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Research paper

Framework of Architectural Marketing Capabilities in Regional Development Bank

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Abstract

With a huge amount of assets, regional development banks have sufficient capabilities. Despite the fact that most of the capitals of the regional development banks are owned by their respective regions, it is necessary to apply appropriate marketing strategies to attract and maintain customers and ensure their satisfaction. Therefore, it is very important for them to develop architectural marketing ability in order to compete with other national banks. The present study was carried out at regional development banks in West Java using a descriptive case study design. Data were collected through in-depth interview and observation. It was revealed that was the "architectural marketing capabilities of the regional development banks were developed through a comprehensive marketing plan and based on a competition environmental analysis and marketing information. These architectural marketing capabilities can improve business performance provided that they are well-implemented.

Keywords: *Architectural Marketing Capabilities; Business Performance.*

1. Introduction

The main function of the bank is as a financial intermediary, which is the process of collecting and channeling funds from the depositors to the debtors. In other words, the bank facilitates the distribution of funds of the surplus units to the deficit units. This function exists because of the asymmetric information between parties who have funds with the users.

Bank Indonesia encourages the competitive and institutional strengthening of the regional development banks (RDBs). Such banks are deemed capable of strengthening the regional economy and functioning as local development agents. Governor of Bank Indonesia, Darmin Nasution, stated that the RDBs have great potentials worth developing. A number of RDBs have indeed displayed good performance over the past few years. They managed to score a net profit above the target and increase credit distribution, especially on infrastructure projects funded by the provincial government budget (APBD) (1).

As of March 2015, RDB assets are IDR 498.951 trillion, increasing by 22.39% from IDR 407.669 trillion in March 2014, or are ranked fourth in the national banking system after BRI, Mandiri and BCA. It goes to show that if RDBs all over Indonesia are in synergy, they will become a solid force in the competitive national banking industry, and can contribute more optimally to the regional economy. Based on The Banking Statistics Indonesia (SPI) data, the RDBs also show a good credit performance.

As of March 2015, RDB credit position is IDR 304.492 trillion, increasing by 13.02% from IDR 269.419 trillion in March 2014, or is ranked fourth in the national banking system after BRI, Mandiri and BCA. The third party fund position of RDBs all over Indonesia as of March 2015 is IDR 410.781 trillion, increasing by 28.15% from IDR 320.552 trillion in March 2014, or is ranked fourth in the national banking system after BRI, Mandiri and BCA (2).

Return on Equity (ROE) is a profitability ratio that measures a bank's capability to generate profit. The greater the ROE is, the better the financial performance is because the rate of return is greater. The greater the ROE is, the higher the profitability the shareholders can enjoy.

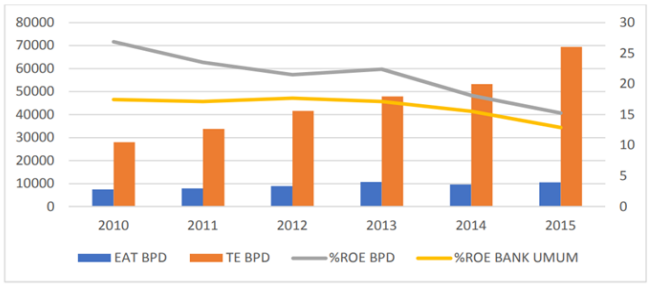


Fig. 1: Comparison between Commercial Bank and RDB's ROE.

PT Bank Pembangunan Daerah Jawa Barat dan Banten Tbk or well-known as Bank BJB managed to score a year-on-year credit growth of 13.6%. As of the first quarter of 2017, total credits disbursed by Bank BJB reached IDR 62.7 trillion. The growth of Bank BJB credit is inseparable from the economic growth of the society because all this time its credit products are used by SMEs and infrastructure projects. This credit growth is offset by a non-performing loan (NPL) ratio of 1.62%. In 2016, Bank BJB managed to score a net profit of IDR 1.56 trillion, increasing by 14.4% year-on-year.

RDB transformation program was launched on May 26, 2015 by the President of the Republic of Indonesia with a vision of realiz-

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ing RDBs as highly competitive and strong banks that contribute significantly to the growth and equitable distribution of sustainable regional economies. The vision will be realized through three targets: (i) the improvement of RDB competitiveness, (ii) the strengthening of institutional resilience, and (iii) the increased contribution of RDB to the local economy (3).

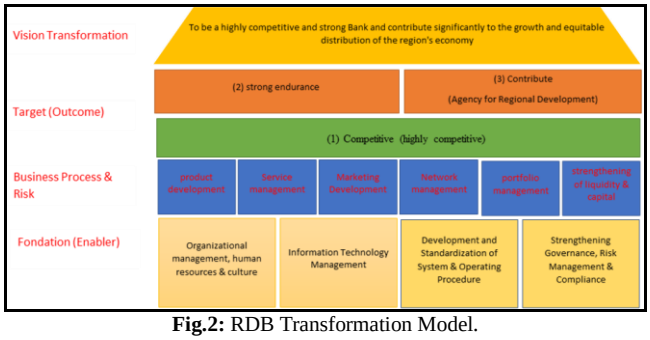


Fig.2: RDB Transformation Model.

