

# ANALYSIS OF COMPLEXITY OF THE PROBLEMS OF SHARIA RURAL BANKS (BPRS) IN INDONESIA THROUGH A STRUCTURED DESCRIPTION

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## Abstract

Sharia Rural Bank (BPRS) is one of the financial locomotives to support micro and small and medium business in Indonesia. The complex challenges faced by BPRS in Indonesia today to maintain their existence in the mid of competition need to be overcome by planning for strategic changes. The purpose of this study is to identify the current internal conditions, external conditions, business models and business processes, and change management practices in BPRS and analyze the complexity of the problems of BPRS in Indonesia today and its sensitive elements through a structured picture approach. The research was conducted in Indonesia, especially the Greater Jakarta, Surabaya, Bandung, Semarang, and Yogyakarta by involving the management and managerial level at BPRS. The research was carried out from December 2021 to June 2022. Research data were obtained through primary data and secondary data. The research methodology used is Descriptive Statistical Analysis and Soft System Methodology (SSM). The results of the descriptive analysis indicated that BPRS competes directly and is unhealthy with conventional big banks and fintech institutions. Based on the results of the SSM analysis, it is known that the current problematic situation faced by BPRS is technological disruption, market share, economic stability, low liquidity, pandemic disruption, human resources competence, segmentation rules, and the absence of a suitable product or service differentiation and unique. This study also described an urgency of implementation of strategic change management for BPRS to get relevant and exist in the future as Sharia Rural Banks in Indonesia.

**Keywords:** BPRS, Business Model, Business Process, Sensitive Elements, Soft System Methodology.

## INTRODUCTION

The beginning of the development of sharia banking was marked by the concept of office channeling in 2006 which allowed conventional banks to open sharia counters in their operations. Currently, sharia banking is experiencing a market share growth of 5.95% accompanied by growing assets, Distributed Financing (PYD), and Third Side Funds (DPK) which continue to grow (OJK 2019). Indonesia's Sharia banking itself consists of Sharia Commercial Banks (BUS), Sharia Business Units (UUS), and Sharia Rural Banks (BPRS) which continue to experience growth. Based on the narrative of the Financial Services Authority (OJK) (2020) as of September 2020 there were 14 BUS, 20 UUS, and 162 BPRS which contributed to the growth of Sharia banking in Indonesia with total Sharia banking assets reaching IDR 575,85 trillion. The size of the microfinance market has made many Conventional Public Banks (BUK) and sharia banks enter into their market segment to provide microfinance services and Microfinance Institution (LKM) also compete with other LKM and

more modern types of banking services (Baskara 2013). Institutions involved in microfinance in Indonesia can be divided into three namely bank institutions, cooperatives and non-bank non-cooperative institutions. Among the sharia LKM that are quite prominent are Sharia BPR or BPRS with a focus on banking-based micro, Small and Medium Enterprise (UMKM) financing.

Competition in the provision of microcredit is increasing as many commercial banks are starting to enter microfinance (Hafidz et al. 2013). This condition has resulted in competition not only between commercial banks but also with Rural Bank (BPR) and BPRS which are synonymous with microfinance as well as with other non-bank financial institutions such as Civil National Capital (PNM) and Pawnshops. The phenomenon of very tight competition and the challenge of strong competition between microfinance institutions is unavoidable, as a result of the many types of LKM operating in fighting over the same financial market segment, namely the micro and small business sector. LKM, including BPR and BPRS, face unequal competition from commercial banks and non-bank financial institutions in their operations in the micro and small credit market. Judging from the capacity of various resources, BPR is very disproportionate and far lower than commercial banks (Lestari 2014).

The rapid development of technology has changed most aspects of human life, including finance. The emergence of the presence of financial technology or fintech is a result of innovation in non-bank financial services based on information technology. Disruption in the financial services sector requires Microfinance Institution, especially both conventional and sharia banking, to change, including technology-based changes. King (2018) introduces the term Bank 4.0 or digital banking as future banking business. The complexity of the challenges faced by BPRS in Indonesia today to maintain existence amid competition and disruption and to maintain their performance growth needs to be overcome by strategic change planning. Therefore, this study attempts to analyze a structured picture of the current complexities of BPRS problems in Indonesia and their sensitive elements based on the views of experts and stakeholders. This research is expected to provide benefits in the form of references and evaluation materials in formulating policies for the development of BPRS in Indonesia as well as being a reference for mediation with regulators and optimizing the collaboration of each member organization (BUS, UUS, and BPRS) in implementing strategic changes.

## RESEARCH METHODS

The research was conducted in Indonesia, especially the Jabodetabek area and big cities on the island of Java such as Surabaya, Bandung, Semarang, and Yogyakarta by involving the management and managerial level of Sharia Rural Banks (BPRS) as actors in the sharia banking industry. The research was conducted from December 2021 - June 2022, while a situational analysis was carried out earlier to map opinions, opinions, and input from practitioners, experts, and regulators in the sharia banking industry, especially BPRS.

The research design will be carried out sequentially and systematically. First, the researcher conducted an analysis of the situation of BPRS in Indonesia with assets of more than IDR 10 billion and has been running its business for more than 5 years (selecting the number of samples

using purposive judgment sampling) to obtain information on the dynamics of comprehensive business management through interviews, filling out questionnaires, filling out business model canvas, and business processes. Then proceed with identifying problems down to the level of sub-processes and activities using the Soft System Methodology (SSM). The data used in this study are primary data and secondary data. Primary data was obtained through collecting data through questionnaires, interviews, and focus group discussions.

The object of research is BPRS in Indonesia which have assets of more than IDR 10 billion and have been running their business for more than 5 years. The selection of the number of samples was purposive judgment sampling. Additional criteria include having product/service innovation and undergoing an internal organizational change process. Based on data from the Financial Services Authority for the January 2020 period that the distribution of BPRS is still dominant on the island of Java, especially West Java with a total of 28 BPRS, Yogyakarta Special Region with 12 BPRS, Central Java with 26 BPRS and East Java with 28 BPRS, these areas will be the sample frame.

