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The Impact of Disruptive Innovation and Organizational Characteristics on the Resilience of Banking Financial Performance in Times of Crisis (Case Study at Bank BJB Syariah)

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ABSTRACT

Business competition during a crisis requires every company to be superior and able to compete with its competitors. This study aims to explain disruptive innovation, organizational characteristics, and the condition of the resilience of bank BJB Syariah's financial performance in general during the crisis; analyze the effect of disruptive innovation and organizational characteristics on the resilience of Bank BJB Syariah's financial performance in general during the crisis. Data was collected by distributing questionnaires online with the census method. The results showed that disruptive innovation, organizational characteristics, and resilience of Bank BJB Syariah's financial performance during the crisis showed a diversity of perspectives which opened up wide room for further discussion and research. Disruptive innovation and organizational characteristics have been proven to simultaneously improve the resilience of Bank BJB Syariah's financial performance during the crisis. This study also found that there are important priorities for management to be able to improve financial performance resilience, including by ensuring the achievement of financial performance based on ROE, BOPO, and FDR in accordance with the target.

Keywords: disruptive innovation, financial performance, organizational characteristics, SEM-PLS

INTRODUCTION

Bank Indonesia's policy regarding accommodative macroprudential policies in 2022 is expected to increase the existence of bank credit/financing to the business world with the aim of assisting national economic recovery through financial system stability. Economic growth is predicted to increase to 4.7-5.5% in 2022, in line with the acceleration of private consumption and investment, while maintaining government spending and exports amid the risk of the COVID-19 outbreak (Source: Bank Indonesia-Monetary Policy Report Q4 2021).

Table 1 Growth of Key Indicators of Commercial Banking (in IDR billion)

Indicator	2017	2018	% (yoy)	2019	% (yoy)	2020	% (yoy)	2021	% (yoy)	$CAGR_{'17-'21}$
Assets	7,099,564	7,751,655	9.18	8,212,586	5.95	8,780,681	6.92	9,670,515	3.62	6.38%
Third Party Funds	5,050,984	5,372,841	6.37	5,709,670	6.27	6,342,538	11.08	7,114,041	5.06	7.09%
Financing	4,548,155	5,092,584	11.97	5,391,846	5.88	5,235,027	-2.91	5,512,366	-1.43	3.92%
Profit for the Year*	170,113	194,090	14.10	203,971	5.09	142,517	-30.13	174,352	22.34	0.49%

Source: Indonesian Banking Statistics for the period 2017-2021 (Processing results)

The performance of commercial banks is still experiencing positive growth even though the impact of the covid pandemic continues to hit the world. From 2017 to 2021, the growth of the asset position on a CAGR (*Compound Annual Growth Rate*) basis reached 6.38%. As of the fourth quarter of 2021, general banking assets grew by 3.62% *year to date*.

When compared to the growth of general banking, Islamic banking is able to grow more massively amid the impact of the Covid pandemic. Throughout 2017 to 2021, asset growth by CAGR even reached 9.79% higher than the growth of general banking. Even until the position of the fourth quarter of 2021, Islamic banking can maintain asset growth of up to 13.94%.

Table 2 Growth of Key Indicators of Islamic Banking (in IDR billion)

Indicator	2017	2018	% (yoy)	2019	% (yoy)	2020	% (yoy)	2021	% (yoy)	CAGR'17-'21
Assets	424,181	477,327	12,53	524,564	9.90	593,948	13.23	676,735	13.94	9.79%
Third Party Funds	334,719	371,828	11,09	416,558	12.03	465,977	11.86	536,993	15.24	9.92%
Financing	285,695	320,193	12.08	355,182	10.93	383,944	8.10	409,878	6.75	7.49%
Profit for the Year*	4,689	7,174	52.99	9,265	29.14	8,617	-6.99	6,224	-27.77	5.83%

Source: Islamic Banking Statistics for the period 2017-2021 (Processing results)

Hadi and Fatihin (2018) also examined the effect of liquidity ratio (FDR) on the Islamic banking market in Indonesia. Based on data from the Central Statistics Agency (BPS) and the Financial Services Authority (OJK) in the 2011-2018 period, it shows that Islamic banks have successfully controlled the liquidity ratio (FDR). This makes Islamic banks have the ability to effectively expand their market. Table 3 shows that Islamic banking financing and deposits continue to grow positively.

