

# Pestle Analysis: A Study of the Banking Industry in Indonesia

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**Abstract:** *The banking industry including in Indonesia, experiences the challenge of dynamic changes in the external environment especially due to the influence of globalization and domestic such as national and international economic performance. The purpose of this research is to find out what the external environment and generic strategies influence on organizational performance. Survey to 101 banks through a set of questionnaires sent and collected directly by the researcher from the main director and bank director in Indonesia. Data were collected and analyzed using descriptive analysis and linear structuring relationships (LISREL). The results of the study show that there are eight paths that affect each variable. That is first politics, economy, social, technology, legal and environment have a positive and significant effect on generic strategy. Second, generic strategy has a positive and significant effect on organization performance. The three politic, economy, social, technology, legal and environment factors have a positive and significant effect on organization performance. Therefore, banks should always develop generic strategy in order to improve organization performance as well as always be sensitive to the influence of the external environment so it is important for decision makers to develop strategies to enhance competitive advantage.*

**Keywords:** PESTLE Analysis, Generic Strategy, Organization Performance, Banking

## 1. Introduction

The environment is very important for the development of a continuous competitive advantage, identifying opportunities, threats and being productive and providing opportunities for cooperation with other companies. Other studies have found that different approaches and techniques are used for the analysis of the macro environment.

At the same time the rapidly developing market area in Asia experienced an economic slowdown due to the effects of China's economic weakness. Such unbalanced economic conditions resulting in global liquidity seek more profitable assets. The sentiment of liquidity displacement in the global financial market, accompanied by the weakness of Indonesia's economic performance has an impact on the improvement in the Indonesian financial market. This situation shows that there is still high uncertainty about Indonesia's economic prospects in the future (Bank Indonesia Annual Report Quarter 1, 2015).

The future of investment will be further increased through the Indonesian Banking Architecture (API) plan which aims to strengthen the banking structure so that the number of banks will decrease but will be expected to be stronger. Judging from its holdings in 2015 the total ownership of both government and foreign banks in national banking was relatively balanced. This shows the increasing role of foreign powers in the Indonesian banking industry and will certainly have an effect on the level of competition in the market (Bank Indonesia Annual Report 2015).

Banking in this regard needs to make improvements through development in organizational capabilities Muhammadin et al. (2020) as well as specifically for the banking industry including risk management (Fajrijah 2008). In relation to the external environment, the organization must always adapt to the external environment so that its continuity can be

maintained. The study (Morelli 2011) looks at the environment and strategies interact through collaboration dynamically. The fit between strategy and the environment has a positive effect on performance (Morelli 2011).

In relation to that, the bank as a public financial institution experiences the same challenges and demands. The external environment such as national and international economic performance the influence of the economic crisis (financial and banking crisis) and politic, economy, social, technology, legal and environment conditions in the country and abroad (Pearce and Robinson 2013), affect the performance of a bank. The demand to have dynamic capabilities but still comply with banking regulations in order to improve performance is a certainty Muhammadin&Ramli (2018). However, to create that situation is not easy, competition between domestic banks and foreign banks in the domestic economy and the necessity to implement prudent provisions such as good corporate risk management must be done by banks. Here, the bank becomes a 'special' institution that has the ability to harmonize all these things in order to remain viable and profitable.

The financial crisis and globalization that occurred is an external environmental factor. The dynamic external environment resulting in increasingly intense competition because it is influenced by the increasing globalization environment (Pettus et al.2009). The dynamic complex external environment needs attention (Kreisor and Marino 2012) resulting in companies needing power resources or capabilities in facing the dynamic external environment (Teece 2009). In relation to the external environment previous studies found that organizations should always make adjustments with the external environment so that business continuity can be maintained (Hitt et al.2013). According to Hitt et al. (2013) the macro environment and strategy measures have a relationship through cooperation between the two. The fit between strategy and environment

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has a positive effect on banking performance (Mishkin 2007).

