

The Effect Of Strategy, Leadership, And Innovation On Sustainable Competitive Advantage Towards Firm Performance: A Case Study Of Bank BRI

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Abstract

Technological developments and high expectations from modern consumers demand the financial industry, especially banking, to be able to compete in facing the challenges of change by utilizing digitalization. Strategy setting, digital leadership, initiatives to innovate, and investing in digital technology are urgent matters for companies to be able to create competitive advantages that ensure good and sustainable company performance. The aim for this research is to determine the impacts of strategy, leadership, and innovation in building competitive advantage towards firm performance on Bank BRI, Indonesia's largest state-owned bank. Data was collected from 280 respondents who were Bank BRI employees using Google forms and taken by purposive sampling technique. The relationship between variables was tested using Smart PLS 3. Results portrayed how sustainable competitive advantage is positively affected by leadership. Innovation was found to be significantly effective toward sustainable competitive advantage, as shown by the results. Meanwhile, strategy was insignificant toward sustainable competitive advantage. Finally, sustainable competitive advantage was shown to have a substantial and positive impact on firm performance.

Keywords: banking, strategy, leadership, innovation, sustainable competitive advantage (SCA), firm performance

1. Introduction

Current technological developments require all business actors to adapt quickly to customer needs, including the banking industry and companies engaged in financial services. The emergence of many non-bank financial institutions in fintech-related lending as an alternative to financial services has become a challenge for banking players to carry out digital transformation. The number of internet users in Indonesia has risen to more than 119.4 million by 2020, and it is expected to continue growing in the coming years. The increasing number of internet users is also followed by the number of accounts and the number of loan transactions made at fintech providers. Digitalization is a requirement that banks must meet to support their business continuity and have a competitive advantage. One of the innovative steps that need to be taken at BRI Bank in its main business

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activities is to change the conventional credit distribution process to a digital, technology, and telecommunication-based process.

Strategies have been proven to enable companies to increase their competitive advantage (Priyanto et al., 2012). Digital innovation and transformation carried out by Bank BRI is an attempt for their sustainable competitive advantage by implementing a digital lending process. Exemplary leadership is a determinant for small and medium companies to achieve high innovation, performance, and competitiveness (Vargas, 2015). Information Technology (IT) practices and techniques play an essential role in forming a sustainable competitive advantage based on Supply Chain Management (Marinagi et al., 2014). Zhang et al. (2018) found that the correlation of open innovation and business profitability has an inverse U-shape. A limit of effective open innovation strategy is present, and if investments of open innovation surpass it, deterioration of financial performance occurs. Celtekligil & Adiguzel (2019) prove the positive impact of sharing information and innovation so that companies do not lose out to competition for technology companies.

The performance of the company is assessed using two perspectives, financial and non-financial, and affected by Information Technology (IT). IT helps to achieve strategic cohesion, organizational agility, and market support due to its strong correlation with company performance (Fadhilah & Subriadi, 2019). Companies need to invest and innovate in sufficient steps to adapt to digital transformation, and producers will ultimately have greater profits, productivity, and competitiveness. From a consumer's perspective, there will be more access to services, better service, and greater satisfaction with the services needed (Llopis-Albert et al., 2021). Concerning company performance, Internet finance has various effects on the performance of different kinds of commercial banks, whereby it has a weak effect on state-owned commercial banks yet is very impactful on city commercial banks (Dong et al., 2020). Meanwhile, according to Phan et al. (2020), who studied the Indonesian market, where FinTech growth is impressive, the empirical test results show that FinTech predicts bank performance negatively. Bank BRI created a credit process based on a digital platform called BRISpot (BRI Integrated Online Credit System). This research aims to determine the aspects that affect the company's competitive advantage to reach optimized company success, especially in the banking industry.

Digitalization has a strong indirect effect on the superiority of products and services. Thus, managers and policymakers could use digitalization in improving the company's internationalization plan based on the intended competitive strategy (Lee & Falahat, 2019). The strategy that can be used for digital transformation is to implement radical changes in a top-down manner by management to accelerate the digitization process, reduce costs, increase customer satisfaction, and with the primary objective of increasing market share, which leads to increased company performance (von Leipzig et al., 2017). The two key dimensions of digital business strategies are managerial and operational capabilities. Managerial capability defines the managers' ability on benefiting from digital systems for their business strategy, changing employee mindsets, and the workplace, whereas operational capability is the company's ability in integrating the digital system for its business operation and strategies (Ukko et al., 2019). The strategic context in this study includes managerial and operational capabilities.

