Factors Determining Bank Competitive Strategy: An Empirical Study on Local Development Banks (LDBS) in Indonesia

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ABSTRACT
Many studies have been investigating determinants of the company's competitive strategy. Nevertheless, there have insufficient studies conducted to investigate the determinants of competitive strategy on banking industry, particularly on Local development banks (LDBS). This study is aimed at filling in the literature. This study surveyed top executives of twenty-six local development banks in Indonesia and employed PLS approach to answer the research questions. The result shows that three groups of variables, i.e., innovation management, company resource management, and adoption of technology influence the development of competitive strategy in local development banks.

KEYWORDS: *competitive strategy. LDBS. PLS, innovation management, company resource management.*

JEL CLASSIFICATION: *O16, G21, C83.*

1. INTRODUCTION

There have been many studies of the determinants of the company's competitive strategy ever done. Some studies conducted in non-banking industry include Baden-Fuller et al. (2000), Webster and Mitra (2007), Dhingra et al. (2009), and Salazar et al. (2012) and Navickas and Malakauskaite (2015), among others.

Meanwhile, several studies have been carried out to investigate competitive strategy in banks, such as Lademan (1993), Macey and Miller (1998), Beck et al. (2006), and Kata (2012). Nevertheless, the determinants of competitive strategy based on types of bank has never been adequately studied, particularly on Local development banks. This study is to fill in the literature gap by empirically investigating determinants of competitive strategy in local development banks.

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Among the latest studies in the issue, Kata (2012) is one of the studies that examines how banks compete in a limited (local) market. The main pattern found by the study is the difference in the response of each bank to the market through its strategy based on the strength of assets and resources. Furthermore, Kiselakova et al. (2013), which examines the determinants of the bank's competitive strategy in Slovakia, found that bank liquidity and interest margin were crucial factors. However, the existing studies have not yet specifically reviewed the business units in the banking industry, particularly the banking business units with relatively typical capital and market characteristics such as Local Development banks (LDbs). Therefore, this study will fill the gap of the literature. Specifically, this study will examine the factors that shape the competitive strategy of LDbs in Indonesia (competitive strategy model of regional development banks), which has never been done before.

In the context of Banking Management theory, Banks in this category are relatively unique when compared with bank banks in other categories. The uniqueness of importance lies in the strong support of local governments, both on the supply and demand side. The typical character of these regional banks is expected to be a source of the novelty of this research contribution to the theory of competition in the banking industry, especially in the banking industry in integrated economic zones / regions such as Association of South East Asian Nation economic region.

This study is therefore aimed at empirically investigating i) factors influence the competitive strategy of LDbs in Indonesia; and ii). The relationship among the variables forming competitive strategy of LDbs in Indonesia. The next session elaborates extensive relevant literatures. Then, the third session report the results and discussion. The last session wraps conclusion and recommendation.

2. LITERATURE REVIEW

Many studies have been conducted on elements that influence the formulation of competitive strategies in various industries, but no one has specifically examined the factors determining competitive strategies in the banking industry, particularly local development banks that have distinctive characteristics and different challenges.

Hsieh, Chen, Ming (2011) conducted a literature review of the relationship between resources and competing strategies. Competitive strategies are designed on the basis of individual specifications, consistent with human resource strategies, skill-oriented and innovation-oriented strategies. Another study by Tsai, Tsai, Li, Lin (2012) concludes that organizational skills can explain the relationship between Business Strategy and knowledge or expertise, in which organizational capabilities are aligned with knowledge or technology and corporate strategy. Pertusa-Ortega, Molina-Azorín, Claver-Cortés (2010) expanded empirical literature on resource-based views (RBV) with contingency theory. The findings of this research indicate that the organizational structure does not directly contribute to performance, but indirectly influence through Competitive Strategy.

Menguc, Auh, and Shih (2007), using enterprise resource-based concepts, especially the creation of competency-based strategies, develop and test integrated enterprise profit-chain performance-resource models. The model postulates transformational leadership and market orientation as a transformational-based and managerial-based competency. Such competitiveness should lead to a positional market advantage through competitive strategies, such as innovation differentiation, marketing differentiation, and low cost. In turn, these positional advantages contribute to different company performance metrics, in particular, effectiveness and efficiency.

