# Influence Of Industry Environment Adaptation To The Improved Performance Of Islamic Financial Institutions

Muslim A Djalil, Ernie Tisnawati Sule, Raja Masbar

**Abstract:** The purpose of this study was to find solutions for problems related to performance of islamic financial institutions when connected with industry environment adaptation. This study was theoretical review, especially about the effect of with industry environment adaptation on performance of islamic financial institutions. The results showed that industry environment adaptation have a significant effect on performance of islamic financial institutions. Furthermore it was found that industry environment adaptation has implication for performance of islamic financial institutions.

**Keywords:** Industry Environment Adaptation, Performance, Islamic Financial Institutions

## 1. Introduction

Not much different from the global trend, the development of Islamic banking and finance institutions Indonesia which is the largest country in the world population of the Islam also showed significant growth in the past two decades. Although the market share of Islamic banking is still very small compared with the market share of conventional banks, but throughout 2010 Indonesian Islamic banking is growing at a very high volume of business in the amount of 43.99% (yoy) increase compared to the same period of the previous year amounting to 26.55% (yoy ). Likewise, some of the basic performance indicators showed significant rise each year as reflected in association with Third Party Fund (TPF) and the Financing Disbursements (PYD), which continues to increase. National economic situation conducive to encourage Islamic banking to expand its business in the form of public fund raising and distribution of funding. Until the third quarter of 2010, growth of Islamic Banking PYD reached 34.85%, much higher compared to the same period in 2009 which only reached 18.16%. From the collection of funds, the growth of third party funds (DPK) Islamic Banking in 2010 also increased to Rp 39.16% compared to the same period in 2009 amounted to 35.19%. However, one of which needs to be observed, the increase in deposits that are not offset PYD distribution will have an impact on the profitability of Islamic banks decline. However, the effectiveness of the intermediary role of Islamic banks are still high with Financing to Deposit Ratio (FDR) reached 95%.