The environment is very important for the development of a continuous competitive advantage, identifying opportunities, threats and being productive and providing opportunities for cooperation with other companies. Other studies have found that different approaches and techniques are used for macro environmental analysis (Lynch 2009). The model in this research is politic, economy, social, technology, legal and environment analysis. In addition through techniques for environmental analysis, political, economic, social, technology, legal and environment analysis began to be used in various fields (Shilei and Yong 2009). The external environment is measured from its nature which is the level of environmental uncertainty which is divided into the macro environment and the industrial environment of a company of goods or services (Porter 2004; Pearce and Robinson 2013). The macro environment consists of legal and political forces, economic forces, technological forces and social forces (Wheelen and Hunger 2007).

Meanwhile, the world's economic climate which is vulnerable to crisis also affects the financial systems of various countries. Globalization results in the increasing risks of banking operations which are closely related to its function as financial intermediation as well as moral hazard behavior of management. The 2015 currency exchange rate crisis taught us that the uncertainty of the environment strongly encourages change in an organization (Bank Indonesia Annual Report 2015). Based on previous studies that the banking industry faces an external environment and increasingly complex risks in meeting the needs of customers and competitors will support the strategy (Nejad and Estelami 2012). In 2015 there was a crisis in Indonesia which was caused by the failure to pay the Greek national debt by the International Monetary Fund (IMF) and the fall in stock prices in China. This is due to the decline in economic growth thus affecting the world trade market (Bank Indonesia Report Quarter I, 2015).

The use of politic, economy, social, technology, legal and environment analysis can be seen to be effective for business and strategic planning, strategic management, marketing planning, business development, products and various research reports. Politic, economy, social, technology, legal and environment analysis is also useful when the company decides to enter business operations make strategies to new markets.

## 2. Literature Review

The environment is everything outside the organization Hatch (2006) before environmental variables received attention, management science is still influenced by the neoclassical theoretical paradigm which thinks that all companies in an industry are the same (homogenous). Contingency theory states that the environment can influence strategy (Jaffe 2001). In a dynamic environment and full of uncertainty innovation strategies and marketing differentiation are very important in improving performance (Porter 2004). Similarly the theory of population and ecology/population - ecology tries to see the environment

and the population of the organization from a biological perspective that is to relate birth death, success and failure in relation to ecological characteristics. In this theoretical study observe a group of organizations which have similar functions and activities compete with each other, and are in an environment of the same resources (Jaffe 2001).

This theory states that an environment has the power to select a group of competitors the best that are able to adapt to the environment. The selection occurs through the appropriateness of the organizational structure and the ability of the organization to obtain resources and be able to adapt who will succeed and those who do not will fail. The selection process further will face resources and large actors such as the ecosystem, investors and users. Organizations that are successful in this environment will be imitated by other organizations both existing and new into the environment Ridjal & Muhammadin (2018).

The environment is everything that is outside the organization (Robbins et al.2009). The environment is characterized by uncertainty and turmoil in the complexity of the environment. The complexity of the environment in turn can reflect the level of diversity or diversity of factors, activities or conditions faced by the company (Benito et al.2010). However, the environment is not that easy to define. According to Maupa (2004) the environment is an external factor in the company. External factors consist of government policies, social, cultural and economic aspects as well as the role of related agencies such as the government, universities, private companies and non - governmental organizations.

The remote environment is also known as the macro environment consisting of legal and political forces, technological forces, economic forces, social forces and ecological forces. The industrial environment model is taken from the five competitive forces model (Porter 2004) consisting of, (i) the threat of entry of potential new entrants, (ii) the bargaining power of buyers, (iii) the bargaining power of suppliers, (iv) the threat of entry of substitute products or substitution and (v) competition between companies in the industry.

This can be achieved by doing a PESTEL analysis which covers politics, economy, social, technology, legal and environment. The conclusion is that the government should overcome organizational problems in the technical support system and economic stimulation mechanisms to facilitate development.

