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## STRATEGY FOR STRENGTHENING *SHARIA* BANKING SUPPORT FOR THE *HALAL* INDUSTRY IN INDONESIA: SWOT ANALYSIS

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### ABSTRACT

Islamic banking is part of the *Sharia* financial industry sector, which has the potential to support the *halal* industry. To strengthen *Sharia* banking's support for developing the *halal* industry in Indonesia, we need to create the necessary ecosystem and implement strategic policies. This study aims to analyze the strengths, weaknesses, opportunities, and threats, as well as strategies for Islamic banking support for the development of the *halal* industry in Indonesia. This study uses a mixed-methods approach in the form of a sequential exploratory design with a SWOT analysis technique. The study's findings show that Indonesian Islamic banking's strength lies in relatively good asset growth and performance from year to year, while its main weakness lies in the quality of human resources, which is not as expected. This includes having an adequate number of well-educated, experienced, and ethically sound professionals proficient in essential banking operations and committed to upholding *Sharia* principles. Meanwhile, Indonesia's *halal* industry and MSMEs present a significant opportunity for *Sharia* banking as they continue to grow. However, it also faces a significant challenge in the form of conventional banks' strong presence, which hinders its ability to attract large-scale customers. As a result, it is necessary to strengthen *Sharia* banking funding and management processes, as well as establish a National *Halal* Fund.

**KEYWORDS:** HALAL, INDUSTRY, ISLAMIC BANKING, SWOT, INDONESIA

### ABSTRAK

Perbankan Islam adalah sebahagian daripada sektor industri kewangan syariah, yang berpotensi untuk menyokong industri *halal*. Untuk mengukuhkan sokongan perbankan Syariah dalam membangunkan industri *halal* di Indonesia, kita perlu mewujudkan ekosistem yang diperlukan dan melaksanakan dasar-dasar strategik. Kajian ini bertujuan untuk menganalisis kekuatan, kelemahan, peluang, dan ancaman, serta strategi untuk sokongan perbankan syariah bagi pembangunan industri *halal* di Indonesia. Kajian ini menggunakan pendekatan kaedah campuran dalam bentuk reka bentuk penerokaan berurutan dengan teknik analisis SWOT. Penemuan kajian menunjukkan bahawa kekuatan perbankan Islam Indonesia terletak pada pertumbuhan aset dan prestasi yang agak baik dari tahun ke tahun, manakala kelemahan utamanya terletak pada kualiti sumber daya manusia yang tidak memadai. Ini termasuk memiliki jumlah profesional yang mencukupi, berpendidikan tinggi, berpengalaman, dan beretika, yang mahir dalam operasi perbankan asas dan komited untuk menegakkan prinsip-prinsip Syariah. Sementara itu, industri *halal* dan PKS di Indonesia memberi

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peluang besar kepada perbankan syariah kerana mereka terus berkembang. Walau bagaimanapun, ia juga menghadapi cabaran besar dalam bentuk kehadiran kuat bank konvensional, yang menghalang keupayaannya untuk menarik pelanggan berskala besar. Oleh itu, adalah perlu untuk mengukuhkan pembiayaan dan proses pengurusan perbankan syariah, serta menubuhkan Dana *Halal* Nasional.

**KATA KUNCI:** HALAL, INDUSTRI, PERBANKAN ISLAM, SWOT, INDONESIA

## 1. INTRODUCTION

*Sharia* banking is part of the *Sharia* financial industry sector, in addition to the *Sharia* Non-Bank Financial Industry (IKNB) (such as Insurance, Finance Companies, and other *Sharia* Non-Bank Institutions) and the *Sharia* Capital Market (including State *Sukuk*, Corporate *Sukuk*, and Mutual Funds *Sharia*) (Otoritas Jasa Keuangan (OJK), 2023b; Robbani, 2022; Supriyatni, 2021). The main objective is to collect funds, disburse funds, and provide banking services to the public/customers (Dakhoir *et al.*, 2014; Hardianto & Wulandari, 2016; Noman, 2002). In practice, Islamic banking adheres to *Sharia* principles (Ahmed *et al.*, 2018; Basiruddin & Ahmed, 2020; Islam & Rahman, 2017; Kasim *et al.*, 2013; Safieddine, 2009) which are supervised by agencies or institutions, such as The National *Sharia* Council of the Indonesian Ulema Council (*Dewan Syariah Nasional Majelis Ulama Indonesia, DSN-MUI*), the Financial Services Authority (*Otoritas Jasa Keuangan, OJK*), and the company's internal *Sharia* Supervisory Board).

According to the State of the Global Islamic Economy in 2022, global revenue from Islamic finance will reach USD 49 billion in 2020 and is expected to increase to USD 128 billion in 2025. Assets in the Islamic finance sector will reach USD 3.6 trillion in 2021 and are predicted to be growing to USD 4.9 trillion in 2025, with a Cumulative Annual Growth Rate (CAGR) of around 7.9%. Furthermore, spending by Muslims around the world is expected to reach USD 2.8 trillion in 2025 with a CAGR of around 7.5% in the food, pharmaceutical, cosmetic, fashion, travel and media/entertainment sectors (DinarStandard, 2022).

The 2022 Islamic Finance Development Indicator report shows that Indonesia is in third place in world *Sharia* financial development, behind Malaysia and Saudi Arabia (Refinitiv, 2022). In December 2022, Indonesia's total *Sharia* financial assets (excluding *Sharia* Shares) reached IDR 2,375.84 trillion or around USD 151.03 billion, growing by 15.87% (yoy) from the previous year. The Islamic Capital Market is the largest sector with a portion of 60.08% of Islamic financial assets, growing by 15.51% (yoy). *Sharia* Banking has a market share of 33.77% of *Sharia* finance and grew by 15.63% (yoy), while *Sharia* IKNB has a share of 6.15% and growth is around 20.88% (yoy) (Otoritas Jasa Keuangan (OJK), 2023a).

