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# AGILITY STRATEGY: INVESTMENT DIVERSIFICATION APPROACH TO SHARIA FINANCIAL INCLUSION

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**Abstract:** The emergence of financial inclusion in Islamic financial institutions has rendered the financial services offered suboptimal. Decisions available to Islamic financial institutions can determine the form of financial inclusion, the strengths of financial intermediation, and the realization of financial intermediation in investment diversification pathways in the challenges faced by financial intermediation. The study was conducted in Islamic financial institutions, using indicators of the financial inclusion dimension to find non-financial financing methods. The results show that the challenges of FI, the benefits of FI, and the perception of FI have a positive and significant impact on Agility's strategic diversification investment. This suggests that addressing financial inclusion requires an approach that goes beyond financial measures.

**Keywords:** *Financial Inclusion, Strategic Agility Diversification Investment*

## 1. Introduction

The basic problem in Islamic financial inclusion is limited facilities in obtaining financial services. This is based on risk assessment in financial distribution carried out by financial institutions. Antara et al., (2017) explained that in the Islamic financial system there are various risks inherent in the distribution of financial services. This is what then invites the occurrence of "financial inclusion" for access to Islamic banking financial services. Some financing in the Islamic financial system, such as mudharabah contracts and musyarakah contracts, have legal provisions on the risk of loss that must be borne by the banking sector (Collard et al., 2001). In sharia law, the risk of financing, the loss of the distribution of financial services is borne by the shahibul mall (shahibul mall) because of the business risk carried out by the customer (mudharib).

This financial inclusion can hinder banks in providing the widest possible financial service facilities for customers (Carbo et al., 2005). Especially with regard to financial performance that must be achieved in the form of profits from cash flow channeled as investment value. The portfolio theory disclosed (Markowitz, 1952) relates to investors' estimates of risk and return expectations through their investment portfolio statistics. Meanwhile, to achieve this return, DeYoung & Rice (2004), Fahmi (2018) can be generated through diversification investment as a financial activity that can be used to achieve a more volatile profit value.

Islamic financial inclusion (IFI) is a form of exclusion specifically for sharia banking financing, especially for mudharabah and musyarakah. So that these two financing cannot be maximally carried out by Islamic banking to generate returns. On the investment side, this is what then becomes a big opportunity for Islamic banks to generate profits. Diversification in the value of financing can be an alternative for investment prospects in order to improve the financial performance of Islamic banks. However, in carrying out this investment diversification, Islamic banking needs to use a different approach to solving its financial inclusion problems. The solution can be in the form of challenges facing FI, which can trigger the benefits of FI so that the realization of FI can run well (Lamb, 2016).

## 2. Research Method

This type of research is "explanatory research" or explanatory research, in the sense that it confirms (causal) relationships between the variables studied by means of hypothesis testing, where description contains description but the emphasis is on the relationship between variables ( Widodo, 2014). This research method seeks to account for the location of the variables under study and the effects of one variable on another. This study is expected to explain the relationship and impact between independent and dependent variables, including: financial inclusion, focusing on challenges faced by financial intermediation, benefits of financial intermediation, perceptions of financial intermediation (Shinkavi et al., 2019) and agile Strategic Diversified Investments (SADI) (Ristianawati & Hartono 2021), variables measured as follows

Table 1. Variable Measurement

| No | Variabel | Indicator | Sumber |
|---|---|---|---|
| 1. | **Challenges Facing FI**<br>The range of data needed by financial service providers to minimize financial inclusion. | • Availability of collateral<br>• Financing feasibility<br>• Infrastructure support<br>• Financing support<br>• Business informality | Shinkafi et al., (2019) |
| 2. | **Benefits of FI**<br>Prospects/benefits that will be obtained by encouraging the implementation of the Islamic financial system through opening financial inclusion channels<br>. | • Allocation efficiency<br>• Financial services<br>• Capital support<br>• Economic equity | Shinkafi et al., (2019) |
| 3. | **Realisation of FI**<br>How to apply the benefits of financial inclusion to the potential for increasing Islamic finance. | • Financial literacy<br>• Financial regulation<br>• Political commitment<br>• Financial system | Shinkafi et al., (2019) |
| 4. | **Strategic Agility Diversification Investment**<br>Non-financial approach to investment diversification financing | • Data expansion<br>• Risk innovation<br>• Investment alignment | Ristianawati et al., (2021) |