### Political Strength

According to Pettus et al. (2009) The direction and stability of political factors is an important consideration for managers in formulating company strategies. In developing countries political and legal power have a real influence on the success and failure of companies through business opportunities and threats that occur (Porter 2004). Management needs to pay attention to the following aspects of political strength such as national ideology, political stability, international relations and the role of government Takats (2010). Aspects of political power above basically

greatly influence the success or failure of companies in the country (Porter 2004).

Political power is not only external but also internal as happened in the study of Cremes et al. (2011) on the capital market and corporate politics in banking groups by analyzing how the distribution of influence in groups related to capital allocation and lending behavior. The scenario of CEO's in corporate politics in grabbing and racing to find sources of funds in the banking group in order to stabilize their finances. For example, members of the banks can have influence in the central office through voting on the composition of the supervisory board group which elects the group's executive board and sets the general strategy. In addition, making decisions about internal policies, capital allocation decisions are not only based on unit investment opportunities, they may be partly based on unit influence or power within the company. Glaser et al. (2010) used research evidence from CEO's and also provided some ideas that corporate politics and company socialism play a role in the allocation of capital in companies. The results of the study concluded that in order to put together a good strategic plan and in order to be able to occupy a competitive position in the banking industry the company must be able to demonstrate the state of competition in the environment.

**H1:** Politics has a positive effect on generic strategy

#### **Economic Strength**

Economic strength related to the nature and direction of the economic system in which the company operates. In the strategic planning of each company should consider economic trends and the segments that affect the industry (Wheelen and Hunger 2007). Whether at the national or international level companies should consider the following matters, Gross National Product (GNP) trends, availability of loans, interest rates, inflation rates, unemployment rates, wage/price management, revaluation, the amount of money in circulation the level of income expendable (Wheelen and Hunger 2007; Pearce and Robinson 2013).

This is in accordance with what was presented by Berardi (2009) showing that by taking into account inflation and gross domestic product (GDP) data together with revenue data in a time structure setting it is possible to obtain an estimate of the real interest rate, inflation rate, and inflation premium risk, and lowered forecast stability of obligations. In addition, empirical evidence shows that the model's ability to predict inflation and gross domestic product (GDP) future growth can compare its performance with alternative models which produce estimates of growth rates which are much more accurate than those produced by some other alternative approaches.

**H2:** Economy has a positive effect on generic strategy

#### **Social Strengths**

Other social forces according to Karlan (2007) include tradition, values, social trends, consumer psychology and community expectations of business. Tradition restricts social practices for a long period of time ten or even hundreds of years. Examples in Indonesia, such as festive traditions, providing transportation business opportunities,

making festive cards, festive packages, entertainment and other related businesses are something that are highly valued by the community in Bank Indonesia's corporate social responsibility (CSR) program (2007). With the CSR program, a society that values family education will have a big impact on education businesses and businesses related to education. Social trends can be seen as an example of population growth (Bank Indonesia 2007).

**H3:** Social has a positive influence on generic strategy

#### **Technology Strength**

The power of technology and technological advancements that are developing at the moment have been so many that they can indirectly easily influence the market structure and company performance (Curran and Meuter 2005). According to them, the strength of technology includes progress in the field of knowledge which is the basis of technology and new technological innovation which provides opportunities and obstacles for the company's business. Technological change affects the operations and products/services produced by the company. For example, advances in the field of computers, robots, lasers, satellite networks, optical replacement, and other related fields, have provided great opportunities for companies to make progress on operations (Uppal and Juneja 2013).

The power of technology at this time there are often very drastic improvements and changes. Change from a product focus to a customer focus approach the marketer's focus has shifted towards customers according to their experience (Garg, et al.2010; Yousafzai, 2012). Many innovative financial solutions for the banking sector. Loan products and transaction processing services have grown considerably in the last few decades (Nejad and Estelami (2012). The impact has been profound in services through the development of self service technology (SST). In recent times four basic types of self - service banking technology (SSBT) are available that significantly affect the delivery of banking services. First automatic teller machine (ATM), which started in the late 1970 electronic fund transfer at the point of sale (EFTPOS), introduced in the early 1980, telephone banking (TB) in the mid - 1990 and internet banking (IB) which appeared in the late 1990s Muhammadin et al. (2015); Curran and Meuter 2005).

