

# **INFLUENCE OF THE DEVELOPMENT OF CORE COMPETENCY ON INCREASE IN THE PERFORMANCE OF ISLAMIC FINANCIAL INSTITUTIONS**

**Muslim A Djalil** 

Faculty Economic Syiah Kuala Darussalam University Banda Aceh, Indonesia  
& Doctoral Students of Management Department, Faculty of Economics and Business,  
Padjadjaran University, Bandung, Indonesia  
[muslimadjalil@gmail.com](mailto:muslimadjalil@gmail.com)

**Ernie Tisnawati Sule**

Dept of Management, Faculty of Economics and Management,  
University of Padjadjaran, Bandung, Indonesia

**Raja Masbar**

Dept of Economics, Faculty of Economics, University of Syiah Kuala, Banda Aceh, Indonesia

## **Abstract**

*The purpose of this study was to find solutions for problems related to the performance of islamic financial institutions when connected with development of core competency. This study was theoretical review, especially about the effect of development of core competency on performance of islamic financial institutions. The study looked for proposing a causal relationship between the variables that are expected to answer the problems associated with suboptimal especially in the Islamic Financial Institutions in optimizing core competencies. Core competency for Islamic Financial Institutions do not have elements that can ensure the core competencies possessed could sustainable in a long time. the core competency of the company differentiates competitive and reflect the personality and core competency arise in a long time in an organization through the process of accumulation and learning in the use of resources and capabilities. The results showed that development of core competency have a significant effect on performance of islamic financial institutions. Also, that development of core competency has implication for performance of Islamic financial institutions.*

**Keywords:** *Development, Core Competency, Performance, Islamic, Financial Institutions*

## INTRODUCTION

Globally, although the banking and financial services industry based on sharia is the financial services industry is still relatively nascent, with an annual growth rate on average by 15-20% in the last five years, but the Islamic banking and finance market segments classified fastest thrive in the global financial services industry sector, has penetrated even to more than 35 countries by the number of Islamic banks over 100 banks and asset value already exceeds \$ 1 trillion (El-Galfy and khiyar, 2012; Ariff and Rosly: 2011). 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 ).

Low performance of Islamic Financial Institutions in Aceh is the high price of financing products to be paid by the customer with an average of 8% / year, compared to the price paid by the customer conventional bank financing products to skim recorded only by an average of 6% per year old. The high cost of financing the sale price is thought to be caused by other than the high cost of funds, as well as influenced by the level of business efficiency is still low. 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). Another cause which also makes the performance of Islamic financial institutions in Aceh still not optimal is weak cooperative strategy in achieving competitive advantage. Islamic banking Aceh was not able to take advantage of opportunities to cooperate in the collection of funds with various stakeholders, among others, with the client organization as Bayt Islamic philanthrophik malls and other organizations that have a lot of idle funds, local governments, and also with a nice fellow competitors banking institutions Islamic and conventional banking institutions.

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). Islamic banking inability to gain a sustainable competitive advantage as well as the implementation of cooperative strategies amid intense competition intensity, showing Islamic Banking Core Competency yet have adequate is a core skill in carrying out the activities of the company which is the center of a strategic competitive advantage and superior achievement of business performance. According to Thompson et. al (2014), Core Competency which lies in the intellectual-based, ie the human resources and intellectual capital of the company rather than the amount of assets in the balance sheet. Thompson et. al also added that the Core Competency will be the basis of competitive advantage if the resources and capabilities that are distinctive competence in resources or the unique ability to perform an activity company that exceeds what the competitors.

Core competency for Islamic Financial Institutions do not have elements that can ensure the core competencies possessed could sustainable in a long time. These elements include Valuability means worth, Rarity means not owned by many competitors, In-Imitability rtinya difficult and costly to imitate and non-substitutability means that it is difficult to find a replacement (West & Bamford, 2010: 167). Besides 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 maneuvering company which has existed (Thompson et. al, 2014; Pearce & Robinson, 2012; Wheelen et. al. 2015; David: 2009). Based on the above issues and phenomena, researchers interested in conducting in-depth empirical studies on the extent of the Core Competency and Industrial Environment influence on Competitive Strategy and

Cooperative Strategy and Performance Implications of Islamic Financial Institutions in Aceh province. From the results of this study are expected to appear various alternative solutions to improve the performance of Islamic Financial Institutions in Aceh Province and National by using variables Core Competency solutions, Industrial Environment, Competitive Strategy and Strategic Cooperative.