In 2022, Islamic banking will show its resilience and experience positive growth, with total assets reaching IDR 802.26 trillion or growing by around 15.63% (yoy). Positive growth was also seen in Financing and Third Party Funds (*Dana Pihak Ketiga, DPK*), each growing by 20.44% (yoy) and 12.93% (yoy). The CAR capital indicator for *Sharia* Commercial Banks (BUS) rose to 28.09%. The quality of financing distribution is getting better with the BUS-*Sharia* Business Unit (UUS) NPF being low at 2.31%. The profitability indicator is also positive with BUS-UUS ROA growth of around 1.90%. BUS-UUS FDR rose to 81.10%, indicating an improvement in the *Sharia* banking intermediation process in the domestic recovery. The BUS-UUS BOPO ratio which fell to 77.48% also supports this development (Otoritas Jasa Keuangan (OJK), 2023a). All of this shows that Islamic banking carries out the intermediary function by taking into account the principles of prudence and efficiency.

However, Indonesia's *Sharia* banking market share is currently still limited to around 7% after more than 20 years of its journey (Otoritas Jasa Keuangan (OJK), 2023a). This figure is much lower than the conventional financial market share (Syarvina *et al.*, 2023). This low market share indicates that public interest in *Sharia* finance, including *Sharia* banking, is still less than in conventional finance. This is in line with the results of the National Survey of Financial Literacy and Inclusion (SNLIK) in

2022, which shows that *Sharia* financial inclusion has only reached 12.12%, much lower than financial inclusion in general which reached 85.10% (Otoritas Jasa Keuangan, 2022). The fact that Indonesia has a large Muslim population, namely more than 867% of the total population (Rizaty, 2022; Susilawati, 2020; Yazid *et al.*, 2020) with low market share and *Sharia* financial inclusion is a paradox that must be observed.

Several factors that may contribute to the lack of public interest in *Sharia* financial products and services include the following: first, the level of *Sharia* financial literacy is still low, only reaching 9.14% in 2022 (Otoritas Jasa Keuangan (OJK), 2023b, 2023a; Otoritas Jasa Keuangan, 2022). Financial literacy has an important role in motivating people to seek information and take action based on their knowledge (Anam & Setyawan, 2023; Jamil *et al.*, 2023). Therefore, increasing *Sharia* financial literacy can indirectly increase *Sharia* financial inclusion, because better knowledge of financial products and services will encourage community participation. The second factor is the lack of innovation and competitiveness in the Islamic finance industry compared to conventional finance (Meilani & Sugianto, 2023). This is reflected in limited innovation in *Sharia* financial products, higher costs for products and services, as well as office networks that do not yet cover remote areas (Otoritas Jasa Keuangan (OJK), 2023a).

The Islamic banking value chain includes the process of raising funds, banking management, and financing (Nurani *et al.*, 2023). In general, this value chain involves third-party funds and financing as input, followed by *Sharia* banking instruments, policies, and services as a management process, and ends with financing and commercialization to *muḍārib* or other parties following *Sharia* principles. Islamic banking has the potential to support the *halal* industry and economy through inclusive economic growth and better financial stability (Fadillah *et al.*, 2023; Rosayid, 2023; Sari *et al.*, 2023; Utomo *et al.*, 2021). The principles of profit sharing and risk in Islamic finance are compatible with real-sector financing, especially for MSMEs. Therefore, Islamic banking has an important role in supporting the *halal* industry and overall economic growth (Abduh & Omar, 2012; Achsani & Kassim, 2021; Ali *et al.*, 2020; Hassan *et al.*, 2021; Karim *et al.*, 2022).

As one of the leading sectors in the *Sharia* financial industry, *Sharia* banking has various opportunities and challenges in its implementation (Abduh, 2011; Nurdin & Yusuf, 2020; Riza & Hafizi, 2019). These opportunities and challenges are seen from the perspective of human resources, regulations, and governance, research and development (R&D), literacy, data, and technology. The 2019-2024 Indonesian *Sharia* Economic Masterplan document notes several existing opportunities, including: (1) the population and growth of the Indonesian Muslim community; (2) the existence of *Sharia* economics study programs at various state or private universities that can provide qualified human resources for *Sharia* banks; (3) regulatory and master plan support from regulators such as OJK, Bank Indonesia, Bappenas, Ministry of Finance, Ministry of Religion, and others; (4) the vision of the government and regulators regarding the development of the *Sharia* economy; (5) opportunities in regulations related to the *halal* industry and Islamic social finance which can strengthen funding and expand financing segmentation/allocation by *Sharia* banks; (6) the existence of research and training institutions that focus on *Sharia* economic development; and (7) financial literacy which has begun to be disseminated to various levels of society (Bappenas, 2018).

Meanwhile, challenges that need to be addressed include (1) suboptimal integration and synergy of various main policies and plans of the government and related authorities; (2) inconsistency in the vision and mission in the regulations contained in each master plan or blueprint made by different departments or regulators; (3) lack of academics who have knowledge related to the *Sharia* banking industry; (4) penetration is still low in the *Sharia* banking sector; (5) the level of public awareness regarding using products from *Sharia* banks is still lacking; and (6) the lack of workers with special expertise in the Islamic banking industry (Bappenas, 2018).

The multitude of opportunities and challenges mentioned before can be maximized through the implementation of a robust ecosystem and effective policies. In order to develop strategic policies and foster the creation of a conducive environment, it is important to thoroughly analyze the

strengths, weaknesses, opportunities, and challenges, as well as the strategies for supporting *Sharia* banking in the development of the *halal* industry and *Sharia* economy in Indonesia.

