The Effect Of Company Reputation And Business Strategy On Company Performance Of Banking Industry In Indonesia

Tongam Lumban Tobing
Doctoral Program in Management, Faculty of Economic and Business, Universitas Padjadjaran, Indonesia
tongam.tobing@ojk.go.id

Abstract

The number of offices and assets of go public banking has increased, but their performance have grown unstable. The condition is allegedly related to issues of business strategy and company reputation. So that, this study aims to examine the influence of company reputation and business strategy on banking performance in Indonesia. The research uses quantitative research approach on unit of analysis national banking that has go public. So the population in this study is all national banks both government owned, private and foreign who have go public. The process of observation is cross section / one shot, ie in 2017. Primary data is obtained through questionnaire towards 43 go public banks conducted by a census. Analysis of causality to answer the purpose of research, using Partial Least Square (PLS). The results show that the company's reputation and business strategy significantly affect the performance of banking companies in Indonesia either simultaneously or partially. Partially, business strategy is more dominant in affecting company performance than company reputation.

Keywords : company reputation, business strategy, company performance, banking industry.

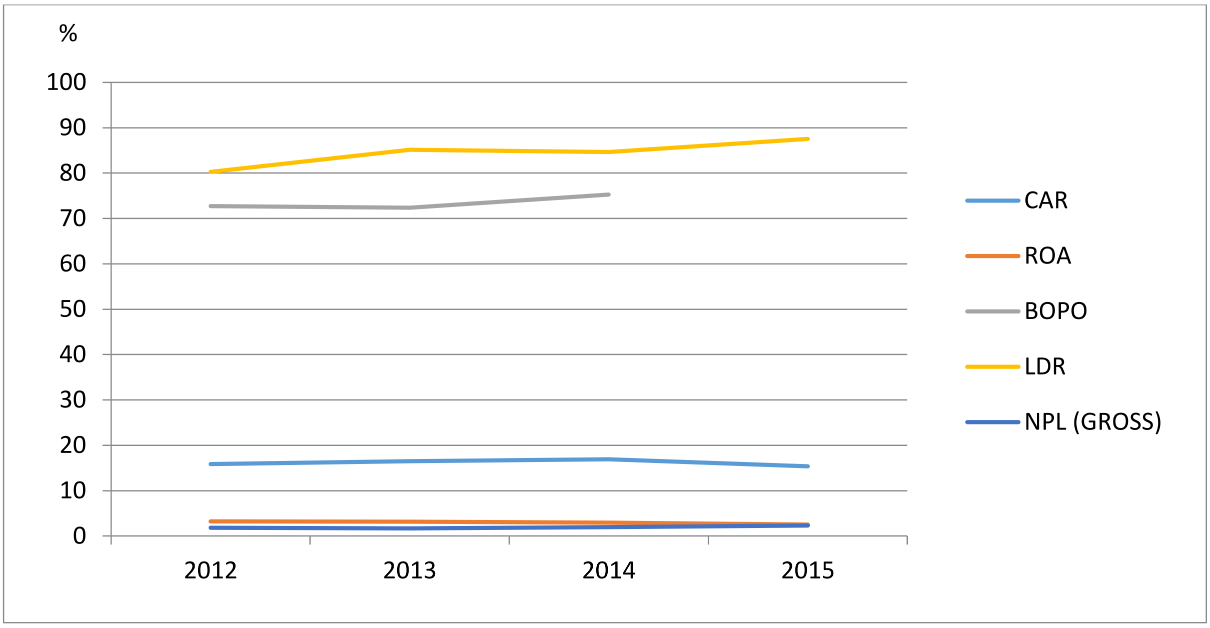
1. INTRODUCTION

1.1 Research Background

In order to improve the access to bank capital, becoming a bank go public can be one solution for banks in expanding access to sources of Third Party Funds. The transparency of bank go public information increases investment opportunities from investors, thereby expanding access to financial resources through instruments in the capital market. In the period of 2011 s.d 2015 there was an increase in the number of branch offices of go public banks. The number of publicly-owned banks increased from 30 in 2011 to 41 in 2015. The number of public-owned bank offices also increased 23% (5,184 offices) from 22,515 offices in 2011 to 27,699 offices by 2015.