## REVIEW OF LITERATURE

### Core Competency

Although a lot of disagreement about the terminology and definitions core competency among experts strategic management, but they have relatively the same opinion that the core competency is part of the resource and capability company which is a derivation of the approach Resource Based View (RBV) of the firm. In principle, the approach of Resource Based View (RBV) argues that the internal factors which consists of resources and capability including core competency is more important than the external factors which covers general environmental and industrial environments in creating a competitive advantage and improve company performance (Pearce II and Robinson, 2013; Dess et. al, 2012; Ireland, Hoskisson and Hitt, 2011; West III and Bamford, 2010; Barney and Hesterly, 2012; Wheelen et. al, 2015). In a business environment that is constantly changing and volatile, almost no company can maintain core competency forever and at the same time maintaining competitive advantage in a sustainable manner, as many competing companies around will imitate and create replacement products goods and services of the resulting company with goods and the same kind of services even cheaper and quality equal to or even better than that of the company. To that end, the company needs to have the resources and capabilities that have outstanding or unique characteristic that distinguishes it from the company's competitors or often referred to as core competency.

Discusses terminology and definitions core competency can not be separated from the name Hamel and Prahalad (1990, 1994) as a management expert who initiated and popularized the jargon of "core competency" as a source of competitive advantage and performance improvements. Hamel and Prahalad In essence (1990, 1994), which is often mentioned as a core competency capability something that "excellence" or "world class", suggested that perusahaan can gain a competitive advantage on an ongoing basis, management should focus on long term basis in the identification, development, and utilization of core competencies within the organization.

Hamel and Prahalad (1990), defines "core competency" as a collective learning in the organization, especially how to coordinate diverse production skills and integrate a wide range

of current technology. But after a decade later Hamel and Prahalad (1994) to revise and update the definition of "core competency", ie as part of a competency which is the result of a union of expertise and specific production techniques that are unique to provide a value to the customer. Competence enables organizations to gain access to a wide range of markets that are accumulated learning between individual units and organizational units of the company. Hamel and Prahalad Further (1994) suggest three test tool for a company that can identify its core competency: Test equipment 1: Customer Value. Are the resources and capabilities to provide value to customers ?. The greater the contribution made by the core competencies to create value to pelanggan, the greater the competitive advantage provided by the core competency Test Tool 2: Competitive Uniqueness. Core competency should really unique compared to competitors and it is difficult for competitors to imitate. Test equipment 3: extendibility. A core competency should be able to improve and expand access to various new applications and other new markets. White (2004) succinctly defines a "core competency as a strategic capability" White (2004) also revealed that there are five determinant in deciding whether a resource and capability into a core competency and thinks the more complete the company has five determinant or characteristic combination of core competency is the longer survival of competitive advantage will be achieved. Fifth determinant or indicator or characteristic core competency can be described as follows:

1. Superiority. Are capabilities possessed actually better than that of the competitors ?, Value to the customer if it's really growing, or fundamentally different? What is more valuable than any other resource ?. The indicators: level of differentiation
2. Inimitability (difficult to be imitated). Is hard copy capability or duplicated ?. The indicators: uniqueness, dependence direction (path independence), and causal ambiguity
3. Durability. How quickly a certain capability shrink or survive. The indicators: level of sustainability
4. The report uses (appropriateness or suitability). Who will claim propriety of a capability? Comparative vs. whether the capabilities possessed the habit of producing goods and services that are good ?. The indicators: competitive advantage
5. Substitutability (analogs). What are the effects and products produced from a capability available replacement product. The indicators: source alternative effect.

Thompson et. al. (2015: 90) also revealed to be a core competency and a source of competitive advantage and become the main strategy, capability of the company must pass four tests competitive value. This test is also called the Vrin test for sustainable competitive advantage (Valuable, Rare, Inimitable, and Non-substitutable), in which the second test first to determine whether the resources and capabilities to support competitive advantage, while the

second test last determine whether a competitive advantage can be sustained in the face of competition:

1. Is the resource (or capability) competitively Valuable? (What resources or capabilities of the company actually has a competitive value than competitors?)
2. Is the resource Rare --- is it something rivals lack? ((Is the company's resources really are rarely --- which is not owned by a competitor?)
3. Is the resource hard to copy (inimitable)? (What resources owned companies actually more difficult and more expensive to emulate ?). Because of the more difficult and costly to imitate, the more likely the resources and capabilities have a competitive value.
4. Is the resource invulnerable to the threat of substitution from different types or resources and capabilities (Non-substitutability)? (Are the resources of the company strong in the face of the threat of substitute products from various resources and capabilities of competitor)

Besides the base associated with the strategy and competitive advantage, core competency was also a set of competencies that occur across borders division, and are dispersed in an organization, and something that is done by the company are very good (Wheelen et. Al. 2015: 162) , Furthermore, West and Bamford (2010), calling terminology core competency with extraordinary resources (resource outstanding) and defines it as "the resources or capabilities that are believed to management companies simultaneously shaped rare, durable, relatively not can be replaced (are relatively non-substitutable), can not be traded (non-tradable), and worth the (valuable). "Further West and Bamford (2010) also mentions that there are five main dimensions of a tremendous resource (extraordinary resources) or core competency, which commonly known by the acronym VRIST Framework as follows:

1. Valuable-Resources or extraordinary capability that has the ability to create value to customers
2. Resource Rare-- or extraordinary capabilities relatively unique compared owned competitors
3. Resource Imitation-- or extraordinary capability that is difficult to imitate competitors
4. Substitution - Resources or the extraordinary capabilities of the company in which the competitors do not have equivalensi stratejis
5. Tradetable - Resources or extraordinary capabilities that are difficult to be transferred to the competitors

So by linking the Resource Based View of the firm (RBV) with the resources and capabilities, Barney and Hesterly (2012: 86-88), suggests that there are four questions that must be answered to determine whether a resource or capability to have a competitive value or not (core competencies). These questions are by Barney and Hesterly mentioned as VRIO Framework (Value, Rarity, Imitability, and Organization), among others:

1. The question of Value: "Is their resources allow companies to exploit opportunities and neutralize threats ?. If the answer is "yes", then the resource is valuable and once regarded as something "strength"; otherwise if the answer is "no", then the resource is considered worthless and at the same analogy as "weakness"
2. The question of Rarity: What specific resources and capabilities that exist now only controlled by a small sebahagian company?
3. The question of Imitability: Are the competitors who do not have the same resources as the company suffered a loss if it has a similar resource and develop?
4. The question of Organization: Are policies and procedures have been deployed well to exploit valuable resource (Value), rarely (Rarity), can not be imitated (Imitability), and expensive to be replaced (costly-to imitate)?

Then, in the sense that not much different from that by linking the core competency as something that excellence and the achievement of the overall mission disclosed by Pearce II and Robinson (2013: 164), which defines, "Core Competency as a capability or expertise that a company had the ability to carry it out while achieving the company's overall mission. Furthermore, Pearce II and Robinson (2013: 165-167) adds that the core competence that can differentiate a company with a rival company called distinctive competence. According to him, the resources and capabilities of the company consists of tangible assets, intangible assets, and the capability of the organization. Not all of the resources and capabilities of the company is a core competency and not all core competency has a value (valuable) and a source of sustainable competitive advantage.

In this regard, Pearce II and Robinson (2013: 166-169) also describe an RBV guidelines or instructions or a core competency indicators that can provide a value (valuable) and can be a source of sustainable competitive advantage as follows:

- a. Is critical, meaning that resources and capabilities are critical or important component in the ability to meet customer needs better than a competitor.
- b. Resources and capabilities are Scarce (uncommon or rare), the resources and skills are scarce due to the unavailability of either stock or easily replaced or difficult to imitate.
- c. Resources and capabilities to act as a trigger (drive) in the formation of a major portion of the profit.
- c. The resources and capabilities of its last long (durable).

Understanding core competency brief but meaningful substantially expressed by Ireland, Hoskisson, and Hitt (2011: 74-77), namely "core competencies are capabilities that provide a source of competitive advantage for the company against its competitors.". They argued that the core competency of the company differentiates competitive and reflect the personality and core



competency arise in a long time in an organization through the process of accumulation and learning in the use of resources and capabilities. When the capacity is already well underway, will become a core competency for the uniqueness of a company, which is reflected in a series of activities of the company is much better than the competitors and through which the company adds unique value to the products and services produced in the long run.

