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THE INFLUENCE OF CORPORATE RESOURCES AND VALUE CREATION ON BUSINESS PERFORMANCE

A STUDY ON RURAL BANK OWNED CITY DISTRICT GOVERNMENT OF WEST JAVA AND BANTEN, INDONESIA

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Abstract

The Service Industry of Rural Bank in Banten and West Java, Indonesia are facing problems of poor business performance due to the value creation which is not optimally running and a low ownership of corporate resources. Research objectives are to examine influence of corporate resources and value creation on the business performance in banking service industries of Rural Banks in Banten and West Java. The research method used are descriptive and explanatory survey. The unit of analysis is companies of Rural Banks in Banten and West Java. Time horizon in is cross-sectional. Hypothesis testing was done by PLS model (Partial Least Square). The findings revealed that the management of Rural Banks in Banten and West Java, not yet have sufficient resources and have not developed a good value creation for improving business performance. There is a simultaneous influence of corporate resources and the value creation (being dominant of the two) on the business performance.

Keywords: Corporate Resources, Value Creation, Business Performance, Service Industry

INTRODUCTION

Nowadays, the development of bank assets of BPRs owned by in provincial Government of West Java and Banten is likely to increase, so does the growing amount of savings, deposits and lending are likely to increase, but the conditions are not offset by stable growth in operating income, which in the last three years are likely fluctuate. Meanwhile, according to Hunger (2012) business performance can be measured from the sales and profitability of the business.

The low performance of the business allegedly due to weakness in the development of value creation. Phenomena that exist today is the poor ability of bank management in developing products and services as well as its variations, where the products do not provide more value to customers because it is almost equal to the product of the other banks. In addition there is an indication of the low reliability of the bank's management in seeking partners for expansion of the network in order to create better products and service processes to customers. Another problem is the weak understanding about the business segments to enrich the products and services that fit the business focus and business management in accordance with the primary focus of the business. Yet according to Kotler & Keller (2009) the creation of customer value focus on the customer, its core competence in the business domain, and its collaborative network partners in the business partner.

In addition, the company has not been able to do a thorough in development of company resource, which is essentially company resource is an aspect of inputs for the company in conducting business process. The low of company resources in the banking industry, indicated by inclined still a weakness in terms of ownership of tangible assets, such as working capital is still not optimal, banking facilities and infrastructure facilities are inadequate. In addition, ownership of intangible assets also tend to have a particular problem in terms of the creation of branded products that are still not widely known by the markets, as well as the company reputation who have not been particularly good in the eyes of the market. Another problem is the weakness of the management of the organization's capabilities, especially in creating a superior work culture. Though conceptually according to Hill and Jones (2009) Resource Ownership of company units can be built through tangible assets and intangible assets.

Based on the statements above, it is important to investigate the company's resources and the value creation and its implications on the performance of the business.

LITERATURE REVIEW

Company resources are classified into three categories; include physical resources, human resources and organizational resources (Hitt, Ireland and Hoskisson, 2009: 21). According to Wheelen and Hunger (2012: 138) Uniqueness or Competence Resources can be created through the three forms of assets include physical assets; land, equipment, and location, human resource assets; number of employees and skills, as well as organizations including cultural assets and reputation. Hill and Jones (2010: 139) suggests two categories of company resources, namely: tangible assets and intangible assets. Affuah (2004: 111) reveals that the unique Resources is a collection of assets either in the form of Tangible and Intangible Assets.

Tangible asset according to Hubbard & Beamish, 2011:105) "Tangible Asset are easy to identify ; physical asset, such as land, building, plant and equipment and financial resources". Wheelen & Hunger (2012 : 138) " ……Tangible assets, such as its plant, equipment, finances, and location, human assets, in terms of the number of employees, their skill and motivation .