Table 3 *Share of* Key Financial Indicators of Islamic Banking against Commercial Banking (in IDR billion)

Indicator	2019		*Share* (%)	2020		*Share* (%)	2021		*Share* (%)
	General Banking	Islamic Banking		General Banking	Islamic Banking		General Banking	Islamic Banking	
Assets	8,212,586	524,564	6.39	8,780,681	593,948	6.76	9,670,515	676,735	7.00
Third Party Funds	5,709,670	416,558	7.30	6,342,538	465,977	7.35	7,114,041	536,993	7.55
Financing	5,391,846	355,182	6.59	5,235,027	383,944	7.33	5,512,366	409,878	7.44
Profit for the Year*	203,971	9,265	4.54	142,517	8,617	6.05	174,352	6,224	3.57

Source: Indonesian Banking Statistics & Islamic Banking Statistics 2019-2021

Economic growth in the DKI Jakarta, West Java and Banten regions has an impact on the Islamic banking industry. The growth of Bank BJB Syariah's main indicators shows positive growth and is maintained with a position that is able to exceed the growth of Islamic banking during 2019-2020. Bank BJB Syariah has not been able to utilize its potential to grow because West Java province is the province with the largest population in Indonesia. This condition has an impact on the understanding of people in the regions regarding the concepts and systems in Islamic finance which tend to be weak.

In general, the existence of Bank BJB Syariah which is still very minimal can also be seen from the aspect of market share compared to Islamic banking in general. Even though the indicators of assets and third party funds have increased, when compared to the current market size, the achievement of Bank BJB Syariah is still very small. The achievement of Bank BJB Syariah's financial performance during the 2019-2021 period tends to stagnate.

Based on the explanation above, Bank BJB Syariah still seems unable to show its financial performance optimally which can be seen through the main financial performance indicators, which include several financial ratios, including CAR, NPF, profit, NI, BOPO, CIR, ROA, ROE, FDR, NOM, and CKPN. We are currently in a disruptive era, an era where the business environment is undergoing massive changes caused by the emergence of innovations that change the business system and order to a new level. The *new* normal era is the right time to innovate business models, products and services to customers by transforming and utilizing technology that provides convenience and flexibility. Anggasta and Kusumawardhani (2021) state that disruptive innovation has proven to have an impact on improving performance based on financial metrics, especially improving financial performance using revenue and profitability as an assessment dimension.

In addition to disruptive innovation, one aspect that should be suspected of influencing the financial performance of banks is organizational characteristics. The characteristics of the Islamic banking system in general can be seen from its operations based on the principle of profit sharing, which provides an alternative banking system that is mutually beneficial for the community and banks, and emphasizes aspects of justice in transactions, ethical investment, prioritizes the values of togetherness and brotherhood in production, and avoids speculative activities in financial transactions.

Bank BJB Syariah has a proven organizational character as evidenced by its ability as the first BPD in Indonesia to be able to run a dual banking system with conventional and Islamic banking services. Bank BJB Syariah also has a vision to become the first choice of the public in using Islamic digital banks. This vision is also supported by several relevant missions which are also interesting to study, especially their implications for financial performance.

Based on the study above, several research questions were formulated which will then be examined in the study, namely as follows:

1. How are disruptive innovation, organizational characteristics, and financial performance at Bank BJB Syariah in general during the crisis?
2. How does disruptive innovation and organizational characteristics affect the financial performance of Bank BJB Syariah in general during the crisis?