Plowman et al. (2007) concluded that leadership is the key to a successful competitive strategy. Leaders are responsible for the company's vision and strategy and all efforts to drive the organization.

Furthermore, another variable that is suspected to affect competitive strategy is the organizational culture (company). Barney (1991) states the close relationship between organizational culture and the formulation of competitive strategies. The three attributes that a corporate culture must have to produce a sustainable competitive advantage are actually isolated.

Grant (1991) argues that internal resources should provide the basis for the formulation of corporate strategy rather than the market environment. Based on the analysis of the relationship between resources, capabilities, competitive advantage, and profitability, this study developed a sophisticated framework for resource-based approaches in strategy formulation. On the other hand, Chan, Shaffer, and Snape (2004) develop and test the dynamic model of resources for competitive advantage. This study shows that organizational culture is a valuable resource for the company's competitive strategy.

Then, Pires and Aisbett (2003) argue that companies are traditionally advised to adopt information and communication technology (ICT) to support the achievement of its business objectives. However, entry into e-commerce between businesses may require the adoption of new business strategies. Therefore, this study proposes that ICT analysis should be considered when formulating competitive strategies and at the same strategic level, together with internal analysis, competitors and markets. This is given the source of the competitive advantage of ICT has changed, which is largely derived from the increase in value in customer perceptions. The existing literature still has not given a clear picture of the consequences that can apply to companies that adopt e-commerce. The study concludes that the adoption should be evaluated in each company's environment. This study presents a multidimensional analysis framework that takes the combined information and marketing perspectives presented to aid the evaluation.

Hill (1997) adds that the company's ability to build technology as an industry standard is an important determinant of a company's competitive position and long-term success. For example, the success of Microsoft and Intel, whose technological standards are the standard determinants in the personal computer industry today. The strategic options that companies may adopt in order to build technology as standards include licensing, engagement in strategic alliances, adoption of appropriate positioning strategies, and diversification into complementary product production. There are benefits, costs, and risks associated with each of these options. Key factors impacting the scale of the outcomes of these strategic options include high imitation barriers, competitor capabilities, resources and company skills as well as the availability of complementary products. These factors influence certain competitive strategies adopted by the company.

Other studies were conducted by Schroeder, Congden and Gopinath (1995). They conducted an empirical grounded-study on the relationship between competitive strategy and manufacturing technology in small producer companies. This study identifies the nature of the relationship or strategy-technology, the process of aligning the two variables, market forces and customers that drive such alignment, and the consequences that arise when the company fails to adopt appropriate new technologies. This study proposes five propositions developed into a dynamic linkage strategy - technology model.

Huff (1994) examines the relationship between business environment and strategy to compete with emphasizing the contribution of borrowed experience to reformulation of strategy. Industrial groups are described as important arenas, where problems and solutions related to industry gaps are identified and tested. Mistakes that occur in the industry in interpreting environmental and give a strategic response to prove the importance of the results of this research for organizational decision making. The industry-oriented view of strategy reform requires two types of rare research. Sufficient knowledge is required about a set of strategic concepts that apply to a group of organizations at any given time.

Another study was conducted by McDougall, Covin, Robinson, and Herron (1982). They used samples from 123 independent new businesses and classified them into four strategic growth categories. High-growth business environments are in favorable environments for new businesses, for example to achieve sales growth.

Another study was conducted by Tan and Litsschert (1994). The research examines the strategy - environment - performance paradigm in a centralized state economy (People's Republic of China). In particular, managers' perceptions of increased environmental uncertainty are found to be negatively associated with proactive strategies and positively associated with defensive strategies. Defensive strategies are also associated with high performance.

Then, a study conducted by Clark, Palaskas, Tracey and Tsampra (2004) examines the globalization and competitive strategy in Europe-prone areas. Under these circumstances, the problem arises at the extent to which economic competitiveness can be enhanced by changes in technology and resources of European and national governments.