While several previous studies have explored the role and growth of Islamic banking in Indonesia from different perspectives (Husain, 2021; Mahargiyantie, 2020; Novitasari, 2019; Rahmayati, 2018; Sari, 2020), there is a lack of comprehensive research that examines the strategic factors, both internal and external, that impact the support of Islamic banking in the development of the *halal* industry and the Islamic economy in Indonesia. Hence, this study was carried out to examine the advantages, disadvantages, potential advantages, and potential disadvantages, as well as tactics for supporting Islamic capital banking in promoting the growth of the *halal* business in Indonesia.

## 2. LITERATURE REVIEW

Several prior studies have investigated the function and growth of *Sharia* banking in Indonesia from different perspectives. Rahmayati (2018) investigates the impact of Islamic banking on enhancing the *halal* business by analyzing the allocation of financing towards clients in need of financial support. This research employs both qualitative and quantitative research methodologies. Qualitative data processing approaches are based on the study of interviews performed by Islamic banks and financing clients. On the other hand, quantitative analysis involves using secondary time series data obtained from published reports by OJK and BPS from 2005 to 2017, using the Eviews software tool. The findings of this study demonstrate that Islamic banking can effectively stimulate the advancement and growth of the *halal* industrial sector by providing financial support to clients at Islamic banks. The econometric findings demonstrate that there is a positive correlation between the number of *halal* industrial sectors and the growth of customer enterprises that acquire *halal* certification. Despite the presence of inflation, the expansion of the *halal* industrial sector remained unaffected.

Novitasari (2019) assessed the role and potential of Islamic banking in supporting *halal* MSMEs. By using descriptive qualitative research based on the results of interviews and documentation, the results of the research show that the condition of Islamic banks in supporting *halal* MSMEs has not carried out effective socialization to *halal* MSME entrepreneurs, office access and ATM networks are still difficult to find and lack of promotion by Islamic banking, while the potential of Islamic banks themselves can innovate products by providing specific financing products for tourism industry players as well as holding interesting events to change the mind-set of the people that Islamic banks are inclusive and not exclusive banks.

Mahargiyantie (2020) undertook a study to ascertain the strategic significance of Bank *Syariah* Indonesia (BSI) in the *Sharia* economy of Indonesia. This study employs a qualitative methodology with a research design based on a literature review. The findings of this study indicate that the consolidation of Bank *Syariah* Mandiri, Bank BRI *Syariah*, and Bank BNI *Syariah* into Bank *Syariah* Indonesia (BSI) plays a crucial role in advancing the *Sharia* economy in Indonesia. This strategic role can be observed from two different viewpoints. The first strategic function is enhancing the implementation of *Sharia muamalah* in Indonesia, which promotes the growth of the market and facilitates more access to *Sharia* economics and finance. This, in turn, helps to mitigate the risks of usury, *gharar*, and injustice in *muamalah* transactions in Indonesia. The second strategic role involves enhancing the national economy through the infusion of money and funds from the National *Sharia* Bank, so facilitating increased funding for corporate ventures and national growth.

Sari (2020) conducted a study to explore various contract and financing models that can facilitate *Sharia* bank financing in the *halal* food industry. The goal is to increase *Sharia* banks' involvement in promoting Indonesia's *halal* food industry growth. This study employs a qualitative descriptive approach with content analysis techniques to conduct literature research. The research findings indicate that *Sharia* banking currently has a limited role in providing financial support to the *halal* food business in Indonesia. Partnership, synergy, and community finance models can serve as viable alternatives in the agricultural sector when considering different financing strategies. Linkage and

ecosystem-based financing approaches are appropriate for the food and beverage processing industrial sector.

Husain (2021) explores the significant contribution of Islamic banks in fostering the growth of the *halal* business. The study aimed to optimize the role of *Sharia* banks in developing the *halal* industry in Indonesia, revealing that they must enhance their functions through institutional synergy to maximize their impact. Initially, they must forge a robust cooperative partnership with the government. The government Islamic banks engage in two forms of institutional synergy: (1) identifying and mapping the areas related to the *halal* tourist sector, and (2) providing assistance to improve regulations, standards, and supervision processes for *halal* products. Furthermore, the collaboration between Islamic banks and *halal* business participants is a key factor. Islamic banks and the *halal* industry can collaborate through several means: (1) identifying and establishing industrial models; (2) enhancing support and facilitating market access; (3) providing financial resources; and (4) offering education and guidance. The third aspect involves the integration of Islamic banks with educational institutions, with a focus on promoting knowledge of the *halal* industry within these educational establishments.

### 3. METHODOLOGY

#### *Research Design*

This study employs a mixed-methods approach, incorporating both qualitative and quantitative methodologies, specifically employing a sequential exploration design as proposed by Saifuddin (2013). The study also applies the SWOT analysis technique. This study uses a qualitative approach method to draw conclusions through both deductive and inductive reasoning. It also employs scientific logic to analyse the dynamic interactions of observed events. In this context, we employ qualitative approaches to identify strengths, weaknesses, opportunities, and threats through a SWOT analysis. On the other hand, SWOT analysis employs quantitative approaches to compute weights, determine matrix positions, and develop program strategy phases.

#### *Data Collection*

The research employs the data gathering technique of observation and documentation. We observed the development and movement of *Sharia* banking in Indonesia by directly monitoring official government and private websites, as well as other media sources. Documentation entails gathering and examining papers, literature, and other pertinent materials related to the research subject, specifically the Indonesian *Sharia* Economic Master Plan document (Bappenas, 2018). We processed the acquired data by generating descriptions using words, images, and symbols associated with the research subject (Creswell & Creswell, 2017).