Descriptive statistical analysis is used as a quantitative approach tool to present the processing results of the BPRS financial reports that are sampled as the primary data of the BPRS. The primary data obtained based on the questionnaire will be analyzed using the questionnaire data. Questionnaire data analysis includes knowledge, perceptions, and expert attitudes towards their competence. Analysis of the respondent's questionnaire was carried out in two stages, namely: 1) analyzing descriptively by classifying and calculating the mean/mode/median of the demographic data of the respondents and the BPRS organization that was sampled; 2) analyzing data on respondents' perceptions of current BPRS challenges, the dynamics of BPRS management, changes at the individual/organizational level of the BPRS, product/service innovations of the BPRS, organizational transformation of the BPRS and the current business model of the BPRS. Analysis of data filling in the business model canvas is carried out by fulfilling the aspect of information adequacy of all elements in the business model canvas. The results of this study will then be used as a reference in conducting further studies. This research is a combination of market-based value (MBV) and resource-based value (RBV) strategies. A qualitative approach through SSM is used at the further research stage to describe the complexity of the current condition of BPRS in Indonesia which involves many stakeholders. The conditions of the BPRS used in this study must be uniform and have relatively the same characteristics. In addition, the involvement of the main key person can also affect the sensitivity of the SSM in order to produce a good model. This means that in SSM starting to identify problems that are problematic, explaining the real conditions that occur, root definitions, Purposeful Activity Model (PAM) to designing conceptual models must really involve internal key persons who really understand and cannot be arbitrary or from external experts/consultants. The definition and position of SSM can be studied in the context of the hard paradigm and the soft paradigm.

Checkland and Poulter (2006) state that the next stage of SSM is to produce a purposeful activity model or PAM which describes a sequence of activities that have a purpose in the system, complemented by a control mechanism and parameter measurement of its performance

level. Broadly speaking, the SSM stages consist of seven main stages, namely: 1) declaring a situation considered problematic; 2) disclosing/expressing a situation considered problematic; 3) creating a root definition system and verification of relevant purposeful activities; 4) constructing a conceptual system based on the root definition; 5) perform system comparisons with the real world; 6) make changes that are systematically desired and culturally appropriate; 7) and take remedial action on problematic situations.

## RESULTS AND DISCUSSION

### **Analysis of Internal Conditions, External Conditions, Business Models, Business Processes, and Change Management Practices in BPRS**

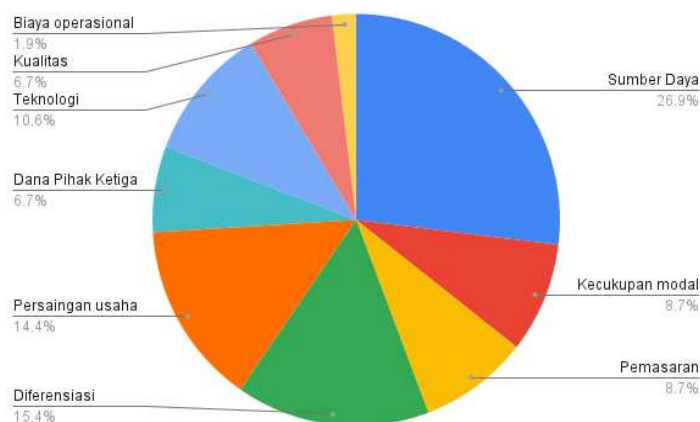
#### **1. BPRS Existing Condition**

##### **a. BPRS Internal Condition**

Based on the results of statistical descriptive analysis, it is known that 77, 8% of respondents think that this BPRS is growing and running as expected, while 16, 7% of respondents feel that the current growth of BPRS is not as expected and the remaining 5,6% of respondents are unsure to answer. Then 11, 1% of respondents believed that the sustainability and potential of BPRS for resilience was very strong, while the remaining 63, 9% believed that the potential for BPRS was strong and continued to progress. Furthermore, 13, 9% of respondents believed that the potential of BPRS was strong but stagnant and finally 11, 1% of respondents believed that the potential of BPRS to survive in the long term was not strong enough.

The results of the questionnaire stated that BPRS are currently still growing and developing as expected by having a fairly large percentage, but there are still more than 20% of respondents stating that growth is still not in accordance with the expected potential. This is shown by the absence of significant growth in the BPRS market share from 2019 to 2021. Related to existing conditions regarding HR capacity to operational costs, this can be seen further in Figure 1 so that it can be seen that the issue of human resources, both in the form of competency and their availability, is a serious problem that mostly faced by BPRS in Indonesia, which is as much as 26, 9%. Furthermore, there is a strategic problem due to the still low level of product differentiation that can be provided by BPRS of 15, 4% and the last is business competition. Many BPRS do not have the strategy and ability to be different from other BPRS will experience difficulties in dealing with business competition, this accounts for 14, 4% of the problems faced by BPRS in Indonesia. According to Kartiko (2020) the resource aspect is an important factor that must be considered, especially to consider the strengths and weaknesses that exist within the BPRS when technology enters the system and forms digital transformation.

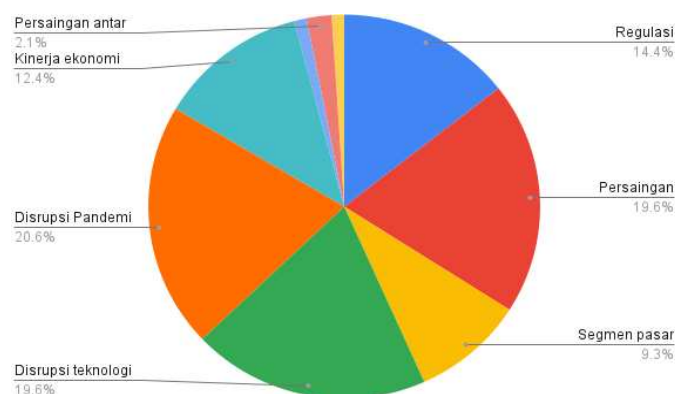
In terms of product/service offerings for financing, half of the respondents believed that this BPRS product compared to other bank or non-bank institution offers tended to be the same but the contracts were different.



