

PERFORMANCE IMPROVEMENT STRATEGY OF SUMSEL BABEL BANK

M Satria Manggala Yudha¹, Lukman M Baga², Alla Asmara³

School of Business, Bogor Agricultural University, Indonesia

ABSTRACT: *Sumsel Babel Bank (BSB) is a regional bank that is demanded to be Bank Regional Champion (BRC) in its own region. The tight competition in the bank industry caused BSB to have the proper strategy to face and win the competition. This study aims to identify performance of BSB, analyze internal and external factors that affect the performance, and formulate the strategy to improve performance of BSB to be a BRC in the region using descriptive method, Internal Factor Evaluation (IFE) Matrix, External Factor Evaluation (EFE) Matrix, SWOT Matrix and Architecture Strategy. There were 12 alternative strategies chosen as BSB's performance improvement strategy based on the result of SWOT Matrix. Based on Architecture Strategic results, the sequence of strategies for the next five years starting from improving the quality of human resources and IPO for additional capital. This strategy is expected to improve BSB performance.*

KEYWORDS: Architecture Strategy, SWOT Matrix, Bank of Sumsel Babel, EFE, IFE Matrixs, Performance

INTRODUCTION

The banking industry is one of the financial institutions that play an important role in the economy of a country. The main activity of bank is to collect funds from the community in the form of savings and then distribute to the community and provide other services (Kasmir, 2009). Growth and economic development caused business competition became tighter, especially in the banking industry. Right now, the development in global economy and infrastructure is still growing in South Sumatera. These potentials make commercial banks interested in offering more attractive and varied products. The foreign banks also try to entry with better capital, better human resources and better services to participate in competition maps (Bonin *et al.* 2015).

The number of commercial banks had increased over several periods. The number of Regional Development Bank (BPD) in 2016 also increased to 27 banks. The BPD of South Sumatera and Bangka Belitung -Bank Sumsel Babel (BSB)- is a regional bank that had two operational areas. Increasing number of banks causing competition in the banking industry more competitive. The BPD not only competed with commercial banks, but also competed with other BPD. In order to survive and become a leader, needed some strategies to improve performance. This is supported by research conducted by Widyastuti *et al.* (2013).

The performance of a company is influenced by assets owned, especially bank (Syofyan, 2003). The development of commercial bank assets during the period 2011-2016 can be seen in Table 1.

Table 1: Assets development of commercial bank in 2011-2016 (Billion)

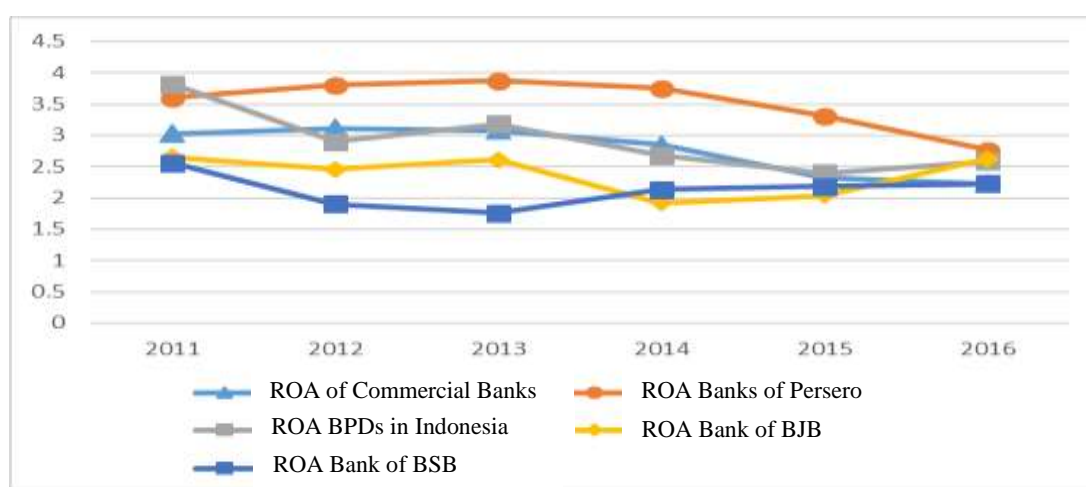
Banks	Years					
	2011	2012	2013	2014	2015	2016
Commercial Banks	3.652.832	4.262.587	4.954.467	5.615.150	6.132.583	6.729.799
Banks of Persero	1.328.168	1.535.343	1.758.873	2.076.605	2.313.316	2.666.516
BPDs in Indonesia	304.003	366.685	389.964	440.691	475.696	529.746
BJB	54.449	70.841	70.958	75.861	88.697	97.013
BSB	13.193	15.741	14.220	16.061	16.515	19.003

Source: Indonesia Banking Statistics Data (SPI) 2016. Data processed.