**H4:** Technology has a positive effect on generic strategy

#### **Legal Force**

The banking industry is one of the most established industrial institutions by the government because the stability of the banking and financial system is an absolute necessity for the growth and stability of the economy as a whole. The reason for the government's intervention is to maintain the safety and health of banking institutions and finance as a whole. Without a reliable banking institution and financial system it is not possible for the community to accept money as a measuring tool as a tool of exchange as a tool for saving wealth or as a tool for settling debt - receivable relationships in the future (Bank Indonesia 2008).

Companies when their efforts are linked to the law will feel calm in doing business because protected by the

government. Because financial companies have made huge investments even willing to release large funds to sell their products. In the leadership of banking costs always think for efficiency if the laws and foundations are not well organized, the bank can easily misorganize its internal finances regarding the manufacture of products that are all integrated with Capital, Asset quality, Management, Earning, Liquidity and Sensibility to market/ CAMELS (Bank Indonesia 2010).

**H5:** Legal has a positive effect on generic strategy.

### The Force of the Environment

According to the authority (Kementerian Alam Sekitar Hidup Republik Indonesia 2012) that the strength of the environment is the general physical state of the environment which is formed by the environment which can support every activity which comes from natural resources which is around this strength includes geography, climate, population, facilities and infrastructure. Bank Indonesia Regulation No.8/21/PBI/2006 states that the environment occupying the second highest position on social priorities after education that the business world needs to take an active role in helping to solve environmental problems which society may face. Bank Indonesia (2013) states that every business leader who has a high vision recognizes that a large number of people in the world need natural resources for the product base produced. They understand the great potential to involve the sale of environmentally friendly products. In line with the development process, the socio-economic aspect of the population is a very important foundation (Bank Indonesia 2013).

The explanation of the Environmental Law and Regulation (UUPLH) provides an understanding of what is meant with the principle of prudence that uncertainty about the effect of an effort or activity due to the limitations of the mastery of science and technology is not a reason to delay the measures to minimize or avoid the threat of environmental pollution or damage Chumaida (2012).

**H6:** The environment has a positive effect on generic strategy.

### Generic Strategy

According to Porter (2004) distinguish three generic strategies to create competitive advantage in the face of competition namely through, (i) differentiation, (ii) cost leadership and (iii) focus. The three strategies are not related to each other. However, because each strategy requires commitment and organizational procedures then ideally the three strategies complement each other (Porter 1985; Moore 2002). The meaning of the differentiation strategy is to create products/services that are seen as unique by consumers (Porter 2004). By keeping customers loyal and prices unchanged this strategy creates a barrier so that competitors cannot enter and generate high interest rates for

the company. According to Powers and Hahn (2004) there are several things that companies can do for the implementation of differentiating strategies new innovation bases (quality, efficiency and capital), intensive marketing and image management through marketing practices such as marketing relationships, distribution networks or customer service and technology.

Porter's (1980) generic strategy has been widely tested in various industries (Argyres and McGahan 2002) but relatively rarely researched in the banking industry. Based on the literature review, the application of Porter's generic strategy was done by (Chan and Wong 1999) on banking in Hong Kong. The results of Chan and Wong's study found that low cost, differentiation is the main source of competitive advantage of banking in Hong Kong.

**H7:** Generic strategy has a positive effect on organizational performance

### Organization Performance

Organization performance by making adjustments based on the provisions in the organization (Kumar and Strandholm 2002). This supports the previous study done by Koo and Nam (2004) that differentiation strategy has an effect on company performance. The findings of this study show that the difference variable has a significant relationship with the company's performance variable.