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From the range of services (outreach), geographically Islamic banking has reached the Indonesian community in more than 103 districts / cities and 33 provinces in Indonesia. The development of such services has increased the capacity of community participation into banking service users, as indicated by an increase in the number of customer accounts funding until September 2010 has reached 5.76 million accounts (Bank Indonesia, Directorate of Islamic Banking, 2010, Islamic Banking Outlook, Third Quarter 2010 ). Institutional terms, up to October 2011, the number of banks that conduct business activities increase with the rise of sharia new players either in the form of Islamic Banks (BUS), Sharia Business Unit (UUS) and the People's Bank Financing Sharia (SRB). BUS that at the end of 2009 amounted to 6 units increased to 11 units, of which 2 BUS represents the conversion Commercial Bank and 2 BUS spin off business unit results sharia (UUS). While Sharia Business Unit (UUS) dropped to 23 units of an amount of 25 units. Thus bringing the total number of BUS and UUS per October 2011 to 34 banks. In terms of financial indicators jammed, Islamic banking numbers tend to be lower compared to conventional non-performing loans in banks, this is reflected in the Non-Performance Ratio Financing (NPF) is lower than the year-on-year compared with conventional banks. The decline in this troubled financing reflected in the ratio of Non Performing Financing (NPF) which decreased to 4.10% for, from the previous average of over 5%. This situation shows that Islamic banks more cautious in extending financing. On the other hand, a decrease in this ratio shows the risk management capabilities of Islamic Banking in Indonesia is getting better. Special to the People's Bank Financing Sharia (SRB), almost all performance indicators also showed improvement was reflected by the increase in business volume amounted to 18.84% BPRS total of its assets so as of September 2010 reached Rp. 2.52 trillion. Intermediation function which is reflected in the distribution of funding by the SRB also works well. This is reflected by the Financing to Deposit Ratio (FDR) SRB, up to September 2010 reached 135.82%. Besides the quality of SRB funding for the same period which tends to improve the net NPF ratio by 6.12%, or lower than the same period in 2009 of 6.65%. Although generally based on sharia banking consisting of BUS, UUS, and BPRS showed a good performance, but specifically for the SRB, some performance indicators still show poor picture. A fact which indicates the ratio of the rate of increase in financing or PYD greater than the funds collected from third parties indicate that the management of high risk and will affect the competitive advantage and future sustainability of the SRB. Risk management will usually be more likely to increase if the ratio of Financing to Deposit Ratio (FDR) which is also coupled with a high ratio of problematic financing (NPF) also increased. The next challenge is the low market share of Islamic banking institutions accounted for less than 10%, compared to the conventional banking institutions. In other words, the business activities carried out by the Islamic Financial Institutions is still running at a high cost. Another problem is related to product differentiation. There is no clear distinction between the features of banking products issued by the Islamic Financial Institutions with banking products issued by conventional financial institutions, particularly between the products offered in the premium market segment with the offered segments being subordinated So that the customer is still difficult to accept the product This sharia, because basically seen and felt by them, almost no different from conventional banking products. Such conditions can be understood as the application of differentiation focus strategy, which is the application of a generic strategy to gain a competitive advantage by offering a unique product attributes to the selected target segments are done consistently and continuously on Islamic Financial Institutions (Thompson et al. 2014: 208). Implementation strategy or strategic cooperative partnership, Islamic financial institutions will acquire the association funds with relatively low prices. By cheapening the cost of funds, then the cost of production services Islamic financial institutions actually be cheaper. So the value creation that is created will be greater than the value offered by conventional banks. Through the application of cooperative strategies in the form of joint ventures or strategic alliances with how the collective resources and capabilities will allow the company to enter the market are limited, moving from a competitive advantage to other competing forte, and also gain a dominant market force (Ireland, Hoskisson and Hitt . 2011: 245; Wheelen et al. 2015: 208). The operations are carried out by the Islamic Financial Institutions is still running at a high cost. Another problem is related to product differentiation. There is no clear distinction between the features of banking products issued by the Islamic Financial Institutions with banking products issued by conventional financial institutions, particularly between the products offered in the premium market segment with the offered segments being subordinated So that the customer is still difficult to accept the product This sharia, because basically seen and felt by them, almost no different from conventional banking products. Such conditions can be understood as the application of differentiation focus strategy, which is the application of a generic strategy to gain a competitive advantage by offering a unique product attributes to the selected target segments are done consistently and continuously on Islamic Financial Institutions (Thompson et al. 2014: 208). Actually, through the application of cooperative strategies or strategic partnership, Islamic financial institutions will acquire the association funds with relatively low prices. By cheapening the cost of funds, then the cost of production services Islamic financial institutions actually be cheaper. So the value creation that is created will be greater than the value offered by conventional banks. Through the application of cooperative strategies in the form of joint ventures or strategic alliances with how the collective resources and capabilities will allow the company to enter the market are limited, moving from a competitive advantage to other competing forte, and also gain a dominant market force (Ireland, Hoskisson and Hitt . 2011: 245; Wheelen et al. 2015: 208). That also need attention is variable Industrial Environment. Islamic Banking is less responsive, less adaptive and less flexible to changes in the industrial environment as factors change Equivalent Rate PYD Bank Indonesia made several financing schemes through Islamic Banking becomes relatively more expensive than conventional banking products. This raises the propensity of customers to move to another bank that has a higher competitiveness. In adapting to the intensity of industrial environmental changes, in principle, there are five forces that can determine the level of competition in the banking industry, including service industries, namely the threat of entry of new industry, threat of substitute products, bargaining power of suppliers, bargaining power of customers, and the intensity of competition manuvering company which has existed (Thompson et. al, 2014; Pearce & Robinson, 2012; Wheleen et. al. 2015; David: 2009). Based on the above issues and phenomena, researchers interested in conducting empirical studies on the extent of the Environment Industry influence on the Performance of Islamic Financial Institutions. From the results of this study are expected to appear various alternative solutions to improve the performance of Islamic Financial Institutions using environment variables Industry solutions.

