Dimensional Measurement of Validity Item of Market Complexity and Corporate Strategy in the Banking Sector in Indonesia

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Abstract

The company always faces challenges both internally and externally in managing resources and achieving organizational goals. To be able to compete, corporations need to manage the complexity and uncertainty in the market environment by improving management. To date, few studies are available to verify the items required for business, particularly banking as a guide for designing such complexities. In this regard, this study seeks to provide validity items that are useful for the world of corporate banking, in managing the complexities of the external environment and in formulating and implementing strategies. By combining the concept of human resource management, socio-economic factors through a dimensional measurement with a stakeholder approach, the study findings demonstrate several important keys for banks to manage external elements and strategies as a guide to measuring effectiveness that can be used as a basis for further studies.

Keywords

Dimensional Measurement, Validity, Market Complexity, Corporate Strategy.

Introduction

The banking sector is a community institution that is expected to be able to facilitate the wheels of a country's economy. This study intends to identify the market environment and predicting the item validity compared with the theoretical concepts. It is used in relation to testing the influence of external environmental elements in particular on the implementation of business strategies and their implications for the effectiveness of bank business in organizational units in the banking sector. The main focus of this research is to comprehensively examine the validity of environmental factors through a stakeholder's approach in the banking industry. Furthermore, by taking into account the scope of the problem and not to spread the problem in connection with the limitations in terms of time, funds and capabilities as well as the desire for research to be carried out more deeply about the extent the element of market environmental, business strategies and business formulation is able to use as the predictor of bank performance.

Previous studies commonly used a goal approach, even though using a goal approach alone had weaknesses. Some of the weaknesses of the goal approach according to Ivancevich & Matteson (1999) are that the achievement of company goals that produce unreal outputs or products is difficult to measure. Some researchers (e.g Ordóñez et al., 2009; Goold & Quinn, 1990) suggest that there is difficulty among managers to reach agreement in setting more specific company goals. Sometimes even though the ultimate goal is achieved, the company is still considered ineffective. Stakeholder's approach henceforth emphasizes that an organization should satisfy the goals of every party who has an interest in the company. Therefore, to measure the effectiveness of the company, the interests of each party must be considered (Pearce & Robinson, 1997). The business sector, particularly banking, faces various internal and external challenges in operating its business. External environmental dimensions are generally difficult to detect early in influencing the effectiveness of the company either directly or indirectly. The dimensions that make up the elements of the external environment include market environment dimensions and industrial environment dimensions (Fauzi et al., 2020).