In the period of 5 years from 2011 to 2015, an increase of IDR 1.829 trillion total assets of conventional commercial banks go public. The total distribution of conventional commercial bank funds go public Per December 2011, recorded at IDR 2,633 trillion and increased by 60% growth in five years, to IDR 4,223 trillion. In terms of profit, within the period of 2011-2015 there is an unstable profit growth and tend to slow down, although in total in 2015 there was a profit increase of 49% compared to total profit in 2011.

The following is a description of conventional commercial bank performance based on Capital Adequacy Ratio (CAR), Return on Assets (ROA), Operating Expenses to Operating Income (BOPO), Loan to Deposits Ratio (LDR), and Non Performing Loan (NPL).



Surce : Otoritas Jasa Keuangan, 2016

Figure 1

Growth of the Performance of Conventional Commercial Banks Go Public

Based on the data above, it is known that the performance of banking companies in Indonesia has not been achieved high performance. While the concept of performance by Wheelen and Hunger (2015) is the end result of an activity measured by a company with a number of measures defined in the strategy formulation phase as part of a strategic management process. Where in performance measurement, David (2013) uses financial ratios that including Return on Investment (ROI), Return on Equity (ROE), Profit Margin, Market Share, Debt to Equity, Earnings per share, Sales growth, and Assets growth.

Based on observations, preliminary surveys and in-depth interviews with experts in the banking industry, the cause of the unstable performance of banking companies in Indonesia is allegedly caused by business strategy problems. Wheelen & Hunger (2015) explain that business strategy focuses on increasing the competitive position of a product or service from a business unit or company in a particular industry or specific market segment in which they compete. Business strategy in the form of competitive strategy is to compete against all competitors with excellence, and or cooperative strategy is to work together with one or more companies to achieve superiority than its competitors. Based on these opinions, appropriate cooperative strategies and competitive strategies are needed. However, based on preliminary observations, an indication that banking companies are not yet optimal in applying the right business strategy.

On the other hand, Wang (2007) points out through a case study at De Novo Bank that cost efficiency leads to higher profitability. In addition, Banker et al. (2014) also found similar results there was an influence of competitive strategies on performance.

In addition to problems in the implementation of business strategy, the phenomenons are also alleged to be influenced by the phenomenon of company reputation. The company's reputation on service companies according to Zabkar & Arslanagic-Kalajdzic (2013), is directly related to profits (where improvements in the company's reputation are related to an increase in perceived profits) and at the same time related to customer sacrifices (where improvement in corporate reputation is related with reduced costs and sacrifices). Meanwhile, according to Fombrun (2001), there are several key elements in forming a strong and profitable company reputation namely credibility, reliability, trustworthiness, and responsibility. But from the results of preliminary observations it is known that reputation of banking companies in Indonesiahas not been high. Meanwhile, Hasanudin and Budianto (2013) show that the company's reputation has a positive effect on the company's performance. In addition, Ou and Hsu (2013) also show a relationship between company reputation and innovative performance.

1.2 Research Objective

Based on this background, this study aims to examine the effect of company reputation and business strategy on banking performance in Indonesia.

2. LITERATURE REVIEW

2.1 Company Reputation

There are much researches on the company's reputation. One of the most famous is Fortune's "World's Most Admired Companies Survey". The criteria used to assess the company's reputation in the survey are: product and service quality, management quality, long-term investment value, attracting human resources, the usage of resources, globalization, financial robustness, creativity and innovation (Duygun, Menteş, Cubaş, 2014, p.159). Duygun, Menteş, Kubaş (2014) define the company's reputation as a customer's perception of how well the company is able to safeguard its customers and relate to its welfare. The customer's perception of a company can occur directly through the products and services produced.

Fombrun (2001) argues that there are several key elements in forming a strong and profitable corporate reputation that is credibility, reliability, trustworthiness, and responsibility.

According to Zabkar & Arslanagic-Kalajdzic (2013), the reputation of service firms is directly related to profits (where improvement in the company's reputation is related to an increase in perceived profits) and at the same time with regard to customer sacrifices (where improvement in the reputation of the firm is related to the decline Cost and sacrifice).