Sanchez (1997) states that many industries are now bringing up a new kind of competitive environment that is inadequately explained by traditional strategy theories. This article initiated a movement to make theory about strategy more relevant to contemporary contemporary competition contexts by rethinking both the content and process of strategic management theory and its implementation. A brief review of major developments in traditional strategy theory suggests that improved polarization and fragmentation of strategic theories have further restricted its application from the actual practice of strategy management. As a solution, the movement to develop competency-based strategic management theory is to develop new concepts of competition and cooperation that add new dynamic, systemic, cognitive, and holistic dimensions to strategic management theory. The purpose of the competence movement is to build a new strategy theory that can function in its implementation. To this end, support movements re-connect strategic field researchers and strategic managers in interactive double-loop learning processes. This new approach suggests new approaches to understanding contemporary forms of competition and competency-based management.

Hafeez, Zhang & Malak (2002) states that core competence is the crown jewel of the company and, therefore, should be carefully nurtured and developed. Companies can determine the direction of their business in the future based on the strength of competence. However, since general terms such as resources, assets, abilities, and competencies are not clearly described in relation to the theory of competence, they provide difficulties in understanding contemporary management concepts. In this study, the authors provide a summary of current management theory by comparing important features of the concept. The author then proposes a mechanism that connects between the assets, resources, abilities, competencies, and core competencies. The author provides a methodology for identifying

core competencies by isolating the company's unique and flexible capabilities. The author uses this framework to identify core competencies of UK manufacturing companies. Their analysis results are used to help companies to make strategic management decisions that touch more on capability development, outsourcing, focus, or diversification, in relation to new products, services, or markets.

While the study of Hamel (1991) concludes that global competition underscores asymmetry in the company's skill wackets. Collaboration can provide an opportunity for one partner to internalize the other skills, and thus the process improves its position both in with and without alliance. Detailed analysis of nine international alliances produces an adequate understanding of the determinants of the effectiveness of inter-partner learning. This study shows that i) not all partners are equally adept at learning, ii) asymmetry in the learning process changes the bargaining power of partners, iii) stability and business age cannot be a viable measure for partnership success; iv) partners may have competitive goals And collaborative, vis - à - vis each other, vi) and processes that may be more important than structures in determining learning outcomes.

One factor that is also considered to determine competitive strategy is innovation management. The Kaliappen and Hilman Research (2014) examines the impact of innovation in services on business strategy and finds the effect of innovation management on the strategy. A similar study was conducted by Kuznetsov (2014) with a variable cost-based innovation management business. This study emphasizes the need to use high-quality workforce, the discovery and the latest scientific research results as well as the latest innovation support technologies. The study concludes that companies using innovation-based competitive strategies will be superior to broader consumer bases, more competitive pricing, high-level services, skilled staff and openness to continual improvement. Other research conducted by Wang (2010) examines the strategy of competing products through positioning and development. The competing strategy of the product determines the type of product that the firm should place in the marketplace in order to improve its competitiveness.

In the context of LDbs's competitive strategy, capability of LDbs more or less describe the gradations and variations in bank performance that are influenced by its core competencies and distinctive capabilities to produce unique services compared to its competitors. Pearce and Robinson (2015) add elements of Core Competence and Innovation Management as a factor for improving the competitive strategy of a business organization. Studies related to the company's competitive strategy also found another determinant variable, namely organizational culture. Bennett (2004) defines several organizational cultural benefits which in turn will help companies perform positively in the competition, such as enhancing the spirit of togetherness, openness, quality of family life of the employee, and harmonization. Competitive Strategy studies are also conducted in various industries, including banking, and find the contribution of technology adoption to the concept of corporate competitive strategy. For example, the study of Floyd and Wooldridge (1990) which examines the achievement of the business objectives of the firm finds that the contribution of technology adoption (especially information-communication technology) to the formulation of competing strategies is significant. The results of this study are supported by the findings of Schroeder, Congden, and Gopinath (1995) and Pires and Aisbett (2003) in various industries. Business Strategy studies also reveal the role of innovative management of business strategy. The Kaliappen and Hilman (2014) study that examined the impact of innovation in services on business strategy found an innovation management effect on the strategy. The results of the Kuznetsov study (2014) support these results in empirical investigations on innovation-based cost management business variables.