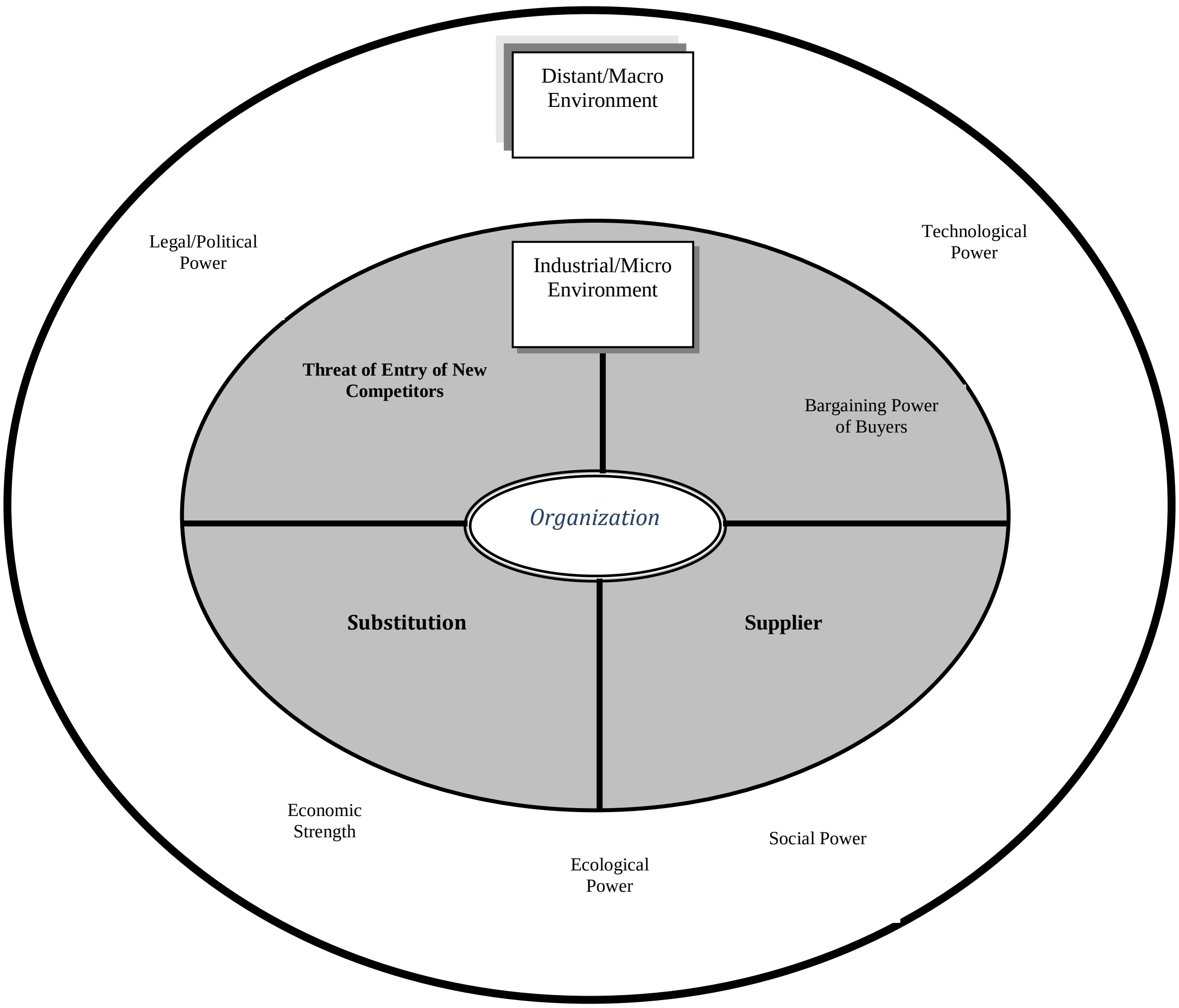
To be able to compete, corporations need to manage the complexity and uncertainty in the market environment by improving management. To date, few studies are available to verify the items required for business, particularly banking as a guide for designing such complexities. In this regard, this study seeks to provide validity items that are useful for the world of corporate banking, in managing the complexities of the external environment and in formulating and implementing strategies. Regarding the measurement of effectiveness itself, the fundamental thing that distinguishes this study is the approach model used, namely the stakeholder approach which is currently considered a contemporary model of contemporary effectiveness approaches. Previous literature generally used a contingency approach model. Previous studies on the effectiveness of companies generally using purely financial benchmarks of unidimensional measurement (e. g. Fauzi, 2021; Susilo 2018). Financial measures are merely primary indicators that are static because they are calculated from financial statements at a certain point in time. In this regard, this study seeks to provide validity items that are useful for the world of corporate banking, in managing the complexities of the external environment and in formulating and implementing strategies. By combining the concept of human resource management, socio-economic factors through a dimensional measurement with a stakeholder approach, the study findings demonstrate several important keys for banks to manage external elements and strategies as a guide to measuring effectiveness that can be used as a basis for further studies.