Intangible asset according to Hubbard & Beamish (2011:105) "Intangible assets are extremely difficult to identify and, in particular, to value (e.g, product brands, organization reputation, operating knowledge and experience, individual skill and intellectual). Wheelen & Hunger (2012 : 138) " …… Intangible assets, such as its technology (patents and copyrights) culture and reputation

Kotler & Keller (2009), stated "value creation is how can a company efficiently create more promising new value offering? "to exploit a value opportunity, the company needs value-creation skills. Marketer need to : identify new customer benefits from the customer's view; utilize core competencies from its business domain; and select and manage business partners from its collaborative networks." According to Prahalad & Ramaswamy (2004), value creation is something that is offered by the company and the customer experience transformation through engagement for jointly with the company doing value creation. Bowman & Ambrossini (2000) in Priem (2007: 220) reveals that the value creation associated with innovations that enhance the benefits to the consumer, from the consumer side, the value creation associated with the increase in value that may result in increased customer loyalty.

According to Best (2013) the performance of the business is the output or result of the implementation of all activities related to business activities. The measurement of corporate performance is different from business performance, corporate performance measurement focuses on aspects of the business portfolio, while business performance indicator is the growth in sales and profitability (Hubbard & Beamish (2011: 139). Meanwhile, according to Wheelen & Hunger (2012: 332) that business performance can be measured by sales, market share and profitability.

Research Objectives

To obtain the results of a study of the influence of corporate resources and the value creation on the business performance in the banking industry in the province of West Java and Banten.

RESEARCH METHODS

Design

This research is descriptive and verification by design. The nature of the verification study basically to test the truth of a hypothesis which is carried out through data collection in the field, which in this study will test whether the company's resources and the value creation affect the performance of the business. The research method used is a descriptive survey and explanatory survey methods.

The unit of analysis is the rural banks owned by the government of district and city located in West Java and Banten-Indonesia, the unit of observation is the bank management. Time horizon is cross-sectional, where the study was conducted in one time simultaneously.

Sampling Technique

The population in this study is the Rural Bank located in West Java and Banten with the unit of observation is the management. While the population of rural banks in the region are a number of 65 companies, considering the population is small, then this study conducted a census.

Hypothesis Testing

The analysis design using PLS (Partial least Square) which indicates that the company resources and value creation can improve business performance as well, can be seen on the component-based structural equation models or variants (PLS).

ANALYSIS AND DISCUSSION

Model Evaluation

Evaluation of Measurement Model (Outer Model)

Outer models often also called the outer relations or measurement model that defines how each block of indicators related to the latent variable. This model is used to determine the validity and reliability of indicators linking the latent variables. Indicators in this study is reflective as indicators of latent variables affect the indicator, it is used for measuring the 3-way convergent validity of the examination of individual item reliability, the square root of average variance extracted (AVE) and composite reliability, if the value of composite reliability> 0.8 can said that the construct has a high reliability and Cronbach's alpha in said well if $\alpha \geq 0.5$ and said enough if $\alpha \geq 0.3$.

Table 1: Construct Reliability (using Smart PLS 2.0)

	Cronbachs Alpha	AVE	Composite Reliability
Resources	0,897	0,906	0,951
Value Creation	0,918	0,861	0,949
Business Performance	0,951	0,749	0,959

Reliability shows how far the indicators reflect the latent factors were compiled. The greater the indicators reflect the latent factor, the greater the reliability of the measurement value. From the table above it is known that Cronbachs Alpha for all variables> 0.5, as well as the value of Composite Reliability> 0.8 means that these three variables of measurement model already has the consistency and accuracy in measuring the construct has.