According to the Bank Indonesia Report (2008; 2013) it says that until the end of 2013, the banking industry is relatively awake. The majority or as much as 82.4% of general banks belong to the status of Bank Under Supervision (BDP), with an improved percentage compared to the previous year's status. This is because banks that were previously listed as banks under bad supervision have been upgraded to become banks under normal supervision. The problems faced by the bank can be resolved in accordance with the action plan that has been agreed between Bank Indonesia (BI) and the owner/manager of the bank. Meanwhile, there are banks that are still listed under bad supervision, and under special supervision. This is due to among other things because until the end of 2013 the bank's managers and owners have not been able to solve the problems and have not met the bank's commitments as outlined in the bank's stability action plan (Banking Supervision Report of the BI Publisher 2008; 2013).

**H8:** Politic, economy, social, technology, legal, and environment have a positive effect on organization performance

Based on various theories and hypotheses above a research model was developed which combines politic, economic, social, technology, legal and environment variables towards generic strategy and organization performance as shown in Figure 1. as follows:

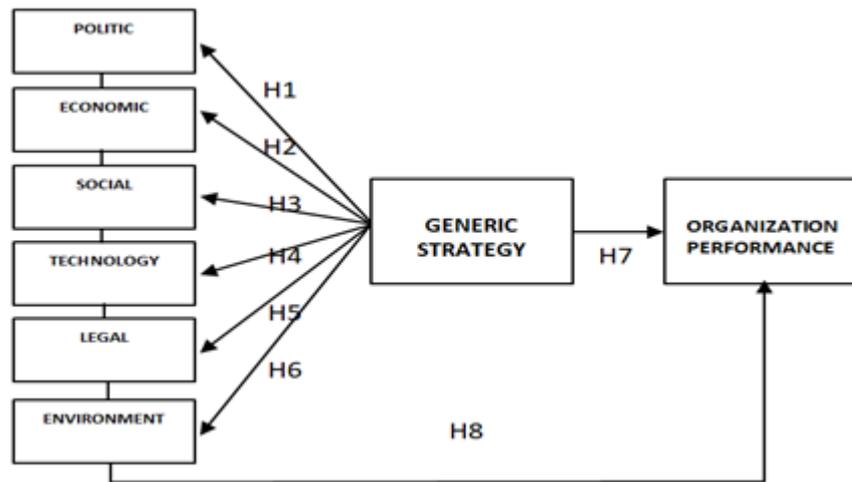


Figure 1: Conceptual Framework

### 3. Methodology

#### Sample, Unit of Analysis and Selection of Respondents

The sample unit of this study is all commercial general banks in Indonesia which total 120 banks consisting of 4 government banks, 29 foreign exchange private banks, 26 regional government banks, 35 non - foreign exchange private banks and 16 mixed banks and 10 banks foreign. This study uses the survey method to encourage questions to get more reliable information. This is necessary because the data analysis model that will be used is linear structural relationship (LISREL).

The unit of analysis is each bank with a target respondent bank director which consists of operations such as the main director, marketing, human resources organization and information technology, compliance or top leadership one level below the director who is authorized to answer the questionnaire. The directors or top leaders are considered to have deep knowledge of the strategies and policies of the commercial banks they lead.

A total of 120 sets of questionnaires have been sent to all banks in Indonesia, one questionnaire per bank. By direct delivery to the head office and by express mail. From the total number of questionnaires that were distributed, there were 39 banks that returned the questionnaires within two months including two sets of questionnaires that were returned due to the wrong address. This was considered insufficient to be analysed so a second delivery was carried out as many as 81 questionnaires resulting in a total of 101 bank questionnaire returns (84.1% response rate).

Table 1: Total Population and Sample

No	Bank Type	Total	Participation Answering	No Answering
1	Government Bank	4	4	-
2	Foreign Exchange Private Bank	44	38	6
3	Non Foreign Exchange Private Bank	30	27	3
4	District Development Bank	26	20	6
5	Mixed Bank	6	6	-
6	Foreign Bank	10	6	4
	Total	120	101	19

Source: Field Study (2022)

#### Research Measurement Models

The calculation of the latent variable/Latent Variable Score (LVS) from the latent variables using primary data that has been done before producing the observed variables Politic, Economy, Social, Technology, Legal And Environment. While Differentiation, Low cost and focus are single indicators from the generic strategy for latent variable and organization performance are also single indicators.

