIEDS) and Bank of Indonesia (2008), the aims of Islamic economics is to achieve a prosperity that will bring happiness in this world and hereafter (Falah).

Islamic Banking is essentially an intermediary institution where the foundation of this intermediation can be seen in Surah An-Nisaa of Holy Quran verses 5 and 6, *mudaraba* practice has been implemented since the time of the Caliph Umar ibn Al-Khattab (Husaini & Dhani, 2007). In essence, Islamic banking operations are based on islamic principles for financial transactions, i.e., risk-sharing and prohibition of products and services having riba and profit and loss-sharing are major features, ensuring justices and equity (Khir, Gupta and Shanmugam: 2008)

Islamic Banking is part of Islamic financial system. Therefore, to establish a strong and healthy Islamic banking system, it requires a systemic liquidity infrastructure, governance and disclosure infrastructure, as well as the supporting infrastructure and safety nets last loan.

Antonio (2005) describes some main differences between Islamic banking and Conventional Banking, as shown in the table below:

Table 2.2
Main differences between Islamic and Conventional Banking

No.	Islamic Bank	Conventional Bank
1	Conducting <i>halal sajab</i> investments	Halal and haram investments
2	Based on profit sharing, buying and selling, and leasing principles	Using interest
3	Profit dan <i>falah</i> oriented	Profit oriented
4	Partnership relationship with the costumers	Debtor – creditor relationship with the costumers
5	The association and distribution of funds shall be in accordance with the <i>Sharia</i> Supervisory Board <i>fatwas</i>	There is no such board

Source: Antonio (2005)

2.5. Hypotheses Development.

The proposed hypotheses are classified into descriptive and verificative as follows:

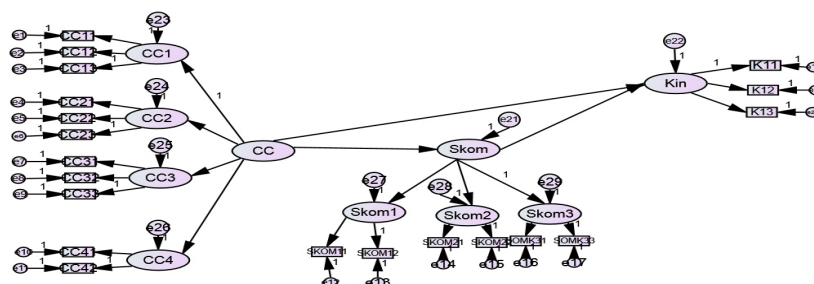
H1: Core competitive is not yet competitive, the competitive strategy is not yet sound, and the performance of Islamic banking and Islamic Microfinance in the Province of Aceh is not sound

H2. Core competence has a positive and significant influence on competitive strategy

H3. Core competence has a positive and significant influence on performance

H4. Competitive strategy has a positive and significant influence on performance

The proposed theoretical framework of the research may be seen in the following figure:



3. Research Methodology

This study is formulated based on the management science approach, especially economics with a focus area of strategic management, especially with regard to the core skills (core competency), competitive strategy, and its performance implications on Islamic Banking and Islamic Microfinance in the Aceh Province, Indonesia

In terms of research objectives, this study is a descriptive and an explanatory research which aimed at obtaining a description of the consideration or description of core skills (core competency), competitive strategy, performance of Islamic Banking and Islamic Microfinance in the Aceh Province, Indonesia. Besides, a verification process is also conducted to determine the variables effect through a hypothesis testing based on the data in the field.

This study employs two methods, i.e.: a descriptive survey method and an explanatory survey method. Therefore, the type of investigation used in this study is the causality type.

The unit analysis in this study is Islamic-based financial institutions which consist of Islamic Commercial Bank (BUS), Islamic Business Unit (UUS), Islamic Rural Banks (BPRS), and the Islamic Microfinance Institutions (LKMS) in all cities/districts in Aceh Province. This study uses one shoot coverage time with cross-section data type.

The research employed census method in the determination of respondents in which the sample is all of the population. The total number of observation units is 79 with the total number of respondent of 252 people from Islamic banking and its branch centers as well as Islamic Microfinance Institutions from all cities/districts in Aceh.

