

Developing Distinctive Capabilities in Regional Development Banks in Indonesia

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Abstract: This study aims to analyze the possession of distinctive capabilities as activators capable of producing better performance than passive resource ownership. The study was conducted on the Regional Development Banks (BPD) in Indonesia. This research uses mixed method research design. The first stage was to collect questionnaire data from 26 BPD for quantitative data analysis. The second stage was the collection of information through in-depth interviews and focus group discussions with the leaders of BPD and the Association of Regional Banks (Asbando). The results show that the possession of functional capabilities has a strong influence in building distinctive capabilities. The findings indicate that BPD need to develop functional capabilities associated with the bank intermediation function. Success in intermediation is determined by capabilities in segmenting markets.

Key words: distinctive capability; functional capability; cultural capability; regulatory capability; position capability; Regional Development Bank

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1. Introduction

Research on distinctive capabilities in creating competitive advantage that contribute to the company's performance continues to grow today. Development of organizational structure, reputation, and innovation is conducted by adding strategic assets variable (Asgariyan, Babakhani & Khosravi, 2013). Possession of capabilities cannot be separated from the quality of human resources as the driver (Tikly L. & Barrett A. M., 2011).

Distinctive capabilities are derived from the embodied resources as feedstock capability gap. The capability gap used is developed from Foon (2011) with the functional, cultural, regulatory, and positioning gap capability categories resulting in sustainable competitive advantage and superior performance of companies in the service industry. Ownership of distinctive capabilities will be able to move tangible and materialized resources better. The ability to drive resources is what can bring competitive advantage.

The main objective of this research is to investigate the ownership distinctive capability in the BPD banking industry in Indonesia. The purpose of this study is to explain the results of research on how BPD utilizes their distinctive capabilities to produce better performance. The study was conducted on all BPD in Indonesia from July

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to October 2016 by sending questionnaires to respondents and interviewing informants. This study uses the banks incorporated in the category of BPD in Indonesia as the unit of analysis. The unit of observation is the management of each bank, in this case the President Director or the authorized person representing the President Director.

Furthermore, this article will be structured as follows: First is the development of the literature used throughout the study. Second is the discussion of methodology research used. Third is explanation of the findings resulted from the study. Fourth are recommendations for implications, limitations and direction for further research.

2. Literature Review

Hitt et al. (2015) states that resource-based models assume that the organization is a distinctive set of resources and capabilities, functions as a basis for strategizing the company and its ability to achieve above-average returns.

On the other hand, Parmigiani et al. (2011) proposes that technical capabilities and relational capabilities impact on social performance and environmental performance. It presents two types of capabilities, namely technical and relational capabilities. Technical capability is a set of organizational routines based on science and technology in the management of supply and production processes. Relational capability includes the ability to design informal and contractual mechanisms to increase commitment between firms and stakeholders.

Next, Martelo et al. (2012) suggests that distinctive competence shows the company's ability to create value creations, where distinctive capabilities demand a combination of resources and capabilities difficult to imitate by competitors. It states the company's ability to create value creations. It is further said that the high speed in environmental change and the increasing demands of competition make companies (e.g., banks) need a combination of resources and abilities that are difficult to imitate. For that reason, distinctive capability sets requirements for a combination of resources and capabilities difficult to imitate by competitors, due to increased competition demands.

Fawcett et al. (2012) says that distinctive capabilities demonstrate practices that bridge organizational boundaries such as goal alignment, smooth and open communication, high levels of managerial interaction, expertise and resource exchange, and willingness to share risks and benefits, essential elements for the development of collaborative capabilities. It is stated that the nature of the distinctive capabilities is practically a tool for bridging organizational boundaries. These limits are target alignment, frequent and open communication, high-level managerial interaction, expertise and resource exchange, and willingness to share risks and outcomes. This property is an important element of the source of collaborative ability built.

Ajayi (2016, p. 6) proposes that distinctive capabilities are required by firms to translate resources into excellence and performance. Next, Gedajlovic et al. (2012) states that the capability of value builders and difficult to imitate, such as superior reputation, privileged access to exclusive networks and family-derived social capital, become the basis of success for family enterprises.