Table 1 showed the total assets of Commercial Banks, Banks of Persero, BPDs in Indonesia and BJB assets compared to BSB assets in the period 2011-2016. Assets in Commercial Banks increased by 84,23%, Banks of Persero increased by 101%, BPDs in Indonesian increased by 74,26% and BJB assets increased by 78,17%, meanwhile BSB assets only increased by 44,04%. This explained that the percentage of asset development owned by BSB tended to be slow compared to other banks during the last five years.

Based Indonesian Banking Statistics 2016, Third Party Fund (DPK) growth in South Sumatera Province and Bangka Belitung compared with BSB funds showed that BSB funds only increased by 9,57% during the last five years while Commercial Banks funds increased by 20,35%. More comprehensive formulation of performance improvement could be a guide to establish an effective long-term business strategy to increase the company's competition.

The excellence performance of a company could be known by comparing the same ratio between two similar companies in the same period. Bank performance could be known through the financial ratios by measuring its profitability. The probability measure that can be used is Return On Assets (ROA) (Clorida, 2013). The ROA of commercial banks during the period 2011-2016 is quite volatile and tends to decrease as can be seen in Figure 1.



Source: Indonesia Banking Statistics Data 2016. Data processed.

Figure 1: ROA of Commercial Bank in 2011-2016

Figure 1 showed that BSB's ROA was below the average of commercial banks. BSB's ROA had decreased from 2,56% to 1,90% on the period 2011-2012 meanwhile Commercial Bank's ROA was above BSB's ROA. BSB's ROA had been declined -0,14% from 2011-2016. It should be a concern for BSB if BSB want to be the Bank Regional Champion (BRC) at its own region, especially the requirement to be a BRC from Indonesian Bank is having ROA above 2,5%.

The low performance requires BSB to have the right competitive strategy to cope with business development related to the increasing number of emerging banks. BSB must have strategic capability to get the best competitive strategy by analyzing both internal and external factors (Gul *et al.* 2011). In accordance with the statement of Hubies and Najib (2008), the strategic capability to identify the internal and external environment is necessary to face the increasing fierce competition caused by rapid development in technology and demographic shifts and uncertain economic conditions.

Formulation of the problem

BSB's performance instability requires strategic solutions to compete, improve performance and contribute better to the regional economy. BSB is demanded to become a BRC in its area because of vision to transform BPD across Indonesia into a leading bank in a region that professionally managed in order to foster regional economic growth. However, the market share condition held by BSB in South Sumatera and Bangka Belitung Province for five years was fluctuating. In 2015, the market share of credit loan of BSB only achieved 15,53%, and the accumulation of Third Party Fund of BSB only managed to reach 17,99% while the remaining 82,01% owned by other Commercial Banks. Based on the description, the formulation of the problems raised in this study are:

1. How far the performance achieved by BSB (Fact Finding)?
2. What are the internal and external factors that affect the performance of BSB?
3. How to formulate strategies to improve BSB performance?

Based on the problem formulation, the purpose of this research are:

1. Identify the performance achieved by BSB (Fact Finding).
2. Analyze the internal and external factors that affect BSB performance.
3. Formulate the strategies to improve performance of BSB.

The scope of the research includes performance of BSB, internal and external factors affecting BSB, and strategy formulating to be selected by BSB. The strategies generated in this study review are limited to the stages of strategy determination. Implementation phase submitted to managerial side of BSB.