Specifically, the business owner's leadership style directly impacts employees' behaviors (Uslu et al., 2015). Leaders influence the company and shape organizational behavior. The value of a leader becomes the key to strategic orientation, which is the power to motivate employee behavior. Thus, leaders influence organizational practices, behavior, and performance (Alos-Simo et al., 2017). Leadership patterns that support digital maturity do not always correlate with transformational leadership styles (Gençer & Samur, 2016). However, the research results show that leaders who are successful in implementing digitalization have a positive correlation between the two leadership styles. One of the factors that positively and substantially impact B2B e-commerce implementation is leadership or top management support (Ocloo et al., 2020). Hitt et al. (2007) identified several actions that characterize leadership. Strategic leadership qualities include determining strategic directions, effectively managing resources, including human resource growth, cultivating an efficient culture, leveraging the company's core competencies, utilizing an effective organizational management structure, and building ethical standards (Hitt & Duane, 2002). Strategic leadership is the context used in this study.

Companies must adjust to the digital age, and disruption usually comes from new business models that allow the use of the internet to shake up established industrial structures (Genzorova et al., 2019). Digital innovation is the process of developing and introducing innovative goods and services through digital transformation, i.e., the result of various digital innovations that create new actors, systems, practices, principles, and attitudes that alter, challenge, substitute, or complement the organization's current policies (Hinings et al., 2018). There is a significant and solid correlation between innovative efforts and company's performance (Rajapathirana & Hui, 2018). Al-kalouti et al. (2020) defined four main indicators of innovation capability for service organizations. These indicators include new product launches and customer feedback, devoting resources to new product development and improving services, significant investment in technology development and other resources to

improve performance, and the company's drive for an innovative culture. The innovation context in this study is the company's innovation ability which is formed from these four indicators.

Sustainable Competitive Advantage (SCA) is the ability to create uniqueness or features that are difficult to imitate so that it is possible to beat its competitors (Bharadwaj et al., 2015). Competitive advantage refers to the company's title in controlling and leading position in the competitive market share business through a not easily imitated advantage (Kuncoro & Suriani, 2018). Competitive advantage is also referred to a company's ability to outperform its rivals through price, products, or services within the international market (Kaleka & Morgan, 2017). Four factors that could build a sustainable competitive advantage are value, scarcity, cannot be replicated, and product substitution, with resources and expertise, is the most significant (Barney, 1991). Existing company resources must be able to make good use of opportunities or neutralize threats and create rare results in order to achieve change for sustainable human resources (Dirisu et al., 2013). The value contribution from Information Technology investment can lead to a sustainable competitive advantage (Kuettner & Schubert, 2012). SCA can be achieved with Information Technology to outperform rivals with innovative approaches, such as lowering prices and increasing distinction, building entry barriers, building switching costs, changing the basis of competition, and giving birth to entirely new businesses (Porter & Millar, 1985). Price and cost, quality, delivery dependability, product innovation, and time to market are the construct dimensions of competitive advantage (Li et al., 2006). Those five dimensions are the context used for the sustainable competitive advantage for this research.

Measuring company success refers to the measurement of company's efficiency and efficacy of their activities. Meanwhile, the measurement of a performance evaluates the quality or effectiveness of actions, and its measurement system determines a company's efficiency and effectiveness (Neely et al., 2005). Factors that impact a company's performance are; profitability, company growth, market value performance, consumer satisfaction, employee satisfaction, environmental performance, environmental audit value performance, corporate governance, and social performance (Selvam et al., 2016). Company performance can be measured by two kinds of indicators, namely financial (profitability, market value, and development) and social (employees and consumers satisfaction, environmental and environmental audit performance, corporate governance performance, and social performance) (Fadhilah & Subriadi, 2019). Hence, measuring Firm Performance is through paying close attention to financial and social factors. Indicators that measure organizational performance are; average productivity per employee, response time to customer complaints, market share, cost per transaction, customer care contact, employee retention, customer satisfaction, implementation of employee suggestions, and implementation of customer suggestions. Information technology and processing, the number of people acquiring new skills, and consumer retention are allocated by the percentage of total expenses (Ellinger et al., 2007). The context of Firm Performance in this study includes the indicators mentioned above to measure organizational performance in Bank BRI.