On the other hand, Foon (2011) states that "in order to enjoy competitive advantage in the product/market segment, the difference to competitors must be felt by the market." The difference must be reflected in some product or shipping attributes that are key criteria for the market, in buying conditions, the most important thing for sustainability is the existing competitors, and potential competitors cannot or will not take the necessary action

to close the gap. When a competitor can and will fill the gap, then the advantage is not sustainable. Therefore, it is important for a company to identify capabilities owned where the use of capability gap is a gap for competitive advantage. There are four categories of capability gap needed to maintain the continuity of competition: functional, cultural, position, and regulation.

The functional gap for companies with this capability will be able to be used to perform individual functions more effectively than its competitors. Employee knowledge is a tangible resource that produces distinctive competencies and helps the company to be different from its competitors. This capability is derived based on the skill, experience, or knowledge of employees who are the company's strategic assets. The assets are the firm's learning curve effect, innovation, strategic management, corporate entrepreneurship, new corporate forms and core competencies. Functional capabilities derived from the knowledge, skills, and experience of the work lead to the company's special skills to outperform competitors.

The cultural gap is the result of corporate capabilities that consistently innovate and adapt more quickly and effectively to environmental change than competitors. This capability is based on the quality of perception, learning ability, trust, and values of all members of the company. Corporate culture is also a strategic asset that is usually rare and difficult to imitate because it forms the distinctive personality of a company member or executive officer. Culture is built through a distinctive history within the company. In addition, corporate values, beliefs, knowledge, perspectives and assumptions are hard to describe and have a causal ambiguity that has not been understood.

The regulatory gap is derived from government control and agency authority over the activities of firms from a regulatory or legal perspective. The embodied resources of the regulatory gap are the company's intellectual property rights, licenses and agreements, patents, copyrights, contracts, trade secrets, and others.

The position gap is a consequence of past actions, resulting in reputation from customers, favorable location facilities, and more. Positive reputation is rare, so it is a source of competitive advantage.

From the above concepts, the distinctive capability definition used in this research is the concept developed by Foon (2011) that is the non-material resource as the raw material of capability gap in producing sustainable competitive advantage and superior performance of the company. This means that the capability is more focused on the development of non-material resources in the company as in Table 1.

The construct was constructed by taking into consideration that the unit of analysis in this study is BPD, so the distinctive capability variable in this study is a noble resource. In order for such a sophisticated resource to produce sustainable superior performance, there must be a gap in each dimension to the dimensions of the competitor.

Based on the recapitulation of the distinctive capability concept of some experts and constructs of variable definitions built for this study, a distinctive capability development typology as an internal factor in the quest for competitive advantage is proposed. Typology is structured according to distinctive capability types: functional gap, cultural gap, regulatory gap, and position gap. This type of capability is associated with the cause or prerequisite of capability development. Next is the gap generated when capability is owned. Last is the consequence of capability ownership, i.e., the benefits gained on capability ownership. The summary is presented in Table 2 below.

Table 1 Construct of Dimensions and Indicators of Distinctive Capabilities

Dimensions	Indicators
The Functional Gap	<ul style="list-style-type: none"> ▪ Superior service quality ▪ Enterprise entrepreneurship ▪ Experience on the learning curve ▪ Innovation in the organization ▪ Effective strategic management ▪ New organizational format ▪ Ownership of core competencies ▪ Effective human resource management ▪ Advanced information technology
The Culture Gap	<ul style="list-style-type: none"> ▪ Tradition to be the best ▪ Flexible culture to drive innovation ▪ Culture of customer service oriented
The Regulatory Gap	<ul style="list-style-type: none"> ▪ Privileges ▪ Cooperation contract
The Position Gap	<ul style="list-style-type: none"> ▪ Management skills ▪ Staff skills ▪ R & D investment ▪ Healthy financial ratios ▪ Leadership in industry ▪ High ethical standards ▪ Social responsibility ▪ Recognition by stakeholders

Source: Summary of previous study

Table 2 Typology of Distinctive Capabilities

Distinctive Capabilities	Functional	Cultural	Regulatory	Position
Precondition	Advantages of previous performance	Shared values	Proximity to authority	Internal Strength
The gap produced	High standard of achievement	Superior ethos and culture	Regulatory rules	Competitive advantages
Benefits	Higher performance	Higher productivity	Ease and alignment of the authority/regulator	Ease in Competition

Source: Summary of previous study.

Based on the typology of distinctive capability, hypotheses can be arranged as follows:

- 1) Functional gaps are developed from past performance as a benchmark for better future performance.
- 2) Cultural gaps are developed from joint values as a higher productivity reference.
- 3) Regulatory gaps are developed from proximity to the authority as a reference to regulatory alignments.
- 4) Positional gaps are developed from internal strength as a reference in the face of competition.

