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FEASIBILITY STUDY FOR TRANSITIONING FROM CONVENTIONAL BANKING TO ISLAMIC BANKING

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Abstract:

This study examines the feasibility and strategic approach for transitioning the Faculty of Economics and Islamic Business (FEBI) at UIN Sultan Maulana Hasanuddin Banten from conventional to Islamic banking. The transformation aims to align institutional operations with Islamic economic principles and strengthen ideological consistency. A quantitative SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis integrated with the Analytic Network Process (ANP) was employed to prioritize strategic alternatives, using Super Decisions software. Data were collected through surveys, interviews, and document analysis involving faculty members, staff, and students. The Internal Factor Evaluation (IFE) score of 3.60 and the External Factor Evaluation (EFE) score of 2.68 position the faculty in Quadrant I of the SWOT matrix, indicating an aggressive strategy. Survey results show 56.5% of respondents consider the shift "fairly important" and 50.8% view it as a valuable educational opportunity. Recommended strategies emphasize leveraging strengths to seize opportunities, addressing weaknesses, and mitigating threats. The findings suggest that transitioning to Islamic banking is both feasible and strategically advantageous, offering practical implications for policy alignment and operational implementation in higher education institutions seeking Sharia-compliant transformation.

A. INTRODUCTION

Indonesia's dual banking system policy, established under Law No. 10 of 1998 and regulated by Bank Indonesia, has facilitated the parallel development of conventional and Islamic banking institutions (Bank Indonesia, 2021). While conventional banks have historically dominated the financial sector, the establishment of Bank Muamalat Indonesia in 1991 marked a significant milestone in introducing Sharia-compliant financial services to the Indonesian market (Antonio, 2001). This development leveraged the country's majority Muslim population and aligned with the Qur'anic injunction to consume only *halal* and *tayyib* goods and services (Qur'an, Al-Baqarah: 168, 170).

Over the past three decades, Islamic banking in Indonesia has experienced steady growth, supported by legal frameworks such as Law No. 21 of 2008 on Islamic Banking and the formation of the National Sharia Economy and Finance Committee (KNEKS). As of February 2022, Islamic banking assets reached IDR 681.95 trillion, with a market share of 7.23% for third-party funds (Otoritas Jasa Keuangan [OJK], 2022). The 2021 merger of three state-owned Islamic banks into Bank Syariah Indonesia (BSI) further consolidated the sector, positioning it as a key driver in the halal economy ecosystem (Nasution, 2021).

Despite these advances, challenges remain in ensuring that Islamic finance principles are fully integrated into institutional operations, especially within academic institutions dedicated to Islamic economics. The Faculty of Islamic Economics and Business (FEBI) at UIN Sultan Maulana Hasanuddin Banten, although committed to Islamic economic education, continues to use a government-owned conventional bank for its operational transactions. This is primarily due to regulatory requirements for public institutions that mandate the use of state-owned banks, most of which operate under conventional principles.

This discrepancy between the Islamic finance theories taught in classrooms and the financial practices applied in operations has sparked internal discussions among students, faculty, and staff regarding institutional credibility and value alignment (Ascarya, 2013). It raises broader questions about the role of Islamic higher education institutions in modeling Sharia-compliant governance practices, particularly in their financial management systems. Against this backdrop, the present study seeks to: 1) Assess the feasibility of transitioning FEBI's financial operations from conventional to Islamic banking, 2) Identify the strategic position of the faculty within the SWOT matrix, 3) Propose prioritized strategies using the Analytic Network Process (ANP) to guide the transformation process. This research contributes to both theoretical and practical discourses. Theoretically, it enriches literature on institutional transformation towards Sharia compliance in higher education. Practically, it offers actionable recommendations for academic units seeking to align their operations with their ideological foundations, while navigating regulatory and operational constraints.

B. LITERATURE REVIEW

Islamic Banking in Indonesia

Islamic banking in Indonesia operates under the principles of Sharia law, which strictly prohibits interest (*riba*), speculation (*gharar*), and investment in haram industries, while promoting risk-sharing, profit-loss sharing (*mudarabah* and *musharakah*), trade-based financing (*murabahah*), leasing (*ijarah*), and other ethical financial contracts (Ayub, 2007; Iqbal & Mirakhor, 2011). These principles are rooted in the Qur'an and Sunnah, emphasizing fairness, transparency, and socio-economic justice in financial transactions.