Then the sample size of this study is 246. According to the sample size, we refer to the opinions of Herr et al. (1998), saying that the sample size is an indicator multiplied by 5 to 10 or at least 100 respondents. There are 16 indicators in this study , the sample calculation basis is 16 multiplied by 10 equals 160

## 3. Results and Discussion

### 3.1. Results

After determining the factor analysis model, each indicator in the fitted model can be used to identify the underlying structure, allowing the analysis of the complete structural equation modeling (SEM) model. The results are shown in Figure 1 and Table 2

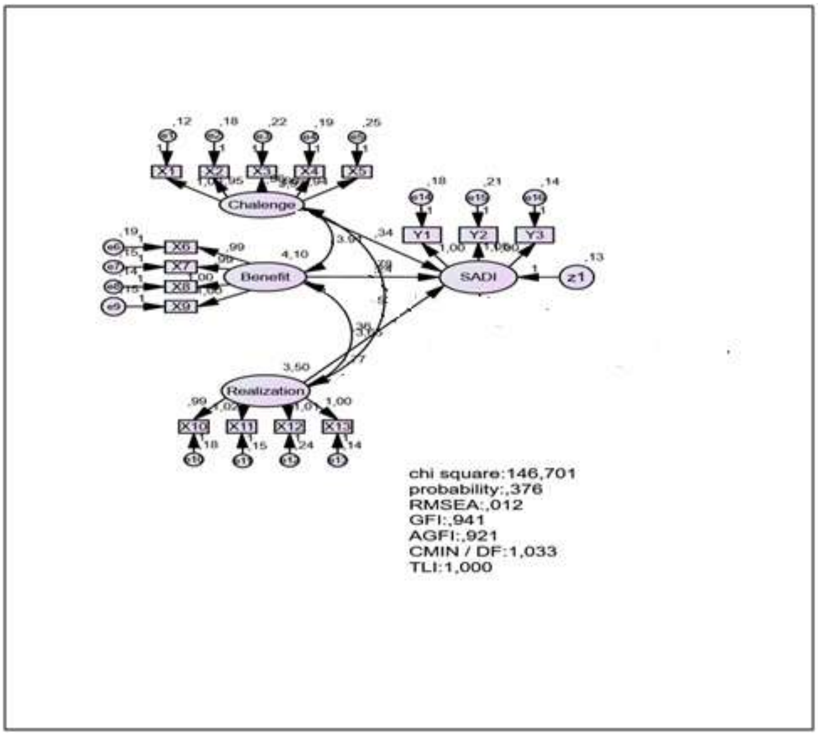


Figure 1. Full Model of Strategic Agility Diversification Investment

Table 2. Standardized Regression Weight (Loading Impact Factor) Full Model Strategic Agility Diversification Investment

| | | | Std. Estimate | S.E. | C.R. |
|---|---|---|---|---|---|
| SADI | ← | Chalenge Facing FI | ,342 | ,107 | 3,199* |
| SADI | ← | Benefit of FI | ,241 | ,067 | 3,573* |
| SADI | ← | Realization of FI | ,360 | ,101 | 3,555* |

Table 3. Feasibility Testing Index of Structual Equation Strategic Agility Diversification Investment

| Descriptive Model Size | Threshold | Results | Information |
|---|---|---|---|
| X-Chi-square | Expected small | 89,402 | Acceptable |
| Probobability | less than 0.05 | 0,270 | Acceptable |
| RMSEA | less than 0.08 | 0,027 | Acceptable |
| GFI | more than 0.90 | 0,913 | Acceptable |

| | | | |
|---|---|---|---|
| AGFI | more than 0.90 | 0,872 | Marginal |
| CMIN/DF | less than 2.00 | 1,090 | Acceptable |
| TLI | more than 0.95 | 0.995 | Acceptable |
| CFI | more than 0.94 | 0.996 | Acceptable |

The challenges facing financial inclusion have significant implications for strategic agility in diversifying investments. Estimated parameters show significant results with values of Cr = 3.199 or CR ≥ ± 2.00 at a significance level of 0.05. Therefore, the first hypothesis, the financial inclusion challenge of investing in agility strategic diversification, is accepted. The benefits of financial inclusion have significant implications for strategic investments in Diversified Fitness. Grading coefficients indicate significant results, Cr = 3.573 or CR ≥ ± 2.00 at a significance level of 0.05. Therefore, the second hypothesis, that financial inclusion is more beneficial than strategic investment for agile diversification, is accepted. Achieving financial inclusion has significant implications for strategic agility to diversify investments. Grading coefficients show significant results with a value of Cr = 3.555 or CR ≥ ± 2.00 at a significance level of 0.05. Therefore, the third assumption, that financial inclusion is diversified through strategic investments to achieve agility, is acceptable.