LITERATURE REVIEW

Disruptive Innovation

Disruptive Innovation is a process that can significantly change the way consumers, industries, or businesses operate. Disruptive innovation sweeps away the systems or habits it replaces because it has attributes that can be recognized as superior (Smith *et al*. 2022). Manyika *et al.* (2013) define Disruptive Innovation as advances that will change lives, businesses, and the global economy. Christensen (2020) stated that Disruptive Innovation describes the process in which a product or service supported by technology enablers initially takes root in simple applications at the low end of the market, usually by becoming cheaper and more accessible, and then moves steadily upwards, until it is eventually able to displace established competitors.

Organization Characteristics

Organizational characteristics are defined as traits derived from the management model adopted by the organization, through its structure or strategy, and from the corporate culture embodied in the nature of its membership and relationships. Abd *et al.* (2014) measured organizational characteristics through four dimensions, namely organizational culture, top management support, rewards and incentives, and organizational structure.

Financial Performance

According to Fatihudin and Mochklas (2018), financial performance is the achievement of the company's financial performance during a certain period which includes financial collection and allocation as measured by capital adequacy, liquidity, solvency, efficiency, leverage and profitability. Meanwhile, according to Kusumawardani *et al.* (2021), the company's financial performance can be defined as a description of the company's financial status report over a certain period of time so that it can then be assessed the level of success and profit of a company in generating income.

Previous Research

Relationship between disruptive innovation and organizational characteristics

Disruptive innovation is related to some organizational characteristics, while other characteristics are not (Naqshbandi 2018).

The Impact of Disruptive Innovation on Financial Performance

Increasing the level of innovation improves financial performance (Bigliardi 2013). This is in line with Owuor (2018), that increased industry convergence, technological innovation, and social digital trends improve the financial performance of financial institutions including insurance companies. In addition, Olah *et al.* (2020) in their research found that the influence of trust and innovation between organizations is very prominent and real, with significant consequences for financial performance.

Impact of Organizational Characteristics on Financial Performance

Some previous studies were also conducted to investigate the impact of organizational characteristics on financial performance. The results revealed that liquidity and Age have a significant negative effect on the financial performance of insurance companies in Nigeria (Abubakar 2018). Nyabaga and Wepukhulu (2020) examined the effect of company characteristics on financial performance with a focus on banks listed on the Nairobi Stock Exchange for the period 2010 to 2018. The results show that capital adequacy and bank size have a significant positive effect on performance. Ooko *et al.* (2020) state that company characteristics have a positive effect on the financial performance of multinational companies through the influence of their choice to enter foreign markets. Meanwhile, the results of Msomi and Nyide's research (2021) show that return on assets, equity capital, operational efficiency, leverage and lagged investment capability are statistically significant determinants of financial performance in non-life insurance companies in SADC countries, although equity capital, operational efficiency and leverage are inversely related.

Conceptual Framework

The framework for financial performance in this study generally adopts the findings of previous researchers, especially related to the determinant aspects of Islamic banking financial performance, for example: Fatihudin and Mochklas (2018); Abdo (2021); Gadzo *et al. (*2019); Shen *et al. (*2009); Gatsi *et al. (*2014); Heffernan and Fu (2008); Nguyen (2012); Lee *et al. (*2014); Noman *et al. (*2015); Ichsan *et al. (*2021), which mentions the determinants of financial performance which include measuring aspects of profitability, and financing risk. The indicators used to measure the level of success of Bank BJB Syariah in achieving these targets, especially those related to financial performance, such as those related to profitability; (1) Operating Expenses Operating Income (BOPO), (2) *Return on Assets (*ROA), (3) *Return on Equity* (ROE), (4) Net Income (NI), and (5) *Net Operating Margin (*NOM), as well as those related to Financing Risk, including: (6) *Non Performing Financing* (NPF), and (7) *Financing to Deposit Ratio* (FDR). The conceptual framework of the research is shown in Figure 1.