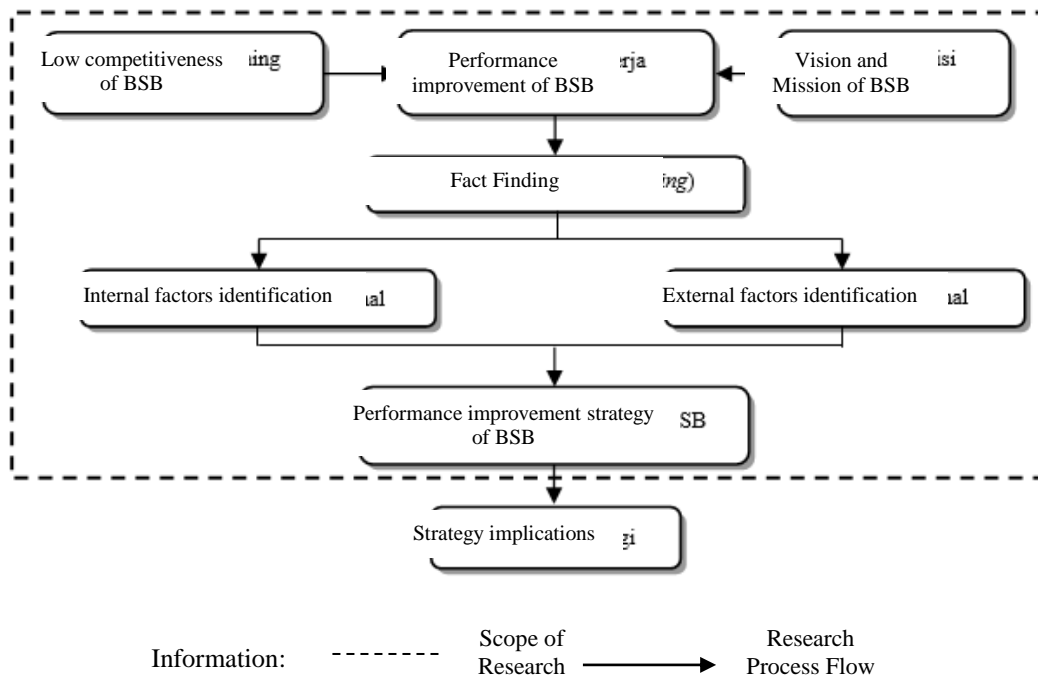


Figure 2: Conceptual framework of thinking

RESEARCH METHODOLOGY

This research was conducted at Sumsel Babel Bank, located at Governor H. Ahmad Bastari street No. 7 Exod. Silaberanti Kec. Across Ulu I Jakabaring Palembang in May-June 2017. The research used descriptive method to describe facts of BSB performance problems factually and systematically by collecting datas, both primary data and secondary data. Primary data were obtained through observation, questionnaires and interviews with internal parties and external parties. The number of eight respondents consisted of six respondents from internal bank namely Head of Division Treasury, Head of Division Planning, Planning Manager, Risk Management Manager, Human Resource Manager, Risk Management Analyst and two respondents from external bank that is Branch Manager of PT Jamkrindo Syariah Sumsel and Bank Guarantee Manager PT Jamkrinda of South Sumatera as an insurance party cooperating with BSB.

Secondary data obtained from literature studies, literature, magazines, data from related institutions, and other media of internal and external corporate environmental data. Data analysis methods used descriptive analysis, Internal Factor Evaluation Matrix (IFE), External Factor Evaluation Matrix (EFE), Strengths Weaknesses Opportunities Threats Matrix (SWOT) and Architecture Strategy. IFE is a tool to analysed strengths and weaknesses, while EFE is a tool to analysed opportunities and threats (David 2009). The formulation of strategic alternatives using SWOT Matrix is a tool to assist managers to build four types of strategies, SO (Strengths Opportunities) strategies, WO (Weakness Opportunities) strategies, ST (Strengths Threats) strategies and WT (Weaknesses Threats) strategies (Dyson 2014).

Architecture Strategy is the link between the present and the future (Hamel and Prahalad 1994). Architecture Strategy would identify what should be done right now for future planning by building the competencies that should start now.

RESULTS AND DISCUSSION

BSB General Overview

BSB is one of BPD from 27 BPD in Indonesia. The head office is located at Governor H. Ahmad Bastari street No. 07 Exod. Silaberanti, Seberang Ulu I Sub-district, Jakabaring, Palembang, South Sumatera. BSB has 28 Branch Offices, 51 Sub-Branch Offices, 103 Cash Offices scattered throughout the South Sumatra and Bangka Belitung Provinces. The role of BSB are managing regional finances as regional cash holders and improving the regional economy condition.