Digital business strategy and sustainable strategy correlate with the company's financial performance and digital maturity (Ukko et al., 2019). The empirical analysis results determined how competitive advantage and the moderating impact of Enterprise Risk Management and competitive advantage are directly influenced by the strategy and structure of IT (Saeidi et al., 2019). A company's strategic planning is quite vital for growth, enhancement, and configuring their competitive advantage. With the constantly changing environment, companies must develop flexible strategies to respond to market demands and better seize opportunities according to consumer demands (Economou & Chatzikonstantinou, 2009). So it can be concluded that company strategy influences sustainable competitive advantage (SCA) Clauss et al., (2020). A single exploitation strategy does not increase competitive advantage, while an ambidextrous strategy negatively affects the competitive advantage. Within the economic context, Ojha et al. (2020) mentioned how the correlation of dynamic strategic planning and competitive performance is negative yet insignificant; However, it positively affects the company's financial performance through operational capabilities. Thus, the following hypothesis can be proposed:

H1: Strategy has a positive and significant effect on Sustainable Competitive Advantage.

Research has been done on two types of essential resources, human and social resources, whereby they could generate the company's value. They are essential in gaining a competitive advantage. According to Tairas et al. (2016), competitive advantage is positively and substantially affected by the strategic leadership. On the other hand, strategic leadership and competitive advantage will have an insignificant relation if an entrepreneurial strategy is applied as an intervening variable. Several statistical findings determined how strategic leaderships are positively effective toward sustainable competitive advantage (Mahdi & Almasafir, 2014). Increasing leadership competencies in the entire organizational structure is very important to make companies attractive to work and compete at regional and international levels; the integration of leadership competencies can facilitate the achievement of competitiveness along with the alignment of objectives as a key to competitive advantage in an industry that is supported by technology (Mkheimer, 2018). Findings from previous analysis discovered how

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leadership has a direct and indirect impact on company's performance, along with innovation and differentiation variables as intervening variables. However, the differentiation strategy is not directly affected by leadership, yet is indirectly affected by innovation (Semuel et al., 2017). Thus, it can be concluded that good leadership will ensure a sustainable competitive advantage. Hence, the following hypothesis is stated as follows:

H2: Leadership has a positive and significant effect on Sustainable Competitive Advantage.

Innovation is mainly defined as technological improvement and product development. Innovation capability can also be interpreted to improve company performance through various types of improvements in all aspects of using production and marketing technology to produce new products and services that have never existed for consumers and provide new product attributes to consumers (Yeşil et al., 2013). Product innovation affects sustainable competitive advantage (SCA) positively (Kuncoro & Suriani, 2018). innovation mediates knowledge creation in developing sustainable competitive advantage (Yu et al., 2017). The driving factors for banking institutions to establish innovative operations and gaining sustainable competitive advantage are globalization and increased market competition (Lay Hong et al., 2016). Banking institutions are now competing on the basis of service innovation rather than physical products because it is difficult to differentiate between competing brand products in a particular product category. (Hermundsdottir & Aspelund, 2020). It was found that innovation variables and competitive advantage are positively connected. Hence, the hypothesis is as follows:

H3: Innovation has a positive and significant effect on Sustainable Competitive Advantage.

Sustainable competitive advantages influencing Firm Performance positively and significantly can be proposed as a hypothesis (Handoko et al., 2015; Ince et al., 2013). Meanwhile, the moderate effect of competitive advantage on firm performance, environment, social, and governance was found (Masliza et al., 2021). As a result, the following hypothesis is developed:

H4: Sustainable Competitive Advantage has a positive and significant effect on Firm Performance

From the model previously described, the research framework can be illustrated as in Figure 2.