(4) study reveals that RDBs need to address challenges and issues associated with culture, organizational structure, technology, and human resources. Along the same line, (5) suggest that RDBs have not contributed yet to the economic development of Indonesia.

To achieve the three targets above, there are six components need paying attention to to improve the effectiveness of business processes and risks: product development, service management, marketing development, network management, portfolio management, and liquidity and capital strengthening (2). (6) study shows that marketing strategy through pricing, price, promotion, and place plays an important role in creating competitiveness and facilitating banking profit growth. (7) suggests that marketing capabilities can improve a company's competitiveness and create superior customer value.

2. Literature Review

Marketing capability is deemed as potentially becoming one of the reliable key concepts in Marketing discipline to face the increasing complexity of future business phenomena. (8) suggest that marketing capability is an important element in the creation of market driven strategies and has a significant impact on business performance in a competition.

Companies in their efforts to achieve competitive advantage need to understand the internal resources that are transformed within the company's capabilities. Capability is a collective skills and knowledge found in organizational processes, which are important for the competitive advantage and superior performance. (9) mentioned three types of capabilities: information technology capability, operational capability, and marketing capability.

Company performance is empirically and theoretically determined by marketing capabilities (10). A capability is developed when individuals and groups explore knowledge and skills and then transform them into organizational goals.

Marketing capabilities can be defined as integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands. In the perspective of company resources, the expected result is an excellent and competitive performance. The competitive advantage can be achieved through ownership of key assets or capabilities (11). Meanwhile, (10) describes the marketing capabilities as knowledge processes. He mentions four types of knowledge processes in a company: specialized, cross-functional, architectural, and dynamic capabilities. At these organizational levels, marketing capabilities can therefore be defined as the specialized, architectural, cross-functional, and dynamic processes by which marketing resources are acquired, combined, and transformed into value offerings for target market. Marketing capabilities can therefore be defined as integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands.

According to (12), the achievement of targeted marketing performance requires the marketing capabilities to optimally implement the chosen marketing strategies. Market-oriented business organizations and marketing capabilities are required for the achievement of marketing performance (13). These marketing capabilities are collective skills, knowledge accumulation, and the organizational ability of the society to coordinate marketing activities that are developed into company assets. In addition to marketing capabilities, operational capabilities are also required to achieve an optimal marketing performance.

A company potentially has access to different marketing capabilities. A study conducted by (14) discusses three keys of marketing capabilities: market orientation, deadlines in corporate strategic decision making, and positioning. The results of their study reveals that there is a significant correlation between marketing capabilities and company performance. According to (15), marketing capabilities refer to the company's ability to perform various marketing functions. The variable of marketing capabilities is measured through six indicators namely market research, distribution, pricing, product development, marketing promotion/communication, and marketing management. It is also mentioned that there is a correlation between technological capabilities, customer capabilities, and absorptive capabilities. Meanwhile, (16) defines capability as managerial skills and knowledge to to empower the accumulated assets for competitive advantage.

Marketing performance is the result the company achieved in meeting consumer expectations (8). This variable is measured using four indicators: customer satisfaction, customer value delivery, effectiveness of marketing program, and new product success.

Marketing capabilities can be well-implemented if there are architectural marketing capabilities. This architecture consist of a combination of skills and knowledge to develop essential capabilities for competitiveness. The development of this architecture can directly improve marketing performance (17). It is also said marketing capabilities consist of architectural capabilities and special capabilities. Furthermore, (18) suggest that dynamic capabilities are required to cope with technological changes.

3. Methodology/Materials

All This study was carried out using a naturalistic qualitative approach through document study, observation, interview, and literature study. The research subjects were BJB Division Head and some branch managers selected using a non-probability purposive sampling technique.

The research was carried out through the following procedural steps: 1) constructing the conceptual framework, 2) formulating the research problems, 3) selection of samples and research delimitations, 4) instrumentation, 5) data collection, 6) data analysis, and 7) matrix and conclusion testing. The internal validity was stated in the credibility, external validity in the transferability, the reliability in the dependability, and the objectivity in the confirmability. The data analysis was conducted through the following steps: 1) data collection, 2) data reduction, 3) data presentation, and 4) conclusion and verification..

4. Results and Findings

In 2015, Bank BJB enjoyed a 23.30% increase in their net profit, from IDR 1,120 trillion in 2014 to IDR 1,381 trillion. They also enjoyed a 16.92% increase in their total assets, from IDR 75.86 trillion in 2014 to IDR 88.69 trillion in 2015. Bank BJB has also the following competitive advantages: (1) to be systemic im-

portant bank, (2) to have a strong image as a fast growing commercial bank and to become a national bank, (3) to have a large loyal customer base including civil servants, retirees and local society and to recognize its regional the economic and business potential very well, (4) to be located in West Java and Banten with rich natural and human resources , huge industrial estates, and ever-growing economic activities, (5) to have branch offices in 14 provinces, especially in West Java, Banten, and Jakarta, which is the center of Indonesia's economy (19).