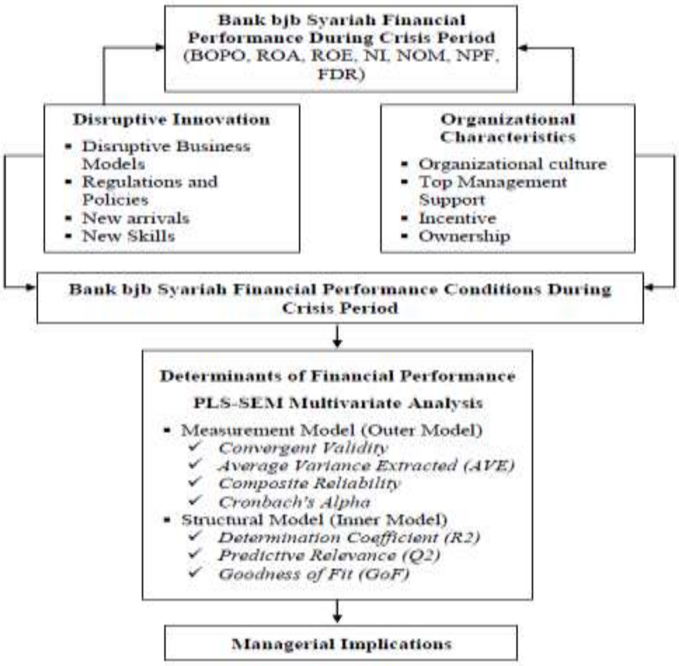

Figure 1 Conceptual Framework

Based on the conceptual framework, the hypotheses tested in this study are:

H_1 : Disruptive innovation in Bank BJB Syariah is in the high category, organizational characteristics are in the good category and the resilience of Bank BJB Syariah's financial performance is in the good category.

H_2 : Disruptive innovation and organizational characteristics increase the resilience of general financial performance at Bank BJB Syariah during the crisis period

METHODS

The research was conducted at 53 Sub-Branch Offices of BJB Syariah banks spread throughout Indonesia. The research was conducted within a period of one year, namely 2021. There are also data sources from primary data and secondary data. Primary data was obtained directly using the census and interview methods. Meanwhile, secondary data was obtained from articles, books, Bank Indonesia studies, BPS studies, and other relevant data/information. Data collection in this study was carried out with a questionnaire filling mechanism carried out by all representatives of the 53 officials at the level of the leader of the Sub-Branch Office online using the census method, as well as observation. The population sample in this study amounted to 53 people, consisting of leaders or representatives of 53 Sub-Branch Offices (KCP) at BJB Syariah banks throughout Indonesia. The data obtained in the study were analyzed using PLS-SEM (*Partial Least Square - Structural Equation Modeling).* Furthermore, for processing secondary data and other sources using *Microsoft Excel.*

RESULT

Descriptive Analysis of Variable Indicators

Disruptive Innovation

The census results show that changes in people's lifestyles (X1.5) is one of the five indicators that are considered the most correlated in measuring disruptive innovation variables. The majority of respondents (58.49%) assessed the level of Bank BJB Syariah's ability to observe the business situation in the era of disruption, especially with the emergence of changes in people's lifestyles which can be considered as an opportunity to improve its business position in the Islamic banking sector, as high, while 22.64% rated it quite high, and 5.66% rated it very high. However, there are 13.21% who rate it in the low category.

Hypothesis testing of disruptive innovation at Bank BJB Syariah

The hypotheses proposed in this one-way test are as follows:

H0 : $\mu 1 \leq 3.39$: Disruptive innovation is not in a high category.
H1: $\mu 1 > 3.39$: Disruptive innovation is in a high category.

The census produced an average score of 3.38 for the disruptive innovation variable. Of the five indicators used to measure the disruptive innovation variable, there are two indicators that show that disruptive innovation is not in a high category. The two indicators are disruptive business models (X1.1) which only have an average score of 3.36, and new skills which only have an average score of 3.08. Thus, when referring to the *cut-off point of* 3.39, overall disruptive innovation in Bank BJB Syariah is not in a high category.