In this study, company reputation is measured based on three dimensions namely, credibility, reliability, trustworthiness, and responsibility.

2.2 Business Strategy

According to Hubbard and Beamish (2011), business strategy is an effort to position the company's business to be more competitive than its competitors. Based on Pearce & Robinson's (2013) opinion, it is important to evaluate and select a strategy for successful business. Business will succeed if the company has some relative superiority better than its competitors. There are two sources of competitive advantage found in the business cost structure and the ability to differentiate its business over competitors.

Wheelen and Hunger (2015) explain that business strategy focuses on enhancing the competitive position of a product or service from a business unit or company in a particular industry or specific market segment in which they compete. Business strategy shapes competitive strategy by competing against all competitors with excellence, and / or cooperative strategy by working with one or more companies to achieve excellence over competitors.

Companies can choose five business-level strategies to build and maintain their desired strategic position against their competitors: cost leadership, differentiation, cost leadership focus, focus of differentiation, and integrated cost leadership or integrated differentiation (Hitt, Ireland, and Hokisson, 2015).

In this study, business strategy is measured by the dimensions of competitive strategy and cooperative strategy (Wheelen and Hunger, 2015).

2.3 Company Performance

Kaplan and Norton (2010) develop performance measurement based on four Balanced Scorecard perspectives: financial perspective, customer perspective, internal business process perspective, and learning and growth perspective. The BSC perspective includes:

Financial perspective: measured by account receivable, return on capital employed, operating expense.

Customer perspective: measured by customer satisfaction.

Internal business process perspective: measured by rework.

Learning and growth perspective: measured by employee's morale and employee's suggestion.

(Kaplan & Norton, 2010)

Karim, Ameen, and Ayaz (2011) measure bank performance by *Fixed Assets Turn-over, Return on Invest, Return on Equity, Net Profit Margin, Operating Profit Margin, Return on Capital Employed* (ROCE),dan *Earning per Share*.

Almazari (2012) uses Dupont Model to analyze ROE. The ROE model consists of three components: net margin, total asset turnover, and equity multiplier. While Hahn & Powers (2010) measure the performance of banking companies through ROA.

In this research, company performance is measured by dimension of growth of public fund, lending growth, profitability level, market share.

2.4 Previous Studies

Hasanudin and Budianto (2013) find that company's reputation has a positive effect on company's performance; Ou and Hsu (2013) find that better human capital moderates the relationship between company reputation and innovative performance. Cao and Myers (2015) through a study of 9,276 large US corporations in the 1987-2011 period and reputation ratings from Fortune's "America's Most Admired Companies", find that firms with high reputation scores enjoyed lower costs in capital even after controlling for other factors that determine the cost of equity. The reputation rating provides information about the quality of the company. Reputation changes associated with subsequent changes in the firm's investor base, consistent with reputation ratings that affect investor recognition and increase risk sharing.

Wang (2007) points out through a case study at De Novo Bank that cost efficiency leads to higher profitability. In addition, Banker et al. (2014) also find similar results about an influence of competitive strategies on performance. Hahn and Powers (2010) examine that in particular, banks pursue cost leadership, differentiation, and focus strategies that are consistent with Porter's typology. Banks with cost leadership have an effect on performance significantly higher than those who are not pursuing generic strategies.

Based on the literature study, hypotheses are arranged as follow:

H: Company reputation and business strategy affect the performance of banking companies in Indonesia either simultaneously and partially.

The three variables have not been studied in the unit of analysis go public banking in Indonesia in 2017.

3. METHODOLOGY

This study examines the go public banking in Indonesia using a quantitative research approach. Unit of analysis in this research is national banking that has go public. So the population is all national banks either government private and foreign owned, who have go public. The process of observation is cross section / one shot, meaning that the information obtained is the result of research conducted at a certain time period that is in the year. Primary data is obtained through questionnaire towards 43 go public banks conducted by a census. Analysis of causality to answer the purpose of research, using Partial Least Square (PLS).