#### *Technique of Data Analysis*

This study also employs the SWOT analysis technique to enhance and intensify the analysis. The SWOT analysis methodically uncovers pertinent aspects for strategy development. This method is based on the simultaneous maximization of strengths and opportunities while reducing weaknesses and threats (Rangkuti, 2015). The utilization of SWOT analysis enables firms to effectively address and overcome new difficulties, thereby enhancing stability and productivity (Ifediora & Nzekwe, 2014). SWOT analysis enables the comparison of external elements, such as opportunities and threats, with internal factors, such as strengths and weaknesses, in order to develop alternative strategic choices.

SWOT analysis is a powerful method for doing strategic analysis, particularly in leveraging strengths and opportunities while also addressing weaknesses and potential threats (Rangkuti, 2015). The data analysis methodologies employed in this study encompass internal factor analysis summaries (IFAS) and external factor analysis summaries (EFAS), culminating in a final value

derived through the process of weighting and scoring. Moreover, Rangkuti (2015) uses the placement of the digital economy in the internal-external SWOT matrix (IE SWOT matrix) to provide alternative strategic choices.

**GRAPHIC 1: IE SWOT MATRIX**

		Internal Factors		
		High (3,0-4,0)	Medium (2,0-2,99)	Low (1,0-1,99)
External Factors	High (3,0-4,0)	<i>I</i> Growth: Concentration through Vertical Integration	<i>II</i> Growth: Concentration through Horizontal Integration	<i>III</i> Retrechment: Turn-round Strategy
	Medium (2,0-2,99)	<i>IV</i> Stability	<i>V</i> Growth: Concentration through Horizontal Integration or Stability Profit Strategy	<i>VI</i> Retrechment: Divestment Strategy
	Low (1,0-1,99)	<i>VII</i> Growth Concentric Diversification	<i>VIII</i> Growth: Conglomerate Diversification	<i>IX</i> Liquidation

Sources: David (2006); Pratiwi & Sudiarta (2019)

#### 4. FINDINGS AND DISCUSSIONS

##### *Strengths and Weaknesses*

The development of the *Sharia* banking sector in Indonesia brings several potential strengths that can encourage the growth of the *halal* industry and *Sharia* economy. From an internal perspective, several weaknesses could slow the *halal* industry and *Sharia* economy in this country.

**TABLE 1. IDENTIFICATION OF INTERNAL FACTORS**

Internal	
Strengths	Weaknesses
1. Asset growth and performance exhibit a consistent positive trend from year to year.	1. Short-term and high-interest deposits provide the majority of the cash, making them unsuitable for long-term financing.
2. There are various sources of funding available for <i>Sharia</i> -based initiatives, including sponsorship from Muslim communities, non-Muslims who endorse the <i>Sharia</i> system, and business entities that adhere to <i>Sharia</i> operational standards.	2. The quantity and quality of human resources (HR) still fail to meet expectations.
3. Functions in accordance with stringent norms and standards, thereby enhancing financial stability and mitigating the likelihood of financial catastrophes.	3. Some businesses still encounter challenges in raising finance and expanding their operations due to spin-off policies that necessitate substantial investments.
4. UUS has the ability to improve the efficiency of facilities provided by the parent bank to reduce operational expenses and potentially increase earnings.	4. The BUS performance, as measured by Return on Assets, Operational Costs to Operating Income, Non-Performing Financing, and Net Operating Margin, is lower than the UUS benchmark.
5. The performance of UUS, as measured by metrics such as return on assets, operational	5. There is still a restricted number of professionals that possess adequate

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<p>costs to operating income, non-performing financing, and net operating margin, is better than that of BUS.</p> <p>6. UUS can leverage the expertise of the parent bank's professionals.</p> <p>7. The primary proponents of <i>Sharia</i> funding are individuals who adhere to <i>Sharia</i> rules.</p> <p>8. In their operations, companies adhere to <i>Sharia</i> standards.</p>	<p>experience.</p> <p>6. HR's competence and expertise in finance risk management and financing analysis are now inferior to those of traditional banks.</p> <p>7. Insufficient capital limitations and regulatory capital adequacy requirements prevent optimum utilization of financing.</p> <p>8. Compared to traditional institutions, banks still possess less complex information technology.</p>
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Source: Data Processed Results (2023)

Internally, the robustness of Islamic banking in Indonesia is evident in its consistent increase in assets and strong performance throughout the years, as indicated in Table 1. Both *Sharia*-compliant Muslim groups and non-Muslim individuals provide funding for this initiative. The *Sharia* system, in conjunction with corporate entities and banks that fully adhere to its norms and principles, enhances financial stability and reduces the likelihood of financial catastrophes. Furthermore, UUS (*Sharia* Business Unit) benefits from the full range of resources provided by its parent bank, resulting in reduced operational expenses and the potential for increased profits. UUS outperforms BUS (*Sharia* Public Bank) in terms of performance indicators such as ROA, BOPO, NPF, and NOM. *Sharia* financing adheres to its principles and relies on loyalists to uphold them. Additionally, *Sharia*'s operational principles serve as the foundation for companies to conduct their activities, and it is imperative to uphold these principles.

Although Islamic banking in Indonesia possesses much strength, it also exhibits various faults when seen from an internal standpoint, particularly in its contribution to the growth of the *halal* industry and the Islamic economy. Table 1 indicates that the shortcomings of Islamic banking in Indonesia stem from the prevalence of funding obtained through expensive deposits, such as time and short deposits. Consequently, this funding structure is not suitable for long-term financing purposes. The Human Resources (HR) department, in terms of both quantity and quality, has not yet met the desired requirements. In Indonesia, the expected standard of human resources in Islamic banking comprises both quantitative and qualitative dimensions. Islamic banks must guarantee they have a sufficient number of workers to manage the growing demand and complexity of their services from a quantitative standpoint. This entails recruiting an adequate number of experts in critical domains like risk management, compliance, *Sharia* compliance, and customer service. Human resources should have educational credentials that are directly applicable to the field, such as degrees in finance, economics, Islamic banking, or *Sharia* law. Advanced certifications and ongoing professional development are essential for ensuring that employees maintain up-to-date knowledge and abilities.