This study uses Structural Equation Model (SEM) approach – AMOS and the validity test and reliability test are conducted by using SPSS 22 that can be seen from the convergent validity with reflective indicator.

4. Results and Discussions

a). Characteristics of Respondents

The characteristics of respondents can be specified based on age, sex, education, formal education background, additional knowledge of Islamic banking, marital status, occupation, working-lives experience in Sharia-based financial institution management, levels of management, and income salary. According to sex, the respondents are dominated by men with a percentage of 64% while the number of female respondents only about 36%. Most of them are in operations management positions with the percentage of 56.75%, middle management positions 30.95% and the rest of 12.30% is filled by those who hold top management positions.

In terms of education, 50% of the respondents are baccaalaureate. The rest are high school graduates (13.89%), Diploma (32.14%), and Masters (3.97%). Moreover, the respondents who had educational background either diploma, bachelor or master, in non-Islamic banking field is dominating the population with the percentage of 83.33%, while those, who are with educational background in Islamic banking is only about 16.67%. This is understandable because there are only few educational institutions that provide Islamic-based economic/finance/banking field in Indonesia.

Most of the respondents, 58.73%, gained additional knowledge on Islamic banking through training/short courses. The rest 36.11% gained by way of self-study and 5.16% by other means such from colleagues. Judging from their marital status, 82.94% of respondents are married and the remaining of 17.06% are non-married. Most of the respondents, 87.70%, are private sector employees and the remaining 12, 30% are State Owned Enterprise (BUMN) employees.

According to their working-live experience in Sharia-based financial institutions, 22.22% are those who have hold manager positions for more than 5 years, then from 3 to 3.9 years (18.65%), 1 to 1.9 years (17.86%), 2 to 2.9 years (14.68%), 4-5 years (14.29%), and under one year (12.30%).

While according their income salary, 34.52% of respondents earn less than two million rupiahs. This is because most of the respondents taken are those who work at the Sharia based Microfinance Institutions (LKMS) in which their financing stakeholders are small and medium businesses (SMEs). While a small percentage of 6.75% is filled by those who have incomes 5-6 million rupiahs, and the remaining is 2 to 2.9 million rupiahs (26.98%), Rp.3 to 3.9 million rupiahs (11.11%), 4 to 4.9 million rupiahs (9.92%), and 6 million rupiahs (10, 71%).

b). The Description of Core Competency, Competitive Strategy, and Performance of Islamic Banking and Islamic Microfinance in the Aceh Province, Indonesia

This section aims to describe the condition of analysis unit based on variables study. The calculation of the distribution frequency table of descriptive statistics is made to provide a clearer picture of the analysis unit. The categorization of each variable based on the average count is presented in the following table.

Table 4.1 Categorization of Research Variable

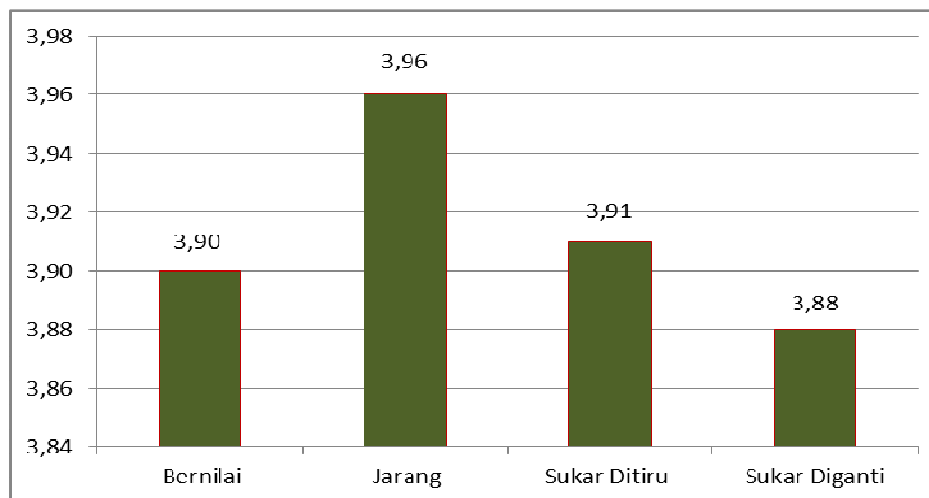
Range	Category
1.00 - 1.79	Very unsatisfied
1.80 - 2.59	Unsatisfied
2.60 - 3.39	Neutral
3.40 - 4.19	Satisfied
4.20 - 5.00	Very satisfied

Source: Data Processing Output, 2013

The categorization table uses range or interval 0.8, which is obtained from the reduction of the greatest value on the Likert scale (5) and the smallest value (1) and divided by its own number of categorization (5).