4. RESULT AND DISCUSSION

4.1.Goodness of Fit Model

4.1.1 Analysis of Structural Model (Inner Model)

This section will discuss the result of hypothesis testing by using Partial Least Square (PLS). The analysis of structural model (inner model) shows the links between latent variables. Inner model is evaluated by using Goodness of Fit Model (GoF), that show the difference between the values of the observations result with the values predicted by the model.

Table 1
Test of Outer and Inner Model

Variable	R Square	Cronbachs Alpha	Composite Reliability	Q square
Company Reputation		0,958	0,962	0,598
Business Strategy		0,878	0,908	0,578
Performance of Bank	0,673	0,812	0,865	0,525

Source:SmartPLS 2.0

This test is indicated by the value of R Square on endogenous constructs and Prediction relevance (Q square) or known as Stone-Geisser's used to know the capability of prediction with blinfolding procedure. If the value obtained 0.02 (minor), 0.15 (medium) and 0.35 (large), and only used for the endogenous construct with relective indicator. Refer to Chin (1998), the value of R square amounted to 0.67 (strong), 0.33 (medium) and 0.19 (weak).

The table above gives the value of R^2 on company performance as endogenous variable is in very strong criterion (> 0.6 = strong), and Q square value is in big criteria, so it can be concluded that the research model is supported by empirical condition or fit model.

4.1.2 Measurement Model (outer model)

Analysis of measurement model (outer model) shows manifest variables (indicators) as with each latent variable. It is used as validity and reliability test to measure latent variabel and indicator in measuring dimension that is construct. It can be explained by the value of Cronbachs Alpha that is to see the reliability of dimension in measuring variables. If the value of Cronbachs Alpha bigger that 0.70 (Nunnaly, 1994), it show that the dimensions and indicators as reliable in measuring variables. Composite reliability and Cronbachs Alpha of variables> 0.70 show that all of variables in the model estimated fulfill the criteria of discriminant validity. Then, it can be concluded that all of variables have good reliabilities.

The usage of Second Order in the research model cause loading factor obtained can explains the relationship between latent variables-dimension and dimensions-indicators. The table below shows the result of measurement model for each dimension on indicator.

Table 2
Loading Factor of Latent Variable-Dimension-Indicator

Variable-Dimension	Indicator-Dimension	λ	t-value	Conclusion
Company Reputation ->	Credibility of Bank	0,978	269,588	Valid
	X1 <- Credibility of Bank	0,834	25,226	Valid
	X2 <- Credibility of Bank	0,786	23,958	Valid

Variable-Dimension	Indicator-Dimension	λ	t-value	Conclusion
	X3 <- Credibility of Bank	0,799	22,002	Valid
Company Reputation -> Trust		0,984	210,729	Valid
	X4 <- Trust	0,809	23,438	Valid
	X5 <- Trust	0,796	33,010	Valid
	X6 <- Trust	0,827	24,583	Valid
	X7 <- Trust	0,812	26,598	Valid
	X8 <- Trust	0,759	18,956	Valid
Company Reputation -> Reliability		0,980	157,053	Valid
	X9 <- Reliability	0,839	36,384	Valid
	X10 <- Reliability	0,736	16,309	Valid
	X11 <- Reliability	0,822	31,121	Valid
	X12 <- Reliability	0,793	22,727	Valid
Company Reputation -> Responsibility		0,979	151,654	Valid
	X13 <- Responsibility	0,819	30,971	Valid
	X14 <- Responsibility	0,778	23,279	Valid
	X15 <- Responsibility	0,758	21,086	Valid
	X16 <- Responsibility	0,815	29,615	Valid
Business Strategy -> Competitive		0,998	866,531	Valid
	X17 <- Competitive	0,801	24,779	Valid
	X18 <- Competitive	0,810	30,468	Valid
	X19 <- Competitive	0,779	22,484	Valid
	X20 <- Competitive	0,776	23,341	Valid
Business Strategy -> Cooperative		0,991	210,197	Valid
	X21 <- Cooperative	0,801	28,732	Valid
	X22 <- Cooperative	0,785	24,312	Valid
Performance of Bank -> Funding		0,696	10,331	Valid
	Y1 <- Funding	1,000	-	Valid
Performance of Bank -> Credit		0,830	21,327	Valid
	Y2 <- Credit	1,000	-	Valid
Performance of Bank -> Profit		0,936	112,558	Valid
	Y3 <- Profit	0,779	8,436	Valid
	Y4 <- Profit	0,594	5,895	Valid
	Y5 <- Profit	0,698	6,011	Valid
Performance of Bank -> Market Share		0,896	42,777	Valid
	Y6 <- Market Share	1,000	-	Valid

