

The Roles of Middle Managers in the Strategic Implementation: A Proposed Model for Islamic Banking in Indonesia

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ABSTRACT

Islamic Banking in Indonesia shows a progressive performance in improving the economy. However, there are still challenges to be solved in particular to small market share and lack of competency in human resources in executing the concept of Islamic Banking. Numerous research highlight that challenges occur not because of insufficient strategy formulation but due to inadequate implementation. In this manner the roles of middle management is crucial in implementing the strategy. Thus, the paper aims at identifying the strategic roles of middle management in implementing the strategic effectiveness of Islamic Banking in Indonesia. In this article, we provide a critical review on the impediments faced by the operations of Islamic Banks in Indonesia pertaining to the strategic roles of the middle managers. This study adds to present literature by elaborating conceptually on the linkages between different roles of middle managers and the effectiveness of strategic implementation in Indonesia's Islamic Banking

Keywords: Middle managers' role, strategic implementation, Islamic banking.

1. INTRODUCTION

Implementing Islamic Monetary System in the last decades has grown significantly (Khan, 2010). Lewis and Algoud (2003) argue that the early development of Islamic Banking has actually started in Malaysia in the middle of 1940's, followed by Pakistan in 1950's and Egypt in 1963 through Mit Ghamr Saving Banks (1963-1967) and Nasser Social Bank (1971). In line with this awareness, the development of Islamic Banking in those countries has influenced the banking system in Indonesia.

The development of the sharia banking in Indonesia has started well before a formal legal base for sharia banking operation came into force. Public has shown interest in incorporating the sharia principles in the operation of banks and to accommodate the public needs for the existence of the new banking system, the Central Bank Act number 23 of 1999 amended by act number 3 of 2004, states

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that the country operates both Islamic and conventional monetary operations (Bank Indonesia, 1999). Moreover, the banking act number 7 of 1992 and amended by act number 10 of 1998 allows implementation of Islamic bank along with the conventional ones. As a result, in 2008, Indonesia has had an important act namely the Islamic Banking number 21 of 2008. (Bank Indonesia 2010).

Therefore, in supporting the development of Islamic Banking in Indonesia, Bank Indonesia applies six initiatives programs to be implemented within 10 years (2005-2015) (Bank Indonesia, 2006) namely;

- 1) Increasing the *Sharia* compliance
- 2) Increasing the quality of prudential banking operations
- 3) Increasing the operational efficiency and competitiveness
- 4) Increasing the stability banking system
- 5) Increasing the expertise and quality of human resources
- 6) Optimizing the social roles of Islamic banks in developing the small and medium enterprises (SME).

This blue print becomes guidance for banks, banking regulators, government and all related parties to implement long strategies in order to enhance performance of Islamic Banks in Indonesia. Even though the strategies of Islamic Banking in Indonesia have well formulated, the achievement of the strategic planning have been ineffective. According to Ismal (2011), it has three main impediments to be addressed. First, the market share of the Islamic Banking was recorded 3% at the end of 2010, some underlying reason explain this problem such as (i) the limited involvement of government funds in Islamic banking industry, (ii) the non-comprehensive understanding of depositors, business partners and public with respect to the operations of Islamic banking and the *Sharia* principles (Bank Indonesia, 2000-2005) and, the limited number of Islamic banks and windows compared with conventional ones. Second, the growth of Islamic banking is not followed by the appropriate supply of human resources which are well-*Shariah* educated and competence employees. Third, compared with Islamic banking industries from Malaysia and Middle Eastern countries, the Indonesian Islamic banks have limited Islamic banking product. Even though the industry has had a variety of Islamic banking products, if the public does not fully understand the concepts and practices of Islamic banks, it will be useless. Moreover, the solutions to solve this problem should link with the efforts to educate public with the Islamic banking operations. Furthermore, the Indonesia's Islamic Banking development strategies have created grateful, however the achievement of the strategic plan have been still unsatisfactory. In short, it is easier to formulate a strategic plan than implement it and the implementation phases of strategy formulation regularly fail (Allio, 2005).