In addition, it is crucial for the staff to possess expertise in fundamental banking activities such as financial analysis, risk management, and customer relationship management. In addition, it is imperative for them to possess a comprehensive understanding of the distinct prerequisites associated with Islamic banking, including adherence to *Sharia* principles and compliance with *halal* industry standards. We strongly prefer candidates who have practical expertise in both conventional and Islamic banking. Employees must possess knowledge of the most recent developments and advancements in the banking industry and demonstrate a history of effectively adopting them. Proficiency in communication, problem-solving, and decision-making is crucial, since personnel need to adeptly convey intricate financial ideas to clients and engage in cooperative teamwork. Adhering to strong ethical ideals and possessing a comprehensive knowledge of Islamic teachings are also essential. We expect employees to demonstrate integrity and a strong dedication to upholding *Sharia* principles in all banking operations. By prioritizing these factors, Islamic banks in

Indonesia may guarantee that their personnel adhere to the desired criteria, thereby fostering the development and durability of the Islamic banking sector and the wider *halal* business. This explanation provides reviewers with a comprehensive understanding of the anticipated standard for human resources in the specific context of Islamic banking in Indonesia.

Many businesses encountered difficulties in expanding their operations due to insufficient funds and the spin-off strategy, which required significant financial commitments. Furthermore, there is a shortage of professionals with limited experience, and the HR department's ability to finance risk management and financial analysis is still not as good as that of traditional banks. Furthermore, their information technology systems lack the level of sophistication found in traditional banks, which presents additional obstacles to overcome.

#### *Opportunities and Threats*

Apart from strengths and weaknesses, externally, Islamic banking support also has opportunities and various challenges in the development of the *halal* industry and the Islamic economy in Indonesia.

**TABLE 2. IDENTIFICATION OF EXTERNAL FACTORS**

<b>External</b>	
<b>Opportunities</b>	<b>Threats</b>
1. Advancement of the <i>halal</i> industry and the micro, small, and medium enterprise (MSME) sector.	1. Conventional banks have a significant advantage in capturing widespread consumer attention.
2. The population of individuals without an Islamic bank account is substantial, presenting excellent prospects for new clients.	2. The quantity and caliber of human resources (HR) with expertise in both <i>Sharia</i> and economics remain limited.
3. The market share has not yet reached its optimal level, indicating significant untapped financial possibilities.	3. The digital economy's growth poses a potential risk to Islamic banks' efforts to expand their retail finance sector.
4. Government assistance in fostering the growth of the <i>Sharia</i> economy.	4. There is a lack of appropriate coordination between different government policies, master plans, and their respective authorities.
5. Advancements in the administration of <i>Zakat</i> , <i>Infaq</i> , <i>Alms</i> , and <i>Waqf</i> (ZISWAF) monies and <i>sukuk</i> instruments.	5. One issue is the absence of alignment between the goal and mission of the ministry, institution, or regulator and the regulations outlined in the master plan or blueprint.
6. Islamic banks can employ several liquidity tools to effectively manage liquidity while adhering to the principle of making profits. One such product is <i>Sharia</i> -compliant short-term securities.	6. The lack of academic personnel with profound expertise in the field of <i>Sharia</i> banking is a significant concern.
7. Digital banking technology can serve as a mechanism for Islamic banks to streamline services to customers and the general public.	7. The level of public awareness regarding the use of <i>Sharia</i> banking products remains very limited.
8. Islamic banks have not effectively administered additional social resources.	8. There is a shortage of workers with specialized <i>Sharia</i> banking skills.

Source: Data Processed Results (2023)

Table 2 demonstrates that there are several opportunities for Islamic banking in Indonesia. These include the *halal* industry's presence and the growing MSME sector. Additionally, there are a significant number of individuals who do not currently have Islamic bank accounts, making them potential consumers or new customers. Furthermore, significant financial potential remains untapped due to the limited market share. The government's assistance in fostering the Islamic economy presents a positive outlook, along with advancements in the administration of ZISWAF funds and



sukuk instruments. Furthermore, Islamic banks have the ability to employ current liquidity instruments to manage liquidity levels while also capitalizing on advancements in digital banking to streamline services for customers and the general public. Additionally, there are prospects for overseeing underutilized societal money via *Sharia* banks.

However, we also need to address a multitude of issues and potential risks. Traditional banks' formidable presence in enticing consumers on a large scale poses a significant obstacle. The presence of sufficient and competent personnel with expertise in both *Sharia* and economics remains a hindrance. The advancements in the digital economy may pose a risk to Islamic banks' efforts to expand their presence in the retail financing sector. Furthermore, the lack of proper integration and coordination of government policies and plans, along with the absence of alignment between the vision and mission stated in regulations found in the master plan or blueprint of ministries, agencies, or regulators, poses a significant challenge. The level of public awareness regarding the use of Islamic bank products remains insufficient, posing a hindrance to fully capitalizing on the available opportunities.

#### *Positioning Strategy*

After identifying internal and external factors in the analysis of the Islamic banking environment in Indonesia, including strengths, weaknesses, opportunities, and threats in the context of developing the *halal* industry and *Sharia* economy, a quantitative analysis was conducted to assign weights and ratings to these factors. This analysis aimed to determine the positioning and strategic choices that could be pursued.