1) Core Competency

Core competency variable is measured through four dimensions, i.e: resources and worth capabilities or *Valuable (Bernilai)*, resource and rare capabilities or *Rare (Jarang)*, resources and difficult to imitated capabilities or *Inimitable (Sukar ditiru)* as well as resources and difficult to replace capabilities or *Unsubstitutable (Sukar diganti)*. The average value for the aspect of resources and worth capabilities is relatively high, approaching almost 4. This indicator provides the highest average figure of Islamic banking and Islamic Microfinance's ability to reach the targeted consumers which is more aggressive than the conventional banking.



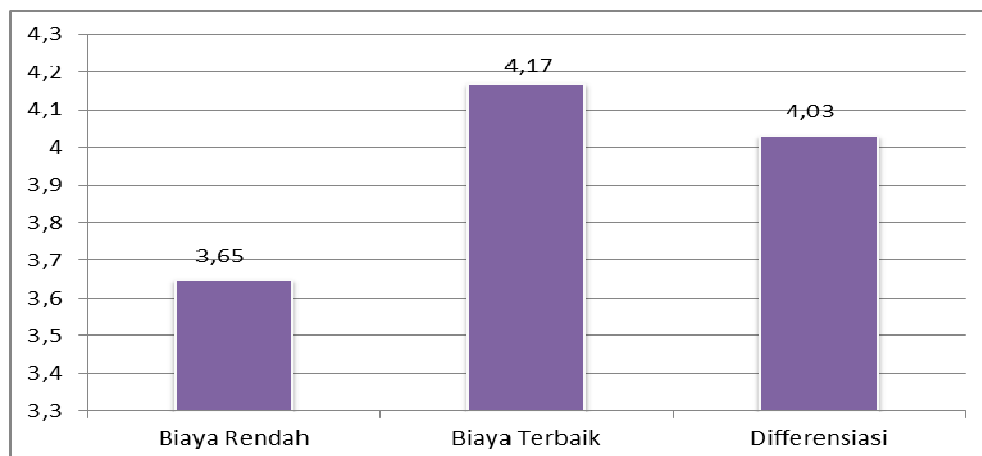
Source: Data Processing Output, 2013

Figure 4.1 Core Competency's Recapitulation

The above figure shows the summary of the total average of each dimension used to measure the core competency variable. The most visible one is the resources and rare capabilities with an average value of 3.96, and the lowest is the resources and difficult to replaced capabilities with an average value of 3.88.

2) Competitive Strategy

Competitive strategy variables measured through 3 dimensions, i.e.: low cost leadership (*Biaya Rendah*), Best Cost Leadership (*Biaya Terbaik*) and Differentiation (*Diferensiasi*)