## 3.2. Discussion

**The Effect of Challenges Facing Financial Inclusion on Strategic Agility Diversification Investment**

The challenge of financial inclusion is that more and more people are living in poverty. The World Bank (2016) attributes this to the reluctance of financial institutions to provide financial access. According to the World Bank survey (2016), 59% of the world's population lacks access to financial services. The Department of Public Economy (GED), the World Bank, and the International Monetary Fund (IMF) have all said that policy makers, researchers, and regulators at financial institutions need to focus on financial inclusion. In this context, the biggest challenge for financial service providers is to give users of financial services the confidence to use their financial services.

Financial institutions can use this challenge as a catalyst to transform their organization into an agile strategy where quick, decisive and effective actions are required to trigger, anticipate and exploit these changes (Doz & Kosonen, 2007 and Jamrog et al., 2006). The condition of the majority of the population in poor countries will make banks reluctant to provide access to their financial allocations. However, this needs to be addressed by a different strategy that allows the flexibility to maintain investments under volatile market conditions (D'Aveni, 1994 and Thomas, 1996). The challenges of financial inclusion must be addressed with strategic agility and by consistently focusing resources on key strategic issues, efficiently and effectively pooling new resources, equipping and combining resources in new ways, and reallocating resources to new uses. (Hamel & Berhald, 1993). In many ways, the challenges facing financial inclusion can trigger agile strategies to access firm expertise to develop and research heuristics to address still outstanding investment problems (Ali et al., 2020).

The challenge of financial inclusion can be turned into strategic agility as an attempt to bring in new investment, that is, by seeking out underfunded funds. Evidence can be seen in the growth of the world's 200 million formal and informal micro, small and medium-sized enterprises (MSMEs) (World Bank, 2016). The challenge, especially in the informal sector, is to account for the history of unsecured financing and credit in the sector. Therefore, it is necessary to diversify investment from financial institutions in a personal way. The main reason is that the informal sector does not have the transaction account mentioned in the small and micro project.

Grandolini (2014) identified five challenges to financial inclusion in developing countries: 1) financial literacy and capacity, 2) identifying valid documents, 3) consumer protection and regulation, 4) women and the rural poor, and 5) ) their use. In addition, Subbarao (2009) considers higher cost of challenges; lack of robust technology; lack of awareness of financial services and products; lack of communication related to language barriers; insufficient literacy of the masses; lack of infrastructure and social exclusion.

Table 4. Overview of Challenge Facing FI Studies Against SADI

| No | Researcher | Results |
|---|---|---|
| 1. | Subbarao (2009) | Challenges faced by FI in terms of robust technology; lack of awareness of financial services and products, poor communication through language barriers, and insufficient literacy of the masses; lack of infrastructure and social exclusion. Collaborative efforts by all to achieve the FI theme can be increased by overcoming challenges |
| 2. | Hendriks (2019) | Challenges for FI identifies five challenges that hinder access to finance in developing countries, including: financial literacy and capacity, identification of valid documents, consumer protection and regulation, women and rural poverty, and ease of use. |
| 3. | WorldBank (2016). | Challenges faced by financial institutions include those who are excluded from financial services, including micro, small and medium enterprises, women and poor residents in rural and remote areas. For example, the gender gap in developing countries is estimated at 9 percentage points: 59% of men are account holders, while only 50% of women are registered. |

**The Effect of Benefit of Financial Inclusion on Strategic Agility Diversification Investment**

In the context of Islamic finance, the concept of "salt" has been regulated, and the opening of Islamic financial inclusion has brought huge benefits to the global economy. Adewusi (2011) notes that Muslims are likely to fill this role, as Islamic financial inclusion regulates the use of resources for the benefit of the wider community. In this case, it will have implications for the benefits of financial inclusion, especially when people are united in mechanisms for: 1) lower cost of capital, 2) efficient allocation of productive resources, 3) enhanced financial management, 4) Appropriate and efficient financial services, 5) Limitation of growth of informal resources (e.g. decentralization of moneylenders), 6) Safe savings system, 7) Prosperity across all financial services (Sarma & Pais, 2008). Porkodi & Aravazhi (2013), Financial inclusion will always strive to promote remittances, financial services, resource allocation and savings systems that do not erode customers' financial value