Ireland, Hoskisson, and Hitt (2011: 74-77) also suggest the use of four criteria or test equipment or indicators that resources and capabilities can serve as a core competency and a source of competitive advantage of the company as follows:

- 1). Valuable (Worth). Capability is said to be worth, if a company is able to exploit opportunities and neutralize threats from the external environment in utilize the resources and capabilities to create value to the customer.
- 2) Rare. Rarely capability (rare capabilities) is a capability which only a small part or entirely owned by the competitors. The question is how stout the company competitors who also have a valuable capacity similar to that of the Vendor?
- 3). Costly to imitate (expensive / difficult to replicate). Capacity is difficult or expensive to replicate (Costly-to-imitate capabilities) is a capability that is rather expensive or difficult was developed by other companies. Expensiveness or difficult to emulate is caused by one or a combination of the three factors below: a). Unique historical conditions; The historical uniqueness is usually derived from the value of an organization's culture and brand names are dimiki companies .; b). Social ambiguity. Difficulties or costliness to emulate because of social ambiguity occurs when the relationship between the unique capabilities of the company with a competitive advantage that is achieved is vague or could not be explained clearly, so that the competitors are not able to understand clearly how companies leverage their capabilities dlm gain a competitive advantage the end of the competitors are not sure about what capabilities should be developed to mimic the benefits of value creation strategy that created the company (value-creating strategy); c). Social complexity. Social complexity which makes a capability difficult or costly to imitate happens because basically these capabilities is the accumulated result of complex social phenomena arising from interpersonal relationships, trust, persahabatan between managers, between managers and employees, as well as the company's reputation in the eyes suppliers and customers which are not easy to replicate.
- 4). Non-substitutable (can not be replaced). Capabilities that can not be replaced (Non-substitutable capabilities) is the capability of the company in which the company does not have strategic competitors. In general, the value stratejis a capability will increase if the capability is difficult to find a replacement. Capabilities that are hard to find his bride among others certain specific knowledge of the company and the pattern of the relationship between the manager



and employee non-managers the basis of trust, and others. In essence briefly can be affirmed that the value strategy is a capability would be able to create a source of sustainable competitive advantage of the company and produce superior business performance if the company has the capability of four criteria, namely Valuable (worth), Rare (charcoal), Costly to imitate (expensive / difficult to imitate), and Non-substitutable (not replaceable).

Furthermore, Ireland, Hoskisson, and Hitt (2011: 74-77) formulate some criteria combination of resources and capabilities if it is associated with a competitive advantage and performance of the company include: 1) The condition in which the company only has the resources and capabilities of a standard course, which is not worth, easily available, inexpensive and easily replicable, and available substitute products. In these conditions the economic value created by firms is lower than that produced by the competitors so that companies do not gain a competitive advantage and its performance is below average; 2) The conditions under which the economic value created by the same company that produced the competitors so that companies do not gain a competitive advantage the company has the resources and capabilities of value, but does not have the characteristic of rare, expensive and difficult to imitate, and not available products replacement. In this condition the only company in a position between or referred to competitive parity and performance achieved only average; 3). Condition in which the company has the resources and capabilities of value and rare, but does not have the characteristic expensive / difficult to imitate (Costly to imitate) and can not be replaced (Non-substitutable). In this condition, although the resources and capabilities valuable and rare, but because it can easily be copied competitors and substitute products are also available in various places, so the competitive advantage gained only temporary and unsustainable (temporary advantage) and the performance obtained ranged from average to above average; 4). The most ideal conditions, where the company has the resources and capabilities that include a fourth characteristic that is worth (Value), rare, expensive / difficult to imitate (Costly to imitate) and can not be replaced (Non-substitutable). Under ideal conditions the fourth time like this to have the attributes of the resource, the company will be able to gain a sustainable competitive advantage and achieve above-average performance.

In this study, the dimensions of the Core competency appropriate based on the consideration of existing concepts and condition of the object of research on Islamic Financial Institutions in the Province of Aceh can be grouped as follows:

1. Resource and Capability of value (Valuable),
2. Resources and Capabilities are rare,
3. Resources and valuable capability expensive / difficult to imitate (Costly-to imitate),
4. Resources and Capabilities are no substitutes (Non-substitutable)

## 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 management perspective *startejik* 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 sustain life (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 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 called if it has performed above average (above average performance) is viewed from a variety of dimensions, such as market share, etc. The second approach assesses corporate excellence implied from the age of the company (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. In detail the dimensions of each measurement financially and non-financially can be seen in Table 1 below.