Organizational Characteristics

The census results show that incentives (X2.3) are one of the four indicators that are considered the most correlated in measuring organizational characteristics variables. The majority of respondents (58.49%) rated the level of Bank BJB Syariah's ability to present an incentive mechanism that can create a dynamic work environment as good, while 30.19% rated it quite good, and another 5.66% rated it very high. However, there are also 5.66% who rate it in the poor category.

Hypothesis testing of organizational characteristics at Bank BJB Syariah

The hypotheses proposed in this one-way test are as follows:

H0: $\mu 1 \leq 3.39$: Organizational characteristics are not in a good category.
H1: $\mu 1 > 3.39$: Organizational characteristics are in a good category.

The census produced an average score of 3.50 for the organizational characteristics variable. Of the four indicators used to measure the organizational characteristics variable, there is one indicator that shows that organizational characteristics are not in a good category. This indicator is top management support (X2.2) which only has an average score of 3.26, which means that respondents view that top management support is in a fairly good category. Thus, when referring to the *cut-off point of* 3.39, the overall organizational characteristics of Bank BJB Syariah remain in a good category, even though there is one indicator that shows that it is below the good category.

Financial Performance

The census results show that ROA (Y2) is one of the seven indicators considered the most correlated in measuring banking financial performance variables with an average score of 4.25. The majority of respondents (49.06%) assessed the level of Bank BJB Syariah's ability to manage the rate of return on assets as good, even 37.74% of respondents rated it very good, although there were 13.21% others who only rated it in a fairly good category. Of the seven indicators mentioned above, there is one indicator that is considered by respondents not to be in a good category, namely the financing to deposit ratio (FDR) indicator which is only in a fairly good category with an average score value of 3.34. This shows that funds from third parties (DPK) managed by Bank BJB Syariah have not been channeled optimally for *financing*.

Hypothesis testing of the financial performance of Bank BJB Syariah

The hypotheses proposed in this one-way test are as follows:

H0: $\mu 1 \leq 3.39$: Bank BJB Syariah's financial performance resilience is not at good category.
H1: $\mu 1 > 3.39$: Bank BJB Syariah's financial performance resilience is in the category of which is good.

The census resulted in an average score of 3.68 for the financial performance variable. Of the seven indicators used to measure financial performance variables, there is one indicator that shows that the resilience of Bank BJB Syariah's financial performance is not in a good category. This indicator is the *financing to deposit ratio or FDR* (Y7) which only has an average score of 3.34, which means that respondents view that the resilience of Bank BJB Syariah's financial performance is only in a fairly good category. If we refer to the *cut-off point of* 3.39, then the resilience of Bank BJB Syariah's financial performance during the crisis as a whole remains in a good category, even though there is one indicator that shows it is below the good category.

Convergent Validity Test

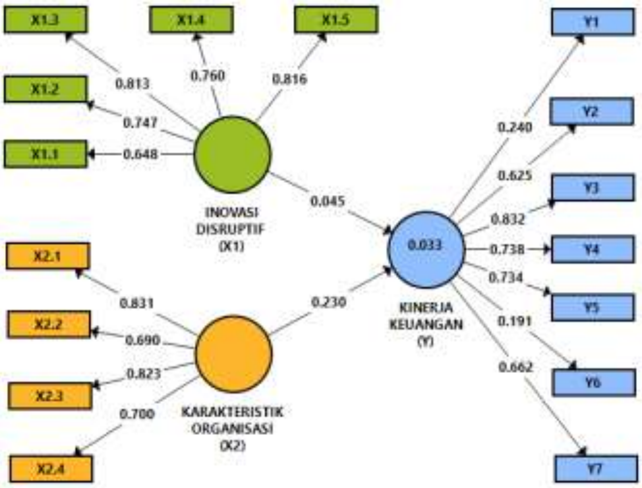

Figure 2 Disruptive Innovation, Organizational Characteristics, and Financial Performance and the Indicators that measure them

The results of the convergent validity test of all indicators on each variable connected to one another resulted in an average *factor loading* value of 0.678. In general, indicators with each interconnected variable have a strong relationship with a contribution of 67.80%. The strongest relationship is in the ROE Indicator with a *factor loading of* 0.832 which shows a strong level of relationship with a contribution of 83.20% to the financial performance resilience variable. This shows the belief of the leaders of sub-branch offices, that the level of Bank BJB Syariah's ability to increase ROE at a level that is in accordance with what has been targeted will have a strong impact on increasing the resilience of Bank BJB Syariah's financial performance in times of crisis.

