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TRANSFORMATION IN BUSINESS STRATEGY: THE KEY FOR BPD PERFORMANCE IN INDONESIA

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ABSTRACT

The shift of demands towards the function of strategic regional development bank for the development propels the shift in BPD structure. The purpose of this study is to analyse the transformation in entrepreneurship business strategies: the key for BPD performance in Indonesia. The method of the research was explanatory survey towards 70 branch offices of BPD proportionally. The analysis approach used SEM. The result of the research show business strategy transformation is adjusted with the strategy at corporate level has effect towards business performance either financial or non-financial. The urgency of strategy shift is felt important in line with the demands for the function of strategic BPD until operational level. BPD as part of financial structure that has significant role towards the local development. The managerial implication is propelling business strategy transformation which is felt urgent by keeping referring to corporate strategy. The result of the research is made as one of performance framework for creating BPD performance which strategically functions for financial structure in the development and service.

Keywords: Transformation in Business Strategy, Entrepreneurship, BPD, Performance, Financial Structure, Development.

INTRODUCTION

Business strategy transformation becomes an important part as a constructive response towards the change. That structure experiences change in line with the existence of relevant factors in the environment where the financial system works, the change in the strategy at business level either functional is inevitable. Sahile et al. (2015) confirms banking sector has experienced fast transformation in the past propelled by globalization power, liberalization, and technology emergence that have influenced the structure and the traits of industry competition.

Goldsmith (1959) succeeds in documenting most of the national financial system evolution, especially the evolution at financial intermediaries included bank. Goldsmith (1959), Levine et al. (2000), Kun & Levine (2001), confirms back that there is relationship between development and financial structure. Kendall (2012), Destefanis et al. (2014) explains that finance development has significant effect towards economic growth.

The strategy change is comprehensive and involves all organization as one unity. Niven (2014) states that the strategy relates to various choices to reach the mission included the purpose to fulfill the needs of the customer through the product, the service offered which is how to choose the proposition about *“the right score”*. Omarini (2014) explains that Bank needs to differentiate itself compared to its competitors with their strategy. The success of Regional Development Bank especially in developing countries is at its ability in organizing the strategic function.

Business strategy transformation optimizing the role of RDB as the part of financial structure in the development is not easy. The maturity and the control towards each aspect involved in the strategy transformation are weak. The optimization of the existed functions in the organization is limited. Barney (2010) or Porter (1991) basically targeted to the effort to be superior by optimizing the existed functions in the organization. Even Davidson (1993) introduced business transformation concept as the stage.

The transformation in business strategy practically brings change in the system and the structure. On the other side, strategic RDB function for the development becomes the special trait is getting biased. RDB is the finance intermediary in economic structure that participates in determining how economy grows. Guiso et al. (2004) confirms that local finance development plays important role even at the perfect integrated market. Vaona & Prona (2008) confirms local finance development as the key factor for economic growth. Rauniyar & Kanbur (2010) confirms that Development Bank relates to inclusive growth, inclusive development, or inclusive social development.

The research about RDB performance more and more develops. The financial measurement to show Bank performance like stated by Doyran (2013), Ab-Rahim & Chiang (2016) is less relevant. Berger & Di Pati (2006) offer the measurement concept for banking industry based on the agency theory perspective. Busch & Kick (2015) propose the view about the performance based on business structure.

The research in banking sector specialized in RDB is very strategic for the decision maker or in the system organization of the economy. Ayadi et al. (1998) stated that banking sector in most of the economy is very important until it attracts many attentions from public and regulatory authority. Abdullah et al. (2017) confirms that there had been an extensive research that investigated the relationship between conventional banking and economic growth. Aras et al. (2017) said that the role of financial institution in sustainable development has become hot topics in the literature.

LITERATURE REVIEW

Business Strategy Transformation

Transformation is one of the developing studies in line with the dynamics of change at the map of competitiveness included into finance industry. Davidson (1993) introduced business transformation concept with three stages of vision change, culture and achievement. Lewin (1962) like stated by Heinemann (2005), there are three stages, change:

a) Unfreezing the present level.
b) Moving to the new level.
c) Re-freezing that new level.

Kurt lewin model is called as the model which is based on the process of change occurance like stated, Hoogendon (2007). Related to strategy transformation, Kurt Lewin Model has attracted the interest of Tichy & Devanna (1986). One of discussion topics developed by

Tichy & Devanna (1986) was at the Act 2 (the second step) from change in which the leader creates the new vision, the focus of the new strategy is searched, to lead and make the organization straight again.