3. Methods

Based on the secondary data from Central Bank (BI) and Financial Services Authority (OJK), the population of all BPD in Indonesia until March 24, 2017 is 26 BPD. Given the small number of population, this research used all 26 BPD in Indonesia. The domain of this research is management strategy that emphasizes on observation of top management behavior in managing organization. Thus, the observation unit in this study is the top management of all BPD namely the President Director.

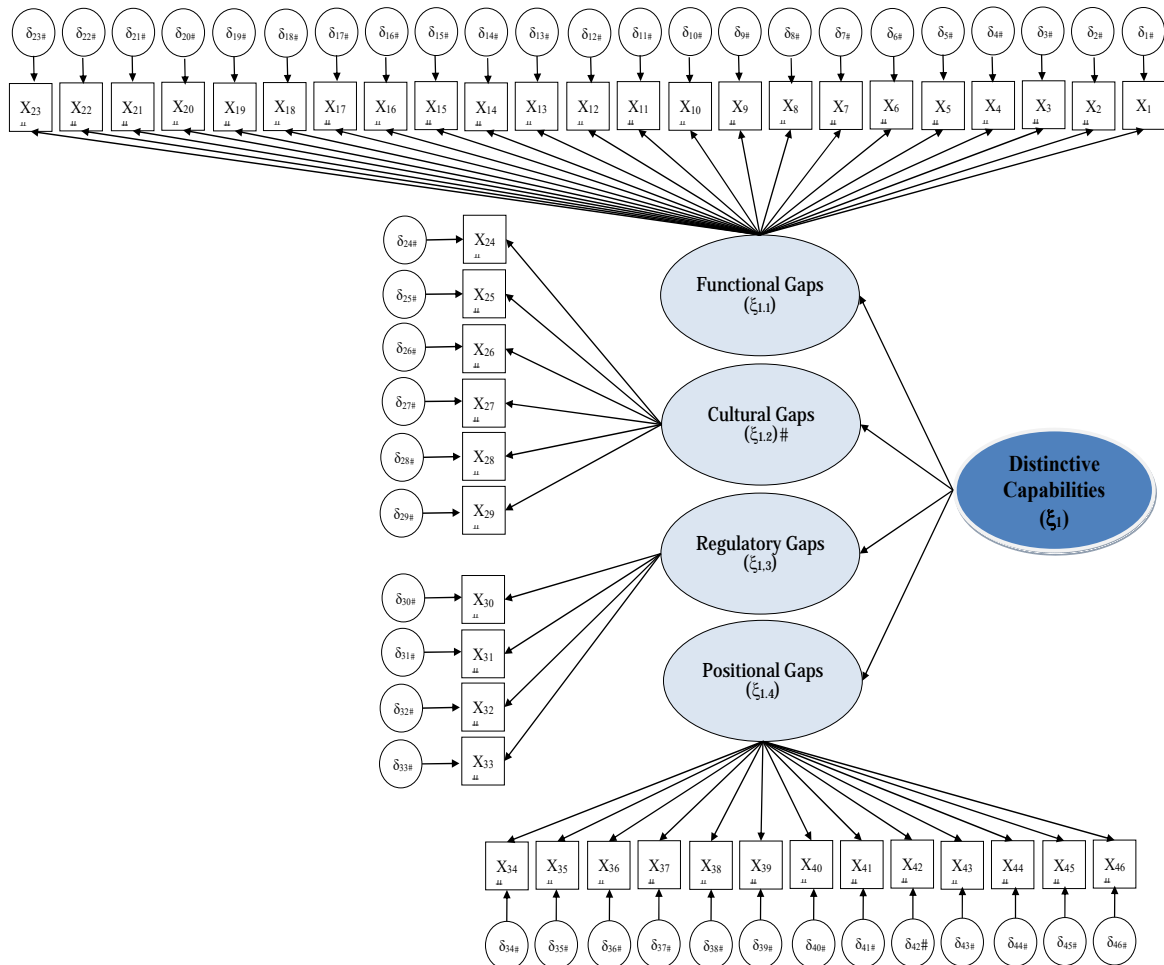


Figure 1 Hypothesis Testing Design

Data processing used is Partial Least Squares-structural equation modeling (PLS-SEM). The consideration is that PLS-SEM can still be implemented for small data if the population surveyed is small and the consequences of predictive validity are lower (Hair et al., 2014, p. 48). Furthermore, Hair et al. (2014, p. 16) provides a detailed description of the key characteristics of the PLS-SEM related data. It is said that in PLS-SEM: (1) The problem is not identified by small sample size, (2) In general, although the sample is small, PLS-SEM is still capable of producing high-quality statistical analysis, and (3) The larger the data, the expected estimates of the research are more accurate (consistent).