The result of measurement model of dimensions by its indicators shows that the indicators are valid which the value of t<2.04 (t table at α = 0.05)

The result of measurement model of latent variables on their dimensions shows to what extent the validity of dimensions in measuring latent variables. Following table shows the result of measurement model for each latent variable on dimensions.

Following figure shows the complete path diagram:

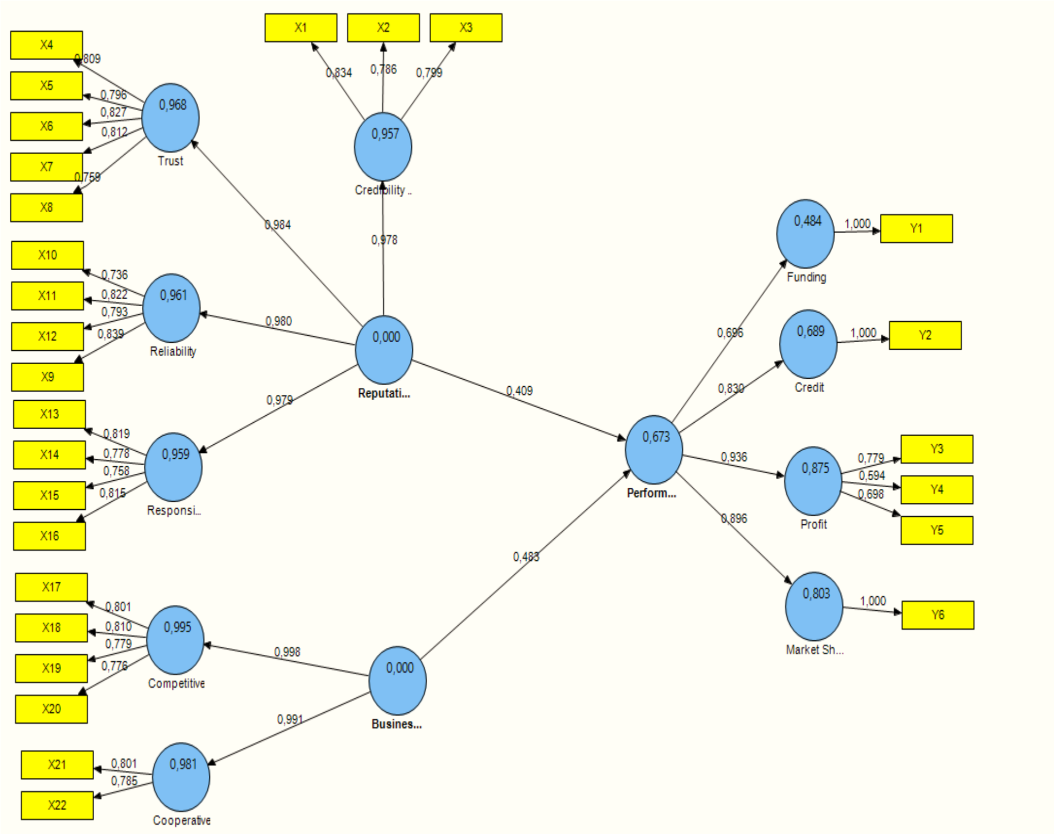


Figure 2
Complete Path Diagram of Research Model

4.1.3 Structural Model

Based on the research framework, then obtained a structural model as follow :

$$Y= 0.409X1+ \ 0.483X2 + \zeta_1$$

Which are :
Y=Performance of Bank
X1= Reputation
X2 = Business Strategy
ζi=Residual

4.2 Hypothesis testing

Below is the result of hypothesis testing both simultaneously and partially.

a. The influence of reputation and business strategy on performance simultaneously

Below is the result of simultaneous testing of hypothesis:

Table 3
Simultaneous Testing of Hypothesis

Hypothesis	R^2	F	Hypothesis
Company Reputation and Business Strategy -> Performance of Bank	**0.673**	**36.51***	**accepted**

* significant at α=0.05 (F table =3.31)

Based on the table, it is known that within the degree of confidence of 95% (α=0.05) simultaneously there is the influence of **company Reputation and Business Strategy on the Performance of Bank** amounted to 67.3%, while the rest of 32.7% is affected by other factor did not examined.

b. The influence of reputation and business strategy on performance partially

Below is the result of partial testing of hypothesis :

Table 4
Partial Testing of Hypothesis

Hypothesis	γ	t	R2	Hypothesis
Company Reputation -> Performance of Bank	0,409	4,900*	0,303	accepted
Business Strategy -> Performance of Bank	0,483	6,280*	0,370	accepted

* significant at α=0.05 (t table =2.04)

The table shows that partially **company Reputation and Business Strategy affect** significantly to **Performance of Bank**, which is **Business Strategy** has a greater influence (37%).

Based on the results of hypothesis testing, the research findings are as follows:

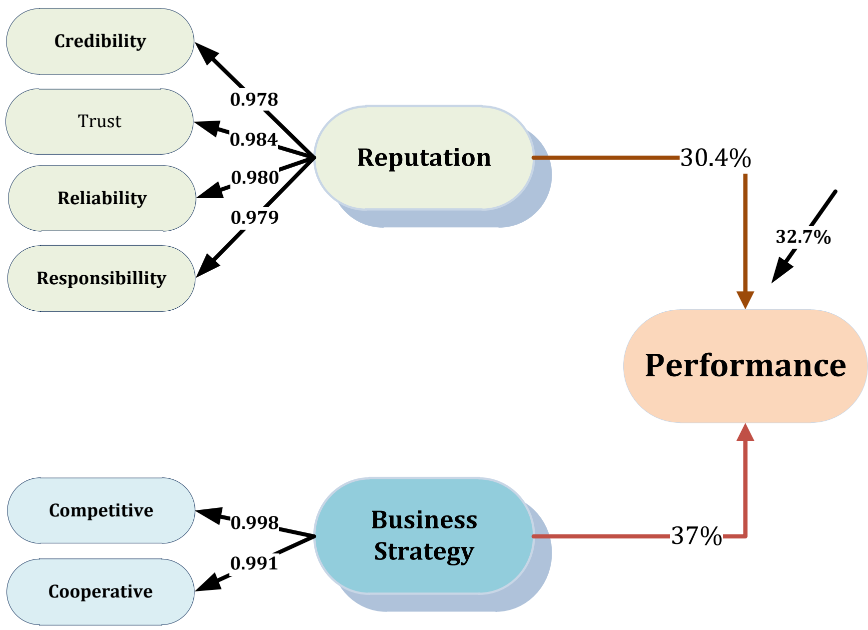


Figure 3
Research Finding

The finding of this study reveals that company reputation and business strategy have significant effect on the company performance, so this result supports the hypothesis. Business strategy has a more dominant effect than the company reputation in improving the performance of banking companies. Where in the development of business strategy, it is revealed that competitive strategy has more dominant influence than cooperative strategy. While reputation development is more dominant formed by trust dimension, followed by dimension of reliability, responsibility, and credibility. So it appears that the improvement of the reputation of banking companies is based on trust development.

These findings indicate that the improvement of banking performance should rely on the improvement of business strategy, especially competitive strategy and supported by cooperative strategy. In addition, the improvement of banking performance should also be accompanied by the company reputation development efforts primarily by increasing stakeholder's trust in banks.

The result of this study indicates the dominance of business strategy in influencing company performance, supporting the findings of Wang (2007) which shows that cost efficiency leads to higher profitability; Banker et al. (2014) also find similar results where about an influence of competitive strategies on performance; and Hahn and Powers (2010) who examine that in particular, banks pursue cost leadership, differentiation, and focus strategies that are consistent with Porter's typology. Banks with cost leadership have an effect on performance significantly higher than those who are not pursuing generic strategies.