**TABLE 3. STRENGTHS AND WEAKNESSES ANALYSIS**

No	<i>Internal Factor Analysis Summary (IFAS)</i>	Weight	Rating	Score
<b><i>Strengths (S)</i></b>				
1	Asset growth and performance exhibit a consistent positive trend from year to year.	0,06	4	0,24
2	There are various sources of funding available for <i>Sharia</i> -based initiatives, including sponsorship from Muslim communities, non-Muslims who endorse the <i>Sharia</i> system, and business entities that adhere to <i>Sharia</i> operational standards.	0,07	5	0,37
3	Functions in accordance with stringent norms and standards, thereby enhancing financial stability and mitigating the likelihood of financial catastrophes.	0,06	4	0,24
4	UUS has the ability to improve the efficiency of facilities provided by the parent bank to reduce operational expenses and potentially increase earnings.	0,06	4	0,24
5	The performance of UUS, as measured by metrics such as return on assets, operational costs to operating income, non-performing financing, and net operating margin, is better than that of BUS.	0,06	4	0,24
6	UUS can leverage the expertise of the parent bank's professionals.	0,06	4	0,24
7	The primary proponents of <i>Sharia</i> funding are individuals who adhere to <i>Sharia</i> rules.	0,06	4	0,24
8	In their operations, companies adhere to <i>Sharia</i> standards.	0,06	4	0,24
<b>Total of Score (S)</b>		<b>0,49</b>		<b>2,01</b>
<b><i>Weaknesses (W)</i></b>				
1	Short-term and high-interest deposits provide the majority of the cash, making them unsuitable for long-term financing.	0,06	2	0,12

2	The quantity and quality of human resources (HR) still fail to meet expectations.	0,06	1	0,06
3	Some businesses still encounter challenges in raising finance and expanding their operations due to spin-off policies that necessitate substantial investments.	0,06	2	0,12
4	The BUS performance, as measured by Return on Assets, Operational Costs to Operating Income, Non-Performing Financing, and Net Operating Margin, is lower than the UUS benchmark.	0,06	2	0,12
5	There is still a restricted number of professionals that possess adequate experience.	0,07	2	0,15
6	HR's competence and expertise in finance risk management and financing analysis are now inferior to those of traditional banks.	0,07	1	0,07
7	Insufficient capital limitations and regulatory capital adequacy requirements prevent optimum utilization of financing.	0,06	2	0,12
8	Compared to traditional institutions, banks still possess less complex information technology.	0,07	2	0,15
<b>Total of Score (W)</b>		<b>0,51</b>		<b>0,90</b>
<b>Total (S+W)</b>		<b>1,00</b>		<b>2,91</b>

Source: Data Processed Results (2023)

Information about the results of the analysis of internal environmental factors can be found in Table 3 above. According to the IFAS Matrix listed in the table, it can be seen that the role of Islamic banking support in encouraging the growth of the *halal* industry and the Islamic economy is at a level that is not optimal in dealing with its internal conditions, with a total value of 2.91 (medium). This shows that the strategy for developing Islamic banking in Indonesia has not been fully optimal in utilizing potential strengths to overcome weaknesses.

**TABLE 4. ANALYSIS OF OPPORTUNITIES AND THREATS**

No.	External Factor Analysis Summary (EFAS)	Weight	Rating	Score
<b>Opportunities (O)</b>				
1	Advancement of the <i>halal</i> industry and the micro, small, and medium enterprise (MSME) sector.	0,07	5	0,34
2	The population of individuals without an Islamic bank account is substantial, presenting excellent prospects for new clients.	0,07	5	0,34
3	The market share has not yet reached its optimal level, indicating significant untapped financial possibilities.	0,05	4	0,22
4	Government assistance in fostering the growth of the <i>Sharia</i> economy.	0,07	4	0,27
5	Advancements in the administration of <i>Zakat</i> , <i>Infaq</i> , <i>Alms</i> , and <i>Waqf</i> (ZISWAF) monies and <i>sukuk</i> instruments.	0,05	4	0,22
6	Islamic banks can employ several liquidity tools to effectively manage liquidity while adhering to the principle of making profits. One such product is <i>Sharia</i> -compliant short-term securities.	0,05	4	0,22
7	Digital banking technology can serve as a mechanism for Islamic banks to streamline services to customers and the general public.	0,07	5	0,34
8	Islamic banks have not effectively administered additional social resources.	0,05	4	0,22
<b>Total of Score (O)</b>		<b>0,49</b>		<b>2,18</b>

<b>Threats (T)</b>				
1	Short-term and high-interest deposits provide the majority of the cash, making them unsuitable for long-term financing.	0,05	2	0,11
2	The quantity and quality of human resources (HR) still fail to meet expectations.	0,07	1	0,07
3	Some businesses still encounter challenges in raising finance and expanding their operations due to spin-off policies that necessitate substantial investments.	0,07	2	0,14
4	The BUS performance, as measured by Return on Assets, Operational Costs to Operating Income, Non-Performing Financing, and Net Operating Margin, is lower than the UUS benchmark.	0,07	2	0,14
5	There is still a restricted number of professionals that possess adequate experience.	0,05	2	0,11
6	HR's competence and expertise in finance risk management and financing analysis are now inferior to those of traditional banks.	0,05	2	0,11
7	Insufficient capital limitations and regulatory capital adequacy requirements prevent optimum utilization of financing.	0,07	1	0,07
8	Compared to traditional institutions, banks still possess less complex information technology.	0,07	2	0,14
<b>Total of Score (T)</b>		<b>0,51</b>	<b>2</b>	<b>0,88</b>
<b>Total (O+T)</b>		<b>1,00</b>		<b>3,05</b>

Source: Data Processed Results (2023)

Table 4 displays the results of the investigation of external environmental elements. The EFAS matrix table reveals that Islamic banking support plays a significantly advantageous role in stimulating the expansion of the *halal* industry and the Islamic economy. With a commendable total score of 3.05 (high), it positions itself favorably in terms of its ability to navigate external environmental factors. This indicates that Indonesia has effectively implemented the plan for growing Islamic banking, leveraging available opportunities to overcome obstacles.

Additionally, by referring to the analysis table of internal factors (strengths and weaknesses) and external elements (opportunities and threats) in Tables 3 and 4, we can determine the position coordinates in the IE SWOT Matrix as shown in Graph 2 below.