Discriminant Validity

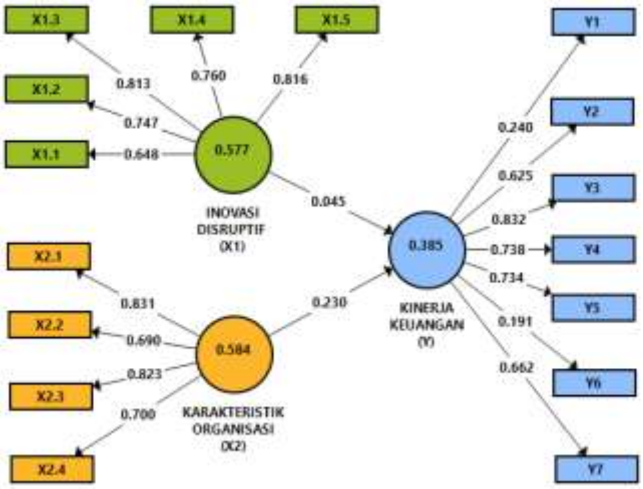

Figure 3 Average Variance Extracted (AVE) measurement for all variables

The average AVE of all the variables above is 0.515, so that overall the variables can be declared to have met the provisions of convergent validity and are considered to represent all indicators in each variable.

Composite Reliability

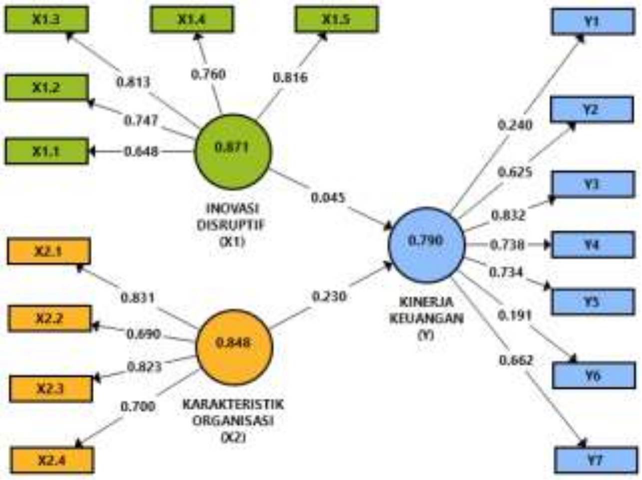

Figure 4 Measurement of Composite Reliability (ρc) for all Variables

The conclusions from the *composite reliability* test results are as follows:

1. 87.10% of the information from the disruptive innovation variable is consistently described by the 5 indicators used to measure it.
2. 84.80% of the information from the organizational characteristics variable is consistently described by the 4 indicators used to measure it.
3. 79.00% of information from the resilience variable of Bank BJB Syariah's financial performance in times of crisis is consistently described by the 7 indicators used to measure it.