The presentation of the results of the study on Business Strategy above summarizes the important contributions of several variables to the formulation of the Competitive Strategy, ie i) Transformational Leadership, ii) Resource Management, iii) Organizational Culture, iv) Technology Adoption, v) Business Environment, vi) And vii) Innovation Management.

3. RESEARCH METHODOLOGY

This study employs purposive sampling method. Respondents are LDb directors from all over Indonesia. From 26 LDbs, 3 banks have core capital between IDR 5 trillion to IDR 30 trillion, namely Bank Jabar Banten, Bank Jatim and Bank DKI. While the remaining 14 LDbs have a core capital of between IDR 1 trillion to IDR 5 trillion. Then as many as 9 LDbs are banks with core capital below IDR 1 trillion.

The total number of directors in 26 LDBs in Indonesia is 116. Questionnaires were sent to respondents via email. The number of respondents who responded to the survey was 99. This study was conducted in two stages. Firstly, the author conducted factor analysis which aims to confirm the correctness and accuracy of the selected variables. Secondly, based on the amount of data available with the number of samples below 200, the author employed Partial Least Square (PLS) method. The purpose of this PLS usage is to predict construct constructed from several variables. This PLS model is a model capable of explaining complex structural models. Factor analysis model and Partial Least Squares (PLS) is an estimation model of Ordinary Least Squares (OLS) which undergoes several iterations to obtain optimum and valid coefficients. Outer model analysis includes Convergence Validity (Loading Factor and Average Variance Extracted (AVE) and Communality), Discriminant Validity (Cross Loading, AVE Quadratic Root and Correlation between Latent Constructs), Reliabilities (Cronbach Alpha and Composite Reliability). Furthermore for Inner analysis of the structural model includes R2, path coefficient estimation, Size Effect, Prediction Q2 (Stone Geisser). Hypothesis testing will be done by considering all variables. The final step in this calculation is to evaluate the best model of Path through the bootstrapping calculation model.

4. RESULTS AND FINDINGS

Partial Least Squares (PLS) analysis result in this research can be seen on figure 1.

The picture shows that leadership variable consisting of 10 dimensions has outer loading factor between 0.725 up to 0876. From these results it can be explained that in the observed LDB banks, in leadership variables, the inspirational communication dimension is the most important element contributing to the degree (level) of leadership.

In the context of organizational culture variables, loading factors range from 0.726 to 0.860. This condition indicates that for organizational culture variable, philosophy is a dimension that contribute greatly to organizational culture.

The four dimensions of Core Competency range from the loading factor number of 0.770 to 0.878. Of the core competency variables analyzed, the typical dimensions have the greatest contribution compared to other dimensions.