The Islamic banking sector in Indonesia emerged formally in 1991 with the establishment of Bank Muamalat Indonesia (BMI), marking a milestone in providing banking services aligned with Islamic values (Antonio, 2001). The initial growth was slow due to limited regulatory frameworks and low public awareness. However, significant legal developments, particularly Law No. 21 of 2008 on Islamic Banking, provided a strong legal foundation for sector expansion, supported by Bank Indonesia and later the Financial Services Authority (Otoritas Jasa Keuangan, OJK) (Ascarya, 2013).

The dual banking system, recognized since Law No. 10 of 1998, allows Islamic and conventional banks to operate side-by-side, enabling conventional banks to open Sharia business units (UUS), which significantly boosted market penetration (Karim, 2010). As of February 2022, the Islamic banking sector recorded assets of IDR 681.95 trillion, representing a 7.23% market share of national third-party funds (DPK) (OJK, 2022). Financing disbursement reached IDR 423.46 trillion, with a financing-to-deposit ratio (FDR) of 77.34%, indicating strong liquidity and lending capacity. Profitability improved alongside a low non-performing financing (NPF) ratio of 2.64% (gross) and 0.99% (net).

In February 2021, the merger of three state-owned Islamic banks—Bank Syariah Mandiri, BNI Syariah, and BRI Syariah—into Bank Syariah Indonesia (BSI) created an institution with assets exceeding IDR 240 trillion at inception, enhancing competitiveness and economies of scale (Nasution, 2021).

Islamic banking plays a central role in supporting Indonesia's halal economy, which spans halal food, Islamic finance, modest fashion, halal tourism, pharmaceuticals, and cosmetics (Thomson Reuters & DinarStandard, 2020). Sharia-compliant financing contributes to the halal value chain, facilitates SMEs engaged in halal industries, and fosters inclusive economic growth. The enactment of the Halal Product Assurance Law (Law No. 33/2014) further strengthens integration between Islamic banking and the halal industry, making Sharia-compliant financial services a prerequisite for halal-certified business operations (Aziz & Voon, 2017).

Despite the steady growth of Islamic banking in Indonesia, several challenges continue to impede its optimal development. One major challenge is its relatively low market share, which remains below 10%, significantly lower than Malaysia's penetration rate of over 30% (Ismal, 2010). This limited market reach is compounded by low public awareness and persistent misconceptions about Islamic banking products, which often lead to consumer hesitation in adopting Sharia-compliant financial services. Furthermore, operational readiness poses another constraint, as institutions seeking to transition—such as universities or government agencies—must navigate complex regulatory frameworks and overcome technical limitations to ensure compliance with Sharia principles.

On the other hand, the sector benefits from several promising opportunities. Government support through the National Sharia Economy and Finance Committee (KNEKS) has provided strategic direction and policy initiatives aimed at accelerating the growth of Islamic finance in Indonesia. Additionally, the ongoing digital transformation, particularly the adoption of fintech solutions for Sharia-compliant services, offers new channels to reach a broader consumer base and enhance service efficiency (Hudaefi & Beik, 2021). Finally, millennial engagement presents a significant potential market, as younger generations increasingly show interest in ethical and value-based finance, positioning Islamic banking as a viable alternative in a shifting financial landscape.

For FEBI UIN SMH Banten, moving to Islamic banking is more than a financial adjustment; it is an affirmation of its commitment to Islamic economic principles. The sector's growth trajectory, favorable regulatory environment, and increasing consumer demand for ethical finance provide a conducive backdrop for this institutional transformation.

Transformation Concept

Transformation refers to a significant and often irreversible change in the structure, function, processes, or culture of an organization, undertaken to create a fundamentally new state that better aligns with its strategic goals (Antoniades, 1990). It goes beyond incremental improvement, involving a complete rethinking and redesign of institutional systems to achieve substantial shifts in performance, values, and operational philosophy. From an organizational change perspective, transformation can be categorized into two primary forms. The first is planned transformation, which is deliberate, systematic, and structured, aimed at achieving predefined objectives and often initiated by leadership in response to environmental opportunities or internal strategic priorities (Burnes, 2017). The second is emergent transformation, which evolves organically in response to dynamic environmental pressures, technological disruptions, or socio-political shifts, often without a clearly defined starting point or endpoint (Mintzberg & Waters, 1985). According to Burke and Litwin's (1992) model of organizational performance and change, transformation typically involves deep shifts in mission, leadership, organizational culture, and work systems, often triggered by significant external factors such as regulatory changes, market dynamics, or societal expectations.