Table 2: Validity and Reliability of External Environment Variables

Variables	*SLF $\geq$ 0.5	Error	*CR $\geq$ 0.7	*VE $\geq$ 0,5	Conclusion
<b>Politic</b>			0,89	0,73	Good reliability
POL1	0,86	0,27			Good validity
POL2	0,95	0,10			Good validity
POL3	0,72	0,48			Good validity
<b>Economy</b>			0,91	0,79	Good reliability
ECO1	0,99	0,02			Good validity
ECO2	0,64	0,59			Good validity
ECO3	0,99	0,02			Good validity
<b>Social</b>			,73	0,59	Good reliability
SOC1	0,59	0,65			Good validity
SOC2	0,92	0,16			Good validity
<b>Technology</b>			0,83	0,63	Good reliability
TEC1	0,63	0,60			Good validity
TEC2	0,74	0,46			Good validity
TEC3	0,98	0,03			Good validity
<b>LEGAL</b>			0,78	0,51	Good reliability
LEG1	0,62	0,62			Good validity
LEG2	0,74	0,46			Good validity
LEG3	0,84	0,30			Good validity
LEG4	0,54	0,70			Good validity
<b>Environment</b>			0,75	0,62	Good reliability
ENV1	0,50	0,75			Good validity
ENV2	1,00	0,01			Good validity

\*SLF = standardized loading factor

\*CR = construct reliability, \*VE = variance extracted

Source: SPSS Output and Field Study (2022)

Independent variables (indicators) are measured six observable politic, economy, social, technology, legal and environment variables. The results of this variable measurement model analysis are shown in table 2.

**Table 3:** Goodness of Fit Indices (GOFI) Politic, Economy, Social, Technology, Legal and Environment

GOFI	Calculation Result Value	Standard Value for a Good Match	Conclusion
RMSEA	0, 06	RMSEA ≤ 0, 08	Good match
NFI	0, 84	NFI ≥ 0, 90	Pretty good match
NNFI	0, 92	NNFI ≥ 0, 90	Good match
CFI	0, 94	CFI ≥ 0, 90	Good match
RFI	0, 78	RFI ≥ 0, 90	Pretty good match
Std. RMR	0, 05	Std. RMR ≤ 0, 05	Good match
GFI	0, 87	GFI ≥ 0, 90	Pretty good match
AGFI	0, 79	AGFI ≥ 0, 90	Pretty good match

**Table 4:** Validity and Reliability of Generic Strategy Variables

Variables	*SLF ≥ 0.5	Error	*CR ≥ 0.7	*VE ≥ 0, 5	Conclusion
Differentiation			0, 80	0, 57	Good reliability
DIFF1	0, 72	0, 49			Good validity
DIFF2	0, 91	0, 17			Good validity
DIFF3	0, 65	0, 58			Good validity
LOW COST			0, 71	0, 51	Good reliability
LC1	0.50	0, 75			Good validity
LC2	0, 82	0.32			Good validity
FOCUS			0, 77	0, 52	Good reliability
FC1	0, 62	0, 62			Good validity
FC2	0, 72	0, 48			Good validity
FC3	0, 70	0, 51			Good validity
FC4	0, 69	0, 52			Good validity

\*SLF = standardized loading factor

\*CR = construct reliability, \*VE = variance extracted

Source: SPSS Output and Field Study (2022)

Latent variable generic strategy measured by the observed variable (indicator) measured by three variables differentiation, low cost and focus. The results of the analysis of the generic strategy latent variable measurement model are shown in table 5.