Nevertheless, the majority of the advanced concept using the element of information technology as the medium of change, included Dutta & Segev (1999), Daniel & Wilson, (2003) explained. The process of business transformation uses the element of information technology as the medium of change. On the other context, the study is about the business transformation at some other perspectives, such as outsourcing (Linder et al., 2002), social-media (Anshoff, 1972).

The transformation of business strategy becomes an important part as the constructive response towards change. Wheelen et al. (2015) confirms that the long term steps to surpass other companies in certain industry is through overall cost leadership, differentiation, and focus. Ireland, Hitt et al. (2015) proposed that Business strategy is addressed to build and maintain the strategic position of the company compared to its competitor. Pearce & Robinson (2015) explains as the effort to compete in the market through the best way. Hubbard et al. (2011) propose Business strategy is how the organization positions its business to be more competitive compared to the industry at the same field. According to Niven (2014), business strategy relates to the game plan from the management to compete successfully which is through specific effort to serve the customer, strengthen the position in the market. Various point of views from the expert about the strategy basically refers to the concept about the strategy like proposed by Barney (2010) or Portter (1980), business strategy is focusing on the position to compete the product in the segment and market expansion. Bapat et al. (2015) propose that business strategy used in accordance with specific industry phenomenon.

About the transformation of business strategy in banking world, Omarini (2014) explains that the new trend keeps emerging in the market. In the process of strategic management, the bank makes the selection, in accordance with different criteria such as consistency, effectivity, personal connection, comfort, and other aspects included the governmental policy. Yu & Madiraju (2015) explains strategy transformation is considering organizational architecture obstacles, financial limitation, and organizational skills. Aspara et al. (2011) explains as the structure combination and the material process related to the existed company objectively *"in the world"*. It means, transformation is comprehensive covering all fundamental aspects of the organization. The process of change needs value foundation as the philosophy. Barrett et al. (2011), Nayak & Chia (2011), Sullivan et al. (2013), Tsoukas & Chia (2011), to understand the reality. Elkjaer & Simpson (2011) explains organization without philosophy, confirming that transformation means thinking back the fundamental principles. Segal & Bruce (2017) explains the similarity of transformation and philosophy.

Performance

The usage of performance measurement system is frequently recommended to facilitate the implementation of strategy and improving the performance (Davis & Albright, 2004). Regarding to banking performance in developing country, Ayadi et al. (1998), the driving force to monitor the bank performance in order to achieve the purpose. Finance and marketing (Hubbard et al., 2011) Zineldin & Bredenlow (2001) convey that generally The Bank performance relates to the customer. The performance as the function from the sales growth and profitability (Best, 2013), profitability and the expansion of the market share (Wheelen et al., 2015). However, the performance focus of RDB is emphasized on the profit of the sales and financial ratios which are considered relevant with the business sustainability. Keisidou et al.

(2013) expressed the satisfaction of the customer and the loyalty as performance indicator at financial aspects. Dynamic business activity that reflects the status of the bank profitability status. Wu et al. (2009), Doyran (2013) convey the finance and non-finance evaluation. Aras et al. (2018) proposed the performance measurement in larger perspective which is the sustainability and Wheele et al. (2015), the performance as the function of profitability and the expansion of the market share.

HYPOTHESIS

The strategy and its change can lead how a company must sell the strength of their products to the customers. The company uses the framework of based-strategy either manual and IT to improve its financial skill or identify the strategic issue that can inhibits the flow of fund to the bank side from the customers. The availability of IT can improve the strategic agility in order to expand the market share and the profits. The availability of IT helps the company to control the market share through the right strategy. The strategy like proposed by Hubbard et al. (2011), Wheelen et al. (2015), the strategy as the step to be stronger from the other companies. The size of the power is showed by improving the profits, financial skill, or the expansion of the market share with service convenience. Beforehand, Hariadi (2003) confirms how to strengthen the competitiveness position of the product and the service. Uzelec & Sudarevic (2006) confirms back the interaction relevance between the issue of *"what"* (the marketing strategy), and *"why"* (the finance performance). Grover et al. (1993), Broadbent et al. (1996) confirms that the support of information technology infrastructure skill as the important thing for the competitiveness of the company.

The hypothesis that was proposed:

Ha1: Business strategy transformation has effect towards RDB performance

METHODOLOGY

This research used descriptive and verificative method with samples 5 RDB from 26 total. The financial report and the strategy applied at the last 7 years. The population of the research were the bank with similar characteristics in the case of capital strength and the product sale at book groups 2 and 3 (banks with core capital of $714 million-$2.14 billion) the branch leader as source of data. The measurement of business strategy transformation was based on the philosophy of change, orientation change, medium change, and performance size change. Performance is measured based on the finance ration, and the profits. The data analysis was based on variant or Partial Least Square (PLS)-SEM.