Table 2: Loading Factor of Research Variables

Measurement Model	Loading Factor (λ)	Standard Error (STERR)	T Statistics (|λ /STERR|)
X11 <- Resources	0,944	0,015	64,876
X12 <- Resources	0,960	0,007	142,172
X21 <- Value Creation	0,885	0,019	47,752
X22 <- Value Creation	0,949	0,007	136,283
X23 <- Value Creation	0,948	0,010	95,163
Y1 <- Business Performance	0,955	0,005	185,122
Y2 <- Business Performance	0,953	0,005	175,369
Y3 <- Business Performance	0,964	0,004	219,906
Y4 <- Business Performance	0,943	0,012	80,349
Y5 <- Business Performance	0,831	0,046	18,030
Y6 <- Business Performance	0,759	0,061	12,529
Y7 <- Business Performance	0,821	0,048	17,166
Y8 <- Business Performance	0,645	0,091	7,100

T value> 2.05 (t table at $\alpha = 0.05$) in the above table shows that all indicators are significant to measure each latent variable. Factor loading values> 0.5, so it can be concluded that the manifest variables are good indicators in form the latent-variables.

Evaluation of Goodness of Fit

Structural model (inner model) is a structural model to predict the latent causality between variables. Through the process of bootstrapping, statistical T-test parameters obtained to predict the existence of a causal relationship. Structural model (inner model) is evaluated by looking at the percentage of variance explained by the value of R2 for the dependent variable. R-square PLS model can be evaluated by looking at the Q-square predictive relevance for the model variables. Q-square measure how well the observed values generated by the model and estimate its parameters. Q-square value greater than 0 (zero) value shows that the model has predictive relevance, whereas Q-square value is less than 0 (zero) shows that the model lacks predictive relevance.

Table 3: Testing of Structural Model (Inner Model)

Variable	R Square	Communality	Q Suare
Resources		0,906	0,791
Value Creation		0,861	
Business Performance	0,791	0,749	

The above table gives the value of R2 on the high criteria as well as the Q-square value that is greater than 0 (zero) shows that the model has predictive relevance value, so it can be concluded that the research model is supported by empirical conditions or model fit.

The following figure shows the results of model testing by using Smart PLS 2.0 as follows:

Figure 1: Path coefficient of Research Model

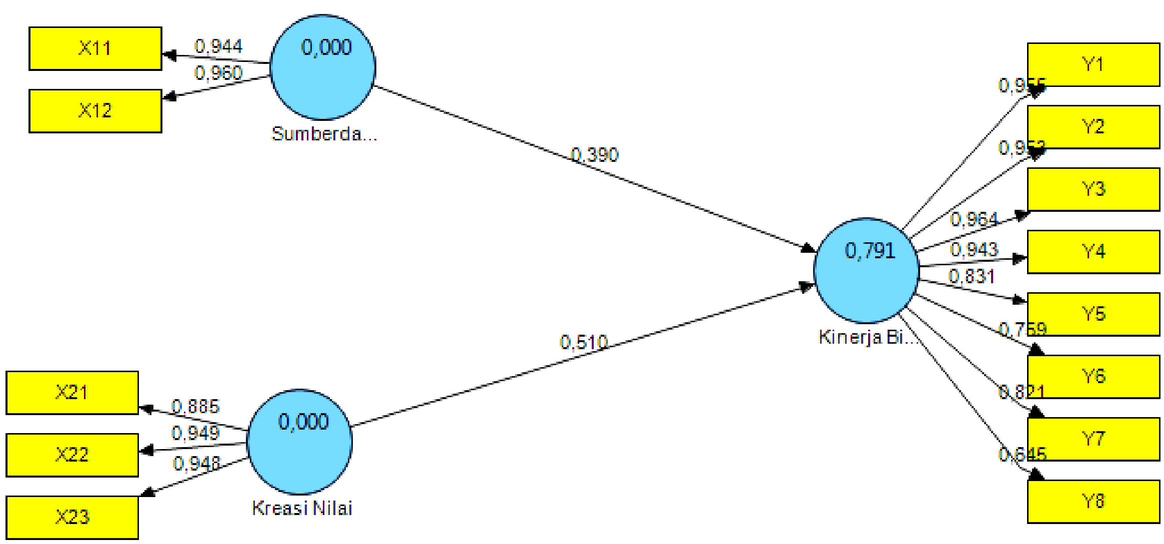

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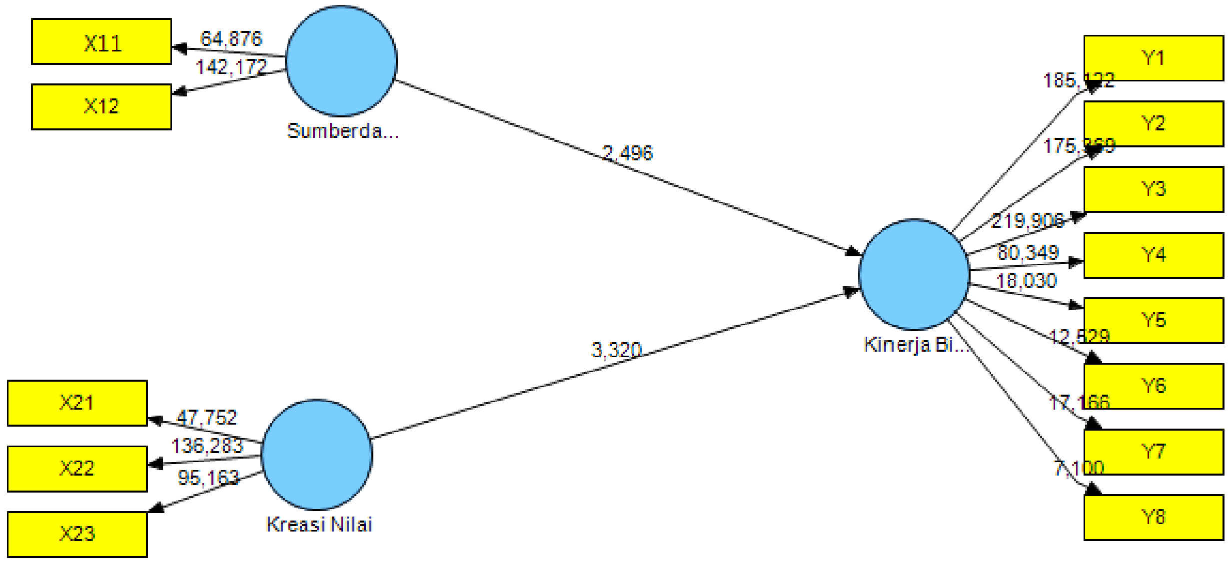
Figure 2 : t -statistics of Research Model



The structural model of the above diagram :

$\mathbf{Y = 0{,}390X_1 + 0{,}\ 510X_2 + \zeta_1}$

Table 4: Result of Hypothesis Testing

Hypothesis	Structural Model	γ	Standard Error (STERR)	T Statistics (|γ/STERR|)	R^2	F Statistic
1	**Resources-> Business Performance**	0,390	0,156	2,496*	0,791	51,093*
2	**Value Creation -> Business Performance**	0,510	0,154	3,320*		

*significant at α=0,05

In the test results in the table above is known that simultaneously obtained F value greater than F-table (3.35) so that it can be concluded that there are significant simultaneously. The total effect of variable resources and the creation of value to the business performance is at 79.1% where the influence of other factors was 20.9%.

The Partially Testing results show that the effect of both exogenous variables are significant with t-statistic is less than 2.05 (t table at α=0,05).

From the measurement results shown that the intangible asset is the dimension that is most valid in reflecting the company's resources, followed by the dimensions of intangible assets. As for the latent variable of value creation, business domain dimension is the dimension that most reflects the value creation, followed by the dimensions of business partner, and customer benefits. As for the variable of business performance, the dimension of target of the distribution of funds to the community is a dimension that most reflect the business performance, followed by the dimensions of the target of acquisition of public funds, the dimension of the realization proceeds, the dimensions of the actual distribution of funds to the community, the dimensions targets business profitability, dimensions of corporate liquidity levels, the dimensions of the achievement of business profitability, and the dimensions of the company's solvency level.