The beneficial impact of Islamic financial inclusion will be followed up by Islamic banks in implementing agility strategies, especially in alleviating poverty, income inequality, benefit inequality, alignment of financial regulations and financial contracts can be suppressed (Park &

Mercado, 2015). This is marked by Islamic banking changing the direction of investment based on broad benefits with the aim of advancing the excellence of their lives (World Bank, 2016). This strategy is intended as a pathway for financial inclusion to reduce poverty and accelerate growth in Universal Access to Finance. The agility strategy in question is to use investment diversification in the financial system on an Islamic financial inclusion commitment that is applied to 30 of the 55 countries that developed the Institute for National Financial Inclusion Agility Strategy.Mohamed et al., (2018) revealed that by encouraging Islamic banks to maximize their operations, this will help in obtaining the benefits of financial inclusion. Islamic banks will be able to be more relevant and competitive, and adapt customers through skills in meeting the social expectations of customers. Macro benefits will also be felt by establishing an Islamic financial relationship system. The system regulates mutual assistance in the economy, so that the progress of a nation can be achieved.

Table 5. Summary of the Benefit of FI Study on SADI

| No | Researcher | Results |
|---|---|---|
| 1. | Ozili (2020) | Benefit of FI is characterized by extraordinary growth by creating economic zones in the last few decades. So that the benefits of economic growth can be spread widely among countries in lagging continents. |
| 2. | Ahmad et al., (2020) | Providing financial services to low-income people can unlock financial inclusion in welfare benefits, poverty reduction and financially gain greater net worth and welfare benefits than those who are excluded. |

By looking at the presentation of the benefits of FI to open financial services can solve the problem of financial inclusion. So that society as a whole can feel economic equality.

**Effect of Realization of Financial Inclusion on Strategic Agility Diversification Investment**

The realization of financial inclusion is the implementation of policies on an ease in accessing financial transactions, payment transactions, and other financial services. Sarma & Pais (2008) revealed that the realization of financial inclusion will have an impact on changes in the implementation of the investment strategy of financial institutions in the world. Where socio-economic factors will dominate financial inclusion in elements of society such as income, inequality, financial literacy, and urbanization. These factors will depend heavily on physical infrastructure as a means of financial information connectivity (Sarma & Pais, 2008).

Financial inclusion in the Islamic finance industry will affect the agility strategy, especially in the infrastructure aspect in providing services for sharia products (Zulkhibri & Ismail, 2017). Infrastructure development, which is a realization of financial inclusion, will clearly affect the strategy of Islamic banks in investing, where the investment they make is to build access for excluded people. So that the realization of financial inclusion will diversify in engineering financial financing in the schemes needed to build physical infrastructure in achieving the goals of Islamic financial inclusion. By facilitating access to financial services supported by the realization of financial inclusion in the sharia system, it can become a model in the economy.

Table 6. Overview of the Realization of FI Study on SADI

| No | Researcher | Results |
|---|---|---|
| 1. | Demirguc-Kunt et al., (2008). | Achieving financial inclusion can raise awareness that an inclusive financial system is critical to reducing extreme poverty, promoting shared prosperity, and fostering sustainable and inclusive economic growth and development. |
| 2. | World Bank (2016) | Financial inclusion is achieved through investment in incentives, infrastructure and product diversification |
| 3 | Ouma et al., (2017) | Enabling financial inclusion in the form of mobile phone adoption to provide financial services in Africa. The results show that the availability and use of financial services provided by mobile phones increases the likelihood that households save. Access to mobile financial services not only increases the likelihood of savings, but also has a significant impact on the frequency and relevance of transactions. |

From the presentation regarding the realization of financial inclusion, the real step is in the form of technology applications that can help the wider community in conducting transactions. This turned out to be a link between the use of financial services and the untouched community. And this can encourage Islamic financial institutions to provide technology in building networks for sharia system services.

## 4. Conclusion

In the relationship between Islamic financial inclusion (challenge funding FI, benefits of FI, and Realization of FI) directly has a significant effect on strategic skill diversification investment. In this connection, strategic agility diversification investment has succeeded in changing the perception of financial inclusion itself. SADI, which is a development strategy in determining the form of investment diversification in financing, is developed in the realm of data expansion, risk innovation, and investment alignment. Changes from measurements that are financial in nature to forms other than finance can open Islamic financial institutions in channeling a variety of financing to a much wider range of customers..

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