Literature Review

As a type of business that faces a complex business environment, banking institutions should try to allocate their resources rationally in order to achieve the expected goals. In this case, effectiveness is seen as the ultimate goal by most companies, and is one of the company's performance measurements. From the model of the elements of the company's external environment, it can be explained that the first variable in the study, namely, the elements of the external environment is divided into macro-environmental dimensions and the industrial environment. The elements of the external environment include sub-dimensions of the macro-environment and industrial/micro-environment (Wheelen & Hunger, 1983). As a relatively different type of industry, the banking world faces elements of the external environment that are more specific than the general macro environment as described above, particularly those relevant to economic developments (macro environment).

Management theory says that the analysis of the external environment (business environment) consists of two main components, namely the analysis of the macro environment and the industrial environment (competitive environment). The macro environment consists of economic, political and legal forces, while the macro environment consists of social and cultural forces (Wheelen & Hunger, 1983). Acquaah (2011) who examines the influence of the external business environment and the implementation of competitive advantage strategies through achieving market position on company performance concludes that the external business environment has a significant effect on the implementation of the company's competitive advantage strategy in the global era.

The opinion of Jauch & Glueck (1999) as addressed above is also supported by Suwarsono (2002) who further explains the main factors of the economic environment consisting of: natural resources, human resources, domestic capital, and road infrastructure. Socio-economic factors center on the values and attitudes of people (customers and employees) that can influence the company's strategy. These values are able to shape into lifestyle changes that affect the demand for products and services or the way companies relate to their employees. Technological changes can provide great opportunities to improve results, goals, or threaten the company's standing. Technological factors can affect the use of materials needed by the organization, workforce, operations, product and service life cycles. The last factor in the general environment, namely government factors, namely policies in the fields of production, investment, business licensing, monetary, fiscal, prices, distribution, laws and others can influence what decisions are needed by each company. Furthermore, Pearce et al. (2000) describe a model of the external business environment that affects organizations as shown in Figure 1.



Source: Pearce et al. (2000), modified.
Figure 1 External/Macro and Internal/Micro Business Environments

Based on Figure 1, Pearce et al. (2000) divides the business environment that affects the organization/company consisting of a remote environment or also called the macro environment (Porter & Strategy, 1980) and the industrial environment or also called with the microenvironment. Remote environment (consists of: legal and political forces, technological forces, economic forces, social forces and ecological forces. Furthermore, it is also seen that the environment closest to the organization is the industrial environment which consists of the threat of the entry of new competitors, the bargaining power of buyers, substitute products and suppliers. Meanwhile, the macro environment consists of legal and political forces, economics, technology, ecology and social forces. In general, this distinction is not much different from what was stated by several previous studies, especially Wheelen & Hunger (1983). However, the special emphasis of Pearce & Robinson's (1997) opinion is on trends, especially in the industrial/micro environment that directly affect the company, which are grouped into four main elements, namely: consumer power, competition, substitute products and supplier resources. company. While in the remote/macro environment, there is an ecological dimension which is also one of the elements of the external environment.

Research Method

In this study, there are several main dimensions studied and a number of accompanying items. In this study, the variable of business strategy implementation refers to a process of implementing a predetermined strategy through the formulation and implementation of strategies as a way to achieve the vision, goals and objectives of the organization. The dimensions of business strategy implementation in this study are exogenous and endogenous dimensions which also consist of: strategy formulation dimensions, and strategy implementation dimensions. The sub-dimensions above are considered independent, do not affect each other, but are not measured separately in the validity test, due to the variability of the data to be generated or testing on the unit average.

In this study, the variable of business strategy implementation is measured by the approach and assumption that the strategic plan is produced through the process of strategy formulation to its implementation. Thus, the sub-dimensions used in explaining the dimensions of business strategy implementation (Wheelen & Hunger, 1983). Strategy formulation includes Mission, is a fundamental and unique goal that distinguishes the company from other companies covering the products and markets served; Objectives, namely the final results of planning activities; Strategy, which is a comprehensive planning formulation on how the company will achieve its mission and objectives; and policies as broad guidelines for decision making of the organization as a whole. Strategy Implementation includes the Program as a statement of the activities or steps required to complete the single-use planning; Budget as a program expressed in units of money; and Procedure, which is a system of sequential steps or techniques, which describe in detail how a task or job is completed. Data analysis was carried out with the SPPS program by analyzing the validity of the items.