Table 1 Performance Indicators with Hybrid Approach

Measurements with Finance		Measurement of the non-financial	
Short Term	Long Term	Short Term	Long Term
<ul style="list-style-type: none"> <li>▪ Turnover Money</li> <li>▪ Profit / profit</li> <li>▪ ROI (Return On Investment)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level growth income</li> <li>▪ Level growth number of employees</li> </ul>	<ul style="list-style-type: none"> <li>▪ Satisfaction customer</li> <li>▪ The waiting time submission goods to customer</li> <li>▪ Substitution employee</li> </ul>	<ul style="list-style-type: none"> <li>▪ market share</li> </ul>

Source: Chong (2008: 4)

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

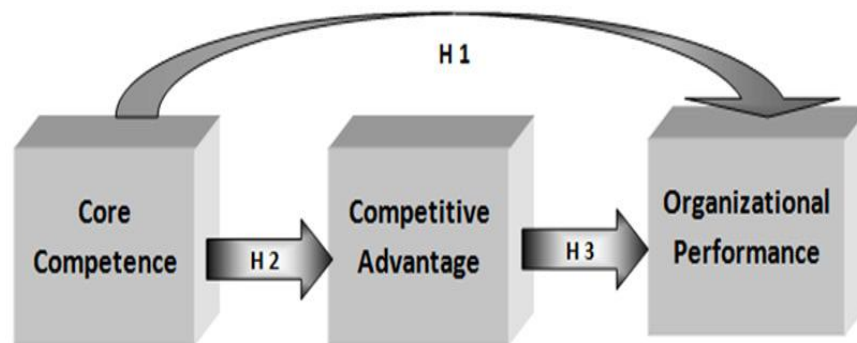
Core competency course if properly managed will create a sustainable competitive advantage and in turn will generate above average business performance. Core competency as a source of competitive advantage and also affect the performance has been expressed by teachers core competency few decades ago, namely by Prahalad (1990) of the results of the survey to some global organization at the time such as Xerox, Kodak, and others. Results of a survey conducted by Prahalad suggests that "The findings revealed that there is a relationship between competences and competitive advantage and, in turn, on performance". In addition, the results of research conducted on 18 industrial companies in America conducted by Hitt and Ireland (1985) to study the effect of core competency, or distinctive competence of the performance, the results indicate a positive influence although its influence varies from one industry to the industry other. The research results can be summarized as follows: "Results of the research suggested that distinctive competencies associated with performance vary According to the grand strategy used and the firm's principal industry. Specific distinctive competencies were identified for call now strategy and industry type (Hitt and Ireland. 1985). Research results show that the distinctive briefly advantage / core competency effect on performance, but the effect varies based grand strategy used. Distinctive Competency / core competency for each strategy and the type of industry has been identified.

Besides the above empirical research results, Ireland, Hoskisson, and Hitt (2011: 77) also reinforce core competency influence on the performance of the mentioned "core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals.", Which meaning relatively similar to that expressed by Prahalad core competency is a source of competitive advantage, which in turn with increasing competitive advantage certainly improve the performance of the company.

Study the influence of the uniqueness of the resource and capabilites or better known as the core competency of the performance of LKS is also done by Tan, Li, and Li (2006). Empirical research by taking samples very much that some 12 047 SMEs in the industrial areas of the People's Republic of China to the retrieval of data from 1991 to 1992 were collected from the Bureau of Statistics of China. With pmenggunakan method of factor analysis and multiple regression research results reveal: "We found that most of the firm-specific resources and capabilities Examined in this study have a positive impact on performance." Penelitiannya results found that most of the resources and specialized capabilities or core competencies possessed a positive effect on the performance of SMEs in the industrial areas of the People's Republic of China.