The results of the above research findings reveal the value creation has a dominant influence when compared with the company's resources in improving business performance in the banking industry. The dimensions that contribute most in value creation is business domain reflect the business, followed by business partner, and customer benefits. While the dimensions that give the highest contribution to reflect the company's resources are intangible assets, followed by tangible assets.

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Of the situation, the management is necessary to enhance the development of value creation, the steps of operational strategies include improvements in business domain development, which is supported by raising a better business partner, as well as increased customer benefits to customers.

Development of value creation to be supported by the quality of intangible assets. To make it happen, it is necessary to do operational strategies that include improvements in: the bank's reputation, employee qualifications, branches qualifications, handling complaints quickly and accurately as well as an increase in customer awareness, competence development of human resources, improvement of IT-based technology, and the adjustment of the organization's internal capabilities in the pursuit of market demands. The development of intangible assets that either need to be supported by an increase in intangible assets in the form of an increase in the grandeur of the building branch office, branch office locations strategically, and completeness of a branch office facilities..

The results of this study support the findings of the Mitrega (2012) that the quality of the customer relationship empirically the mediating factor in the effects of the knowledge network partners and the quality of internal relationships on firm performance. Proposition of that paper is that the company's ability to deal effectively with the network in which it is embedded (including the internal network) are antecedents that dealing with customer relationships effectively. It can be concluded that the article deals with aspects of business partners.

The results of this study also supports Rodgers (2010) whose research is directed to determine whether the value creation of a company that is causing the performance gap can be explained by seven variables that organizations focus on the entire organization. The seventh variables are the organization's vision, mission, core values, goals, strategies, organizational flexibility, and risk.

CONCLUSIONS AND RECOMMENDATIONS

It is found that Company resources have not been sufficient, and value creation have not yet developed well to improve business performance. Value creation has contributed more dominant than the company's resources in improving business performance in the rural banking industry in Province of Banten and West Java, Indonesia. Based on the research findings, it is recommended some practical advice and suggestions academic as follows.

1) How to develop good corporate resources to improve business performance. To that end, the management should consider the improvement of some important points as follows:

A. The grandeur of office building

B. Branch office locations strategically

C. Completeness of branch office facilities

D. Bank's reputation

E. Employee qualifications,

F. Development of branch qualifiers,

G. Handling complaints quickly and accurately,

H. Awareness of officers to customers

I. HR competency development,

J. Technology-based IT,

K. Customization capabilities in pursuit of the organization's internal market demands

2) Development of value creation can be used as a basis for improving business performance on an ongoing basis. Some of the recommendations related to a set of aspects that need to be

implemented by the management company in a bid to win business competition are the improvement of below aspects:

A. Bank management's ability to develop products and services and its variations
B. Bank management capabilities in designing ease of access products and services as well as information about the product
C. Applicability of the quality standards of products & services
D. Ability to enrich products and services according to business domain
E. Bank management's ability to offer variances of products and services in accordance with business domain
F. Ability to manage the business in line with business domain on the basis of management's ability to maintain the suitability of the business conducted by the business domain
G. Reliability of the bank's management in seeking partners for network expansion
H. Reliability of management in seeking partners for resource synergies
I. Reliability of the bank's management in support partners

LIMITATIONS AND FURTHER RESEARCH

Based on the findings in this paper, is expected to be a reference for academics in conducting research development, where these findings as part of the premise in developing framework. In the future no longer be expected in the world of academics who are interested in doing research on banking services in this rural banks with different viewpoints as well as specificity in the field of marketing management.

Sampling frame in this case limited and this research cannot be generalized in whole of Indonesia. In the future we have to examine this research results in other area of Indonesia so that this research can be generalize this research result in Indonesian context.

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