Recognizing that this study has a small population size and the potential consequences that the predictive validity of the study is lower, the solutions undertaken to strengthen the research findings are: (1) The sampling method was surveyed to 26 BPD and (2) Interviews and FGDs were conducted intensively to produce an in-depth description in the discussion of research findings. So, in this research, the mixed research method becomes very relevant to be implemented.

Survey was conducted by sending questionnaires to all BPD throughout Indonesia. The questionnaires contain questions relating to variables, dimensions and indicators prepared through literature studies and direct observations described by using answers from all the questionnaires. The questionnaires were submitted to all BPD as an analytical unit. The observation unit to answer each question on the questionnaire was the President

Director of each BPD. Respondents who provide answers to the questionnaire are the President Directors or parties authorized by the President Director of BPD to become respondents.

The purpose of this study is to obtain a description of the variables studied and reveal the relationship between variables. Referring to the aims of the study, the design of this study uses a conclusive research design. According to Malhotra (2010, p. 104), conclusive research is a study that tests the specific hypotheses as well as testing the specific relationship. In practice, research design is made with the aim to test the hypothesis and know the relationship between the dimensions and the variables. The conclusive research design consists of descriptive research and/or causality research.

This research uses explanatory design in a two-phase mixed method, where the first phase involves collecting and analyzing quantitative data, and the second phase includes qualitative data collection and analysis done to strengthen the result of quantitative research (Creswell, 2013, p. 203). The quantitative results obtained in the first phase were further described qualitatively in the second phase. The design of this study was chosen because the data and quantitative analysis in the first phase aims to explain the problem of research. Furthermore, qualitative analysis in the second phase will explain and complement the statistical results by exploring the views of respondents and other inputs with more depth. In the process of QUAN result, identification of variables from the most to the least dominant size level is done. The result of this process is the list of variables up to the level of size that is supplemented by the candidate reasons for the cause as well as the QUAN conclusions supported by the findings of the previous process.

The process of sending and collecting questionnaires was conducted in July-August 2016. The questionnaires distribution and collection were conducted through Asbenda. From 26 questionnaires sent to all BPD, all were returned and answered fully by the respondents. Details of respondents who answered the questionnaire include: 12 President Directors, 4 Directors, 8 Division Leaders, 1 Sub-Division Leader, and 1 Section Head of BPD.

The result of model analysis of distinctive capability variable shows that there is one dimension with loading factor value less than 0.500, which is the dimension of "Regulatory Capacity Gap" with loading factor of 0.250. Nevertheless, the dimensions of the regulatory gap remain to be considered to linger within the model with argumentation; (1) the loading factor value is still positive and (2) the existence of this dimension does not interfere with the overall CR and AVE values.

Table 3 Measurement Model of Distinctive Capabilities

Dimensions	Manifest Variables	Standardized Loadings	R ²	Variance Error
Functional Gap	$\xi_{1.1}$	0.979	0.959	0.041
Culture Gap	$\xi_{1.2}$	0.931	0.866	0.134
Regulatory Gap	$\xi_{1.3}$	0.250	0.063	0.937
Position Gap	$\xi_{1.4}$	0.903	0.816	0.184
<i>Composite Reliability (CR)</i>		0.879		
<i>Average Variance Extracted (AVE)</i>		0.676		

Source: Quantitative result of study.

Based on the calculation results presented in Table 3, it is found that the functional dimension is the dimension with the largest loading factor. This means, based on the dimension, it can be said that the distinctive capability gap that BPD should develop is related to functional capability, namely the ability of human resources in all lines to exploit internal strength derived from tangible, intangible resources and organizational capability

owned by BPD. One thing that is more keenly highlighted is that the most important functional capability is an effective marketing strategy through segmentation strategy. In this case, skills of BPD are needed in classifying wants-needs-demands from targeted market segments based on geographic-demographic-psychographic segmentations.