Identification of Internal and External Factors of BSB

The analysis began with the identification of internal and external factors of BSB. Data was collected through interviews and questionnaires to the decision makers that involved in improving the performance of BSB.

Internal Factors in BSB

The internal factors of BSB that can be optimized were:

Table 2: Internal factor evaluation (IFE) matrix

No	Strategic Factors	Weight	Rating	Score
Strengths				
1	Adequate remuneration system	0.06	3	0.18
2	Structural marketing strategy	0.07	3	0.21
3	Improved performance of BSB	0.07	4	0.30
4	High deposit interest rates	0.09	4	0.35
5	Regular training and educating	0.07	3	0.22
6	Strategic office located	0.08	4	0.33
7	Integration online technology	0.08	4	0.31
Weaknesses				
1	Low quality of BSB's human resources	0.08	1	0.08
2	Low implementation of work culture	0.08	2	0.15
3	High loan interest rates	0.07	2	0.14
4	Limited capital from local government	0.08	2	0.16
5	Not yet implemented KPI	0.08	1	0.08
6	Decreasing budget promotion	0.08	2	0.16
Total				2.68

Based on the calculation of internal strategic factors, the main strength was the high deposit interest rate with a score of 0.35. The main weakness of internal strategy was the low quality of BSB's human resources with a score of 0.08. The result of the weighted average value of IFE Matrix indicated that BSB was above average with a value of 2.68. It showed that BSB had responded to internal strategic factors well.

External Factors in BSB

The external factors opportunities that can be utilized in order to compete were:

Table 3: External factor evaluation (EFE) matrix

No	Strategic Factor	Weight	Rating	Score
Opportunities				
1	Support of local government toward BSB	0.12	4	0.49
2	Impact of central government policy on BSB	0.09	2	0.18
3	The improving economic growth of South Sumatra	0.10	4	0.41
4	Technological advance in the banking industry	0.09	3	0.28
5	BSB's service reaching remote areas	0.10	3	0.30
No	Strategic Factors	Weight	Rating	Score
Threats				
1	Impact of local government policy	0.10	3	0.31
2	Impact of ASEAN Economic Community	0.09	3	0.28
3	Impact of economic indicators (inflation, interest rates, exchange rates, tax rates)	0.10	3	0.29
4	Increasing number of branches and offices of competitor	0.10	3	0.30
5	The rise of non-bank financial institutes	0.09	2	0.19
Total				3.04

Table 3 showed that the main opportunity from external factors was the support of local government toward BSB with the score of 0.49. On the other hand, impact of local government policy was currently the biggest threat with a score of 0.31. The value generated using EFE Matrices was 3.04. It showed that BSB had been able to exploit the opportunities that exist.

Formulation of BSB Performance Improvement Strategy**Table 4: SWOT matrix BSB performance improvement strategy**

<p>INTERNAL</p> <p>EXTERNAL</p>	<p>STRENGTHS (S)</p> <ol style="list-style-type: none"> 1. Adequate remuneration system 2. Structural marketing strategy 3. Improved performance of BSB 4. High deposit interest rate 5. Regular training and education 6. Strategic office located 7. Integrated online technology 	<p>WEAKNESSES (W)</p> <ol style="list-style-type: none"> 1. Low quality of BSB's human resources 2. Low implementation of work culture 3. High loan interest rate 4. Limited capital from local government 5. Not yet implemented KPI 6. Decreasing budget promotion
<p>OPPORTUNITIES (O)</p> <ol style="list-style-type: none"> 1. Support of local government toward BSB 2. Impact of central government policy on BSB 3. The improving of economic growth in South Sumatera 4. Technological advance in banking industry 5. BSB Service reaching remote areas 	<p>S-O Strategy</p> <ol style="list-style-type: none"> 1. Market expansion into trade and industry sector, natural resources management, mega project regional (S3,S8,O1,O3,O5) 2. Added outlets that has business potential (S3,S4,O1,O3,O5) 3. E-banking socialization to officer and customer (S8,O4,O5) 4. Fee based income application maximalist (S8,O4) 5. Customer Relationship Management (CRM) (S6,O3) 	<p>W-O Strategy</p> <ol style="list-style-type: none"> 1. Higher job requirement standard (W1,O3) 2. Auditor selection for KPI (W2,O3) 3. Online promoting to community, school (W6,O4)
<p>THREATS (T)</p> <ol style="list-style-type: none"> 1. Impact of local government policy 2. Impact of ASEAN Economic Community 3. Impact of economic indicators (inflation, exchange rate, interest rate, tax rate) 4. Increasing number of branches and offices of competitor 5. The rise of non-bank financial institutes 	<p>S-T Strategy</p> <ol style="list-style-type: none"> 1. Align with bank competitor and nonbank institution (S3,S8,T4,T5) 	<p>W-T Strategy</p> <ol style="list-style-type: none"> 1. Credit excellent service (W3,T4,T5) 2. IPO processing to add capital (W4,T1) 3. Keep government customer (W4,T4,T5)