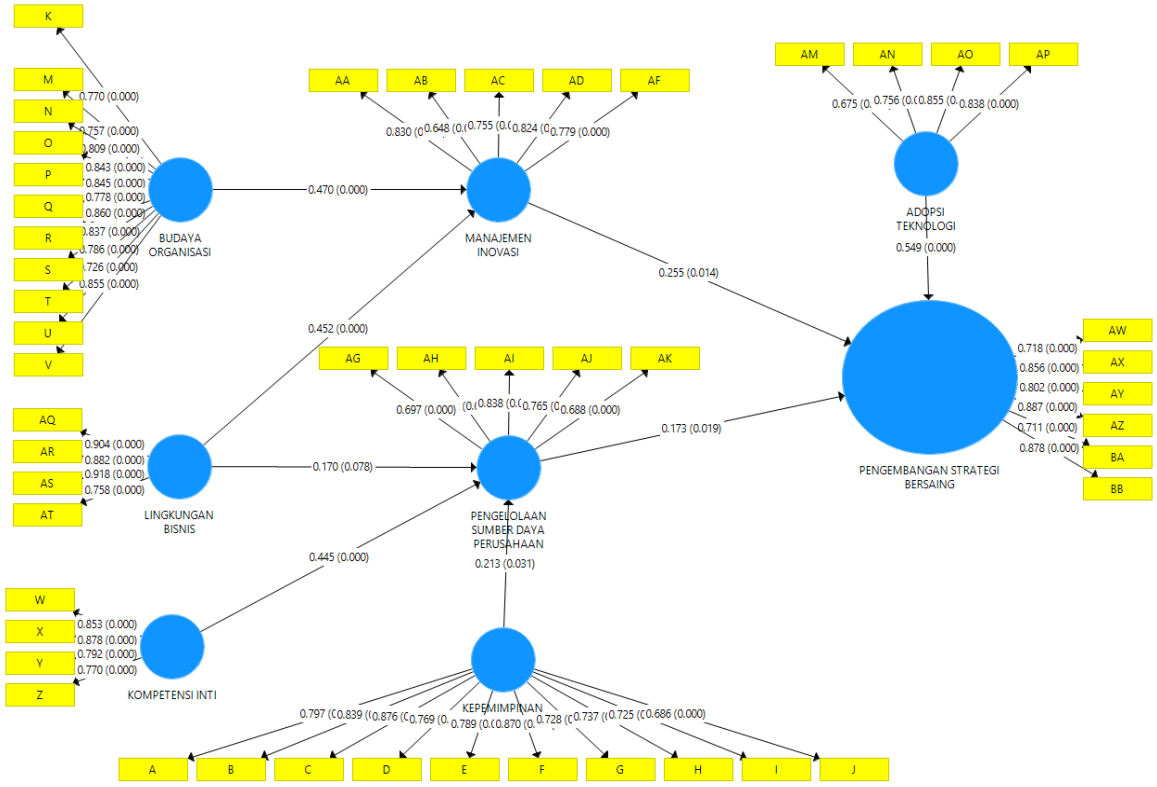

Figure 1. PLS result
Source: processed data

From the results if the data management innovation variable consisting of 5 dimensions show that loading factors ranged from 0.648 to 0.830.

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Furthermore, the results of the company's variable resource management data showed that all outer loading factors ranged from 0.688 to 0.838. From the resource management variables analyzed, the dimensions of intangible assets have the greatest contribution compared to other dimensions.

In the context of technological mastery, technology adoption variables that have 4 dimensions overall loading factor ranges from 0.675 to 0.855. The dimensions with the lowest loading factor are recorded in the dimensions of technology knowledge and the highest loading factor recorded in the dimensions of technology upgrading.

The lowest loading factor value of the Competitive Strategy variables was recorded in the service flexibility dimension 1, which was 0.711 and the highest recorded on the delivery time dimension 2, which was 0.887 and significant at the rate of 1 percent or less than the probability 0.01.

Average Variance Extracted (AVE) results for the PLS model in this study can be seen in Table 1. Table 1 shows that all variables are reliable.

Table 1. Average Variance Extracted (AVE)

NO	VARIABLE	AVE
1	LEADERSHIP	0.615
2	ORGANIZATIONAL CULTURE	0.651
3	CORE COMPETENCY	0.679
4	INNOVATION MANAGEMENT	0.593
5	COMPANY RESOURCE MANAGEMENT	0.551
6	ADOPTION OF TECHNOLOGY	0.615
7	BUSINESS ENVIRONMENT	0.753
8	DEVELOPMENT OF COMPETITIVE STRATEGIES	0.659

Source: processed data

Table 2. Composite Reliability

NO	VARIABLE	Composite Reliability
1	LEADERSHIP	0.941
2	ORGANIZATIONAL CULTURE	0.953
3	CORE COMPETENCY	0.894
4	INNOVATION MANAGEMENT	0.878
5	COMPANY RESOURCE MANAGEMENT	0.859
6	ADOPTION OF TECHNOLOGY	0.864
7	BUSINESS ENVIRONMENT	0.924
8	DEVELOPMENT OF COMPETITIVE STRATEGIES	0.920

Source: processed data

Table 3. Cronbach's Alpha

NO	VARIABLE	Cronbach's Alpha
1	LEADERSHIP	0.930
2	ORGANIZATIONAL CULTURE	0.946
3	CORE COMPETENCY	0.843
4	INNOVATION MANAGEMENT	0.827
5	COMPANY RESOURCE MANAGEMENT	0.796
6	ADOPTION OF TECHNOLOGY	0.789
7	BUSINESS ENVIRONMENT	0.888
8	DEVELOPMENT OF COMPETITIVE STRATEGIES	0.895

Source: processed data

The result of composite reliability test shows that all research variables are reliable. Table 3 shows that all the elements of a variable are reliable.