RESULTS AND DISCUSSION

The results of the research shows the loading factor of the indicator for the transformation of business strategy from the highest until the lowest was 0.962 for the philosophical foundation, 0.904 for the orientation change, the performance size change in the amount of 0.836 and for the community of the general entrepreneur, social community, retail the lowest was 0.697 (enough). For the finance ratio, the weight of the highest factor was NPL Net 0.815, LDR in the amount of 0.727. Another indicator was under 0.7 or (enough) which was BO/PO, 0.566, CAR in the amount of -0.537, ROA 0.409. While another indicator was issued from the model because it was less than 0.4. NIM was in the amount of 0.378, NPL Gross in the amount of 0.308, The

Profit -0.136, ROE in the amount of -.0248. If the value was less than 0.4, it was suggested to be removed from the model (Hair Jr. et al., 2014). The value of fit model referred to PNFI above 0.6 and the model was considered fit.

The criteria used for the internal consistency reliability was Cronbach's alpha, Composite Reliability (CR), and rho A. The model of the measurement fulfilled the criteria. The values of both were>0.7 for each. The transformation of business strategy had effect towards the organizational functions. The result of the research showed that the effect of business transformation towards the financial performance was 60% in accordance with the finance ratio. The more effective business transformation, then the more decrease LDR (Loan Debt Ratio), BOPO (Efficiency Ratio) NPL (Non-Performing Loan) net, it means the finance performance is getting better.

The finding showed that there were changes in performance since the implementation of a number of strategies by the BPD (Local Development Bank). Financial performance increased along with the gradual implementation of changes throughout 2014 (Table 1).

Table 1
Results Prior And Subsequent To Transformation

		Sum of Squares	Df	Mean Square	F	Sig.
NPLnet	Between Groups	1.396	2	0.698	0.368	0.693
	Within Groups	256.141	135	1.897		
LDR	Between Groups	1089.579	2	544.79	2.698	0.071
	Within Groups	27259.746	135	201.924		
BOPO	Between Groups	945.014	2	472.507	1.705	0.186
	Within Groups	37417.367	135	277.166		
CAR	Between Groups	224.817	2	112.408	5.389	0.006
	Within Groups	2816.179	135	20.861		
ROA	Between Groups	7.679	2	3.839	3.717	0.027
	Within Groups	139.451	135	1.033		
NIM	Between Groups	17.631	2	8.816	5.206	0.007
	Within Groups	228.613	135	1.693		
NPLgross	Between Groups	5.981	2	2.99	0.47	0.626
	Within Groups	858.987	135	6.363		
Profit	Between Groups	31944.754	2	15972.377	0.207	0.813
	Within Groups	10421217	135	77194.203		
ROE	Between Groups	385.505	2	192.753	3.303	0.04
	Within Groups	7878.982	135	58.363		

The results show that the RDB's financial performance is quite diverse. Focus on CAR (Capital Adequacy Ratio), NIM (Net Interest Margin), ROA (Return on Assets), ROE (Return on Equety). There needs to be an emphasis on the dimensions of Profit, Net NPL, Gross NPL, BOPO/Efficiency, LDR.

The resource and the understanding towards the market desires with suitable composition with the characteristics of RDB as the basic to formulate business strategy. In line with Wheelen et al. (2015), Pearce & Robinson (2015) concerning the strategy, the purpose, and the competition way (Hoskisson, 2015), the position of Hubbard et al. (2011). The election of choosing different activity compared to the competitor to create prominent performance succeeded to be created. Some banks which conducted strategy transformation were assessed having adequate financial ratio performance in accordance with the conditions of Bank of Indonesia. Some banks try to optimize the implementation of strategy to get out of disadvantage status.

The results of the research show that the change philosophy as the main focus in the effort of propelling the financial performance. The change of fundamental values is needed to strengthen the organizational structure. And lead the organization to the performance. In line with Barrett et al. (2011), Nayak & Chia (2011), Tsoukas & Chia (2011) who explain the importance of philosophy for the organization which was to understand the reality on nonstop demands. Philosophical analysis helps to keep the value meaning. Elkjaer & Simpson (2011) states the difficulty of the organization without philosophy. Sulifan et al. (2013) confirms that transformation means thinking back the fundamental principles. The organization was faced to the difficult problem to be solved through adequate ways. The organization is involved in the complexity of multi-competition from the global business. The demands for the organization so that reflex adjusting with the common sense and accepted ideas to be implicit guidelines for the organization. The organization needs the value as the views of life in order to be able to define the reality, obedient to the change and able to open the new possibilities to continue to develop (Segal & Bruce, 2017). Naimo (2016) explains the similarity of transformation and philosophy. The change of fundamental values will lead to the change in the structure along the organization has the commitment with that dynamic transformation.