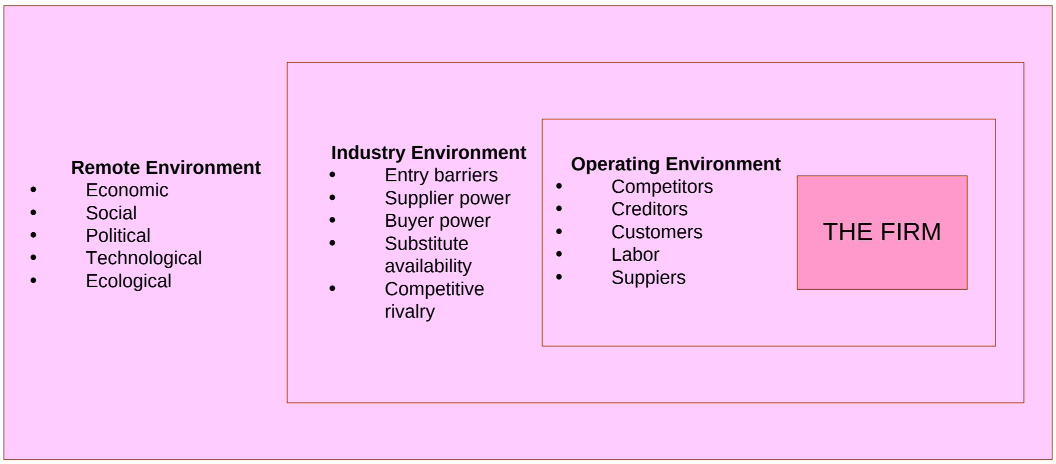
## Literature Review

### 2.1 Environmental Industry

Experts call different terminology management regarding the (industrial environment) this; some call it the competitive environment, there is a call to the task environment, and there is also a call to immediate and competitive industry environment. Apart of the heterogeneity of the mention of the above terminology, the management guru particularly strategic management experts have the same opinion that the industry environment is a part of the external environment, the changes that occur outside the scope of the company that affect the competitive advantage and performance as well as the continuity of survival). Unlike the Core competency which is part of the internal environment of the company as well as the derivation of the approach Resource Based View (RBV) which has been discussed previously, the environment industry is part of the external environment that also includes the general environment, which is a derivation of the approach Industrial Organizational View of the firm (I / OV). In principle, the approach I / O View has a premise that the external environmental factors include general environmental and industrial environment is more important and has a more dominant influence than internal resources and capabilities to create competitive advantage and improve the performance of the company (Marcus, 2011; David, 2011; Cravens and Piercy. 2013). Discusses the concept and definition of industrial environments and the forces that affect the intensity of the industry and the competition a strategy would not be separated from the reference proposed by Porter (1979, 1980, 1985). Then, from the initial concept of the proposed Porter extended by other management experts with some enrichment, additions and modifications. According to Porter (1979), there are five forces or dimensions that shape or determine the intensity of competence in an industrial environment. The five forces or dimensions include:

1. The Threat of New Entrants
2. The bargaining power of Suppliers
3. The Bargaining Power of Buyers
4. The Threat of Substitute Products
5. Rivalry Among competing sellers

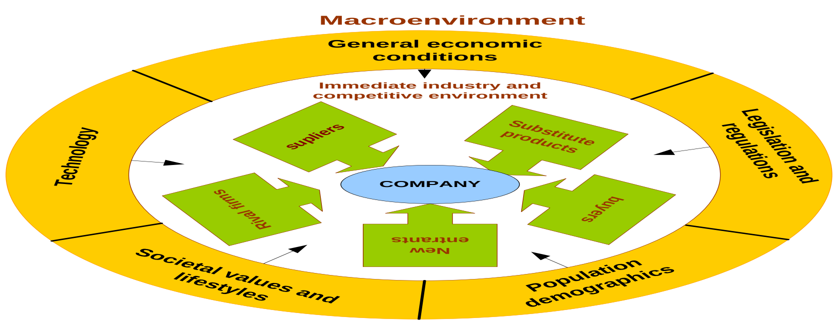
Pearce II and Robinson (2013: 87) also adds basically factors in the environment industry, together with the factors in the remote environment, factors in the operating environtment, the parts related to each other that form the external environment in combination will provide opportunities and pose challenges to be faced by the company in a competitive environment. The relationship between the company, the industry environment industry environment, the remote environment, operating environtment, can be seen in Figure 1. below:




***Sumber**: Pearce II dan Robinson (2013:87)*

***Figure 1***
*The Firm's External Environment*

With the restriction that the same underlying initiated by Porter (1979), Pearce II and Robinson (2013: 87), grouping five competitive forces as follows:
1. Rivalry Among competing sellers
2. The threat of new entrants
3. Bargaining power of buyers
4. The threat of substute products
5. Bargaining power of suppliers




***Suurce**: Thompson et. al (2014:47)*

***Figure 2.** The Component of Company's Macro-Environment*

Meanwhile to mention the environment as a competitive industry environment, Dess et. al, (2012: 93), limiting the "industrial environment as an environment that includes a lot of factors that have relvansi with a strategy that includes both existing competitors and potential nature, customers, and advertisers who have a more direct influence than the general environment "
While Thompson et. al (2014: 47), said the industry as the immediate environment and competitive industry environtment, and gives the definition of "industrial environment as factors in the macro environment and the strength of the company that has the biggest impact, especially forming strategies associated with pressure-press competition, firm action rival, the behavior of buyers, suppliers, and other relevant competitive strength. In a business full lingkungngan dynamic and turbulent today, a company was forced to compete with other companies that are not similar, such as land transportation by air transport, banking institutions with pengadaian institutions, conventional bookstores with book sales through online, and others. It is