In the process of identifying outcomes for follow-up, evaluation of relevant quantitative findings should be followed up by identifying respondents from previous interviews, experts to engage in further research, and preliminary literature studies in the qualitative phase. Output of identification results for follow-up is the formulation of qualitative problems, list of candidate respondents for FGD with banking experts, questionnaires for each FGD, list of development model literature commonly used by the banking industry in Indonesia.

In the process of collecting QUAL data, confirmation of problem formulation was done by conducting FGDs with banking experts to confirm the findings in the quantitative phase and to get input on what, how and why this occurs as a result of quantitative findings.

The description of the questionnaire results was further confirmed by in-depth interviews, focus group discussions and direct observations conducted from May 2016 through March 2017. In-depth interviews were conducted to the President Directors, Directors and Executive Officers of several BPD. Focus group discussions were conducted for Asbanda and OJK leaders.

4. Results

Based on the measurement of functional capability dimensions (Table 4), it is found that all indicators used to measure functional gap dimension are valid. Indicators most closely related to functional capability dimensions are indicators of “effective marketing strategies on segmentation choosing strategies”.

The functional dimension gap analysis of functional capability is based on the superiority of individuals working in the company in working more effectively and efficiently than competitors. The functional gap is based on the inability of competitors to imitate and follow the company’s success. In addition, the knowledge management possessed in managing the tacit knowledge becomes explicit knowledge of the company, creativity, and innovation ability, and the shortness of learning curve that must be passed into factors that build functional gap.

Table 4 Measurement Model of Functional Gap Dimension

Indicators	Manifest variables	Standardized loadings	R ²	Variance error
Effective marketing strategies on segmentation choosing strategies (Segmenting: geographic, demographic, psychographic)	X15	0.852	0.725	0.275
Composite Reliability (CR)		0.971		
Average Variance Extracted (AVE)		0.597		

Source: Quantitative result of the study.

Based on the measurements of the cultural capability dimensions (Table 5), it is found that all the indicators used to measure the dimensions of cultural capability are valid. Indicators most closely related to the dimensions of cultural capability are indicators of “bank culture in encouraging customer-oriented employees as the main thing to guide and consideration of thought, attitude, and action taken”.

The analysis of the cultural gap dimensions is based on the capability of a company that consistently innovates and adapts more quickly and effectively to environmental change than its competitors.

Table 5 Measurement Model of Cultural Gap Dimension

Indicators	Manifest Variables	Standardized Loadings	R ²	Variance Error
Bank culture in encouraging customer-oriented employees as the main thing to guide and consideration of thought, attitude, and action taken.	X28	0.949	0.901	0.099
Composite Reliability (CR)		0.967		
Average Variance Extracted (AVE)		0.829		

Source: Quantitative result of the study.

Based on the measurement result of regulatory capability dimension (Table 6), it is found that all the indicators used to measure the dimensions of regulatory capability are valid. Indicators most closely related to the dimensions of regulatory capability are indicators of “having regulated privileges for the management of local wealth as a source of funds”.

This is interesting to discuss, because it is very dilemmatic. On the one hand, BPD as government-owned enterprises need the implicit and explicit support of the local government to grow and develop. Most implicit support can be done through applicable laws and regulations, while most explicit support can be done by direct action supporting the placement of funds and the use of credit facilities from BPD. Both of these are very likely to be done by the local government. The problem is the clashing of Law on Prohibition of Monopolistic Practices and Unfair Business Competition. It is a dilemma that makes BPD on the one hand are in a dire need of support from the local government. On the other hand, BPD and the local government are struck on the issue of fair business competition.

Table 7 Measurement Model of Regulatory Gap Dimension

Indicators	Manifest variables	Standardized Loadings	R ²	Variance error
BPD have regulated privileges for the management of local wealth as a source of funds	X31	0.898	0.806	0.194
Composite Reliability (CR)		0.928		
Average Variance Extracted (AVE)		0.764		

Source: Quantitative result of the study.

Based on the dimension measurement result of position capability dimension (Table 7), it is found that all indicators used to measure position dimension of capability are valid. Indicators most closely related to the dimensions of the regulatory capability are indicators of “management capability in enhancing the bank’s reputation/reputation as one of the BPD that serves as a role model for the banking industry in the region to the national”.

Management Capability in improving the reputation of the bank as one of the BPD serves as a role model for the banking industry in the region to the national level. It is very easy to observe that most BPD are very concerned with the awards issued by various institutions, both government and private institutions. BPD are very proud of all the awards won.