In the context of universities and faculties, transformation often entails aligning institutional practices with academic missions, ethical commitments, and societal responsibilities. This alignment may take the form of curricular reform, such as restructuring academic programs to address emerging knowledge domains or industry needs (Altbach et al., 2009); operational realignment, including the modification of administrative and financial processes to reflect institutional values—such as adopting Sharia-compliant financial systems in Islamic institutions; and cultural change, which fosters values, beliefs, and behaviors consistent with the institution's mission and identity (Kezar, 2014). For Islamic higher education institutions, transformation also involves harmonizing operations with Islamic legal and ethical standards, ensuring that the entire institutional ecosystem—from pedagogy to finance—fully reflects Sharia principles.

The drivers of transformation are multifaceted. They include ideological consistency, which aims to eliminate contradictions between stated institutional values and actual practices; regulatory changes, which require adaptation to new laws, policies, or accreditation standards (Kotler & Murphy, 1981); technological advancements, which encourage the integration of digital platforms for teaching, administration, and service delivery (Christensen & Eyring, 2011); and market and societal expectations, which demand responsiveness to the evolving needs of students, employers, and communities (Fullan & Scott, 2009). However, transformation is often resource-intensive and may encounter resistance. Common challenges include cultural inertia, or reluctance to change deeply embedded practices (Schein, 2010); regulatory constraints that limit flexibility; capacity gaps, such as insufficient technical expertise or infrastructure; and stakeholder resistance, where faculty, staff, or students show differing levels of acceptance (Kotter, 1996).

To overcome these challenges, Kotter's (1996) eight-step change model provides a practical framework for guiding transformation in academic contexts. This involves creating urgency, building coalitions, developing and communicating a vision, removing obstacles, generating short-term wins, consolidating gains, and anchoring changes into the organizational culture. For FEBI UIN Sultan Maulana Hasanuddin Banten, transitioning from conventional to Islamic banking is not merely a procedural adjustment but a strategic realignment that reinforces ideological integrity. This shift reflects a strong commitment to practicing the same Islamic economic principles taught in classrooms, thereby strengthening institutional credibility, enhancing the student learning experience, and positioning the faculty as a role model for Sharia-based operational governance in higher education.

C. METHODOLOGY

This study adopts a mixed-methods approach, integrating a feasibility study framework with a quantitative SWOT–ANP (Analytic Network Process) analysis to comprehensively assess the strategic viability of transitioning the Faculty of Economics and Islamic Business (FEBI) at UIN Sultan Maulana Hasanuddin Banten from conventional to Islamic banking. The research design was structured to capture both qualitative insights and quantitative prioritization, ensuring that the resulting strategies were grounded in contextual realities while supported by analytical rigor.

The feasibility study component evaluates the proposed transformation from multiple perspectives—technical, managerial, financial, socio-economic, and legal—drawing on the framework suggested by Kasmir and Jakfar (2013). This stage involved an assessment of FEBI's operational readiness, alignment with regulatory frameworks, potential financial implications, and the transformation's consistency with the institution's Islamic economic mission.

Data collection employed three main techniques. First, structured surveys were distributed to faculty members, administrative staff, and students to measure perceptions regarding the importance, urgency, and perceived benefits of the transformation. The survey also incorporated Likert-scale items to quantify stakeholder views on key SWOT factors. Second, semi-structured interviews were conducted with faculty leadership and financial management staff to gain in-depth insights into regulatory challenges, operational constraints, and potential implementation pathways. Third, document analysis was carried out on relevant regulations, institutional policies, financial statements, and national banking statistics to validate and contextualize primary data.

For the SWOT analysis, internal and external factors were identified and classified into strengths, weaknesses, opportunities, and threats following the method proposed by Rangkuti (2015). Each factor was rated and weighted to calculate the Internal Factor Evaluation (IFE) and External Factor Evaluation (EFE) scores, which were then plotted on a SWOT matrix to determine FEBI's strategic position.

The ANP component, based on Saaty's (2004) framework, was applied to address the limitation of traditional SWOT analysis in prioritizing strategic options. This involved constructing a network model of interrelated SWOT factors, conducting pairwise comparisons among them, and calculating composite priority weights. The process was facilitated using *Super Decisions* software, which enabled the integration of feedback loops and dependency relationships between criteria. The ANP results were then synthesized to rank strategic alternatives according to their overall importance and feasibility.

Data triangulation was applied to enhance validity, ensuring that survey responses, interview findings, and document analyses were cross-verified before inclusion in the final analysis. Ethical considerations were also observed, including informed consent for participation, confidentiality of responses, and adherence to institutional research guidelines.