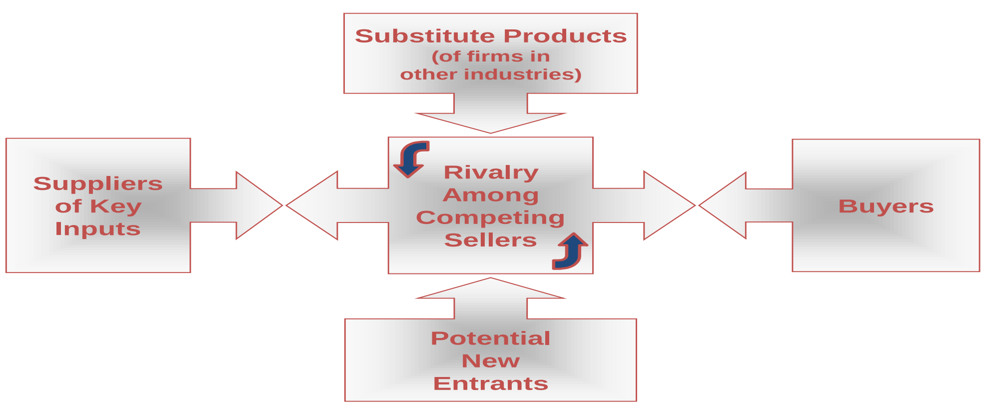
necessary for the industry and competitive environment analysis comprehensively about the forces at play in the industry. Assessment and analysis of the industry environment and the competition is basically done to determine the exact level of the power players in the industry, what movements are performed, and where the position of the company, and what strategies need to be formulated and how pererapannya in order to take advantage of changes in the environment The industry became a source of competitive advantage and improve company performance. In regard to the exploitation of changes in the industrial environment for the acquisition of competitive advantage and strategy formulation, Thompson et.al (2014: 49), arguing that the environmental assessment of the industry and competitive environment must be able to answer the following 7 which in turn answer whether an attractive industry or is not:

1. Industry's dominant economic traits
2. Nature of competition and strength of competitive forces
3. Drivers of industry change
4. Competitive position of rivals
5. Strategic moves of rivals
6. Key success factors
7. Conclusions about industry attractiveness.

With the enrichment and development of the initial concept of the forces that affect competition proposed by Porter (1990), Thompson et. al (2013: 49-63) argues that the type and intensity of competition in an industry is determined by competitive pressures and maneuvers of five competitive forces that consists of:

1) Competitive pressures from existing competitors This power is the most powerful of the five powers competition,
2) competitive pressure from the threat of entrants new,
3) competitive pressure from vendors substitute product company,
4) competitive pressure from the bargaining power suppliers,
5) competitive pressure from bargaining power customer and price sensitivity,

The five forces that influence the type and intensity of competition The industry can be seen in Figure 3 below:




***Source:*** *Thompson et. al (2014:50)*

***Figure 3.***
*Five Forces Model of Competition*

The output of the analysis of the industry environment should eventually be able to present an analysis of interested or not an industrial environment. In summary, there are three steps in assessing the type and strength of competitive pressures of the fifth power of the industrial environment, among others:

1. Identify each of the parties involved in the competition along with the factors that led to the emergence of competitive pressures;
2. Evaluate the level of competitive pressure strength of each force in the industry is to be "strong", "medium", or "weak.
3. Determine the industry attractive or not or whether the overall competition of the five competitive forces conducive to earn profits in the industrial environment (Thompson et. Al 2014: 49).

By analyzing and assessing the condition of the strengths and weaknesses of each player of the five forces that influence the type and intensity of competition in the industrial environment can be determined industry attractiveness and also the determination of competitive strategy in accordance with the resources and capabilities of the company to achieve competitive advantage and superior performance improvement of the company. Condition of the strengths and weaknesses of the five competive forces can be described in detail below:

**1. The competitive Forces of Rivalry Among Competing Sellers.**

The most competitive contests in a usually always comes from the strength of competitors among fellow players in the industry. Competition among the players in the industry arise because there are companies who want to gain a better market position, sales and a higher share, and competitive advantage. Usually the main factor that determines the strength of the competitors of fellow sellers in the industry lies in the extent of their activity and aggressiveness in maneuver a variety of weapons competition to gain a stronger market position and a greater turnover. Because of competition among players in an industry is dynamic and constantly changing, the seriousness of the threat to one another depends on the ability to create a barriers to entry, a reaction to the barriers to entry that already exists, and economic factors that would put the newcomer in the position unfavorable than the old players in the industry.

**2. Competitive Force of Substitute Products**

The intensity of competition that comes from the strength of competition from substitute products usually arise from efforts that created companies outside the industry to win the hearts of customers to the products they offer. Basically, conceptually, a new replacement product will be a problem when there are customers who are interested to buy products from companies from outside the industry. Some examples of replacement products include: glasses vs. contact lenses, sugar sugar vs. artificial preservatives, newspapers vs. TV vs. Internet, E-Mail or Overnight delivery vs. the Post Office market competition principle of power comes from substitute products in general to be strong if the goods are available, the price is also attractive, its dipercayaai same performance even better dri existing goods, and low customer switching costs.

**3. Competitive Forces of Potential New Entrants**

The pressure of the strength of competition from new competitors usually increases with the seriousness of the threat which depends on the barriers to entry and the reaction of the incumbents against entry of new competitors into the industry. While the barriers to entry that arise when new competitors to meet the constraints and economic factors put new competitors at a disadvantage against older players. In general, the threat of entry of new entrants in the industry to be strong if the barriers to entry are low, the amount of the existence of the newcomers who want to compete to enter the industry, and the old players do not want or are not able to deal with the efforts of the influx of newcomers.