Results

Testing the validity of the market environment variable was carried out on each item with its dimension score and also with the total score of the market environment variable (Table 1).

Table 1 Item Validity for Market Complexities

Dimension	Total Score	Significance	Conclusion
Politics of law	0.273**	Significant	Valid
	0.211**	Significant	Valid
	0.339**	Significant	Valid
	0.244**	Significant	Valid
	0.304**	Significant	Valid
	0.306**	Significant	Valid
Socio-cultural	0.252**	Significant	Valid
	0.368**	Significant	Valid
	0.385**	Significant	Valid
	0.338**	Significant	Valid
Economy	0.312**	Significant	Valid
	0.265**	Significant	Valid
	0.330**	Significant	Valid
	0.330**	Significant	Valid
	0.321**	Significant	Valid
	0.345**	Significant	Valid
	0.384**	Significant	Valid
	0.304**	Significant	Valid
	0.225**	Significant	Valid
	0.295**	Significant	Valid
	0.360**	Significant	Valid
Technology	0.324**	Significant	Valid
	0.180*	Significant	Valid
	0.236**	Significant	Valid
** significant at the 0.01 level of significance; * significant at 0.05			

The test results in table 1 show the validity for the market environment variable that all instrument items, both those tested against the dimension score and with the total score of this variable, are valid. The validity of each instrument is determined by the value of the correlation coefficient (r-count) obtained and the coefficient is significant or greater than r-critical at df = n-2 and tested on two sides (two tails test). Therefore, all market environment variable items can be used to test the validity of the items. It also needs to be tested for reliability first. Based on the test, the total score of the two dimensions with the total score of the dimensions of the external environment is valid. Therefore, it can be said that each statement in the variable also becomes a unified statement that can be used to measure the dimensions of these external environmental elements.

Furthermore, the validity of the strategy formulation instrument was analyzed. Testing the validity of the strategy formulation variable was carried out on each item with its dimension score and also with the total score of the strategy formulation variable (Table 2).

Table 2 Item Validity for Strategy Formulation Dimensions

Dimension	Total Score	Significance	Conclusion
Mission	0.356**	Significant	Valid
	0.529**	Significant	Valid
	0.424**	Significant	Valid
	0.451**	Significant	Valid
Destination	0.373**	Significant	Valid
	0.410**	Significant	Valid
	0.356**	Significant	Valid
	0.393**	Significant	Valid
Strategy	0.253**	Significant	Valid
	0.317**	Significant	Valid
Policy	0.422**	Significant	Valid
	0.323**	Significant	Valid

The results of the validity test for the strategy formulation variable show that all instrument items, both those tested for their dimension scores and with the total score of this variable, are valid. Next, the validity of the strategy implementation variable instrument is presented. Testing the validity of the strategy implementation variable was carried out on each item with a total score of the strategy implementation variable (Table 3).

Table 3 Validity of Strategy Implementation Items

Dimension	Total Score	Significance	Conclusion
Program	0.376**	Significant	Valid
	0.352**	Significant	Valid
	0.285**	Significant	Valid
	0.414**	Significant	Valid
Budget	0.477**	Significant	Valid
	0.510**	Significant	Valid
	0.494**	Significant	Valid
	0.495**	Significant	Valid
Procedure	0.385**	Significant	Valid
	0.385**	Significant	Valid
	0.287**	Significant	Valid
	0.185**	Significant	Valid

Based on the test, it can be concluded that for the strategy implementation variable, all the items tested against the total score of this variable are valid. In general, the results of this study support the opinion of Jauch & Glueck (1999) which states that observations of the external business environment are carried out to identify opportunities and threats faced by the organization.