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The results of this study indicate that company reputation and business strategy significantly influence the performance of banking companies in Indonesia either simultaneously or partially. Partially, business strategy is more dominant to affects company performance than company reputation.

5.2 Recommendation

The findings of this study can be used as framework for further researchers who are interested to examine the performance of go public banking in Indonesia. It can be examined the influence of the company reputation and business strategy on the performance of both public and go public, or syariah bank, whether the level of influence is the same.

In addition, for practitioners, these findings can be a reference in the preparation of corporate strategy to improve banking performance.

REFERENCES

Almazari, Ahmed Arif (2012). Financial Performance Analysis of the Jordanian Arab Bank by Using the DuPont System of Financial Analysis, *International Journal of Economics and Finance* , Vol. 4 no. 4, pp. 86-94.

Banker, Rajiv D.; Mashruwala, Raj; Tripathy, Arindam (2014). Does a differentiation strategy lead to more sustainable financial performance than a cost leadership strategy? *Management Decision*, Vol. 52 No. 5, pp. 872-896.

David, Fred R. (2013). *Strategic Management, Concepts & Cases*. Pearson Education Limited, England.

Duygun, A., Mentes, S. A., & Kubas, A. (2014). The impacts of complaint satisfaction on corporate reputation: A study on banking sector, *International Journal of Trade, Economics and Finance*, vol 5 no. 2, pp. 159-160.

Fombrun, Charles J. (2001). Corporate reputation - Its Measurement and Management. *Thexiz,* 4, 23-26.

Hahn, William & Powers, Thomas L. (2010). Strategic plan quality, implementation capability, and firm performance**,** *Academy of Strategic Management Journal***,** Vol.9 No.1, pp. 63-81.

Hasanudin, Agus Ismaya, SE, SH, MSi; Budianto, Roni, SE, Ak, ME. (2013). The Implications of Corporate Social Responsibility and Firm Performance with Reputation as Intervening Variable: Empirical Study in the Manufacturing Company in Indonesia, *GSTF Business Review (GBR*), Vol. 2 no. 4 , pp.106-109.

Hitt, Michael A.; *Ireland*, R. Duane; *Hoskisson*, Robert E. (*2015). Strategic Management : Competitiveness & Globalization: Concepts and Cases*, Eleventh Edition, Stamford : Cengage Learning.

Hubbard, Graham, and Paul Beamish (2011). *Strategic Management : thingking, analysis, action*, Frechs Forest, N.S.W : Pearson Australia .

Kaplan, R.S. and Norton, D.P. (2010). *Using the balanced score card as a strategic management*.

Karim, Nasir; Ameen, Amjad; Ayaz, Muhammad (2011). Mergers and Acquisitions: An Impact on Financial Performance (A case study of Standard Chartered Bank-Pakistan), *Interdisciplinary Journal of Contemporary Research In Business ,* Vol 3 No. 1, pp.804-813.

Nunnally, Bernstein, I.H. (1994). *Psychometric Theory*, New York : McGraw Hill.

Ou, Yih-Chang; Hsu, Li-Chang (2013). How Does Corporate Reputation Affect Innovative Performance, *International Business Research*, Vol 6 No.12 , pp. 46-59.

Pearce, John A. II, Richard B. Robinson, Jr. (2015). *Strategic Management: Planning for Domestic & Global Competition*, International Edition, New York : McGraw Hill.

Rose, P. and Hudgins, S. (2010). Bank Management and Financial Services , 8e, McGraw-Hill/Irwin

Wang, Dan (2007). Three Essasys On Bank Technology, Cost Structure, And Performance, State University Of New York At Binghamton, 171 pages; 3266486.

Wheelen, Thomas L.; Hunger, J. David; Hoffman, Alan N.; Bamford, Charles E. (2015). *Strategic Management And Business Policy: Globalization, Innovation, and Sustainability*, 14th Edition, Global Edition, Pearson

Zabkar, V., & Arslanagic-Kalajdzic, M. (2013). The Impact Of Corporate Reputation And Information Sharing On Value Creation For Organizational Customers, *South East European Journal of Economics and Business (Online),* Vol. 8 No. 2, pp. 42-52.