In tandem with the six initiatives programs stated above, the most prominent issue in the Indonesian's Islamic Banking is on the domain of strategic

implementation. Many issues in the strategic implementation appear to touch on operational processes, information system, the strategic role of middle manager, allocation of resources and leadership (Harrington, 2006; Thomson and Strickland, 2003; Govindarajan, 1988; Floyd and Wooldridge, 1992a).

For the past decades, strategic formulation has been widely regarded as the most important component of the strategic management process in the sense that more important than strategy implementation (Jooste and Fourie, 2009) Nevertheless, nowadays, strategy implementation, rather than strategy formulation alone, is a key requirement for superior business performance (Li, Guohui and Eppler, 2008). In fact, there is a growing recognition that the most important problems in the field of strategic management are not related solely to strategy formulation, but rather to strategy implementation (Flood et al. 2000). This statement is fully supported by Hrebieniak (2006) in which he posits that formulating strategy is a difficult stage in strategic management process, however making that strategy work or implementing it through the organization is more difficult.

In fact, Bonoma (1984) argues that the strategy formulation only produces superior performance for the organisation when the strategies are successfully implemented. Inevitably, implementing strategy is the important stage to enhance Islamic Banking performance in Indonesia.

Apparently, the strategy implementation appears to be associated with the strategic role of the middle management (Floyd and Wooldridge, 1997). Here, the middle manager is an actor who has the responsibility in implementing strategy and their activities and behaviours produce crucial consequences for how strategy forms within organization. Moreover, Floyd and Woolridge (2000) state that middle manager of their intermediate position in the organization, serve as important interfaces between otherwise disconnected actors and domain. In similar vein, Nonaka (1994) asserts that the involvement of middle managers influence the strategy process by mediating vertically between the conceptual knowledge at the top and knowledge of operations at the bottom of the organization. Therefore, the middle manager's involvement in implementing strategy will influence strategy implementation effectiveness (Floyd and Wooldridge, 1992a).

In the light of the identified problem, the purpose of this study is to address these issues by developing a conceptual framework on the factors that would influence the effectiveness of strategy implementation. As such, this study provides reviews of the different strategic roles of middle managers that might influence the strategic implementation effectiveness of Islamic Banking sector in Indonesia. In particular, this study will explore the roles of middle managers namely synthesizing information, facilitating, championing and implementing.

2. LITERATURE REVIEW

Theoretical Underpinnings

The strategic role of middle manager in implementing strategy is addressed by role theory (Floyd and Wooldridge, 1992a). Role theory offers useful framework for understanding the strategic role of middle manager in order to enhance strategy implementation effectiveness. As the intermediary position in the organization, middle managers provide as important interfaces between otherwise disengaged actors and domains (Floyd and Wooldridge, 1999; Nonaka, 1991), for example, top and operating-level managers. In addition, geographically dispersed organizations cannot be managed by single actors but require distributed and interactive leadership throughout the organization, with the middle managers as important mediators between levels and unit (Bologun and Johnson, 2004).

Middle managers execute co-ordinating role where they mediate, negotiate and interpret connections between the organizations institutional (strategic) and technical (operational) level. In fact, middle managers link vertically related groups (Pugh et al., 1968), and Likert (1961) states that, this linking pin connects the overall direction provided by top managers with day-to-day reality of lower-level managers. Furthermore, this mediating role establishes the potential for significant influence strategy implementation effectiveness (Thompson, 1967).

Finally, Floyd and Wooldridge (1992a) have developed a typology of two upward (synthesizing and championing) and two downward (facilitating and implementing) forms of middle manager strategic role influence the strategy implementation effectiveness. Middle manager's upward influence activities have the potential to modify the firm's strategic option by providing to top management with distinctive interpretations of rising issues and by suggesting new schemes. Moreover, in the synthesizing role of middle managers interpret vague, various data related to strategic situation, bordering insights of other managers and altering strategic plan (Dutton and Jackson, 1987). Next, in championing new proposals, middle managers have the credibility to re-identify strategic plan (Bower, 1970; Burgelman, 1983), and also reform the strategic thinking of top management (Floyd and Wooldridge, 1992b). Finally, through the middle manager upward role, strategy regularly clarifies or appears diversely than novelty envisioned.