In the simultaneous effect analysis, there are three variables that become the reference that is the variable of innovation management, the variable of company resource management and the development variable of the competing strategy. From the calculation result, it is known that the influence of organizational culture variable and business environment variables simultaneously explain the change of management innovation equal to 71.8 percent and significant at 1 percent level.

Then, statistical results show that business environment variables, core competencies and simultaneous leadership simultaneously explain changes in corporate resource management of 50.9 percent and significant at 1 percent level.

Furthermore, the results of the calculations show that the variable management of innovation and variable management of enterprise resources simultaneously (explains) changes the variable development of competitive strategy by 74.0 percent and significant at 1 percent.
Table 4 shows that all the variables in Partial Least Square (PLS) are significant at the level of 1 percent.

Table 4. Influence of Variable

NO	DIRECT INFLUENCE	Coefficients and Significance
1	ORGANIZATIONAL CULTURE --> INNOVATION MANAGEMENT	0.470***
2	ADOPTION OF TECHNOLOGY --> COMPETITIVE STRATEGY DEVELOPMENT	0.549***
3	LEADERSHIP --> COMPANY RESOURCE MANAGEMENT	0.213**
4	CORE COMPETENCE --> COMPANY RESOURCE MANAGEMENT	0.445***
5	LINGKUNGAN BISNIS --> INNOVATION MANAGEMENT	0.452***
6	LINGKUNGAN BISNIS --> COMPANY RESOURCE MANAGEMENT	0.170*
7	INNOVATION MANAGEMENT --> COMPETITIVE STRATEGY DEVELOPMENT	0.255***
8	COMPANY RESOURCE MANAGEMENT --> COMPETITIVE STRATEGY DEVELOPMENT	0.173**

Source: processed data

* significant at 10%
** significant at 5%
*** significant at 1%

The table above also shows that the effect of organizational culture on innovation management is significant at the level of 1 percent (99%). This indicates that LDbs has built an organizational culture that is conducive to supporting the bank innovation programs. This is crucial because innovation is related to behavior and insight, so the ability of innovation

will grow well in an environment that has been infiltrated by a culture that supports innovation. This finding is in line with Wang (2010) research results which conclude the effectiveness of organizational culture catalyzes the absorption of innovation management Also, business environment variables significantly influence the change of innovation management, which is significant at the level of 1 percent (99%). In Addition to internal support through organizational culture, LDbs are also strongly influenced by external factors such as the business environment in managing innovation. In this case, the urgent challenge for LDbs from the business environment will affect their priority setting in the face of competition. Innovation is a very important substance. Therefore, these statistical results reflect that the pressure of the business environment influences the behavior of bank management in managing its innovation. The results of this study are in accordance with kuznetsov (2014), which discovers the influence of the company's external environment on innovation management.

Furthermore, the influence of the business environment on company resource management is not significant at the 5 percent level. That is, the influence of the business environment seems less influential in LDbs in Indonesia. The results of this study are consistent with the results of the study of Omerzel and Gulev (2011), which found similar results in non-service industries.

In addition, the impact of core competence on company resource management is significant at the 1 percent level. Therefore, it can be said that core competence is important to change company resource management. With a complete understanding of his bank's business competence, bank management can direct the substance of its resource management to strengthen its core competence and make the bank identified as a highly qualified bank in its area of expertise. While the test results show that the influence of leadership on company resource management reflects that the management of average LDbs in Indonesia is in accordance with the direction of management. Leadership ldbs has been effective in directing the process of development and placement of its tablespoons so that it can support the determination of competitive strategy of every LDbs, especially in line with the business competencies it develops. The results of the above studies are consistent with the results of Plowman's research (2007), but in industries that are not specific to banks.