Although relatively similar research carried out in the Middle East to assess the effect on the performance of the company's core competencies are also performed by Agha, Alrubaii, and Jamhour (2012) to the paint industry in the United Arab Emirates by taking samples of 77 people managers from the industry that the survey conducted through distribution questionnaire via the internet. The study aims to investigate the influence of core competency on competitive advantage and its implications for performance. Framework built concept can be seen in the figure below:

Figure 1 Effect of Core Competency for LKS Performance



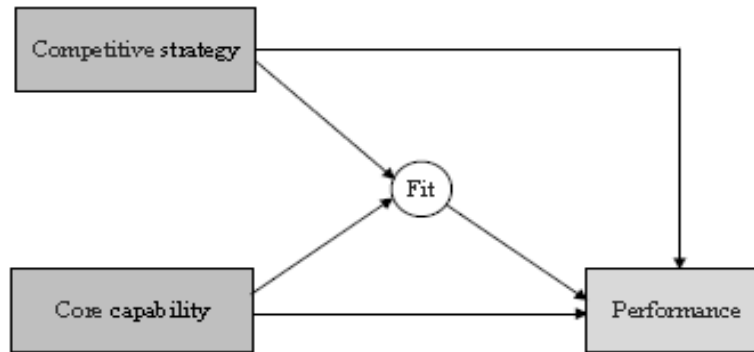
Source: Agha, Alrubaii, and Jamhour (2012)

The finding of the extensive review indicates that, while the core competence has a strong and positive impact on competitive advantage and organizational performance, competitive advantage has also significant impact on organizational performance. It has also been found that flexibility as one of the competitive advantage's dimensions have higher impact on organizational performance than that of responsiveness.

In summary the results of this study indicate that while the core competency has a strong and positive influence on organizational performance, competitive advantage also has a significant influence on the performance of the organization. The results also showed that flexibility is one of the dimensions of the competitive advantage of having a greater influence on the performance compared with the dimensions of flexibility.

Besides, although the mention of the term core competency in core capability, the results of research conducted by Chew, Yan, and Cheah (2011) for SME companies engaged in construction in China also indicates the influence of core capability / core competency of the company's performance.

Figure 2 Theoretical Framework



Source: Chew and Cheah (2008)

The findings of research indicated that “Core capability/core competency and competitive strategy are found to influence construction SMEs’ performance. Moreover, there are positive relationships between core capability/core competency and competitive strategy. This suggests a need to align core capability/core competency and competitive strategy as a precondition for superior performance.”

Specific research on the effects on the performance of LKS core competency is the research conducted by Roziq (2012). Empirical research that examines the influence of competence Account Officer (AO), Islamic business ethics, to asymmetri information, risk financing and performance mudharaba mudharaba financing Islamic banking in East Java is done by using a sample of 35 respondents from 19 branches BUS and UUS in East Java and uses SEM-PLS as a tool pengolahan data. Research results indicate confirmation of the results of previous studies in which core competency positive and significant effect on performance: *“The study results showed that the competency of sharia account officer is significant influence to risk of mudharaba financing and performance of mudharaba financing. Islamic business ethics significantly affect on information asymmetry and does not significantly affect to the performance of mudharaba financing. Information asymmetry has a significant effect on the risk of mudharaba financing and the performance of mudharaba financing. Risk of mudharaba financing is not significant influence on performance of mudharaba financing. The study concluded that products of mudharaba financing at sharia banks in East Java have a lot of obstacles making it difficult executed perfectly (kaffah).”*

The above results indicate that the competence Accounts Officer significantly affect the risk of financing and performance mudharaba mudharaba financing. Islamic business ethics significantly affect the symmetry of information but does not significantly influence the performance mudharaba financing. Symmetry information significant effect on financial risk and performance mudharaba mudharaba financing. The results also concluded financing scheme

mudharaba on banking products syariah in East Java has many constraints to be applied based on Islamic principles thorough (Kaffah) "

Meanwhile studies evaluating the effect of core competency on competitive advantage and ultimately affect the performance of the LKS is also done by Nimsith, National Conference, and Shibly. 2014 in Sri Lanka. Research carried out by taking a sample of the 180 Islamic banking and Islamic microfinance institutions in Sri Lanka concluded that: *"The overall result suggested that core competency had positively and significantly influence on the competitive advantages and in turn led to an improving performance of Islamic financial institutions in Sri Lanka."* Overall results conclude that the core competency has a positive and significant impact on competitive advantage and ultimately Increase LKS performance in Sri Lanka.

## CONCLUSIVE REMARKS

The development of core competencies effect the increase the performance of Islamic financial institutions. The theories that already exist about management and organization make more emphasized linkages, that the influence the development of core competencies to increase the performance of Islamic financial institutions. The results of the theoretical evidence from this study can be used to solve problems that occurs the development of core competencies and the performance of Islamic financial institutions. The performance of Islamic financial institutions can be improved through increases in the development of core competencies.

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