Table 7 Measurement Model of Position Gap Dimension

Indicator	Manifest Variables	Standardized Loadings	R ²	Variance Error
Management capability in enhancing the bank’s reputation/reputation as one of the BPD that serves as a role model for the banking industry in the region to the national.	X63	0.860	0.739	0.261
Composite Reliability (CR)		0.953		
Average Variance Extracted (AVE)		0.609		

5. Discussion

5.1 Key Strategies for Distinctive Capabilities Development

The development of distinctive capabilities in the banking industry, especially BPD in Indonesia, is focused on functional capabilities. Functional capabilities are implemented in the form of superior service quality. Superior service quality is derived from experience with the utilization of learning curve. The learning curve is exploited by trying to repeat every success achieved and trying to avoid any failures that have ever been experienced. Through the use of learning curve, it can be expected that functional capability of the bank can grow faster.

Relevant functional capabilities in the management of BPD in Indonesia are an effective marketing strategy for clear segmentation (segmenting: geographic, demographic, psychographic) strategies. Market segmentation selection strategy is conducted so that banks can obtain a complete and useful map to market what products and services can be offered to customers in what segment.

Functional capabilities are closely related to the bank's intermediary role to connect the surplus units as depositors and deficit units as borrower customers. Banks that have mapped the market segment faced will be more efficient in using time and marketing costs. On the other hand, marketing will be effective in getting customers that match the products and services provided by banks. Referring to the level of corporate, business and functional strategy (Hitt, 2015), in the next paragraph is the main strategy for a distinctive capability that can be done.

Corporate level makes room for the bank's internal entities to develop themselves, innovate and improvise according to the established corridors. The space provided is used for the development of capabilities in meeting the needs of products and services to customers. The fulfillment of the requirement boils down to the creation and sustained business that is intertwined with the customers.

Business level consists of competitive and cooperative. Competitive is the deft use of momentum and act aggressively when finding the right market segmentation with products and services available. Regarding cooperative aspect, if products and services are not relevant to customer segmentation, product and service modifications are maximally available to meet customers' needs optimally.

Functional levels consist of marketing, finance, operations, and human resources. Marketing: optimizing the market segment that is owned by offering products and services accordingly, so that business is done optimally. Finance: supporting marketing research in order to find the needs of customer products and services and the ability of banks to meet the needs for business continuity of the bank. Operations: operational support and innovation to meet the needs of products and services that provide satisfaction in customer perceptions. HR: innovative human resource ownership within the bank's SOP corridor in providing solutions to meet the needs of products and services for customers.

5.2 Complementary Strategies for Distinctive Capabilities Development

Table 4 provides information beyond the functional capability dimensions. The distinctive capability variables based on rank consist of cultural capabilities, position capabilities and regulatory capabilities. Cultural capabilities with the highest indicators of bank culture in encouraging customer-oriented employees as the main thing become the guide and consideration of thought, attitude, and action. Position capabilities are the highest indicator of management capability in improving the reputation/reputation of the bank as one of the BPD, which serves as a role model for the banking industry in the region to the national level. On the other hand, regulatory

capabilities have the highest indicator of having regulated privileges for the management of local wealth as a source of funds of the bank.

Regarding cultural capabilities, customer orientation can be expected to lead to customer loyalty to the bank. The awareness of the importance of customers for the bank continues to be echoed in every individual. Awareness is realized in serving transactions and business between the bank and the customer optimally in a professional manner. Banks need to own and inculcate shared values as a bank culture to be dedicated to customers.

In regulatory capabilities, banks need to have the capability to approach LGs in a professional manner to be able to set explicitly or implicitly to place funds that are not or have not been used in BPD. The willingness of the local government to put the funds in BPD well and correctly, which does not violate the rules and crime of business competition, can support the body of BPD flower.

For position capabilities, as a business vulnerable to reputational risk, banks need to sustainably build and maintain a reputation through high quality service standards and products that meet the customers' financial needs. Banks need to have the capability to drive all their resources to maintain and improve bank positions among competing banks.

6. Limitation

This research has one main limitation, i.e., the small scope of research that is limited to the BPD group in Indonesia. In addition, this study has not examined the capability development offered for the implementation of the strategy towards the improvement of performance. Given the banking industry is loaded with distinctive capabilities, it is important to do research on distinctive capabilities, implementation strategies and company performance simultaneously. It would be more useful if the research is conducted on a broader scope of banking within a country.

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