Through downward influence, middle managers become the agent of change, advancing adaptability and implementing deliberate strategy. The facilitating role encourages development in other promotes learning, enhancing the ability members to respond to change (Nonaka, 1988, 1994). With the implementation role, middle managers engage in progress set involvements to bring organizational action in line planned strategy (Nutt, 1987). Through each role,

middle managers have the likely to influence the organization's alignment with its external environment by inserting divergent thinking and change-oriented behaviour into the strategy implementation process.

The Perspectives of Implementing Strategy

It is transparent that strategy implementation is a key challenge for today's organisations. There are many elements that influence the effectiveness of strategy implementation, ranging from the people who communicate or implement the strategy to the systems in place for coordination and control (Li, Guohui and Eppler, 2008). How can we better understand the right definition of strategy implementation? There have been various perspectives to define the concept of implementing strategy. According to Hrebieniak and Joyce (1984) implementing strategy is an actions and control system by key personal to reach effectiveness in strategic management process. Conversely, Aaker (1988) posits that the implementing strategy is a stage actualization from alternative strategy into an operational plan. Likewise, Kotler (1984) asserts that implementing strategy as execution of strategic objective and this is being supported by Floyd and Wooldridge (1992b). They argue that implementing strategy is the managerial intervention to align organizational action with strategic intention. Bonoma (1984) on the other hand, describes implementing strategy as turn drawn board strategy into marketplace more specific meaning that actualization from corporate planning into operation action. In line with this Cespedes (1991) and Laffan (1983) define implementing strategy as process resource allocation in the strategic planning process which is supported by a policy decision. As a result, the definitions of implementing strategy could be classified into three namely: actions and control process by managerial intervention (Hrebieniak and Joyce, 1984; Floyd and Wooldridge, 1992b), execution of strategic planning (Kotler, 1984; Aaker, 1988; Bonoma, 1984) and resource allocation process (Cespedes, 1991; Laffan, 1983).

Taking these prior definitions into account, it can be deduced that implementing strategy is the action stage of strategic management process which requires role of managers and employees on all level of organization to translate the strategic planning of organization into action (David, 2001). Therefore, it is important to recognise the strategic role of middle managers in implementing strategy process.

“Silent Killers” of Implementing Strategy Effectiveness

As stated, most of the researches have been focused on strategic formulation than implementation perspective and it would be easier to create a good strategy than implement it (Wooldridge and Floyd (1992a). In fact, Beer, Eisenstat and Spector (1990) support that there are much failure in implementation process than formulation strategy. Al Ghamdi (1998) identifies six strategy implementation's barrier in the organisation namely 1) implementation took more time that

originally allocated, 2) major problems surfaced that had not been identified earlier, 3) competing activities diverted attention from implanting this decision, 4) the coordination of implementation activities was not effective enough, 5) Key implementation tasks and activities were not sufficient defined, 6) The information system used to monitor implementation were inadequate. Consequently, to fill the gap in implementing strategy, it is important to develop effective upward and downward of strategic communication, top management or senior management support and established information system as a control system.

Moreover, Beer and Eisenstat (2000) have conducted study focused on understanding the root causes of implementing strategy's barrier. They used an investigation and action-learning method that they called "Organizational Fitness Profiling (OFP)". From the investigation, they identify six barriers in implementing strategy that they name as "the six silent killers". The six silent killers are; 1) a top -down on laissez-faire approach to management; 2) unclear strategy and conflicting priorities; 3) an ineffective senior management team; 4) poor vertical communication; 5) poor coordination across functions, business or borders and 6), inadequate down-the-line leadership skills and development. From these barriers, it is obvious that, the role of middle manager is very crucial in transforming the strategic planning into action. The involvement of middle manager could counteract the six silent killer of implementing strategy. Indeed, Floyd and Wooldridge (1997) argue that middle managers perform a coordinating role where they mediate, negotiate, and interpret connections between the organizations institutional (strategic) and technical (operational) levels.