SWOT Matrix Analysis aimed to obtain BSB alternative strategy formulation to improve the performance shown in Table 4 and formed 12 alternative corporate strategies that can be used based on external and internal strategic factors. There were five alternative strategies

emerging from strengths-opportunities (SO strategies), three alternative from weaknesses-opportunities (WO strategy), an alternative strategy from of strengths-threats (ST strategy) and three alternative strategies from weaknesses-threats (WT strategy).

Architecture Strategy of BSB

Architecture Strategy of BSB aimed to improve the performance of BSB. This draft was a strategy map to achieve BSB target in the next five years, having ROA above 2,5% and becoming market leader in banking industry in its region. The strategy was mapped in Architecture Strategy drawing in Figure 3.

X axis (horizontal) was the period range prepared by BSB. Y axis (vertical) was a range of strategies undertaken to achieve BSB objectives. Table 5 is an explanation of Architectural Strategy that would be executed by stages or continuously.

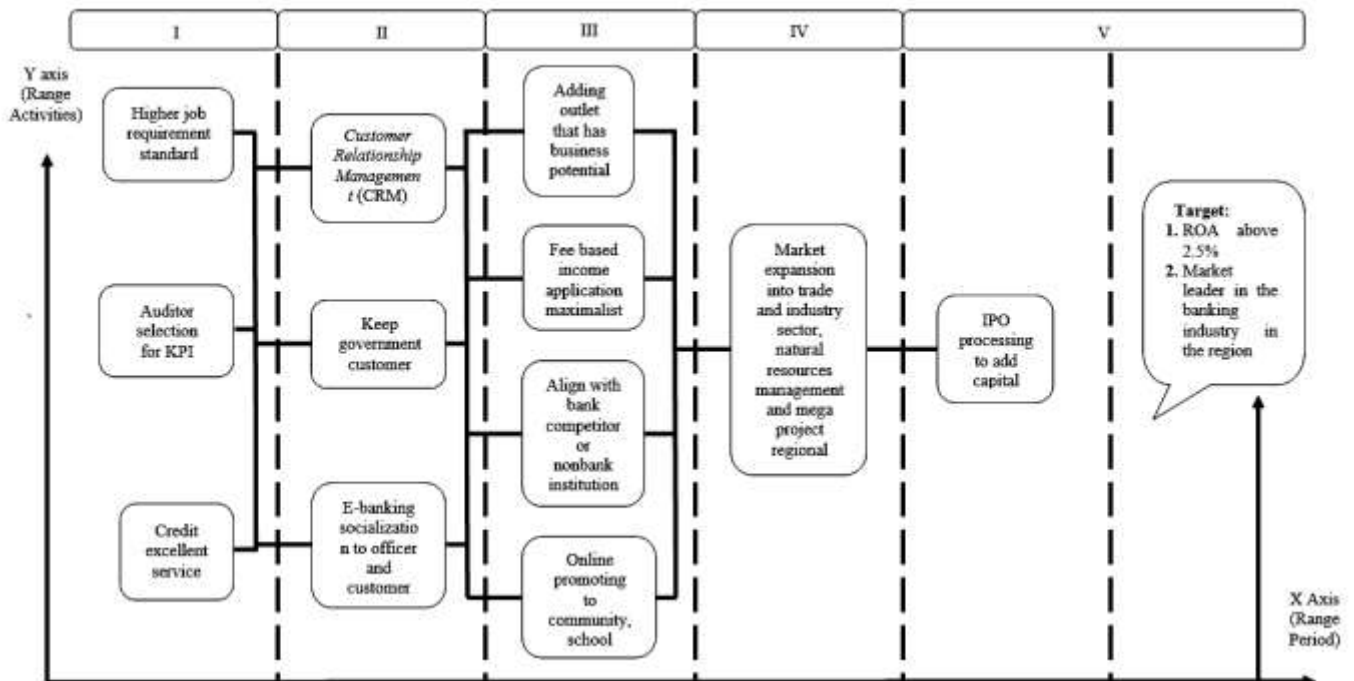


Figure 3: Architecture strategy of BSB

Table 5: Architecture strategy planning of BSB

No	Work program	I	II	III	IV	V
1	Higher job requirement standard					
	- Job vacancy at campus, job fair and online media					
	- Raising standards of admission					
	- Looking for qualified candidates for high school and university					
	- Review the effective acceptance system					
	- Training and development on BSB human resources					
2	Auditor selection for KPI					
	- Establish a special team for KPI assessment					
	- Apply reward and punishment system					
	- KPI assessment automation					
3	Credit excellent service					
	- Perform market search, mapping and surveys to find new markets					
	- Doing cross selling, BSB can increase sales not only on one aspect of the product					
	- Expedite the loan process by SOP BSB referring					
	- Provide and create vary credit products based on trend					
	- Conduct periodic controls and provide updated information on BSB programs and products					
	- Applying “Human Spirit Marketing” to improve customer satisfaction and loyalty					
	- Conducting a gathering to the debtor on an ongoing basis in order to have an emotional attachment					
4	Customer Relationship Management (CRM)					
	- Their prospects based on BSB database					

- Customers segmentation based on behavior, demographics and customer expectations
- Conduct cross-selling, because customer will be loyal as the longer the interaction occurs
- Create a product or loyalty program to the customer's wishes

5 Keep government customer

- Maintaining relationships with governments by engaging in various activities
- Maintaining a retired government customers remain loyal to banking transactions in BSB
- Reaching potential customers as PNS in raising third-party funds and lending

6 E-banking socialization to officer and customer

- Socializing through education and training to employees about BSB e-banking services