**4. Competitive Forces of Supplier Bargaining Power**

Bargaining power of suppliers in this context could be a supplier of raw materials, suppliers of spare parts, components, or other resource inputs. Competitive pressures from the power supplier and supplier collaboration between the seller may occur depending on the conditions in which 1). The suppliers have the bargaining power to influence the terms of sale of goods in their favor, 2). How widespread and how important collaboration between the partners involved adri between one or more sellers with their suppliers, 3) bargaining power of suppliers. Power also increased when the competitor sellers establish long-term strategic partnerships with selected suppliers in promoting a just-in-time delivery, inventory reduction, and logistics costs, speed new generation of component procurement of goods, improvement of the quality of spare parts supplied, and a reduction in the cost of the supplier in order to reduce the price of the goods supplied. Usually the strength of the bargaining power of suppliers are in a strong position and vice versa depending on the following conditions:

1. The supplier of large and few in number.
2. Product suitable replacement is not available.
3. Buyers individual is not a big customer of the supplier and the number of buyers in number.
4. Items offered by suppliers is important for the success of a buyer's market.
5. Items offered by suppliers are included in the group of goods that "switching costs" high.
6. The supplier has the ability to do a "forward integration" of the industry that is being executed by the buyer (Ireland, Hoskisson, and Hitt.2011: 51).

From the above limitation limitation, general principles of competition in the industry environment that comes from the strength of the bargaining power of suppliers of the above arise because of competition offered a price war, the level of quality and performance excellence of the items being offered, and the reliability of delivery of goods.

**5. Competitive Forces of Buyer Bargaining Power**

Regardless of the type of indusri, basically the strength of the bargaining power of buyers and sellers collaboration between between the buyer depends on the ability of the buyer to take advantage of its bargaining option to influence the terms of the sale in favor of him and scope of collaboration between partnerships undertaken by the sellers in the industry. Bargaining power of buyers increases if:

1. The buyer is able to switch to low switching to the seller
2. They are an essential part of the transaction the seller
3. The seller is struggling to survive due to declining demand
4. They have a lot of information about the product, price, mapun production costs from the seller.
5. They do not get too attached to whether or when to buy such products (David. 2011: 110). "

From the above understanding in general intensity of industry competition and collaboration between the buyer bargaining power between buyers sellers be increased if the buyer is able to exploit their bargaining power options to factor in the price, quality, service, and the terms and conditions of sale other. Meanwhile, according Wheelen et. al. (2015: 127), which is often mentioned as a task environment Industry environment, giving understanding and restrictions: "The task environment includes Reviews those elements or groups that Directly Affect a corporation and, in turn, are affected by it. These are Governments, local communities, suppliers, competitors, customers, creditors, employees / labor unions, special-interest groups, and trade associations. A corporation's task environment is typically the industry within the which the firm operates. Industry analysis (popularized by Michael Porter) Refers to an in-depth examination of key factors within a corporation's task environment. The final output of the results of the analysis of industrial environment is obtaining the attractiveness of an industry profile that describes the intensity of competition is the fifth power of the competition. If the analysis shows all the power of a strong position to become less interested in the industry competition; otherwise if the strength of competition from the fifth kekekuatan are in a weak position, industry attractiveness is enhanced and the potential profit to be achieved increasing. In the conditions of how an industry presents an appeal or not to persaing and simultaneously produce high or low profit potential, among others:

"Unattractive industry and low profit potentials: Low entry barrier, suppliers and buyers have strong positions, strong threats from substitute products, and Intense Rivalry Among competitors; "And attractive industry and high profit potentials: high entry barriers, Suppliers and buyers have weak positions, Few threats from substitute products, and Moderate Rivalry Among competitors." (Ireland, Hoskisson, and Hitt, 2011: 16)