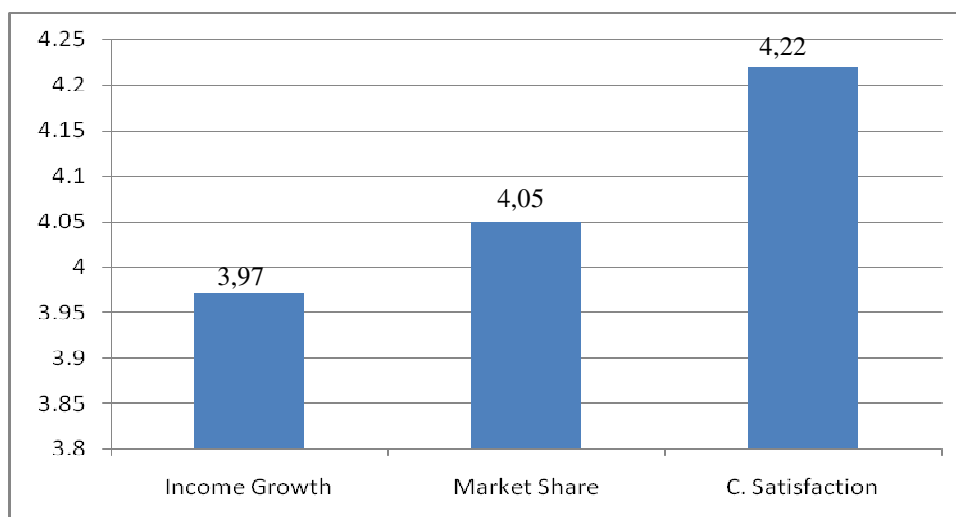
Source: Data Processing Result, 2013

Figure 4.3 Competitive Strategy's Recapitulation

The picture above shows the summary of total the average of competitive strategy variable dimension. The highest score is Best Cost dimension with an average value of 4.17, and the lowest one is the low cost dimension with an average value of 3.65. From these figures it can be seen that the competitive strategy of the company is mostly derived from the ability of Sharia-based financial institutions in the best costing run.

3). The Performance of Islamic Banking and Islamic Microfinance in the Aceh Province, Indonesia

The Performance of Islamic Banking and Islamic Microfinance variables measured through three dimensions, i.e.: the average growth rate of the company, market share and the improvement of customer satisfaction from time to time. From those three indicators as show in the above figure, the improvement of customer satisfaction from time to time has the highest score of 4.22. This result shows that such performance only can be achieved if the customer satisfaction rate continues to increase from time to time. The second one is the market share indicators with the value of 4.05. This means that the market share improvement is still difficult to perform, though it is a very important aspect in improving the company performance.



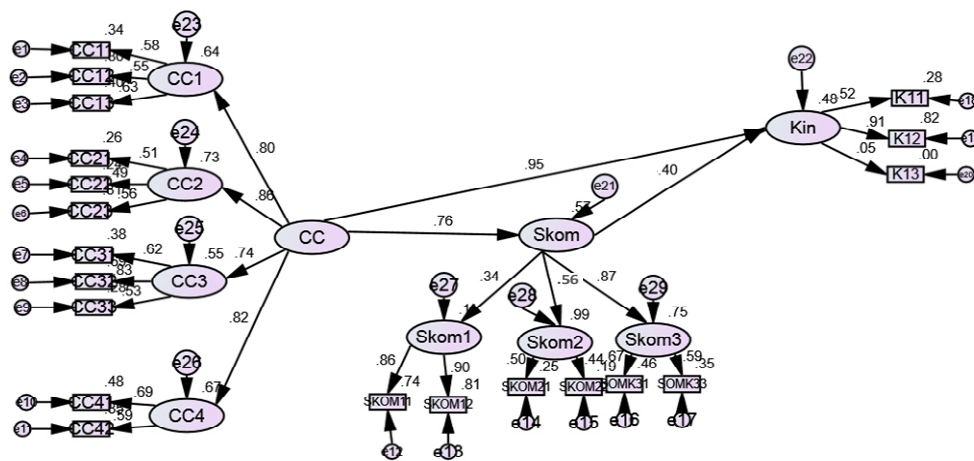
Source: Data Processing Result, 2013

Figure 4.5 Performance's Recapitulation

c). The Influence of Core Competency on Performance of Islamic Banking and Islamic Microfinance in the Aceh Province, Indonesia with the intervening variable of Competitive strategy

Having conducted the test of Validity and Reliability of indicators and dimensions of which indicated that all of them are valid and reliable, it will be continued with the formulation of the Measurement Model. As a part of SEM model, the Measurement Model is principally employed to measure at what extend a set of indicators or manifest variables precisely explained constructs or latent variables. It would cover testing the

employed indicators that measuring variables, calculating covariance of selected samples in order to identify the relationship between indicator and construct, and Goodness of Fit (GoF). The next step is to develop a Structural Equation Model (SEM) to test the proposed model and hypotheses developed in the research. The testing of the developed model in the SEM is performed by two methods, namely, the test of model fitness and significant test of causality through the test of regression coefficient. Finally, it is based on previously developed theoretical framework of research, both measurement and structural model are combined to formulate the Full Model. Using the covariance based SEM with Amos software, the output of data processing of the research can be seen in the following Full model figure:



Source: Data Processing Result, 2013

Figure 4.6. Full Model

Note: CC: Core Competency; CC1: Valuability, CC2: Rarity, CC3: Inimitability, CC4: Nonsubstituability
 Skom: Competitive Strategy; Skom1: Overall Low Cost leadership strategy, Skom2: Best Cost Provider Strategy; Skom3: Focused t differentiation; Kin: Performance: Kin11: Revenue Growth, K12: Market Share, K13: Customer satisfaction

The causal relationship above which is based on the proposed hypothesis should be statistically tested partially and simultaneously by using Critical Ratio (CR) and Probability Value (P). The test of those hypotheses are done by using two cut-off value by comparing the CR with 1,96 and P Value with 0.05. The influence will be stated significant if the value of $CR > 1,96$ and $P \text{ Value} < 0,05$ ((Latan.2013). Based on the output of the Regression weight and standardized regression weight of measurement model and structural model of SEM-Amos as shown in the appendix 1 and appendix 2, it will be determined the significance and the dominating influence of each indicator or dimension forming the variable of the measurement model and also reveals the extend and the significance of causal relationship among variables of the structural model.

The output of regression and standardized regression of the measurement model indicated that all indicators and dimensions forming the three variables of the research (core competency, competitive strategy, and performance) are significance due to its value of $CR > 1,96$ and value of $P < 0,05$ (see appendix 1). The output also shows that the dominating dimension forming core competency is Rarity whose loading factor is the highest by .86. The loading factors of Valueability, Inimitability, and Non-substituability dimensions are .80, 0.74, 0.82, respectively; the dominating dimension forming the competitive strategy is focused differentiation strategy of which it's loading factor is .87. The loading factors of overall low cost leadership strategy and the best cost provider strategy are .34 and .56, respectively; and the dominating dimension forming the variable of performance is market share whose loading factor is .91, and the loading factor of revenue growth and customer satisfaction dimensions are .52 and .05, respectively.

While the output of regression and standardized regression of measurement model explaining the dominating and the significant influence of indicators/dimensions toward variable, the output of regression and

standardized regression of structural model revealing the extend and the significant causal relationship among research variables. The output of regression and standardized regression of structural model as attached in the appendix 2 indicated the extend of influence which is reflected with the value of loading factors; the higher of the loading factor is the closeness of the influence among variables. The output of cut-off value of statically significant causal relationship of which is stated with the value of CR > 1.96 and value of P < 0.05 (Latan.2013). The output of loading factors, CR Value, and P Value of the research sample and the outcome of hypotheses testing of causal relationship are summarized on the following table:

Table 4.2.
Summary of Hypotheses Testing

No	Hypothesis	Remarks	Loading Factor (R)	CR	P	The test of Significance	Reject /Accept of H1 Hypotheses
1	2	Core Competency has a positive and significant influence on Competitive Strategy	.671	4.900	***	Significance	H ₁ Accepted
2	3	Competitive Strategy has a positive and significant influence on Performance	.620	2.745	.008	Significance	H ₁ Accepted
3	4	Core Competency has a positive and significant influence on and Performance	.827	3.336	***	Significance	H ₁ Accepted

Note: The hypothesis would be accepted if P-Value or p < 0,05 and CR value > 1,96 (Latan.2013)

Source: Data Processing Output, 2013

4. Conclusion and Recommendation.

4.1 Conclusions

1. The core competency of the Islamic banking and Islamic Microfinance in the Province of Aceh has not been competitive yet, the competitive strategy has not been sound yet, and the performance of the institutions have been sound and increasing
2. Most managers working in the Islamic banking and Islamic Microfinance in the Province of Aceh did not have a specific sharia based financial education from formal universities or colleges, most of them obtain the skills and knowledge of sharia based finance and banking system by short course or training
3. Out of three hypotheses of causal relationship tested as previously explained, all of them have a positive influence, significant and accepted. The Core Competency has a positive and significant influence on Competitive Strategy, Competitive Strategy has a positive and significant influence on Performance, and Core Competency has a positive and significant influence on and Performance of Islamic banking and Islamic Microfinance in the Province of Aceh
4. Rarity, focused differentiation, and market share are the most dominating dimensions forming the variables of core competency, competitive strategy, and performance of Performance of Islamic banking and Islamic Microfinance in the Province of Aceh, respectively.
5. The direct effect of core competency variable on performance is lower than that of the indirect effect of core competency on performance through intervening variables of competitive strategy