This methodological framework allowed for a robust evaluation of the proposed transformation, combining qualitative stakeholder perspectives with quantitative strategic prioritization to produce actionable and evidence-based recommendations for FEBI's shift towards Islamic banking.

D. RESULT AND ANALYSIS

The results of the feasibility study, supported by SWOT and ANP analysis, indicate that the transformation of the Faculty of Economics and Islamic Business (FEBI) at UIN Sultan Maulana Hasanuddin Banten from conventional to Islamic banking is both strategically advantageous and operationally attainable. The Internal Factor Evaluation (IFE) score of 3.60 demonstrates strong internal capacity, driven primarily by the faculty's academic expertise in Islamic economics, the alignment of its mission with Sharia principles, and the credibility it holds within the Islamic finance community. The External Factor Evaluation (EFE) score of 2.68 reflects a moderately favorable external environment, with opportunities such as government support through the National Sharia Economy and Finance Committee (KNEKS), rapid growth of the Islamic banking sector, and increasing public interest in ethical finance.

When plotted in the SWOT matrix, these scores position FEBI in Quadrant I, indicating an aggressive strategic stance. This suggests that the faculty should prioritize strength-opportunity (SO) strategies, such as leveraging academic and institutional credibility to form partnerships with leading Islamic banks, initiating Sharia-compliant pilot programs, and using the transformation as a branding tool to enhance its reputation. The ANP results further refine this prioritization by assigning quantitative weights to each strategic alternative, revealing that initiatives combining internal strengths with market opportunities—such as joint educational programs with Islamic financial institutions—offer the highest potential impact.

Survey data reinforces this strategic orientation, with 56.5% of respondents viewing the transformation as “fairly important” and 50.8% identifying it as a significant educational opportunity for students. These findings highlight a strong stakeholder mandate for aligning operational practices with the faculty’s ideological foundations. Interviews with faculty leadership and financial administrators confirm that, while regulatory constraints present short-term challenges, these can be mitigated through phased implementation strategies and proactive engagement with policymakers.

However, the analysis also underscores the need to address internal weaknesses, such as limited technical readiness and dependence on government banking policies, as well as external threats like bureaucratic hurdles and competition from conventional banks. Failure to address these factors could slow the transformation process or compromise its effectiveness. The integration of SWOT with ANP proves particularly valuable here, as it moves beyond qualitative assessment to provide a data-driven ranking of strategic options, ensuring that resource allocation is both targeted and efficient.

In the broader context of higher education transformation, these findings affirm that operational alignment with institutional values not only strengthens credibility but also enhances student learning by providing a living model of Sharia-based financial governance. For FEBI, the shift to Islamic banking represents a strategic opportunity to reinforce its identity as a leader in Islamic economic education, contribute to the national halal economy, and serve as a benchmark for other academic institutions seeking Sharia-compliant operational models.

E. CONCLUSION

This study concludes that the transformation of the Faculty of Economics and Islamic Business (FEBI) at UIN Sultan Maulana Hasanuddin Banten from conventional to Islamic banking is both feasible and strategically advantageous. The combination of a strong Internal Factor Evaluation (IFE) score (3.60) and a favorable External Factor Evaluation (EFE) score (2.68) positions the faculty in an aggressive strategy quadrant within the SWOT matrix, signaling high readiness to leverage internal strengths and capitalize on external opportunities. The Analytic Network Process (ANP) further substantiates this positioning by quantitatively prioritizing strategies that maximize the synergy between institutional credibility, academic expertise in Islamic economics, and the growing national demand for Sharia-compliant financial services.

From a theoretical perspective, this research enriches the discourse on organizational transformation in Islamic higher education by demonstrating how the integration of SWOT and ANP can provide a robust, data-driven foundation for strategic decision-making. It also underscores the importance of aligning institutional operations with core ideological values to enhance authenticity, trust, and stakeholder engagement. Practically, the findings offer a roadmap for FEBI and similar institutions to navigate the transition process through phased implementation, targeted capacity-building, regulatory engagement, and strategic partnerships with Islamic financial institutions.

However, the study also recognizes potential challenges, including regulatory constraints, operational readiness gaps, and competition from established conventional banks. Addressing these challenges requires continuous stakeholder communication, adaptive strategy monitoring, and flexibility in implementation. In the long term, this transformation is expected to not only strengthen FEBI's institutional identity but also serve as a model for Sharia-based financial governance in academia, contributing to the broader development of Indonesia's halal economy and reinforcing the integration of Islamic economic principles into practical institutional management.

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