### 2.2. Performance

Jones (2004) says that companies must constantly change or develop a way to use existing resources and capabilities to enhance the ability to create value and to develop its effectiveness. The amendment is intended to find improved performance. Performance is meant here is not the performance in the narrow sense that only limited to financial gain. Indeed, the advantage of course have to be hunted, because without profit companies will not be able to survive, but the goal of the company from a strategic management perspective is intended to Obtain and maintain a sustainable competitive advantage and Achieve superior performance. At first it only financial criteria used to assess whether or not the superior performance of a company. Performance serves as an instrument to determine whether the company has the ability to going concern, as well as a basis for formulating operational planning company in the future and for the information of shareholders, stakeholders, customers, regarding the achievements and success of the company. There are many approaches, in defining the performance, according to Mulyadi (2007: 337). Performance is the success of personnel, team, or organizational unit in achieving the strategic objectives that have been set previously with the expected behavior. Mulyadi, also explained that the successful achievement of strategic objectives needs to be measured. That is why the strategic objectives that form the basis of performance measurement is necessary to determine its size, and determined initiative to realize the strategic objectives of an organization tersebut.Tercapainya purposes only possible because of the efforts of the actors that exist in the organization. Prawirosentono (2000), defines performance as: "The work that is accomplished by a person or group in an organization within a certain time, in accordance with the authority and responsibilities of each, in an effort to achieve the goals of the organization in question legally, do not violate the law and in accordance with moral and ethical. In the related literature, there are two approaches to measuring the company's performance advantage (Supratikno et.al, 2005). The first approach stated that the superior performance of the company is called when have seen above average performance of various dimensions, such as market share, financial kineja, etc. The second approach implicitly assess corporate excellence of corporate longevity. Companies that age who can survive long in a long time regarded as a superior corporate performance. The development of further stated that the overall performance can be measured by five indicators / perspectives, namely through a financial perspective, customer perspective, internal business processes, learning and growth perspective. The concept of performance measurement mentioned above are often referred to as the concept of Balanced Scorecard (BSC) developed by Kaplan and Norton (Pearce II and Robinson 2012). Performance Measurement With the Balanced Scorecard (BSC) However, according to Chong (2008), a relatively precise measurement of performance is by using a hybrid approach, ie by combining a combination of financial and non-financial measurements. This approach is also in accordance with the opinion Ledwith (2008: 100), in which to measure the performance of the banking and financial approach to the market performance indicator is the sales growth, profitability, market share, sales and ROI.In general, show some similarities in the formulation of the principle of the meaning of a performance include:

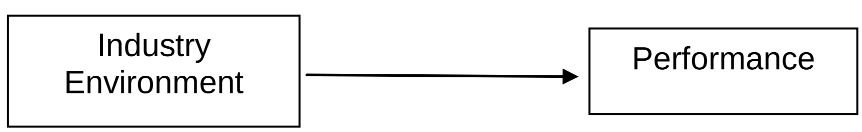
1. Performance is the final output of a work process
2. Performance measurement is one barometer of the success of the implementation of the strategy. (One of the winning test of strategy)
3. To describe the results of the process of a company in achieving its mission and objectives comprehensively need financial performance measurement and non-financial.

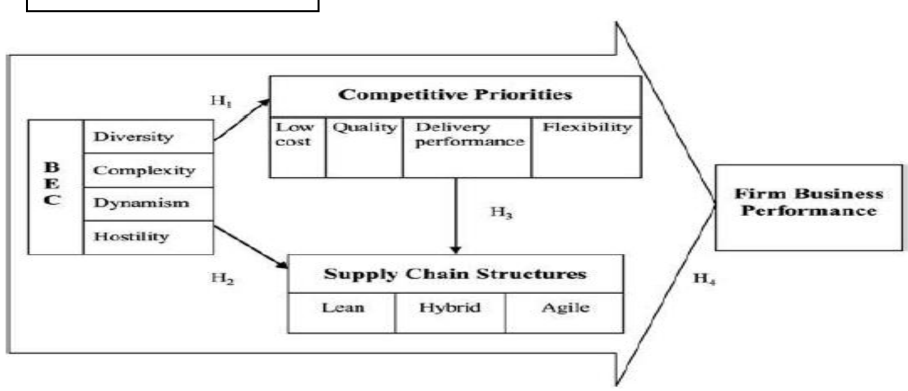
Based on the literature study, the dimensions of performance relevant to this study, the concept mangacu Gin Chong (2008). The researchers only use three-dimensional performance measurement on Islamic Financial Institutions, namely:

1. Income growth
2. Market Share
3. Customer Satisfaction.

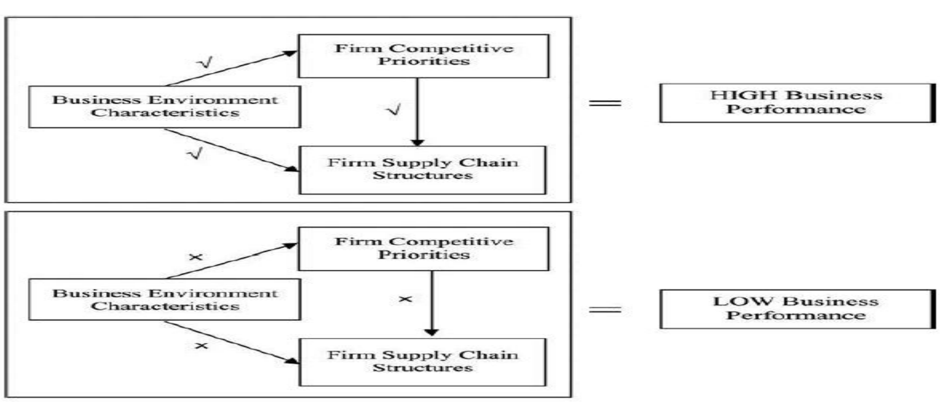
**Theoretical Framework**

Influence industry environment on performance



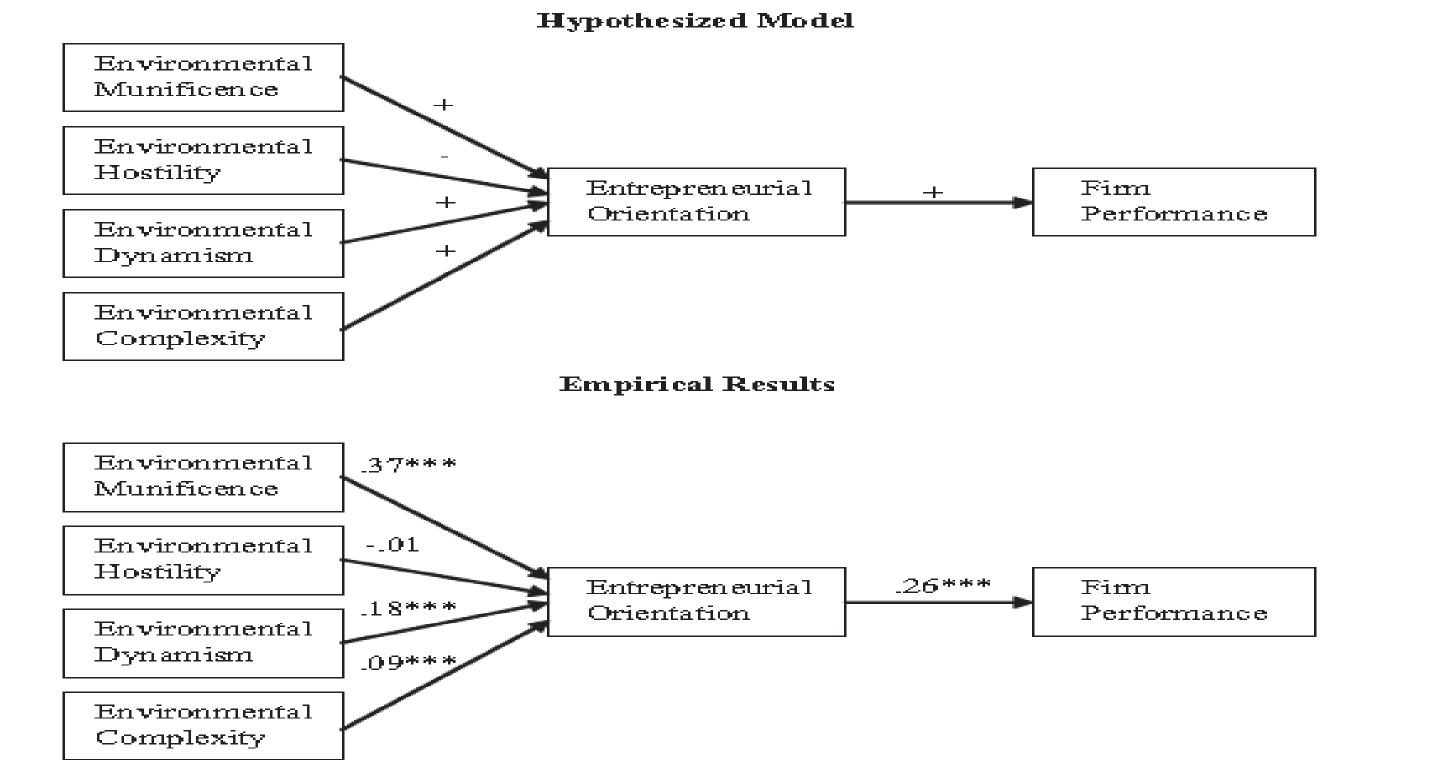
To obtain and maintain a sustainable competitive advantage, companies of any kind, including the banking industry is not enough to just rely on internal resources and capabilities they have and implement business functions are single fighter. The success gained competitive advantage depends on the ability of companies in perceived value to customers who exceed that offered by competitors. For an industry that includes the banking industry in the creation of value to the customer and achieving superior performance must be able to anticipate and adapt to changes in the type and intensity of competitive forces in the industrial environment. Increasing the strength of competition in the industrial environment both of Rivalry Among Existing sellers and new entrants will result in price competition and tighter margins obtained which will ultimately affect the performance of the company. Especially against the banking industry, including Islamic banking, competitive landscape facing now not only fellow Islamic banking in the country, but because the growth is very promising, also has attracted foreign banks to plunge also in the Islamic banking industry both full-pledged islamic banking and foreign commercial banks which have business units islamic window. Influential forces affecting the competitive environment on the performance of Islamic banking in particular through the introduction of new entrants of foreign banks into Islamic banking industry is evidenced by the results of research conducted by Hassan et. al. 2013). The results of research by using econometric models and using 14 samples from 24 countries who have foreign Islamic banks and Islamic banks with domestic observation period financial statements (financial statements) of the 149 Islamic banks domestic and foreign Islamic banks during 1996 to 2010 concluded that: In general, foreign Islamic banks as new competitors enjoy more Linggi performance in the form of net profit margin in 7 countries of the 24 countries sampled, but instead get the net profit margin is very low in 5 other countries. Another finding is the rate of returns (in the form of ROE and ROA) plays an important role in the decisions of foreign Islamic banks to entry into the market of Islamic banking in the country, macroeconomic conditions only act as a supporting role, considered tax policy plays a role in the decision-hostile entry decision and the presence of foreign Islamic banks, the financial crisis did not significantly affect the entry decision. Meanwhile, the analysis of the influence of foreign Islamic bank entry on the performance of the domestic Islamic banks, among others, show the profitability of the domestic Islamic bank is strongly influenced by the international financial crisis, demikan also tax policy and macroeconomic variables plays an important role in influencing the performance of the domestic Islamic banks as well as the availability of finance sector is hampered due to taxation policies and the level of bank reserves. Besides, the influence of the industrial environment on firm performance, especially the performance of banks in Indonesia also expressed and confirmed from the results of empirical research on environmental influences on the performance of Indonesian banking industry conducted by Hamsal and Court (2007). Research by distributing questionnaires to 131 CEOs Indonesian national banks (including Islamic banking) environment aims at studying the effect of uncertainty on the performance of Indonesian banking through moderating variable paradoxical strategy (strategic flexibility and strategic consistency). The results using multiple regression equation indicates the strategic flexibility and a significant positive influence on performance; meanwhile, strategic consistency has no effect on performance. In the form of the combined effect of two paradoxical strategies (strategic flexibility and strategic consistency), the results also confirm that the effect on performance of strategic flexibility depending on the strategic consistency and environment uncertainty. Research significant effect on the performance of the industrial environment is also performed by Ting, Kilduff, and Vidyaranya (2009) on the textile industry in the United States. The study aimed to analyze the relationship 4 constructs comprising industrial environment (business environment characteristics), competitive priorities, supply chain structures, and business performance. In such research Ting et. al developed a model of the concept as follows: With mengampil sample of 989 companies and the method of SEM lisrel in pengelohan data, the results of these studies indicate that there are differences of priority and supply chain competitive business environment for the company that high- and low-performing firms. The results also show the performance of the textile companies increased (high perperformance) if there is a correlation relationship (the significance of the relationship) between the three variables of the study: business environment characteristics, competitive priorities, and supply chain. Conversely low performance if the relationship between these three variables has no connection or insignificant.The results of hypothesis testing research conducted by Ting can be seen in the following picture:




Note: √: significant relationship; ×: non-significant relationship or wrong relationship

Environmental Effect of Industry or task environment on performance is also confirmed from the results of research conducted by Rosenbusch, Rauch, and Bausch (2013). Research by using meta alaysis and also didukukung with SEM aims to examine the relationship between environmental industry / environment on the performance of the task by using Entrepreneurial Orientation (EO) as a moderating variable. The results of his research shows, "The results suggest that environmental munificence, Dynamism, and complexity Affect EO and, in turn, firm performance. Briefly mention industrial environment variables with dimensions munificence, Dynamism, and complexity affect moderating variable Entrepreneurial Orientation (EO), which in turn affects performance. The conceptual framework and empirical framework of research results can be seen in the image below:

**Figure 1**
**Hypothesized Relationships and Empirical Results**




***Source**: Rosenbusch, Rauch, and Bausch (2013)*

Studies on the effect of changes in the intensity of competition in the industrial environment on competitive advantage and performance LKS both resulting from the supply side and on the demand side is also done by d (2009). The results of his study concluded that: "The paper concluded that from the supply side, the increasing number of players in the marketplace led to increasing intensity of competition and putting pressure on pricing and eroding margins. From the demand side, consumers are increasingly demanding a return on funds of deposits with Reviews their banks. This is either through direct returns on funds deposited through Mudarabah-based profit-and-loss-sharing investment accounts or by switching to investment products Reviews such as mutual funds. Results of studies concluded on the supply side, the increase in the number of players in the industrial arena LKS led to increased intensity of competition and the pressure on prices and declining margins (performance). Conversely, from the demand side, an increase in customer demand repayment option for greater profits against which they placed deposits. This demand can be directly deposited to the Fund or through investment accounts for the benefit of mudaraba or by turning them into investment products such as mutual funds. Furthermore, to adapt to the increasing intensity of competition from new entrants and fellow worksheets as well as the strength of the bargaining power of customers, Vayanos & Wackerbeck (2009) suggested that the next worksheets to develop a uniqueness or differentiation which he derived from three factors.

## Conclusion

Industrial environmental adaptation effect performance of Islamic financial institutions. The theories that already exist about management and organization make more emphasized linkages, that the Industrial environmental adaptation and performance of Islamic financial institutions. The results of the theoretical evidence from this study can be used to solve problems that accurs on the Industrial environmental adaptation and performance of Islamic financial institutions.

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