**Figure 1: The problems currently faced by BPRS**

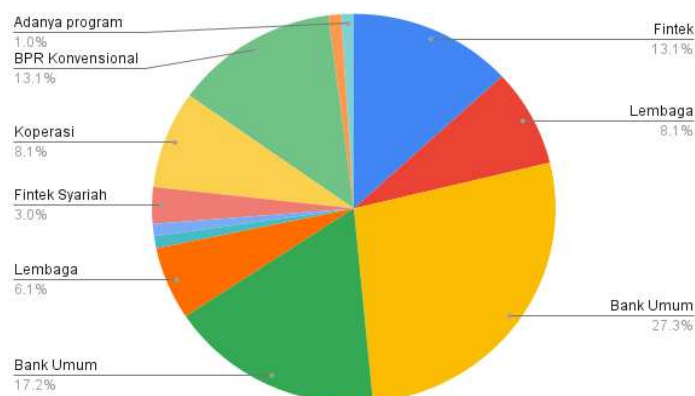
**b. BPRS External Conditions**

Based on respondent’s perceptions of external conditions at the BPRS, it is known that more than half of the respondents stated that when viewed from the environmental and business ecosystem perspective, the BPRS can be said to be classified as healthy but does not support the sustainability of the BPRS, in fact as many as 8, 3% of respondents believe the current business environment is currently considered unhealthy as shown in Figure 2 below.



**Figure 2: Problems in the BPRS environment and ecosystem**

The external factor constraints currently experienced by BPRS are generally still in the form of the impact of the pandemic disruption (20,6%) which has affected almost all elements of the economy in Indonesia, namely technological disruption accelerated by the pandemic and difficulties in competing (19,6%) and competition from other financial institutions (19,6%). Rapid technological developments can change industrie’s views of world competition which is becoming very tight, this condition can certainly be a threat to industry players who have not yet implemented technology in their activities including the Sharia Rural (BPRS) industry (Kartiko 2022).



**Figure 3: Competitors in terms of financing**

The problem of competition felt by BPRS in general is that they are still dealing directly with Commercial Banks as much as 27, 3%, Sharia Commercial Banks as much as 17, 2% and what is interesting is that the presence of fintech which is still relatively new in the financing industry is already on par with Conventional BPR of (13, 1%) is a competitor of BPRS in terms of financing. This problem arose and was felt by BPRS because of policy support and the alignment of regulators for BPRS business actors which were assessed by 13, 9% of respondents as still not supportive, then another 5, 6% said that regulations still needed to be improved, 41, 7% of respondents said that regulations has supported but not been sufficient for the BPRS in developing its business.

### c. Business Model

From the point of view of the main partners in the BPRS, those that greatly affect the performance of the bank include: Micro, Small and Medium Enterprises (UMKM), educational institutions, funding and financing customers, the agricultural sector, the plantation sector, construction services and developers. As for the key activities that are very decisive in BPRS, they are funding, lending, partnerships, mortgage financing and product innovation. The main (key) resources that are the mainstay of Sharia rural banks in Indonesia are human resources, technology, service excellence, culture and funding. The value proposition offered either in the form of products or services of this bank so that prospective customers are willing to transact with BPRS is to provide services that guarantee sharia compliance, provide affordable housing, service excellence, sharia contracts and competitive margins. In compilation, the business model currently owned by BPRS is as shown in Figure 4 below.

| Key Partners  | Key Activities   | Value Propositions   | Customer Relationship   | Customer Segments   |
|---|--|--|---|---|
| <ul style="list-style-type: none"> <li>• UMKM</li> <li>• Educational institutions</li> <li>• Funding and Financing Customers</li> <li>• Agriculture Sector</li> <li>• Plantation Sector</li> <li>• Construction and developer services</li> </ul> | <ul style="list-style-type: none"> <li>• Funding</li> <li>• Lending</li> <li>• Partnerships</li> <li>• Mortgage financing</li> <li>• Product Innovation</li> </ul>                 | <ul style="list-style-type: none"> <li>• Sharia compliance</li> <li>• Home products</li> <li>• Service Excellence</li> <li>• Sharia contract</li> <li>• Competitive margins</li> </ul> | <ul style="list-style-type: none"> <li>• 36,11% long term relationship with continuous service offering</li> <li>• 41,66% multi-purposes relationships or a combination of several types of contracts (integrated partnerships)</li> <li>• 22,2% Transactional relationship and based on the period and type of contract</li> </ul> | <ul style="list-style-type: none"> <li>• UMKM</li> <li>• Employee</li> <li>• Entrepreneur</li> <li>• Construction and developer services</li> <li>• Agriculture Sector</li> <li>• Livestock Sector</li> </ul> |
|   | <b>Key Resources</b> <ul style="list-style-type: none"> <li>• Human Resources</li> <li>• Technology</li> <li>• Service Excellence</li> <li>• Culture</li> <li>• Funding</li> </ul> |  | <b>Channel</b> <ul style="list-style-type: none"> <li>• Virtual Account Host to Host</li> <li>• Cooperation with various institutions</li> <li>• Cooperation with cooperatives</li> <li>• Collaboration with the sharia community</li> </ul>  |   |
| <b>Cost Structure</b> <ul style="list-style-type: none"> <li>• Revenue Sharing Costs</li> <li>• Variable Costs (Labor, Operational)</li> </ul>  |  | <b>Revenue Stream</b> <ul style="list-style-type: none"> <li>• Income from financing</li> <li>• Margin income</li> <li>• Revenue sharing</li> <li>• Fee based transaction</li> </ul>   |   |   |

**Figure 4: Business Canvas Model BPRS in Indonesia**

This is in accordance with Kartiko's research (2022) which explains that currently BPRS do not yet have a clear business model, because current business expansion tends to imitate other banks/BPRS without studying more deeply the medium and long term prospects and risks that will faced.