Furthermore, the same applies to the effect of technology adoption variables on changes in competitive competitive strategy variables proved significant at the level of 1 percent. These findings inform LDbs in particular in Indonesia that the attention and adoption of technology in shaping the bank's competitiveness is inevitable, as the banking business relies heavily on cutting-edge technology capabilities to simplify all banking related business matters. The test results also show that innovation management beidrengaruh to changes in competitive strategy development significant at level 1 percent. This indicates that innovation is a substance that should be considered in the preparation of strategy, considering innovation is a component that effectively helps business entities survive amid the dynamics of environmental change, including on LDbs in Indonesia. In this context, LDbs, which generally have a captive market, require significant innovation to be able to compete significantly.

The empirical investigation carried out on the influence of corporate resource management on the competitive strategy of LDbs in Indonesia shows significant results at the 5% significance level. This shows that LDbs in Indonesia relies heavily on its resources in developing

competitive strategies. LDbs need to build optimum sum capabilities to formulate competitive strategies that match their performance postures

In this study found indirect influence or in other words the existence of variable intervening connecting 2 variables. Variable intervening is found in the relationship between variables based on the results of data processing including innovation management and variable company resource management. In detail it can be explained that organizational culture variables are affecting variable competitive strategy development through intervening innovation management variable with coefficient of 0.120 and significant at 5 percent level or probability value smaller than 0.05 (95%). In other equations it is found that the business environment is affected by changes in variable competitive strategy development through variable intervening company resource management of 0.114 and significant at 1% level or smaller probability value of 0.01 level.

Meanwhile, core competence variables also affect the change of competitive strategy development through variable company resource management of 0.077 and significant at 10 percent level or probability value whose value is smaller than 0.1 (90%).

In this indirect effect test, leadership variables affect the variable competitive strategy development through variable company resource management of 0.037 but not significant at any level either 10%, 5% or 1%. The same is not true for the influence of business environment variables to the variable competitive strategy development through innovation management.

Thus in whole can be said that variable innovation management and variable company resource management significant as variable mediating or intervening.

The findings are relatively consistent with some literature, such as: Pires and Aisbett (2003), Hsieh and Chen (2011), Tsai et al. (2012), Pertusa-Ortega, Molina-Azorín and Claver-Cortés (2010), Irfan (2017). Pires and Aisbett (2003) find an important contribution to the adoption of technology for the development of bank strategy. Then, Irfan (2017) initiated an important role of innovation management that effectively improve the company's competitive strategy development. Tsai, Tsai, Li, Lin (2012), and Pertusa-Ortega, Molina-Azorín and Claver-Cortés (2010) initiated the adoption of technology for the effectiveness of competitive strategy development of the company, especially the bank.
Some other factors also contribute to the competitive development process of the LDbs bank, but not directly. Organizational culture is a factor affecting the process of competitive strategy development through innovation management factor intervention. Meanwhile, business environment variables are influenced by strategy development through innovation management or corporate resource management. Then, core competence and leadership factors contribute to the development of bank LDbs strategy through the company's resource management.

The findings of this dissertation research revise some of the findings from previous studies in between. Fok, Chang and Lee (2004) research shows that bank reputation and bank lending capacity is the determinant of bank competition strategy. The results of this dissertation research also improve the views of Auh et al. (2007), Plowman et al. (2007) and Stahl (2007), who initiated the direct contribution of leadership to the development of bank strategy. This research finds that leadership is only effective in supporting the competitive strategy development process if through company resource management, consistent with Irfan (2017)

describing empirical framework of bank resource management intervention in catalyzing leadership contribution for effectiveness of company strategy development.

5. CONCLUSIONS

There have less sufficient studies carried out to investigate the determinants of competitive strategy on banking industry, particularly on Local development banks (LDbs). This study aims to fill in the literature. This study conducted a survey on top executives of twenty-six local development banks in Indonesia and employed PLS approach to answer the research questions. The result shows that three groups of variables, i.e., innovation management, company resource management, and adoption of technology influence the development of competitive strategy in local development banks.

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