**GRAPHIC 2: COORDINATE OF IE SWOT MATRIX POSITION**

		<b>Internal Factors</b>		
		<b>High (3,0-4,0)</b>	<b>Medium (2,0-2,99)</b>	<b>Low (1,0-1,99)</b>
<b>External Factors</b>	<b>High (3,0-4,0)</b>	I Vertical Growth Integration	II Horizontal Growth Integration	III Retrechment: Turn-round Strategy
	<b>Medium (2,0-2,99)</b>	IV Stability	V Growth: Concentration through Horizontal Integration or Stability Profit Strategy	VI Retrechment: Divestment Strategy
	<b>Low (1,0-1,99)</b>	VII Growth Concentric	VIII Growth: Conglomerate	IX Liquidation

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 Diversification

 Diversification
 

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Source: Data Processed Results (2023)

Environmental analysis of the role of *Sharia* banking in Indonesia in developing the *halal* industry and *Sharia* economy indicates a balanced position between aspects of strengths, weaknesses, opportunities, and challenges, located in the Medium–High range (2.91:3.05), precisely in cell II in coordinates. In this position, support for *Sharia* banking in Indonesia to advance the *halal* industry and *Sharia* economy is recommended to implement a horizontal integration growth strategy. This strategy directs *Sharia* banking to integrate with other entities to strengthen the position of the *Sharia* capital market both nationally and globally. Horizontal integration aims to stimulate the development of Islamic banking by expanding its size, increasing product variety, achieving optimal economies of scale, reducing competition, and opening up new market opportunities (Badowi, 2023).

As previously explained, the result of positioning and possible choice of strategy is a horizontal integration growth strategy. Therefore, several strategic options and programs that can be implemented are as follows:

First, it is strengthening *Sharia* banking funding. This strategy is realized through the diversification of *Sharia* banking products and services to increase the variety of products and services offered. The steps that can be taken in this strategy are:

- Conduct market research related to the needs of *Sharia* banking financial products and services that are in accordance with societal trends and the development of the *halal* industry;
- Introducing new *Sharia* banking products and services that are in line with market demand to the public and *halal* industry players;
- Develop investment products according to customer conditions; and
- Improving the funding structure to support the expansion of the financing sector.

In this case, there is an expectation that enhancing the role of *Sharia* banking in Indonesia, particularly in providing financing to the *halal* industry, will be a successful development strategy. This strategy aims to focus on supporting *halal* micro, small, and medium enterprises (MSMEs) by providing them with the necessary financial resources. This aligns with Rahmayati's (2018) research findings, which demonstrate that *Sharia* banking can stimulate the growth and advancement of the *halal* industrial sector by providing client financing through *Sharia* banks. In a similar vein, Mahargiyantie's (2020) research revealed that *Sharia* banking plays a crucial role in bolstering the national economy by focusing on capital growth and facilitating the flow of funds from domestic *Sharia* banks to the commercial sector and national development initiatives.

Second, it is integration between sectors. This strategy involves increasing cooperation between Islamic banks and various institutions and institutions, both government and private. The steps that can be taken in this strategy are:

- Integrate with other financial sectors such as capital markets, microfinance, *takaful*, and *Sharia* pension funds;
- Utilizing financial technology to build a platform that supports funding and financing; and
- Increasing the utilization of ZISWAF funds and integrating the social functions of *Sharia* banks through a fair system.

This strategy is in line with the results of research conducted by Husain (2021) which states that *Sharia* banks must optimize their functions through institutional synergy to maximize their role in developing the *halal* industry in Indonesia. First, institutional synergy with the government. The form

of institutional synergy carried out by government *Sharia* banks is (1) identification and mapping of *halal* tourism sector areas; (2) support for strengthening regulations, standardization and monitoring processes for *halal* products. Second, the institutional synergy of Islamic banks with *halal* industry players. Forms of institutional synergy between Islamic banks and the *halal* industry can be done by (1) identifying and developing an industrial model; (2) support for strengthening and providing outlets and market access; (3) provision of financing funds; (4) education and assistance. Third is the synergy of Islamic banks with educational institutions by including awareness of the *halal* industry in educational institutions.

Third, it is increasing incentives for Islamic banks. This strategy involves increasing the value of assets and third party funds managed by Islamic banks through the activities carried out. The steps that can be taken in this strategy are:

- Separating Islamic banks from conventional banks (spin-off);
- Established a *Sharia* Investment Bank;
- Developing a *Sharia* bank leverage model to maximize the facilities owned by the parent bank; and
- Become an intermediary for domestic and foreign investment entering Indonesia to support industry, especially the *halal* sector.

In this context, the existence of *Sharia* investment banks is important because until now there has been no special commercial financial institution that focuses on developing *Sharia* capital markets and facilitating funding needs for development, including *halal* MSMEs, originating from *Sharia* finance both at home and abroad. In general, this *Sharia* investment bank model can take the form of: *Sharia* Business Unit in an existing securities company, *Sharia* subsidiary in an existing securities company, investment directorate in an existing *Sharia* bank, subsidiary of a securities company in existing *Sharia* banks, and new *Sharia* banks that focus on investment and digitalization functions (Komite Nasional Ekonomi Keuangan Syariah (KNEKS), 2019b).

To establish a *Sharia* investment bank, things that need to be prepared include human resources equipped with *Sharia* capital market expertise, information technology infrastructure needed to carry out the functions of an investment bank, suitable projects to serve as underlying assets for *Sharia* investment products, and incentives. as well as encouragement from the government for issuers to issue *Sharia* financing instruments. Apart from that, *Sharia* investment literacy also needs to continue to be improved so that the investor base can be expanded. If these conditions can be met, it is hoped that a *Sharia* investment bank will be created that can increase the contribution of the *Sharia* financial sector to national development (Komite Nasional Ekonomi Keuangan Syariah (KNEKS), 2019b).