Strategic Role of Middle Manager in Strategy Implementation

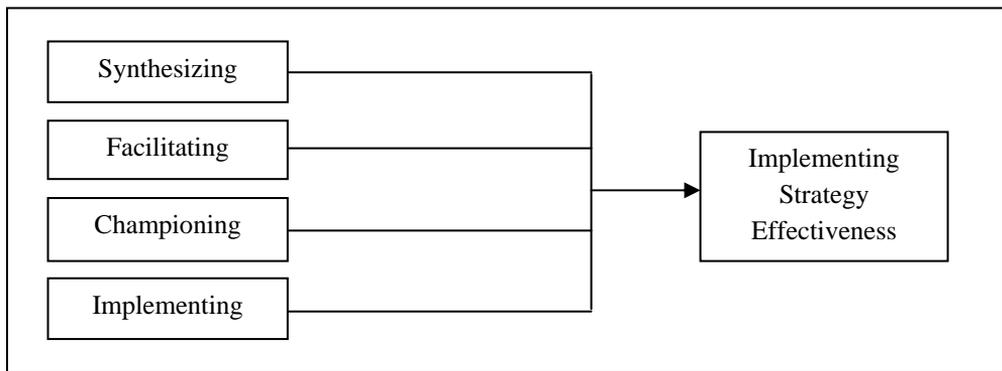
Routinely, middle managers have not been considered part of strategy implementation process. Nonetheless, the contribution of middle managers in the strategy implementation phase has been gradually recognised (Floyd and Wooldridge, 1992a). In fact, Nonaka (1988) states that strategies develop from middle level experiments expanding outward (laterally) at first, then upward and finally when implemented as part official strategy, downward. In the same way, Burgelman (1983) points out that the role of middle managers is imperative in strategic change, and importance to give them autonomy in implementing strategy's process. In brief, Guth and Macmillan (1986) identify the middle management motivation to implement strategy. They used expectancy theory to detect that middle managers will intervene in the organizational decision making processes which lead to strategy implementation.

The strategic role of middle managers in implementing strategy have been developed by Floyd and Woolridge (1992), Nonaka (1988) and Floyd and Lane (2000). According to them, there are four roles of middle manager to achieve

strategy implementation effectiveness, namely championing alternatives, synthesizing information (upward), facilitating adaptability (downward) and implementing deliberate strategy.

To address the above issues, the conceptual framework that will be used in this study is illustrated in Figure 1. The four strategic roles of middle managers in strategy implementation are identified as shown below.

Figure 1: Role of Middle Managers and Implementing Strategy Effectiveness Synthesizing Information



Middle managers are expected to supply information to top management concerning internal and external events (Westley, 1990) Although not all ideas brought upward by middle managers are strategic proposals, as organisational linking pins, they are positioned uniquely to combine strategic issues with hands-on information (Nonaka, 1988). Indeed, Dutton and Ashford (1993) argue that the information synthesized by middle managers may become the primary basis for deciding how executive management will allocate limited attention and resources among an array of issues. In this case, the middle managers infuse information with meaning through evaluation, advice, and subjective interpretation. Synthesising information therefore, defined as the interpretation and evaluation of information, affects top management perceptions and is a second way middle managers upwardly influence the formation of strategy. As such, department through the managers can be the “transmitter” of an organization, the alignment of information flow from the upward to downward and the implementing strategy process was particularly going to strategic change (Forman and Argenti, 2005). Based on the argument, it is proposed that:

P1: The strategic role of middle manager in synthesizing information is likely to influence the strategy implementation effectiveness

Facilitating

With the facilitating adaptability influence, middle managers could be act as agent of change, promoting adaptability and implementing strategy. The facilitating role of middle manager inspires development in others and support learning, increasing the ability of teams to implement the strategy (Nonaka, 1988). Indeed, Nutt (1987) argues that in strategy implementation process, the role of middle managers appoint in an ongoing set of interventions to bring organizational actions in line with deliberate strategy. Moreover, in their facilitating role, manager advance and support the development of autonomous initiatives. The autonomy could be given by senior management to support the middle managers to implement deliberate strategy (Floyd and Wooldridge, 1997). In brief, Burgelman (1983) posits that although the facilitating adaptability (downward) influence roles heave in different track, when merged consistently they will create the proper balance between organizational goals for creativity and efficiency. Thus, in their facilitating role, middle managers will focus on enhancing the effectiveness of strategy implementation. Therefore, it is proposed that:

P2: The role of middle managers in facilitating adaptability is likely to influence the strategy implementation effectiveness

Championing

Middle managers have the potential to reshape the strategic thinking of executive management by selling to them strategic initiatives that diverge from their current conception of strategy (Currie and Procter, 2005). Besides, Hutt *et. al* (1988) asset that champions are particularly important in the implementation of the sophisticated marketing strategies. In similar way, Nutt (1983) argues that champion come into view from any level of organization but should be supported from senior management level. Moreover, the role of championing was characteristically leading to innovations upward in organization. The managers who adopted this role participated in the vision conceptions, and bring their team into the implementation of that vision. Based on the above explanation, it is proposed that:

P3: The role of middle manager in championing is likely to influence the strategy implementation effectiveness.

Implementing

Middle manager implements strategy by translating corporate strategy into action plans and individual objectives (Currie and Procter, 2005). Floyd and Wooldridge (1997) state that a certain degree of uniformity is required from middle managers in this role to achieve horizontal consistency in implementing

strategy effectiveness. Additionally, Floyd and Wooldrige (1997) point out that organizational performance appears to be associated with consistent level of middle manager influence in the implementation of deliberate strategy. In fact, Beer and Eisenstat (2000) assert that one of the barriers in implementing strategy effectiveness is an ineffective senior management team involved in all steps of implementing strategy process. Base on the discussion above, it is proposed that:

P4: The role of middle manager in implementing deliberate strategy is likely to influence the strategy implementation effectiveness.

3. RESEARCH METHODOLOGY

This empirical research is quantitative in nature and data will be collected by means of self-administered questionnaires which will be distributed to middle managers from Islamic Banking operating in Indonesia. This study is a cross-sectional type of enquiry in which data will be collected at one point of time in an uncontrolled setting. The measuring instrument is a structured questionnaire. Questionnaires will be designed in two languages-English and Indonesian. The participants will be invited to respond to the questionnaire in the language that they are most comfortable with and that they commonly used in their daily work life. Prior to conducting a pilot study and a quantitative data collection, preliminary interviews will be carried out among ten respondents to obtain a “fresh” view of their role in implementing strategy.

4. DISCUSSION

The aim of this study has been to provide conceptually the role of middle manager in implementing strategy. The intention is to provide a critical explanation of the specific model on the role of middle managers to achieve the effectiveness of strategy implementation. Existing literature on implementing strategy from middle management view appears to be rather limited in general. In fact, the research on the strategic role of middle managers in the Islamic Banking in Indonesia is almost next to none. Therefore, the present study hopes to identify different type of roles performed by the middle managers in ensuring the effectiveness of implementing strategy.

It is visible that the strategic role of middle managers is critical in ensuring the effectiveness of strategy implementation. In this respect, middle managers can influence the strategy in a variety of ways, for instance, they can promote issues to top management, modify information on the issue, frame issues in a particular way, or mobilize others to shift top managers’ attention towards certain issues (Dutton and Ashford, 1993). Although middle managers have crucial influence on the strategy process, top managers “often fail to make distinctions about the

variety of contributions made by middle managers, and, in particular, overlook the possibility that middle managers play strategic roles” (Floyd and Wooldridge, 1994). This is because not all middle managers are equally involved in the strategy process whereby only those experience and holding senior positions are attached to strategic roles (Schilit, 1987). Even so, the activities of middle managers at the level of strategy implementation always be considered as a “middle-level social learning process” (Floyd and Wooldridge 2000). In spite of this, the contribution of middle managers in integrating and aligning organisational competencies in the strategy implementation is gaining attention. However, there is still little research examining what middle- managers can contribute in implementing strategy effectiveness (Balogun, 2003). In consequences, implementing strategy from middle manager view is an issue that would benefit considerably from academic-led empirical research, and it is imperative that a comprehensive model needs to be developed on the effectiveness of implementing strategy among middle managers in Islamic banking.

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