4.2. Recommendations

1. Boasting the company's performance, the stakeholders and management of Islamic banking and Islamic microfinance in the Province of Aceh should thoroughly leverage its core competency through optimalization of competitive strategy
2. The further research regarding the subjects are greatly encouraged to explore the variables affecting performance of Islamic banking and Islamic microfinance in regions

or replicated it with other variables or different samples in the other regions

References

- Antonio. Muhammad Syafie. 2001. *Bank Syariah: dari Teori ke Praktik*. Jakarta: Gema Insani.
- Ariff, Mohamed, Saiful Azhar Rosly. Islamic Banking in Malaysia: *unchartered Water.Asian Economic Policy Review. Japan Center for Economic Research (2011)6, 301-319*
- Bank Indonesia, Direktorat Perbankan Syariah. 2011. *Outlook Perbankan Syariah 2010, 2012*
- Bank Indonesia, Banda Aceh. (2012). *Kajian Ekonomi Regional Propinsi Aceh, Triwulan III, 2012*
- Barney, Jay. B, and William. S Hesterly. 2012. *Strategic Management and Competitive Advantage, Fourth Edition*. Pearson Prentice Hall, United States of America
- Bititci, U. S., Carrie, A. S., & McDevitt. 1997. Integrated Performance Measurement Systems: A Development Guide. *International Journal of Operations & Production Management, 17(5), 522–534.*
- Chong, Gin. 2008. Measuring Performance of Small-and-Medium Sized Enterprises: the Grounded Theory. *The Journal of Business and Public Affairs. Volume 2, Issue 1, 2008*
- David, Fred R. 2011. *Strategic Management: Concepts and Cases, Twelfth Edition*. USA: Pearson Education.
- Dess, Gregory G at. al. 2012. *Strategic Management: Text and Cases. Sixth edition*. USA: McGraw-Hill
- El-Galfy, Ahmed, Khiyar Abdalla Khiyar. 2012. Islamic Banking and Economic Growth: A Review. *Journal of Applied Business Research. Sept/Oct.; 2012; 28,5; ABI/INFORM Complete*
- Hendrawan, Supratikno, Anton Wachidin Widjadja, dan Darmadi Durianto. 2006. *Manajemen Kinerja untuk Menciptakan Keunggulan Bersaing*. Penerbit Graha Ilmu. Yogyakarta.
- Ireland, Duane R, Robert E Hoskinsson, Michael Hitt. 2011. *The Management of Strategy: Concept and Cases. 9th. Edition*. USA: South –Western Cengage Learning.
- Ismal, Rifki. 2013. *Islamic Banking in Indonesia: New Perspectives on Monetary and Financial Issues*. Singapore. John Wiley & Sons Pte.Ltd
- Khair, Kamal, Lokesh Gupta, and Bala Shanmugam. 2008. *Longman Islamic Banking: a Practical Perspective*. Pearson Malaysia Sdn.Bhd.
- Kuncoro, Mudrajad. 2003. *Metode Riset untuk Bisnis dan Ekonomi*. Jakarta: Erlangga.
- Latan, Hengki. 2013. *Model Persamaan Struktural: Teori dan Implementasi Amos 21*. Bandung: Penerbit Alfabeta
- Ledwith, A., & O'Dwyer, M. (2009). Market Orientation, NPD Performance, and Organizational Performance in Small Firms. *Journal of Product Innovation Management, 26(6), 652-661.*
- Ma, Hao. 2004. Toward Global Competitive Advantage : Creation, Competition, Cooperation, and Co-option, *Journal of Management Decision, Vol.42 No 7, pp.907-924.*
- Mulyadi. 2009. Mulyadi. 2009. *Sistem Terpadu Pengelolaan Kinerja Personel Berbasis Balanced Scorecard* . Yogyakarta: Unit Penerbit dan Percetakan Sekolah Tinggi IlmuManajemen YKPN.
- Pearce II, John A, and Richard B Robinson. 2013. *Strategic Management: Planning for Domestic and Global Competition, Thirteenth Edition*. MC Graw Hill Company, Inc.
- Porter, E. Michael. 1993. *Competitive Advantage*. Collier Macmillan Publisher.
- Prawirosentono, Suryadi. (2000). *Kebijakan Kinerja Karyawan*. BPFE, Yogyakarta.
- Rivai et. al (2012). *Corporate Performance Management: dari Teori ke Praktik*. Bogor. Indonesia: Penerbit Ghalia Indonesia
- Thompson Jr, A Arthur, A.J.Strickland, and E. John Gamble. 2010. *Crafting and Executing Strategy The Quest for Competitive Advantage: Concept and Cases, 17th. Edition*. The McGraw Hill company,USA.
- Vayanos, Peter and Wackerbeck, Philipp. 2009. *Islamic Banking: How Do Islamic Banks Compete in an Increasingly Competitive Environment*. Booz & Company. Germany
- Walker, Gordon. 2009. *Modern Competitive Strategy, Third Edition*. McGraw Hill International.
- West III, G., Page, Charles E. Bamford. 2010. *Strategy: Sustainable Advantage and Performance*. Canada: South-Western, Change Learning.
- Wheelen,` L. Thomas, J. David Hunger. 2013. *Strategic Management and Business Policy:*