- Education the employees as well as the mandatory use of e-banking facilities company
- Socializing e-banking to the community and customers while doing CRM, Seminar, and the time of the transaction in BSB
- Evaluate and improve the quality of e-banking periodically

7 Adding outlet that has business potential

- Perform market search, mapping and surveys to see the business potential of the region
- Conduct periodic evaluations of the outlet opening

8 Fee based income application maximalist

- Conduct continuous development and transaction confirmation services to customers
 - Cooperating and payment system with all cellular operators (Telkomsel, XL, Indosat, 3)
-

- Cooperating transactions with visa and mastercard
- Cooperating payment system with airline and train
- Maximizing cooperation with Universities
- Cooperating with government, civil servants had the opportunity to have a credit card

9 **Align with bank competitor or non bank institution**

- Cooperating to pay the payment other bank
- Conducting mutually beneficial cooperation on investment products, joint venture on mega projects
- Cooperating with non-bank payment services as Pengadaian and finance

10 **Online promoting to community, school**

- Active promotion via facebook, twitter, blog or website
- Maximize cooperation with School or University in Virtual Account
- Cooperate with the UMKM community to increase lending

11 **Market expansion into trade and industry sector, natural resources management and mega project regional**

Cooperating with Non-State and State-Owned Companies on trade and industry sectors

Joint venture with state-owned enterprises in the processing of Natural Resources in Sumsel Babel

Cooperate with state-owned company in Mega Project in Sumsel Babel

12 **IPO processing to add capital**

- Preparation for IPO opening requirements
 - Conducting socialization to the community and
-

customers related to IPO BSB

- Increase brand image to increase BSB stock price
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CONCLUSIONS AND SUGGESTION

Conclusions

There were three conclusions based on this research:

1. The main strength of internal environment analysis was high interest rate of deposit, meanwhile the main weakness was the low quality of human resources which seen from ratio of number of BSB employee.
2. IFE Matrix showed that the result of BSB's internal strategic factor score were above average, 2.62. It showed that BSB had responded well to the internal factors. EFE Matrix showed the value at 3.04. It showed that BSB had taken the opportunity as well and minimized the external threats.
3. Further analysis obtained from SWOT Matrix and Strategic Architecture design can be a benchmark in implementation of strategy for the next five years.

Suggestions

The further research can add other strategy methods to determine the more specific and detail strategy about performance improvement on BSB by implementing strategic architectur on BSB.

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