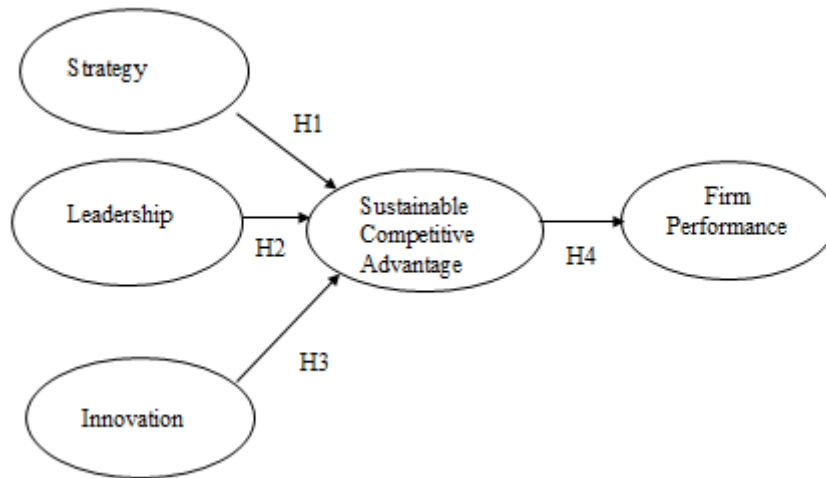


Figure 1 Theoretical Model

2. Methodology

The data for the analysis were obtained from a sample survey done on Bank BRI workers specialized in the loan application business. Respondents were asked to answer several questions related to the survey topic to produce a frequency and percentage that could answer questions in this study. Furthermore, prior to testing the structural model, construct reliability, convergent validity, and discriminant validity took place. The environment in which the research is carried out is a non-contrived setting, where the research is carried out in a typical work environment, and business processes that are observed to occur naturally and normally occur in the form of field studies. The unit of analysis or the unit studied in this study is the individual Bank BRI employee as a practitioner whose experience will be observed while working at Bank BRI. The research subjects were 280 Bank BRI employees from various levels of positions. Then each subject was asked to complete an assessment on a scale of 1 to 5 for Strategy, Leadership, Innovation, and Sustainable Competitive Advantage. For the strategy question items, a Likert scale questionnaire was used which was adopted from the study (Ukko et al., 2019). For the Innovation question item, a Likert scale questionnaire was used which was adopted from the

study (Al-kalouti et al., 2020). For the Firm Performance question item, a Likert scale questionnaire was used which was adopted from the study (Ellinger et al., 2007). For the question item Sustainable Competitive Advantage, a Likert scale questionnaire was used which was adopted from the research (Li et al., 2006). For the items of leadership questions used a Likert scale questionnaire which was adopted from (Hitt et al., 2007).

The non-probability sampling was applied for the research to ensure the taken samples represented all levels of positions on the BRISpot platform. Because this study uses smartPLS, the sample size is determined by: 1) ten times the largest number of formative metrics to calculate a single construction, or 2) ten times the largest number of structural paths in a structural model of certain construction (Hair et al., 2017). The largest number of indicators used to measure construction in this study are six indicators. The minimum sample number needed is 60. Due to a total of 26 indicators were used, 260 samples were needed for this study. The data obtained from the questionnaire distributed are 280 samples so that the data can be declared sufficient for conducting this research. The survey was conducted by distributing questionnaires to respondents using Google Forms. Furthermore, data collected using surveys can be used to provide and develop potential reasons for specific relationships between variables and processed using statistical software Smart PLS 3. Researchers collect research data for one month in January 2021. Respondents who filled out the questionnaire were employees at Bank BRI. Respondents were selected at the managerial level and branch leaders because one of the variables measured in this study was leadership, so they were considered more representative of the responses.

3. Results and Discussion

Based on the number that has been obtained from the questionnaire results, as many as 280 respondents. The following is a detailed profile of the respondents who have responded to the research questionnaire. (Table 1).