Toward Global Sustainability. Thirteenth Edition. USA: Pearson.

Appendix 1. Regression & Standardized Regression Weight from Measurement Model

**Estimates (Group number 1 - Default model)
 Scalar Estimates (Group number 1 - Default model)
 Maximum Likelihood Estimates
 Regression Weights: (Group number 1 - Default model)**

			Estimate	S.E.	C.R.	P	Label
Skom	<---	CC	.671	.137	4.900	***	par_11
CC3	<---	CC	.854	.161	5.308	***	par_8
CC1	<---	CC	1.000				
CC2	<---	CC	.808	.145	5.591	***	par_9
CC4	<---	CC	1.173	.211	5.565	***	par_10
Kin	<---	Skom	.620	.226	2.745	.008	par_12
Skom1	<---	Skom	.917	.264	3.480	***	par_18
Skom2	<---	Skom	1.049	.241	4.354	***	par_19
Skom3	<---	Skom	1.000				
Kin	<---	CC	.827	.248	3.336	***	par_20
K11	<---	Kin	1.000				
K12	<---	Kin	2.008	.387	5.185	***	par_16
K13	<---	Kin	.3091	.114	2.711	.004	par_17

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
Skom	<---	CC	.757
CC3	<---	CC	.741
CC1	<---	CC	.800
CC2	<---	CC	.857
CC4	<---	CC	.818
Kin	<---	Skom	.400
Skom1	<---	Skom	.335
Skom2	<---	Skom	.996
Skom3	<---	Skom	.867
Kin	<---	CC	.947
CC13	<---	CC1	.630
CC12	<---	CC1	.549
CC11	<---	CC1	.579
CC23	<---	CC2	.555
CC22	<---	CC2	.490
CC21	<---	CC2	.511
CC33	<---	CC3	.533
CC32	<---	CC3	.831
CC31	<---	CC3	.617
CC42	<---	CC4	.589
CC41	<---	CC4	.695
SKOM12	<---	Skom1	.899
SKOM11	<---	Skom1	.860
SKOM22	<---	Skom2	.441
SKOM21	<---	Skom2	.499
SOMK33	<---	Skom3	.593
SOMK31	<---	Skom3	.675
K11	<---	Kin	.525
K12	<---	Kin	.907
K13	<---	Kin	.049

Appendix 2. Output of Regression and Standardized Regression Weight of Structural Model

Estimates (Group number 1 - Default model)
Scalar Estimates (Group number 1 - Default model)
Maximum Likelihood Estimates
Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
Skom	<---	CC	.671	.137	4.900	***	par_11
Kin	<---	Skom	.620	.226	2.745	.008	par_12
Kin	<---	CC	.827	.248	3.336	***	par_20

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
Skom	<---	CC	.757
Kin	<---	Skom	.400
Kin	<---	CC	.947

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:

<http://www.iiste.org>

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

Academic conference: <http://www.iiste.org/conference/upcoming-conferences-call-for-paper/>

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