**d. Business Process**

BPRS business processes tend to have similarities with Commercial Banks, starting from management processes, operational processes and supporting processes as shown in Figure 5.

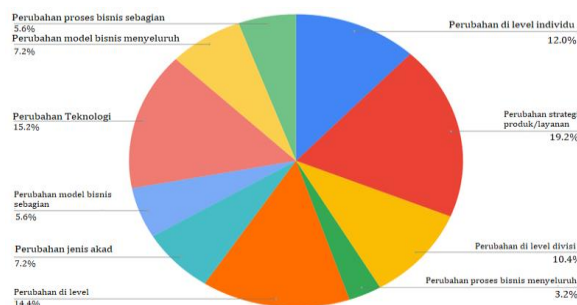
| Proses Manajemen   | Proses Operasional   | Proses pendukung  |
|--|--|---|
| <ul style="list-style-type: none"> <li>• Standard Operating Procedures (SOP)</li> <li>• Core Banking System (CBS)</li> <li>• Decree of the Board of Directors</li> <li>• Director’s Memo</li> <li>• Development of Integrated IT System</li> </ul> | <ul style="list-style-type: none"> <li>• Funding</li> <li>• Financing</li> <li>• HR Strengthening</li> <li>• Planning</li> <li>• Evaluation</li> </ul> | <ul style="list-style-type: none"> <li>• IT</li> <li>• Marketing</li> <li>• Community</li> <li>• Good governance</li> <li>• Administration</li> </ul> |

**Figure 5: BPRS Business Process in Indonesia**

BPRS should have its own uniqueness with business processes that are different from banks in general, such as increasing customer capabilities in the field being financed, calculating optimal profit sharing in accordance with the agreed contract, ensuring that the borrower has competence in the business being financed, carrying out product innovation (research and product development) to be able to compete with other financing institutions, even building an Sharia ecosystem with community-based financing.

**e. Change Management Practice**

In the practice of changing BPRS management over the past three years, it is known that as many as 94, 4% of respondents agreed that the bank had made changes in order to support the company's performance and the rest had not, as many as 72, 2% of respondents stated that the bank had made changes including making changes partially (not entirely), even this change is believed by 80, 6% of respondents to be a continuous change. Judging from the changes made, 63, 9% of respondents felt the changes were significant and the other 36, 1% only felt a partial impact. The majority of changes made were changes at the level of product and service strategy by 19, 2%, followed by changes in technology by 15, 2% and individual changes by 12% and changes at the division level (10, 4%), for more details see can be seen in Figure 6.



**Figure 6: Types of changes that have been made at the bank**

In order to face competition and macro conditions in the future, 63, 9% of respondents stated that it is very important for a bank to have a more strategic change process, and the rest stated that it is important but not urgent. The purpose of strategic change is basically to adapt to the

situation and remain relevant to current market conditions and increase competitiveness in the Indonesian market. According to the respondents, the most important changes required include technological transformation and enhancing the capabilities of human resources. As well as the bank's readiness to undergo these strategic changes, 75% of respondents stated that the bank was ready to undergo changes, the remaining 25% said they were not fully ready.

In strengthening BPRS going forward, respondents recommended Financial Services Authority (OJK) to simplify regulations that support and not make it difficult for BPRS in developing, segmenting and transforming BPRS. Then for the government, respondents recommended the government to help round the financing through State Owned Enterprises (SOE), improve regulations for BPRS starting from taxation and policies that favor BPRS. Then for Asbisindo itself it is hoped that it will provide more assistance and strengthening to BPRS and become an extension of the BPRS to convey aspirations to create a strong environment and ecosystem supporting BPRS.

### **Soft System Methodology Analysis of Strategic Change Management Model for Sharia Rural Banks in Indonesia**

In this research, identification and deeper digging are carried out regarding problematic situations related to strategic change activities at Sharia Rural Banks in Indonesia. Where in this stage researchers are expected to recognize the situation, formulate, and take action to improve the problematic situation that occurs. The output of this stage is the formation of root definitions. Then proceed with the design of a conceptual model that describes the overall strategic change management model for Sharia Rural Banks in Indonesia.

#### **SSM Stage One: Identification of problematic situations (Situation Considered Problematic)**

FGDs and in-depth interviews were conducted with key persons or stakeholders involved in the operational activities of Sharia Rural Banks in Indonesia, namely the Main Director of BPRS in Indonesia who became the sample and respondents of this study to identify problematic situations that exist in BPRS activities, also related to policies and government regulations, the problems faced by BPRS are low capital, human resources that are less able to compete with the human resources of financial institutions outside the BPRS and finally market segmentation rules that are still not clear from the regulator resulting in free and unequal competition.

One expert stated that the emergence of financial technology (fintech), the existence of technology-based banking and non-banking services such as mobile banking, clever behavior, qris, and others, the Covid-19 pandemic, regulations that are detrimental to BPRS, for example the Haj fund management law which does not mention BPRS as an institution that can manage haj funds, government policies have not yet addressed the needs of BPRS, for example there is no government program to assist BPRS businesses such as a program for channeling government funds through BPRS. Another expert said that the most urgent thing to make changes so that BPRS can survive and develop in the future in a business environment full of competition, technological disruption and in facing an era of uncertainty and macroeconomic

shocks is market segmentation rules which are still unclear from regulators so that competition occurs free and disproportionate, product or service differentiation that is suitable and unique for BPRS can exist and grow, human resources are less able to compete with human resources of financial institutions outside the BPRS and low liquidity and capital. Changes that must be made are changing the mindset of management and employees in the future, namely the mindset of stakeholders, especially controlling shareholders, so that they prioritize the implementation of sharia principles in their BPRS, then the mindset regarding the management of BPRS which has so far been likened to conventional banking practices and the mindset of employees in implementing a job that originally only expected income from work in the BPRS has become more militant in maintaining and developing the BPRS as part of da'wah to the community. While in terms of skill set (skills) are technical, human and conceptual capabilities, in terms of toolset (equipment and supporting facilities), namely a reliable management information system that can be used by management in making strategic decisions, reliable core banking, applications supporting operational activities such as FOS, attendance, inventory, and others as well as infrastructure supporting services to customers such as ATM, mobile banking, clever practices and others. The next expert said that currently the condition of BPRS in Indonesia is still growing above conventional banking, but in the midst of the current era of disruption and pandemic, BPRS is in a very decisive position. This is also marked by the very diverse capital, HR and Infrastructure capacities of BPRS and the majority have lower capacity compared to BUK, BUS, UUS, Fintech and others so that if there is a rapid change in technology, there is the potential for BPRS to be left behind in adopting it.