Discussion

According to Daft (1998), the elements of the external environment are all elements that are outside the boundaries of the company and have the potential to affect all or part of the company's activities. From this statement, it is illustrated that the external environment has a broad scope and for an industry or company, as long as the environment has a large or small potential to affect its business activities, it should receive attention. In other words, according to the above limitation that the elements of the external environment cannot be clearly ascertained, it is uncertain, and each industry will face different elements of the external environment.

Glueck & Jauch (1994) divide the market environment into three sectors, namely: socio-economic, technological and government. the socio-economic sector includes economic, climatic, and social factors that will help or hinder the company from achieving its goals. These three factors are interrelated and are a series that is difficult to separate. With regard to socio-economic factors, it can be addressed from the reality in organizations where company managers will always be involved with issues of the cost of resources needed by the company. These costs change over time due to the influence of economic factors, such as inflationary trends or price deflation of goods and services, monetary policy, devaluation, interest rates and so on. In relation to the social environment, the socio-cultural environment of a society is a way of life that determines almost all companies and managers will operate. This environment includes beliefs, values, attitudes, views and patterns of life that are shaped by tradition, education, religion, demographics, and geography. People's values and habits are also reflected in the company's organizational structure. Apart from that, what is most important is that the values and habits of society will influence how individuals feel about the company that they are in and how they feel about the work they do. Therefore, leaders need to be aware of and anticipate changes in the social climate and develop ways to deal with them.

Furthermore, related to technological factors, every company in reality is always faced with the level of technological progress that plays a significant role in determining the products and services to be produced, the equipment to be used and how various operations will be managed. Technological changes, which are usually innovative and obsolete, can be instantaneous and can dramatically affect a company's and competitive situation. Technological innovations can also create new competitive positions within different companies.

The government factor is related to various regulations in the economic, political and legal fields that are enforced. Politics and law in a certain period will determine the company's operations. The management of the company must not ignore the political climate, government regulations or the consequences or their impact on the company in making decisions. For example, the limits set by the government are intended to protect consumers, the environment or companies and eliminate unfair behavior in payments to employees. So, the government plays a role as well as a creator of opportunities, a provider of protection and a set of boundaries.

Conclusion

The test shows that the elements of the external environment are important dimensions that need to be considered in the formulation and implementation of the company's business strategy. The test results show the significance and validity of the external environment, the implementation of business strategies. This explains that with the changes that are currently taking place and the increasingly widespread global society, companies are facing many challenges in an increasingly complex market. The company's ability to implement or change strategies to compensate for or benefit from these changes will create success and even survival.

Furthermore, the external/macro environment is an element or component of the external environment that affects the company in two ways. First, these external forces affect a company directly or indirectly through one or more elements of the industrial/micro external environment. Second, the elements of the market environment create a climate; for example, high technology, bright or sluggish economic conditions and social changes, i.e., companies exist and must respond.

By using measurements that are separate in terms of the interrelationships of the dimensions being measured, the results of this study reinforce the previously existing concept that the implementation of strategy, the effectiveness of the company's business with a stakeholder approach refers to items such as mission, goals, strategies and policies. for strategy and program formulation dimensions, budgets, and procedures for strategy implementation dimensions. Meanwhile, market environment dimensions are indicated by political & legal, socio-cultural, economic and technological items. This finding shows the importance of observing the dimensionality of strategy implementation which consists of the formulation and implementation of strategies so that it has implications for the business effectiveness achieved, especially in the banking business environment.

As an implication, it is necessary to consider more about the corporate strategy formulation dimensions regarding the mission dimension which includes a written and formal corporate mission, containing unique and specific objectives, reflecting the company's business and accommodating various interests. Furthermore, from the strategy implementation variable, the practical implications for banking management are regarding the dimensions of credit portfolio management by concentrating more on the retail sector as the business base in anticipating the paradoxical phenomenon that tends to be capital intensive rather than labor intensive. In an effort to create a sound banking structure, it is necessary to implement good corporate governance as a commitment to build a banking system that can create financial system stability in a well-capitalized and well managed manner.

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