Table 1 Demographic Profile of Respondents

Category	Respondent (%)	Category	Respondent (%)
Gender:		Position Level :	
Male	66,1%	Senior Manager	2,9%
Female	33,9%	Manager	14,6%
		Assistant Manager	12,5%
Distribution of Service Areas :		Supervisor	70,0%
Sumatera	7,9%	Last Education Level :	
Java	62,1%	S2	6,1%
Jakarta Greater Area	12,1%	S1	82,9%
Kalimantan	3,9%	D3	10,0%
Bali	4,3%	High School	1,1%
Jayapura	9,6%		
Work Unit :		Age :	
Head Office	6,1%	20-25	5,7%
Branch Office	27,1%	25-30	16,4%
Sub Branch Office	11,1%	30-35	45,4%
Unit	55,7%	35-40	13,2%
		40-45	11,1%
		50-55	8,2%

The validity test is conducted to determine whether all the variables used are valid for hypothesis testing. Validity checking can be done in two stages, namely convergent validity and discriminant validity (Hair, Ringle, & Sarstedt, 2011). Convergent validity was measured by loading factor and Average Variance Extracted (AVE) (Table 2). While the discriminant validity is determined by paying attention to the expected value, which is that

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each indicator has a higher loading for the construct being measured compared to the loading value for other constructs (Ghozali, 2013) (Table 3). Researcher's calculation of the loading factor value using SmartPLS 3.0 software can be seen in Table 2. All items in the questionnaire have a value above 0.7 so that all questionnaire items can be declared valid. The convergent validity test with AVE can be declared valid if it has an AVE value of more than 0.5. It is concluded that all variables can be declared valid (Table 2). Composite reliability values greater than 0.7 are considered reliable. It can be concluded that all variables are reliable (Table 2)..

Table 2. Convergent Validity & Composite Realibility

Variable	Indicators	Me an	Composi te Realibility	Factor Loading	Average Variance Extracted (AVE)
Firm Peformance	Average productivity per worker is greater than last year. (FP1)	4,11	0,926	0.780	0.675
	Response times to customer complaints are better than last year. (FP2)			0.861	
	Customer service contact employee retention is greater than last year. (FP3)			0.817	
	Customer satisfaction is greater than last year. (FP4)			0.834	
	The number of employee suggestions applied by the company was greater than last year. (FP5)			0.803	
	Customer retention is greater than last year. (FP6)			0.833	
Innovation	New product launches are a way to keep innovating. (I1)	4,42	0,920	0.726	0.674
	Companies devote resources to improving services. (I2)			0.854	
	Companies invest in developing technology to improve performance. (I3)			0.838	
	The company encourages an innovative culture among employees. (I4)			0.860	
Leadership	The vision and objectives of the Company are clearly stated (L1)	4,33	0,914	0.706	0.681
	Company leaders have the resources and capabilities that serve as a source of competitive advantage for the company over its competitors. (L2)			0.842	
	Leaders have the skills necessary to help develop human resources in their area of responsibility. (L3)			0.857	
	Leaders shape the organizational culture, the context in which the company formulates and implements its strategy. (L4)			0.869	

	Leaders engage in ethical practices to help them achieve their goals. (L5)			0.842	
Strategy	Our company management is familiar with digital tools.(S1)			0.725	
	Our company management has a clear vision to take advantage of digitality in the future.(S2)			0.813	
	Our company management supports the use of digitality. (S3)	4,45	0.913	0.863	0.637
	Leveraging digitality in internal processes has become an important part of our business capabilities. (S4)			0.865	
	Digitality is a natural part of our business. (S5)			0.781	
	Digitality improves our business performance. (S6)			0.729	
Sustainable Competitive Advantage	We offer competitive prices. (SCA1)			0.823	
	We are able to compete based on quality. (SCA2)			0.886	
	We send/provide the type of product needed. (SCA3)	4,24	0.892	0.876	0.698
	We modify our product offerings to meet Client Needs. (SCA4)			0.811	
	We are the first on the market to introduce new products. (SCA5)			0.775	

Table 3. Discriminant Validity

	F	I	L	S	S
F	0.				
I	0.	0.			
L	0.	0.	0.		
S	0.	0.	0.	0.	
S	0.	0.	0.	0.	0.