The problematic situation currently being faced by BPRS is technological disruption through digital banking and financial technology as well as P2P lending, disrupted economic stability causes increased risk of financing for BPRS, pandemic disruption disrupts both demand and supply aspects at BPRS, market segmentation rules that are still not clear from the regulator so that there is free and disproportionate competition, and product/service differentiation that is suitable and unique for BPRS can exist and grow. So what are the most urgent and strategic things to make changes so that BPRS can survive and develop in the future in a business environment full of competition, technological disruption, pandemic disruption and macroeconomic shocks, that is 1) support for policies and regulations that respond to the needs of customers and the industry , 2) shareholder support to meet BPRS capital needs, 3) competency and integrity of management in managing BPRS, 4) availability of adequate quantity and quality of human resources, 5) development of innovative BPRS business models, products and activities and 6) strengthening governance , risk management and sharia compliance. The mindset that must be changed from the mindset of management and employees going forward are 1) Innovation, 2) Continuous improvement, 3) Long term orientation, not short term, 4) Orientation is not just profit but benefits and blessings for the ummah, and 5) HR is the main pillar for all the processes. The skill sets that need to exist are 1) skills in adopting digital developments, 2) skills in capturing current and future changes, 3) skills in formulating problems and preparing proposed solution options, 4) skills in making decisions amidst various opportunities and existing risks, and 5) the skills to communicate with stakeholders. Then the changes needed in terms of tool set are 1) Robust and Agile Technology

Systems, 2) SOPs that are constantly updated, 3) Infrastructure and tools to support development, and 4) Dynamic Organizational Structures. For the strategic functions of the BPRS public service itself, namely 1) The function of serving public investment funds, 2) The function of serving the capital needs of Micro Small and Medium Enterprises (MSME) customers, 3) The function of serving the needs of zakat, infaq, alms and benevolent funds, 4) The function of serving needs related to cash waqf, and 5) The function of serving banking needs based on sharia principles. As for the business functions, they are 1) Fund Raising Function, 2) Funding Distribution Function, 3) Banking Service Function, 4) Shareholder-owned Company Function, and 5) Synergy Function and Business Collaboration with Strategic Partners.

### **Stage Two of SSM: Rich Picture of strategic change management model for Sharia Rural Banks in Indonesia to improve sustainable performance**

After knowing the description of the problematic situation being faced, then the framework of thinking is dissected by considering the activities between stakeholders by considering the problematic situation so that the final goal of this discussion can be achieved. In line with what is formulated in the research method the researcher will formulate a Rich Picture which aims to help show relationships and judgments, use symbols to express situations and indicate relationships that are relevant to solutions. According to Checkland and Poulter (2006) a good rich picture must be made by: 1) Identifying the concepts and ideas being studied, 2) Using symbols or icons that describe the ideas of SSM practitioners and 3) Using connecting lines between concepts and between the main ideas accompanied by a brief explanation if necessary.

Digging deeper into the current conditions of BPRS performance, researchers interviewed BPRS sources and drew the problematic situation currently being faced, specifically from a business strategy perspective, BPRS does not have product differentiation so that it seems to have the same products as banks in general, an outdated business model and no clear market segmentation. For human resources, BPRS complains about the low competence of human resources, the mindset of employees who have not yet been formed and employees who are passive so that there is no enthusiasm for change from within the organization. Then from a technological point of view, BPRS is only a share and there is no initiation to start, then the rise of fintech and industrial banking digitalization is increasingly pressing the existence of BPRS. The existence of Covid-19 has accelerated the acceleration of technology in this modern era. Viewed from the capital side, it is still difficult to convince owners to strengthen their capital, or to get new investors due to several constraints such as regulations and access to capital. In terms of regulation itself, it is considered that it has not fully supported the growth of BPRS and the intended regulations tend to focus more on prudential banking governance, while related to product development and activities of BPRS which tend to be regulated like conventional banks so that there are difficulties for BPRS to have their own segments.

Based on the rich picture of the problematic situation in Figure 7, it can be explained that the stakeholders involved in the BPRS strategic change model in Indonesia include the Government of Indonesia as a regulator through BI and OJK, ASBISINDO which has a role in the aspects of policy proposals, capacity building as well as coordination and information

assistance to BPRS, administrators as well as employees of the BPRS itself. While UMKM and customers themselves are a support system for BPRS companies in achieving these goals. It is important for the government to review regulations to generate enthusiasm from BPRS, BPRS must also have strategies and capabilities in dealing with technological and global disruptions, adapt to become an agile bank and follow community trends so that they do not just wait, but initiate the existing potential. BPRS also need to carry out market segmentation and clear product differentiation so that they have uniqueness from conventional banks and other financial institutions, this is because BPRS themselves have to compete with various other financial institutions such as Conventional Banks, Sharia Commercial Banks, Conventional BPR, LKM, Cooperatives, BMT and fintech. Other operational problems, such as the absence of regulations permitting BPRS to conduct clearing directly between BPRS, has made the nature of BPRS to become clients of commercial banks.

The more fundamental problem of BPRS is the commitment of shareholders to increase investment in BPRS because based on the results of interviews it is known that it is very difficult to convince investors to increase their capital injection, this also makes it difficult for BPRS to cooperate and collaborate with other financial institutions so that BPRS will be zoned-out in the midst of collaboration with other financial institutions. Furthermore, at the managerial level, there is still governance that is not optimal so that it is unable to influence HR mindsets to be more creative and innovative and work more optimally, HR which should be at the forefront of BPRS, is currently also constrained by several relevant competencies at this time, such as competencies related to technology and information.