Cronbach's Alpha

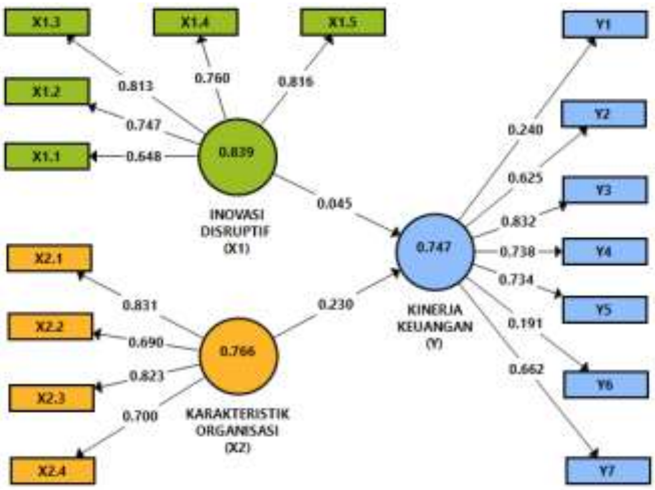

Figure 5 Cronbach's Alpha (α) measurement for each variable

The conclusion of the *Cronbach's Alpha* test results is as follows:

1. 83.90% of the information from the disruptive innovation variable is consistently described by the 5 indicators used to measure it.
2. 76.60% of the information from the organizational characteristics variable is consistently described by the 4 indicators used to measure it.

Hypothesis Testing

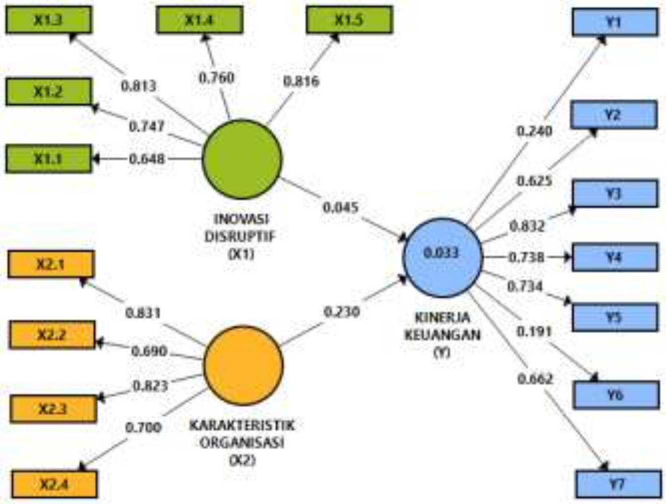

Figure 6 Disruptive Innovation and Organizational Character on Financial Performance

The results of the analysis show that the total diversity value of the financial performance variable that can be explained by the disruptive innovation variable and organizational characteristics reaches 0.033 or 3.30%, while 96.70% is influenced by other factors not included in this study. The R value^2 of 0.033 is greater than 0, thus it can be concluded: "Disruptive innovation and organizational characteristics simultaneously increase the resilience of financial performance at Bank BJB Syariah during the crisis".

Managerial Implications

Bank BJB Syariah can optimize the role of organizational culture so that HR can play an optimal role in strengthening the organization in facing environmental changes. In addition, Bank BJB Syariah needs to provide top management support in providing resources according to needs, creating a dynamic work environment through an incentive mechanism as a form of appreciation for employees, and optimizing asset ownership so that it can provide high economic added value for the organization and its environment.

ROE is the most significant aspect in helping Bank BJB Syariah in improving financial performance resilience, especially during times of crisis. With the achievement of ROE at Bank BJB Syariah, it has also succeeded in meeting the targets of achieving BOPO and NPF which also require asset productivity in generating income so that with an increase in income, it will also increase profitability.

DISCUSSION

High disruptive innovation and good organizational characteristics can result in good general financial performance resilience in times of crisis.

In general, the level of ability of Bank BJB Syariah in developing disruptive innovations is classified as mediocre. This has an impact on the non-optimality of Bank BJB Syariah in utilizing every opportunity in the market, especially in times of crisis to improve the resilience of its financial performance. The level of ability of Bank BJB Syariah in developing disruptive innovations is not in either the high or low category. Based on the results of descriptive analysis, the worst factor that causes Bank BJB Syariah's disruptive innovation to not meet expectations is the organizational inability to equip its human resources with new skills that support the strengthening of Bank BJB Syariah's competitiveness. Nieuwenhuis (2018) states that human resources need new skills to be able to handle disruptive technology or the organization will fail to compete with new entrants. Andersen and Gulbrandsen (2020) also state that organizations must abandon obsolete technology. Meanwhile, the strongest factor that has the potential to have a positive impact in improving the ability of Bank BJB Syariah to carry out disruptive innovation is the ability to observe changes in people's lifestyles which ultimately have a significant impact in changing the business environment situation.