Table 4. Hypothesis Test Result

	Hypothesis	Path Coefficient	T Stat.	P Values	Result
1	H S -> SCA	-0,027	0.434	0.665	Rejected
2	H L -> SCA	0,396	5.694	0.000	Accepted
3	H I -> SCA	0,425	5.630	0.000	Accepted
4	H SCA -> FP	0,707	22.571	0.000	Accepted

According to the shown results in Table 4, SCA is not substantially affected by strategy. This is unlike the result by Ukko et al. (2019), where strategy relates to the company's competitive advantage. Saeidi et al. (2019) has also found a direct effect of strategy on reluctance to compete. The hypothesis test results show some

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differences from Priyanto et al. (2012), who discovered the effectiveness of the strategy to increase the company's competitive advantage. However, this aligns with Clauss et al. (2020), which states how a single exploitation strategy is not profitable to increase competitive advantage, while ambidextrous strategies negatively affect a firm's competitive advantage. The findings are consistent with Tairas et al. (2016), who demonstrated how ineffective entrepreneurial strategy is on strategic leadership in gaining competitive advantage. This is consistent with Ojha et al. (2020), who discovered the negative yet insignificant relation between competitive performance and dynamic strategic planning.

Leadership affects the SCA in a significant and positive way. This aligns with Hitt and Duane's (2002) analysis whereby a strong leadership improves the company's abilities and retains its competitive edge. Additionally, these findings are consistent with Mahdi and Almsafir (2004), stating how strategic leadership is efficient in improving business performance and competing in a competitive and erratic environment. This hypothesis also supports the results of Mkheimer's (2018) research, which shows that increasing leadership competence in all organizational structures is very important to make companies attractive to workers and compete at regional and international levels. This also aligns with the findings of Vargas (2015), who discovered how high performance and competitiveness are determined by the right leadership style.

Innovation affects SCA in a significant and positive way. This is consistent with Kuncoro and Suriani (2018), which state how effective product innovation is toward sustainable competitive advantage, and the company's competitiveness improved with better innovation. Furthermore, the hypothesis testing results are consistent with Yu et al. (2017), who discovered a direct and beneficial association of innovation on the company's competitiveness. This hypothesis supports the opinion of Hong et al. (2016), who stated how market globalization drives banking institutions in pursuing innovation for their competitive advantage gains, and banking institutions are now competing with service innovations (Hermundsdottir & Aspelund, 2020).

SCA significantly and positively affects Firm Performance, which aligns with the findings by Handoko et al. (2015) and Ince et al. (2013). Similarly, Li et al. (2006) mentioned how competitive advantage demonstrates the company's superior skills than their rivals. Therefore, the greater value of Sustainable Competitive Advantage influences better performance value.

4. Conclusions and Implications

4.1 To obtain a sustainable competitive advantage, the company must strive to continuously improve its digital features that are now available on the digital marketplace, as well as in other business activities. Likewise with the cadre of leaders in the company and their leadership style has been proven to influence the company's competitive advantage and company performance, so that in line with the company's aspiration to be "Home to the best talent", the company needs to prepare a cadre of leaders who are quality and have high digital literacy. The study took place during the Covid pandemic; all research results on the relationship of variables were strongly influenced by these conditions, which had a broad impact on the business and national sectors. The banking sector, which has the largest market share in the MSME segment, was certainly significantly affected due to the slowdown and decline in business growth due to limited business activities and activities. For this reason, future studies could focus on the relationship between variables in different conditions as well as other business sectors so that the research results can be more relevant to the conditions and business environment so that it is helpful for further development.

The next researcher can complete the limits of the research carried out within the scope of the banking industry. The variables measured in this research are limited to Strategy, Leadership, Innovation, Sustainable Competitive Advantage, and Firm Performance. Further research so that other variables can be added that have not been identified in this study. Previous research has discovered how the company's high implementation level of business-to-business (B2B) e-commerce platform would lead to a greater competitive advantage (Elbeltagi et al., 2016). Subsequent research is to test the company's digital maturity level as another variable that can affect sustainable competitive advantage. This study has not tested the variables that can affect the level of digital technology adoption in companies. Previous research has examined the correlation of technological, organizational, and environmental (TOE) factors at various stages of companies' B2B e-commerce implementation and confirmed that the TOE factor affects the level of e-commerce adoption (Ocloo et al., 2020). Subsequent research adds technological, organizational, and environmental factors as variables related to the company's digital maturity level towards a sustainable competitive advantage. Further research can also be carried out on banking and other financial services companies to obtain a broader comparison of the results of this study.

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