**Table 5:** Goodness of Fit Indices (GOFI) Generic Strategy

GOFI	Calculation Result Value	Standard Value for a Good Match	Conclusion
RMSEA	0, 08	RMSEA ≤ 0, 08	Good match
NFI	0, 93	NFI ≥ 0, 90	Good match
NNFI	0, 92	NNFI ≥ 0, 90	Good match
CFI	0, 97	CFI ≥ 0, 90	Good match
RFI	0, 84	RFI ≥ 0, 90	Pretty good match
Std. RMR	0, 06	Std. RMR ≤ 0, 05	Pretty good match
GFI	0, 95	GFI ≥ 0, 90	Good match
AGFI	0, 84	AGFI ≥ 0, 90	Pretty good match

Source: SPSS Output and Field Study (2022)

**Table 6:** Validity and Reliability of Organization Performance Variables

Variables	*SLF ≥ 0.5	Error	*CR ≥ 0.7	*VE ≥ 0, 5	Conclusion
Organization			0, 73	0, 51	Good reliability
ORG1	0.51	0, 74			Good validity
ORG2	0, 65	0, 58			Good validity
ORG3	0, 88	0, 23			Good validity

\*SLF = standardized loading factor

\*CR = construct reliability, \*VE = variance extracted

Source: SPSS Output and Field Study (2022)

From table 6, the ability to explain organizational variables covers ORG1 by 0.51, ORG2 by 0.65, ORG3 by 0.88. The

total of each standardized loading factor ≥ 0.5 is considered good.

**Table 7:** Goodness of Fit Indices (GOFI) Organization Performance

GOFI	Calculation Result Value	Standard Value for a Good Match	Conclusion
RMSEA	0, 07	RMSEA ≤ 0, 08	Good match
NFI	0, 97	NFI ≥ 0, 90	Good match
NNFI	0, 98	NNFI ≥ 0, 90	Good match
CFI	0, 99	CFI ≥ 0, 90	Good match
RFI	0, 94	RFI ≥ 0, 90	Good match
Std. RMR	0, 04	Std. RMR ≤ 0, 05	Good match
GFI	0, 97	GFI ≥ 0, 90	Good match
AGFI	0, 90	AGFI ≥ 0, 90	Good match

Source: SPSS Output and Field Study (2022)

#### 4. Discussion

##### Effect of Politic, Economy, Social, Technology, Legal and Environment Effects on Generic Strategy

Politics in Indonesia has a great influence on the nation's economic progress. There is an intervention between the political world in the government will produce an agreement. In business it is very important to consider political risk and its influence on the organization. This should be considered because changes in an action as well as the political basis in a country can have a big impact on the financial and economic sectors of the country. Political risk generally closely related to the government as well as the political and security situation in a country. Kim (2010) argues that political risk is an important factor in restricting capital flows Investments in developing countries which are exposed to great political risk, so that the inflow of large investments for countries is politically unstable.

The success of the strategy depends on many factors and the ability to combine those factors, if there is no compatibility between activities then the strategy will not have superiority so it will not continue. This situation is in line with the essence of strategy which is to win in competition (Zhang 2015). The short - term strategy of banking can be seen from various forms of differentiation products which are unique products although bank products are unique the findings of this study assume that some characteristics of the strategy are also for implementation in the long term. The strategy should not change often the strategy should have a long enough time not just one production cycle (Zhang, 2015). The product focus that is the customer's target also cannot be done to the maximum because the number of potential customers is very competitive so the bank can do a strategy by prioritizing low cost for certain products to customers both in terms of financing and financing.

The results of this study show that there is no social support for generic strategy, because companies no longer present unique strategies product strategies, cost - saving strategies, budget focus and work program focus to recruit customers in the community (Bank Indonesia 2013). A complex social situation which allows, lifestyle, ethics, habits, prestige and others in the society which is more self - centered creates a state of individualistic attitude. Especially if it is linked to the increasingly global economic situation the stakeholders

of a company are not only shareholders but the stakeholders are society and the environment (Korten 2007).