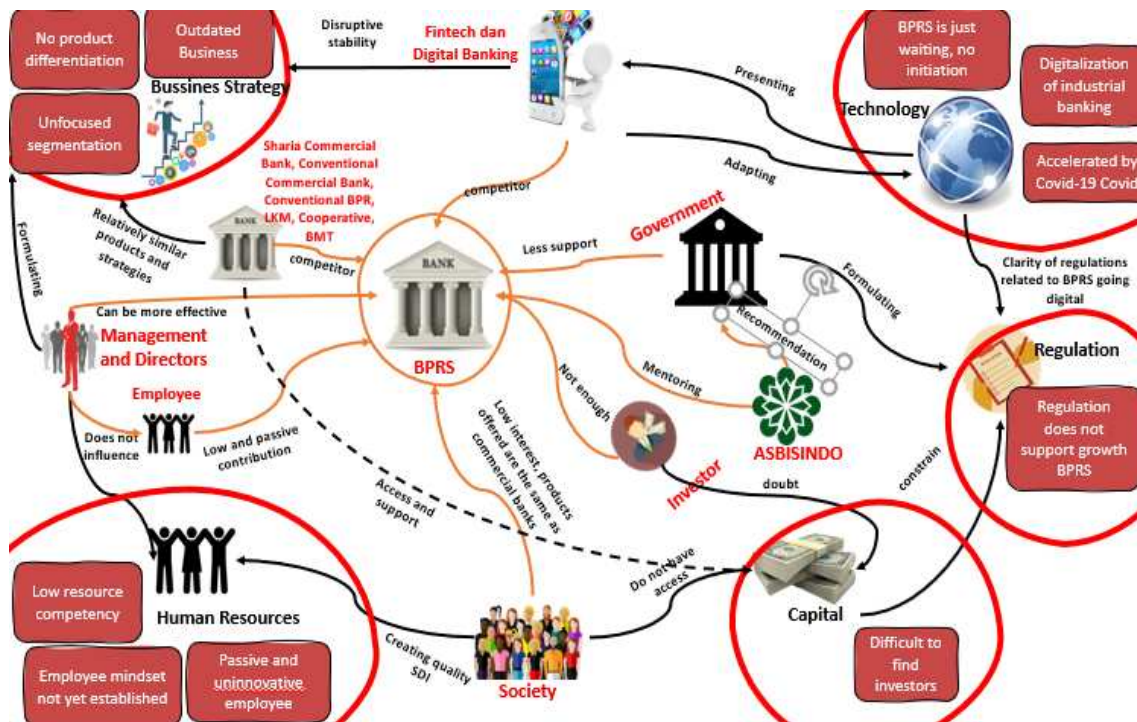


Figure 7: Rich picture research

Based on the results of interviews with informants, various sensitive elements were also found which had similarities in the various BPRS that were the samples of this study. These sensitive elements include: commitment related to capital, institutional status, human resources (HR) and the products offered. These four elements will then be used as a factor in the weighting of the BPRS Strategic Management Model in Indonesia using the Analytical Hierarchy Process.

### **Stages Three and Fourth of SSM: Root Definition and Purposeful Activity Model (PAM)**

The third and fourth stages of the SSM are determining the root definition (RD) and creating the Purposeful Activity Model (PAM). The root definition is a clear statement about the activities that occur or may occur within the BPRS institution being studied. This root definition is based on information related to the form of cooperation that is built in the context of management of strategic changes in Sharia Rural Banks in Indonesia. The process of constructing relevant human activities in SSM signifies that the research has entered the system thinking stage. System thinking consists of two stages. The first stage is to determine the root definition. Root definition is a relevant system regarding the problem system being studied. Root definition is also a tool for creating conceptual models. According to Checkland and Scholes (1990), the root definition can also be said to be a brief verbal definition expression of the nature of the system of activities that aim and are considered relevant to exploring the problem situation. The root definition should follow the PQR formula: “a system to do P by Q in order to achieve R” (Checkland and Scholes 1990) or “do P, by Q in order to help achieve R” (Checkland, Peter and Poulter 2006). This root definition was finalized by CATWOE and then continued with performance measurement criteria using the 3E (efficacy, efficiency, and effectiveness). In practice, the performance measurement criteria using the 3Es have also been developed into performance measurement criteria using the 5E's (efficacy, efficiency, effectiveness, elegance, and ethics).

The second stage, the process of making a conceptual model or conceptual model (Checkland and Poulter 2006). At this stage, researchers construct models based on a purposeful activity system. According to Checkland (1990), a conceptual model (conceptual model) is a model that describes system activities, with the elements as verbs. These activities are made based on the root definition and the verb structure refers to the logic base. Each model is relevant to the situation, but that does not mean that the model represents the situation.

#### **a. PQR Analysis**

The root definition is compiled using the general formula PQR, which is working on P with Q to realize R. The PQR analysis formula is obtained as follows: Sharia Rural Bank business model in Indonesia (P), through innovation and transformation of BPRS organizations in Indonesia (Q), to improve the performance and competitiveness of BPRS in the era of disruption (R). Furthermore, the root definition obtained will be used as the basis for conceptual modeling.