The domestic economy has a positive outlook, which is underpinned by a healthy, balanced, and resilient economic structure. The government is targeting the acceleration of infrastructure development to strengthen the foundations of quality development to encourage the economic growth. The 2016 government budget set a development target of 5.3%, higher than 2015. And inflation was set at 4.7%, and the rupiah exchange rate was IDR 13,900 per US dollar. With this assumption, banks targeted a year-on-year asset growth of 12%. This was underpinned by the third party funds which were expected to positively move towards 13.5%. Meanwhile, the credit growth was targeted to reach 14% in 2016 with Non Performing Loans to be halted at 2.3%.

Bank BJB has a vision to be the top 10 largest banks and to perform well in Indonesia. To realize this vision, it is very important to construct a framework of architectural marketing capabilities to improve performance achievement, especially marketing performance. Some studies have revealed that marketing capabilities significantly affects company competitiveness and performance (10; 20; 21).

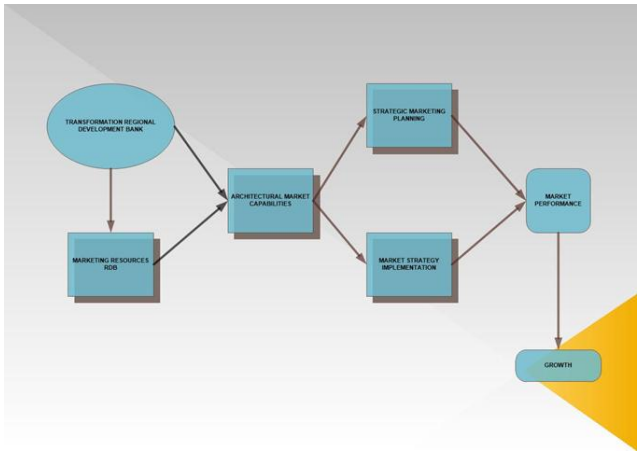


Fig. 3: RDB Architectural Marketing Capabilities

Considering the above conceptual framework, RDBs are required to identify marketing resources. The identification of these marketing resources includes knowledge, financial capacity, organization, human resources, network, information and reputation of the RDB in question. Some scholars (22; 23; 24) emphasize the importance of marketing resources as the basis for determining the company's marketing strategies. Some studies have shown that knowledge, information and organizational resources are central to marketing resources (25).

The identification must be in accordance with the transformation model conveyed by (26). Transformation is required in order for the RDBs to have competitiveness and able to significantly contribute to development in Indonesia. In addition, the purpose of this transformation is to encourage RDBs to implement governance. This is supported by some studies (27; 28).

The RDB architectural marketing capabilities are described as a result-oriented marketing development model where the focus is how to utilize marketing resources based on capabilities and knowledge that focus on market strategy decision and market strategy implementation. In practice this architecture is related to how decision is made by identifying the objective, determining the target market and determining the market strategy decision.

Market strategy implementation includes program setting, priority, and all aspects of program dissemination. Market strategy implementation comprises product strategy, price, service, delivery and company branding. Some experts refers to this strategy as 7ps marketing strategy for banking (29). In her thesis, (30) explains that marketing mix is the most important banking strategy to anticipate the rapid change of technology..

Market strategy implementation begins with a comprehensive analysis of company situation. Marketers are required to carry out a SWOT analysis where they can comprehensively assess the company's strengths (S), weaknesses (W), opportunities (O), threats (T). The strengths include internal capabilities, resources, and positive situational factors that can help a company serve its customers and achieve its goals, the weaknesses include internal limitations and negative situational factors that can hinder the company's performance, the opportunities are profitable factors or trends in the external environment that a company can use to make profit, and the threats are unfavorable external environmental factors that present a challenge to the company's performance. The concepts and implementation procedure of marketing mix for banking are explained by (31).

The added value can be created by understanding market needs like customer desires, conducting customer and market research, organizing marketing information and customer data, building integrated marketing methods, and building mutually beneficial relationships in creating customer satisfaction. According to (32), the added value creation may happen if the marketing strategy meets the consumer needs or perceptions.

A well-implemented marketing strategy process will encourage the RDBs to display a good market performance marked by 3 factors: the increase of third party funds, increased net profit, and increased total assets. This improved market performance will establish a sustainable growth of RDBs.

5. Conclusion

Based on the result and findings, it can be concluded that In architectural marketing capabilities, the identification of marketing resources is required to identify the strengths of resource based marketing. The identification and development of marketing resources must necessarily be based on the government's RDB transformation program for which these resources become the foundation. This architecture can work if there are strategic market planning and market strategy implementation and can improve market performance and sustainable growth if well-implemented.

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