The development of information technology in Indonesia continues to show a significant upward trend. The use of internet banking technology, knowledge, the transfer of online banking transaction technology shows progress along with the times and customer needs. Therefore since 2010 - 2022 Indonesian banks in the field of information technology related to the implementation of policies and developments in the field of information technology in accordance with the direction of the information technology strategy map. In 2010 to 2022, Indonesian banks ensure that the level of availability of information technology services is maintained to support critical applications continue the development stage of BI - RTGS and BI - SSSS generation II which has entered the implementation stage of consultant procurement (designation of participants who pass the administrative stage and technical), ensuring the completion of the completion stage of the bank supervision system and the implementation of Basel II (Bank Indonesia 2022).

Legal protection of bank depositors is closely related to the problem of public trust in banking institutions. Banking institutions are highly dependent on public trust. Without the trust of the community the bank will not be able to carry out its business activities properly (Bank Indonesia 2013). So that it is not excessive when the banking world should be in a way of maintaining the trust of the community by providing legal protection against the interests of the community, especially the interests of customers. Thus, legal protection for savers against the possibility of losses due to a decrease in public trust is very necessary

Banking business in fact has no direct relationship with the environment. Nevertheless, Bank Indonesia with various conditions and regulations issued can promote the increased role of banking in improving the quality of environmental management namely the Banking Law Article 25 of Law Number 23 of 1999 regarding Bank Indonesia. According to Morelli (2011) in a study conducted in India, said the poor environmental management system because of the increasing effects of industrialization, urbanization, population density has become very critical has become an issue of concern. Institutions of the goods industry which includes the service industry and other sectors can be concerned to create a green environment.

#### **Effect of Generic Strategy on Organization Performance**

Research results show that generic strategy has a positive influence on organizational performance. The results of this finding enrich the empirical study on generic strategies where it is proven that generic strategies influence the improvement of financial performance and banking organizations. So far, research on generic strategy has not been found much in empirical studies about banking in Indonesia.

The banking industry needs to be sensitive to rapid and dynamic changes in the environment, because failure to respond to changes in the environment will have an impact on the decline in banking performance. This role is felt to be getting bigger along with the faster pace of globalization

fierce competition that stems from various discoveries and new innovations as well as the entry of foreign banks into the country Muhammadin et al. (2014). The faster changes develop generic strategies the greater their potential to have a competitive advantage (Porter 1980, 1985, 2004). The research results are also in line with the findings of Teece (2009) on the company's dynamic capabilities illustrating how organizations develop capabilities and various competencies in a dynamic business environment. In addition to having an impact in the long term on the company's competitiveness through increased productivity and human resources. It can also be said that generic strategy is the key to management success in company management in improving performance. According to Wheelen and Hunger (2007) also explained the results of the study show that companies that implement strategic planning will be able to improve the company's performance. The implication is companies are recommended to make strategic plans in order to improve the company's performance.

#### **Effect of Politic, Economy, Social, Technology, Legal and Environment Effects on Organization Performance**

The results of the study show that Politics, Economy, Social, Technology, Legal and Environment have a positive influence on Organization Performance. This environment has direct implications for the organization of a company such factors include government policy, democracy, inflation, community lifestyle, customer protection, natural disasters, environment, demographics (Pearce and Robinson 2013). In relation to environmental aspects (Kreisor and Marino 2002) states that macro and micro influences will grow when the basic environment supports the macroeconomic environment is well managed, stable and predictable. Reliable information and easy access to technology and the social environment encourages appreciating business success in any sector.

## **5. Conclusion**

Based on the results of the descriptive analysis that has been explained in the previous discussion, the general conclusions of the research can be drawn which are:

- 1) The politic, economy, social, technology, legal and environmental influences as well as generic strategy on the organization performance of the banking sector in Indonesia are quite high. Politic, economy, social, technology, legal and environment have no influence on generic strategy because it is considered that Politic, economy, social, technology, legal and environment have an element of uncertainty.
- 2) Generic strategy factors in formulating strategies can influence decisions in a company's performance especially to low - cost strategies and focus on organizational performance.
- 3) Some of the politic, economy, social, technology, legal and environment factors especially from technology and the environment can be expected and beneficial to increase the opportunities of organizational performance in the banking industry sector in Indonesia.

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