#### **b. CATWOE Analysis**

The root definition obtained is tested and refined with CATWOE analysis tools to truly

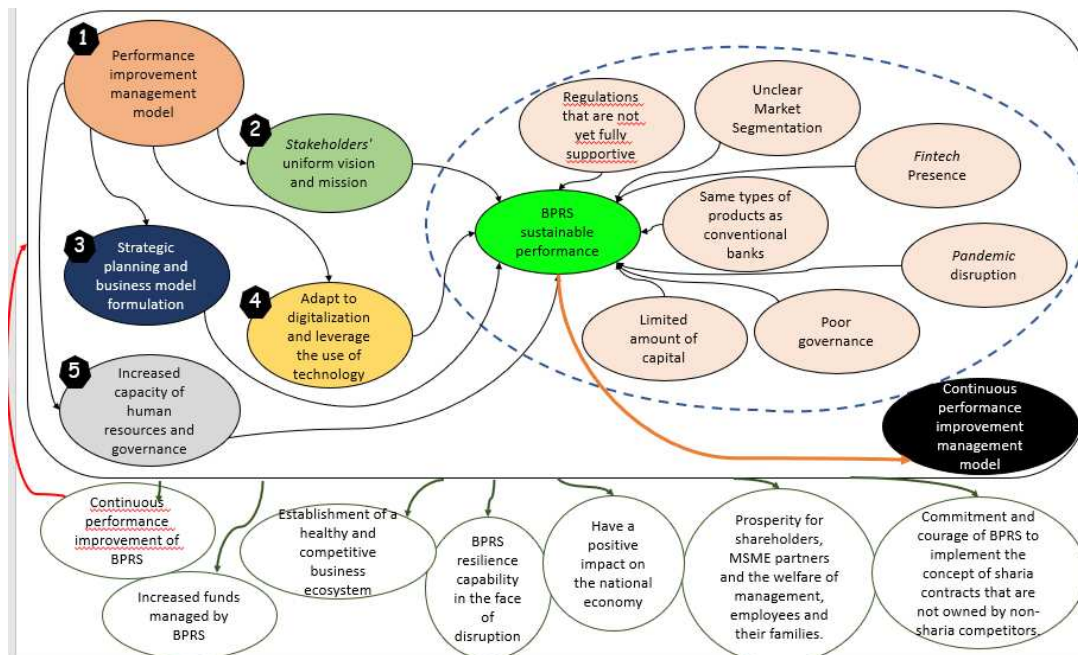
describe a system of relevant human activities selected. In order to determine the BPRS business model change management and define each group role into an approach called CATWOE (Client or Customers, Actors, Transformations, World-View, Owner and Environment Constraints). The identification and analysis of CATWOE is based on the results of analyzing the problematic situation with experts and the researcher's understanding, so the results are obtained.

**Table 1 CATWOE analysis matrix**

| <b>Simbol</b>                 | <b>Keterangan</b>   |
|-------------------------------|---|
| C – Customers                 | The parties who benefit or "could" become victims of the change in the BPRS business model, namely general customers and UMKM   |
| A – Actors                    | BPRS, Government, Customers, UMKM, Depositors, Investors, Directors   |
| T – Transformation Process    | Regulations, institutions, business models, product/service uniqueness, information technology and human resources  |
| W – Worldview                 | Formulation of the vision and mission of the main stake holders, formulation of strategic plans, formulation of business models, socialization and implementation of BPRS strategic plans and business models.                        |
| O – Owners                    | BPRS Shareholders, Regulators, BPRS Management  |
| E – Environmental Constraints | Constraints from the system that are outside the scope of the model, which in this case are regulation and disruption of pandemics, technology and macroeconomics, unfair or borderless competition between all financial institution |

At the core of systems thinking in SSM is the creation of conceptual models as intellectual tools used to discuss and address real-world situations that are considered problematic. A model in SSM is a model or set of models of a system or set of systems of human activity or purposeful activity. Conceptual models simplify the highly complex system in the rich picture into a sequence of purposeful activity systems.

Worldwide view is the creation or realization of the formulation of the vision and mission of the main stakeholders, the formulation of strategic plans, the formulation of business models, socialization and implementation of strategic plans and business models of BPRS. While owners (issue owners) are parties who can or have the power to stop or change the T process, which in this case are BPRS shareholders, regulators, and BPRS management. Furthermore, related to Environmental Constraints based on CATWOE analysis, namely constraints originating from systems outside the scope of the model, constraints from systems outside the scope of the model, which in this case are pandemic disruption, technology and macroeconomics as well as unfair or unlimited competition between all financial institutions.



**Figure 8: Conceptual Model**

Based on the conceptual model in Figure 8, it is formed as a new system entity that is structured with activities that are currently happening and has a purpose in real-world thinking that can adapt to external/environmental changes, it is hoped that it will provide direction and strategy for the actors involved in the realization of the BPRS Management Model Strategic Change in Indonesia. Worldwide view: Formulation of the vision and mission of key stake holders, formulation of strategic plans, formulation of business models, socialization and implementation of strategic plans and business models of BPRS.

**Stage Five of SSM: Comparison of conceptual model activities with real-world conditions**

Comparison between conceptual model activities and real-world conditions results in implementation or activity gaps and requires activity changes, shown in Table 2.

**Table 2: model activities with real-world conditions**

| Key Factors Aspect    | Conceptual Model  | Real World Conditions   |
|-----------------------|---|---|
| Institutional         | Strengthening policies and regulations of BPRS  | Institutional regulations currently still tend to be similar to Conventional Banks so that there are obstacles for BPRS whose initial purpose is to serve the weak economic community and small entrepreneurs both in rural areas that cannot be reached by conventional banks. |
| Capital               | Build collaboration and partnerships with other relevant institutions or institutions | Capital is currently still highly dependent on shareholders and investors who tend to be reluctant to increase capital  |
| Product Uniqueness    | Product and service innovations that characterize the uniqueness of sharia services   | BPRS products still tend to be similar to commercial banks so they are not attractive to customers.   |
| Human Resources (SDI) | SDI competency planning and development   | SDI competency is still relatively low and can still be improved with trainings / workshops   |

### Stage Six of SSM: Systematically desirable, and culturally feasible change

The next stage in the SSM analysis is to define or plan changes that are systematically desirable and culturally feasible. Based on in-depth analysis and interviews with expert BPRS practitioners, the changes that are systematically desirable and culturally feasible are outlined in Table 3.