Another fundamental change is related to the orientation. The change in the orientation will lead the organization to the purpose for improving the performance. Behardt et al. (2006) expressed the change in the market orientation. The creation of value to lead the market orientation as one main need. The organization needs change in its measurement system. Kaplan & Norton (2001) offers the new performance framework to describe the strategy of value creation that connects the tangible assets and non-tangible assets. The non-tangible assets are mobilized and combined to create the value propositions of the different customers and more excellent financial results.

For dimensions in the transformation of business strategy will influence how the financial performance achievement. It means the financial performance as the focus of business strategy transformation is the credit with jam status with total credit distributed, and the composition of the number of credit given compared to the number of society funds and self-capital. The four dimensions are one unity. Tangen (2004) explained how the measurement philosophy as the source of practice. Philosophy is translated to be the conceptual performance framework to fulfil the unique measurement needs from certain company, mainly at operational level.

The results of financial ratio analysis shows that the effort from RDB side to get into book category IV still needs strategy design which more oriented on the market needs by introducing the products through the power of high competitiveness. The need of the fundamental change on the life of organization is done by RDB. The philosophical foundation that becomes the basic for the implementation of a number of changes on the functional level is still not understood and followed with the high commitment of the organization. The harmony of philosophical change is limited at the framework value, still not to the performance framework that leads to the performance in accordance with the function of RDB as the part of financial structure for the development. The change in the philosophy is still not fully followed by the linear process, systematic, and adaptive towards the dynamics of quite tight competition. The change on the business strategy is a gradual process (Lewin, 1952; Heinemann, 2005). However in the competitive era, the stage on the process of change is complex and multi-dimension.

In line with Davidson (1993), introduces the business transformation concept through three stages of the change on the vision, the culture, and the achievement. Vision needs philosophy. The transition period (the movement on the value and the new norms/the new situation in the change) needs philosophical foundation. Vision as the foundation of value like explained by Kotter (1996), Claire & Banks (2009 to propel the change on the culture and the performance. The existence of value in the vision in accordance with the transformation on the philosophy to be *"the guidance"* for the activities at the functions of the organization either the finance, the human resources (Linder et al., 2002; Almahry, 2018; Al Qudah, 2018), operation or the marketing included technology like proposed by Anshoff (1972), Dutta & Segev (1999), Daniel & Wilson (2003).

The success to create financial performance at RDB is based on the comprehensive strategy transformation by keep paying attention on the dynamics of the competition. The change as mentioned by Aral & Dellarocas (2011), Dutta & Segev (1999), Davidson (1993), paid attention on the strategic functions of RDB in the development by Goldsmith (1959), Levine et al. (2000), Kun & Levine (2001). Included paying attention on how the obstacles of organizational architecture, financial limitation, and the organizational ability. Aspara et al. (2011), and Madiraju (2015), Love et al. (2004). RDB with status book banks II and III. That position obviously describes how the power of competitiveness included the resources owned compared to the bank with book IV status that operate and introduce the product that is not far different even tends to be the same (Omarini, 2014), bank differ itself compared to the competitors through its strategy.

The result of the research enlarge the understanding regarding the transformation of business strategy in order to improve the financial ratio performance at RDB with categories 2 and 3 in accordance with the strategic function of RDB as the part of financial structure for the development. The priority of business strategy is to decrease the level of NPL Net remembering that ratio as the most significant indicator of success for the financial performance. The second to keep so that the LDR ratio stays low. The selection of customers and the process of solving the jam credit prioritizing the importance of the bank and the customers. For the information BPD with categories 2 and 3 is BUKU 2 is a Bank with Core Capital of at least Rp.1000000000000.00 (one trillion rupiahs) up to less than Rp.5000000000000.00 (five trillion rupiahs);

BUKU 3 is a Bank with Core Capital of at least IDR 5,000,000,000,000.00 (five trillion rupiahs) up to less than IDR 30000000000000.00 (thirty trillion rupiahs).

CONCLUSIONS

The change in the financial performance of RDB (Regional Development Bank) is influenced by the transformation of business strategy on the philosophy, orientation, performance, and the community. The transformation suggestion focuses on the decrease of NPL Net and LDR.

The research was only conducted towards samples 5 RDB from 26 RDBs. The financial report and the strategy implemented in the last 7 years.

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