The organizational characteristics of Bank BJB Syariah are assessed through several aspects, such as the level of ability of Bank BJB Syariah in optimizing the role of organizational culture so that human resources can play an optimal role in strengthening the organization in facing environmental changes. In addition, it also assesses the level of ability of Bank BJB Syariah in providing top management support in providing the necessary resources. A number of studies mention the important role of top management support for organizations, such as Cornelly and Kelloway (2003) who view top management support as very important for increasing organizational knowledge.

Another factor that is also assessed is the level of Bank BJB Syariah's ability to create a dynamic work environment through an incentive mechanism as a form of appreciation to employees. What is also no less important to be assessed is the level of Bank BJB Syariah's ability to optimize asset ownership so as to provide high economic added value for the organization and its environment.

Disruptive innovation and organizational characteristics on the resilience of general financial performance at Bank BJB Syariah in times of crisis

(ROE) is the most significant aspect in assisting Bank BJB Syariah in improving financial performance resilience, especially in times of crisis. The leaders of Bank BJB Syariah at the branch office and sub-branch office level believe that the level of Bank BJB Syariah's ability to increase ROE at a level that is in accordance with what has been targeted will have a strong impact on increasing the resilience of Bank BJB Syariah's financial performance in times of crisis. This is in line with the opinion of Abdo (2021) which states that one of the external economic aspects affected during the crisis in the conventional and Islamic banking sectors is Return on Equity (ROE). This fact shows that the returns that can be printed by Bank BJB Syariah during a crisis are of serious concern to shareholders.

Disruptive innovation is considered the variable with the highest level of consistency described by the five indicators that measure it. Meanwhile, financial performance resilience is the variable with the lowest level of consistency described by the seven indicators that measure it. This shows that the resilience of Bank BJB Syariah's financial performance during the crisis period is low due to the low organizational ability to develop disruptive innovation and the inability of the organization to optimize the role of organizational characteristics.

The results of the analysis also specify the relationship between disruptive innovation and organizational characteristics that describe a relationship based on substantive theory. The results of this causality analysis are then interpreted by assessing how much the endogenous constructs can be explained by the exogenous constructs. The facts show that disruptive innovation is able to positively explain financial performance even though it is in a weak category. This also has an impact on the weak contribution of both disruptive innovation directly to financial performance, and organizational characteristics directly to financial performance, as well as disruptive innovation and organizational characteristics simultaneously to financial performance. The total diversity value of the financial performance variable can be explained by the disruptive innovation variable and organizational characteristics even though it is low. However, because the coefficient of determination is positive, it can be concluded that disruptive innovation and organizational characteristics simultaneously increase the resilience of financial performance at Bank BJB Syariah during the crisis.

CONCLUSION

Responses to disruptive innovation, organizational characteristics, and resilience of Bank BJB Syariah's financial performance during the crisis show a diversity of perspectives that open up wide space for further discussion and research to further improve disruptive innovation, organizational characteristics, and resilience of financial performance during the crisis. Some things that need priority attention, namely the company's weakness in equipping human resources with new supporting skills, and the need to increase the ability to observe changes in people's lifestyles. Organizational characteristics also need to be strengthened by ensuring top management support in providing the necessary resources, as well as improving better reward mechanisms (incentives) to employees. In terms of financial performance, RoA needs to receive more attention, especially during times of crisis, while anticipating a decline in FDR due to crisis situations that put pressure on customers.

Disruptive innovation and organizational characteristics have been proven to simultaneously improve the resilience of Bank BJB Syariah's financial performance during the crisis. This study also found that there are important priorities for management to be able to improve financial performance resilience, including by ensuring the achievement of financial performance based on ROE, BOPO, and FDR in accordance with the target.

Declaration by Authors

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