**Table 3: Systematically desirable and culturally feasible changes**

| Key Factor Aspect) | Conceptual Model  | Real World Conditions   | Possible Improvements  |
|--------------------|---|---|--|
| Institutional      | Strengthen policies and regulations of BPRS                           | BPRS Institutional regulations currently still tend to be similar to Conventional Banks so that there are obstacles for BPRS whose initial purpose is to serve the weak economic community and small entrepreneurs both in rural areas that cannot be reached by conventional banks | <ol style="list-style-type: none"> <li>1. Policy affirmation or legal protection by the government (OJK) that BPRS is a strategic partner institution of the government in strengthening the Sharia economy, especially for UMKM and middle to lower economic communities.</li> <li>2. Reorganize regulations so that the segmentation given to BPRS is appropriate and there is no overlap of markets (customer segments) between BPRS and Conventional Banks and other Non-Bank Institutions.</li> <li>3. Refine regulations for BPRS in terms of operational areas, collection of third party funds and clearing facilities or transactions between banks.</li> </ol> |
| Capital            | Build collaboration and partnerships with other relevant institutions | Capital is currently still highly dependent on shareholders and investors who tend to be reluctant to increase capital  | <ol style="list-style-type: none"> <li>1. Increase capital in BPRS through various collaborations and partnerships with other institutions, such as fintech, Sharia Commercial Banks and other Non-Bank Sharia Financial Institutions so as to realize a strong capital base for the sustainability of BPRS.</li> <li>2. Strengthen the long-term capital commitment of shareholders in accordance with the vision of strategic change in the face of an uncertain business competition and disruption environment.</li> </ol>   |

| Key Factor Aspect)    | Conceptual Model  | Real World Conditions   | Possible Improvements   |
|-----------------------|---|---|---|
|                       |   |   | 3. Seek alternative sources of funding and capital such as cash waqf, entrusted funds, and other alternatives.  |
| Product Uniqueness    | Product and service innovations that characterize the uniqueness of sharia services | BPRS products still tend to be similar to commercial banks so that they are not attractive to customers | <ol style="list-style-type: none"> <li>1. Continuous research and development is needed to find and determine service products that are unique, attractive to customers and have strong sharia distinctiveness.</li> <li>2. Development and differentiation of types of financing contracts that characterize the uniqueness of Sharia banking transactions and do not resemble conventional banking contracts or transactions.</li> <li>3. Target customers and types of contracts that have sharia distinctiveness are focused on UMKM, micro sharia business communities and the lower middle economic community who have priorities and preferences for sharia transactions.</li> </ol> |
| Human Resources (SDI) | Planning and development of SDI competencies  | SDI competencies are still relatively low and can still be improved with trainings/workshops            | <ol style="list-style-type: none"> <li>1. Creating SDI that is competitive and innovative towards competition, and adaptive to the times.</li> <li>2. Improving the recruitment process and development of SDI through high recruitment standards, standardized training curriculum, and clear job promotion assessment standards.</li> <li>3. The creation of a clear performance appraisal and reward system that motivates every SDI recruited and developed in BPRS.</li> </ol>   |

## CONCLUSIONS

### Conclusions

Based on the results of the problematic situation analysis using SSM, it is known that the problematic situation currently faced is in terms of the business model itself BPRS does not

have product differentiation and value proposition that is not strong, impressed the same as banks in general, outdated business model, industrially does not have a clear market segmentation, low SDI competence, mindset of employees and shareholders who are still not strong against the advantages and uniqueness of Sharia banking. The problem experienced by BPRS is the lack of commitment from shareholders to increase investment in BPRS. This makes it difficult for BPRS to cooperate and collaborate with other financial institutions so that BPRS will be zoned-out amid the collaboration of other financing institutions.

In the third and fourth stages, it is known that the main customers targeted by BPRS business model changes are customers and UMKM. So that a conceptual model is obtained to simplify a very complex system in the rich picture into a sequence of activity systems that have the aim of improving BPRS governance, the formation of a strong and unique sharia micro business ecosystem, a significant increase in market share and commitment, the realization of economic improvement in the community around BPRS, the growth of literacy and enthusiasm for sharia microeconomics, and the commitment and courage of BPRS to implement the concept of sharia contracts that are not owned by non-sharia competitors.

In the fifth stage of SSM, a comparison of conceptual model activities with the real world has been carried out, in fact, BPRS policies and regulations need to be emphasized so that they are not similar to conventional banks. While in terms of capital, it still relies on shareholders where shareholders are sometimes still reluctant to increase capital deposits. In terms of product innovation, BPRS products still tend to be the same as conventional bank products, while SDI is still considered as the second tier with low competence and capability.

In stage six, alternatives are made to systematically change the desired institutional, capital, product innovation and human resources. Changes to the institution essentially required affirmation of rules or regulations for BPRS to compete in the future. Changes to capital required more out of the box collaboration, more breakthrough value and changes to product innovation required an increase or clearer product differentiation so that the element or uniqueness of sharia, while the desired changes to human resources, the creation of competitive human resources so that improvements are made to the recruitment and development process and a clearer and stronger reward or punishment system.

### **Recommendations**

This study suggests strengthening policies and regulations related to BPRS institutions, among others: 1) more specific regulations or laws on sharia banking (BUS and BPRS), 2) regulations on government affirmation of the duties, roles and functions of BPRS as a strategic partner of the government in strengthening the sharia economy in the region and the lowest community, 3) regulations on support, incentives, facilities provided by the state to protect the existence and development of BPRS in Indonesia, 4) regulations on strata area coverage, product limits and nominal limits of financing services between financial institutions. BPRS must improve in terms of product innovation for third party funds, among others: 1) blended product schemes, that is a combination of commercial fund placement schemes with social schemes, 2) a combination of profit sharing schemes from mudharabah deposits where a certain percentage

is agreed for depositors and a certain amount for cash waqf, 3) mudharabah deposit schemes where all profit sharing is agreed to be submitted to BPRS as a form of cash waqf from customers, 4) increasing the portion of wadiah savings, 5) developing collaboration schemes with sharia-based business communities.

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