Fourth, the establishment and consolidation of the National *Halal* Fund (NHF) is another important development. The National *Halal* Fund (NHF) is a financial initiative that aims to promote the growth of the *halal* sector in Indonesia. Non-profit hedge funds (NHF) can exist in various structures, either as a component of a financial institution (such as a bank, private equity firm, venture capital, etc.) or as an independent entity like an endowment. This funding technique can also implement a subsidy scheme at the financial level, replicating the KUR program's methodology. Customers of *Sharia* banks who engage in the development of the *halal* sector and meet the required financing criteria receive the subsidy. This strategy includes steps such as:

- Plan and consolidate the formation of NHF with collaboration between *Sharia* banks and other financial institutions;
- Formulate the necessary policies for the establishment of the NHF;
- Strengthen NHF operations; and
- Develop infrastructure for NHF operational mechanisms.

Sources of funding for the NHF can come from various sources, namely from the APBN (in the form of capital injection, subsidy programs), *Sharia* banking, *Sharia* insurance and other *Sharia* finance, Islamic Development Bank in the form of loans or equity participation, equity crowdfunding, grants, waqf, *zakat*, infaq and alms. The source of these funds will depend on the organizational form of the NHF.

As a case study, Malaysia has successfully established a *halal* ecosystem by effectively coordinating the efforts of the government and the *Sharia* financial sector. This collaboration has led to the development of the *halal* industry and the growth of micro, small, and medium enterprises (MSMEs). *Sharia* banking, especially banks with specific mandates like SME Bank or other commercial banks, primarily facilitates funding for the *halal* business in Malaysia. SME Bank, Malaysia Debt Ventures, Malaysia Technology Corp, Cradle Fund, Malaysia Biotechnology, Uni KL, and Technology Park Malaysia form a consortium that offers financial support and business assistance services, as well as *halal* certification and standardization of *halal* business processes to MSMEs, particularly those focused on exports (Komite Nasional Ekonomi Keuangan Syariah (KNEKS), 2019a).

Fifth, it is increasing the value of Islamic banking. This strategy focuses on increasing customer satisfaction and the number of customers at *Sharia* banks. Steps that can be taken in this strategy include:

- Improve customer experience;
- Improving service quality by utilizing existing regulations, evaluating applicable regulations, and providing input to regulators regarding regulations that do not yet exist; and
- Socialization, education, and increasing public literacy regarding *Sharia* banking, especially for MSME players and the *halal* industry.

Sixth, it is strengthening *Sharia* banking management. This strategy includes steps to strengthen financial networks and service quality, with a focus on improving the operational performance of Islamic banks. The actions that can be taken in this strategy are:

- Optimize existing resources to keep up with changing consumer preferences and needs regularly;
- Develop relevant sector indexes;
- Adapting services to these changes;
- Create contingency plans, recovery plans and resolution plans for *Sharia* banks;
- Building a standardized stress test platform for Islamic banks;
- Assessing the application of IFSB standards in the Islamic banking industry; and
- Improving the quantity and quality of Human Resources and improving Information Technology infrastructure.

## 5. IMPLICATIONS/CONTRIBUTIONS

This study reveals that Islamic banking in Indonesia has a primary strength in asset growth and fairly excellent performance over time. However, the quality of human resources remains a major weakness. The main implication of this research is that improving the quality of human resources in the Islamic banking industry is important. Training programs, professional development, and collaboration with educational institutions can achieve this. Additionally, the study shows that Islamic banking has significant opportunities from the growing *halal* industry and MSMEs but faces challenges from strong conventional banks. Therefore, another implication is the necessity for Islamic banking to enhance its competitiveness through the identified strategies, such as strengthening funding, increasing incentives to attract more assets and third-party funds, establishing the National *Halal* Fund, etc.

This research contributes to the literature on Islamic banking in Indonesia by identifying the strengths, weaknesses, opportunities, and threats faced by this industry, particularly in its support of the *halal* industry. The study also offers strategies for enhancing the market position of Islamic banking. Furthermore, it lays the foundation for further research that can employ a more empirical and objective approach to explore the role of Islamic banking in the development of the Islamic economy and the *halal* industry in Indonesia.

## 6. CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

Consistent asset development and commendable long-term performance are the main strengths of Indonesian Islamic banking. However, the primary drawback resides in the subpar quality of human resources, which do not meet expectations. *Sharia* banking in Indonesia is currently experiencing a significant opportunity, thanks to the growing *halal* industry and the development of micro, small, and medium enterprises (MSMEs). However, it also faces an important challenge in the form of severe competition from conventional banks, which are able to attract a huge number of users. We can implement several strategic initiatives to address this situation. These include enhancing the funding of *Sharia* banking, fostering collaboration between different sectors, providing more incentives to attract additional assets and third-party funds, establishing the National *Halal* Fund to consolidate and support the *halal* sector, improving the quality of services and increasing public awareness to enhance the value of Islamic banking, and reinforcing the management process of Islamic banking with a specific emphasis on service quality and risk management.

The use of the SWOT analysis technique, which only addresses a single phase of policymaking, limits this study. Therefore, conducting extensive research is crucial to make informed decisions and formulate effective policies in the face of increasingly complex circumstances. This research exclusively focuses on the subjective elements of strengths, weaknesses, opportunities, and dangers. Nevertheless, additional considerations such as macroeconomic conditions, heightened levels of uncertainty in global markets, and other variables are also crucial in developing comprehensive strategies and programs. As a follow-up measure, the research agenda may include a systematic and unbiased examination of the influence, impact, or role of Islamic banking in the advancement of the Islamic economy and the *halal* industry in Indonesia. We can employ statistical or econometric methodologies to further investigate the data and quantify the correlation between different interconnected variables.

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