

STATE OF PLAY OF BANKING INDUSTRY IN INDONESIA; AN APPLICATION OF SPACE ANALYSIS

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Abstract. *In analyzing competitive environment of an organization, many tools have been created and applied. One of the methods that is rarely used but yet instrumental in analyzing industry competitiveness is Strategic Position and Action Evaluation (hereby, SPACE). SPACE analysis comprise of a four-quadrant matrix developed by Rowe et al. (1994). The SPACE matrix is commonly used in strategic management literature larger due to its integrative power over the standard tools and techniques (Radder & Louw, 1998). Despite the important use and simplicity, the application of this method in the banking industry is still rare. Thus, this study is trying to add to the literature the use of this tools for analyzing bank industry strategy, SPACE analysis methodology is a mixed-method consisting of interview and survey. Prior to the study, 3 (three) experts on banking were asked to confirm the research indicators. The research then interviewed 12 banks representatives, who hold senior position in each bank surveyed. The bank were chosen based on different bank sizes in the industry following central's bank categorization. The respondents gave scoring on the internal and external factors sheet prepared for the analysis. The result of the analysis of SPACE matrix is presented in the interpretation of the postures in terms of its environmental stability, industry strength, competitive advantage and financial strength. A strategy is then derived from the posture to guide for the player's next action against competition in the industry. The study found that Indonesia banking industry has aggressive and conservative postures. The paper explores some of the bank surveyed, which represent each posture, and the strategies suggested in response of the postures. The study has provided a valuable insight to the banking industry's state of play and has practical value since it consists of suggestions of strategies that can be implemented by the companies.*

Keywords: *strategy; management; banking; SPACE matrix.*

Introduction

The global economic banking industry is under pressure in today's business climate. According to World Bank (2015) global growth slowing from 2.4% from 2.6% in 2014. It seemed that macroeconomic condition is still not fully recover to provide support the industry growth. In addition, banks are also struggling with intense competition within the industry to win the customers. The customers' demand is pushing the industry to find an innovative and efficient solution to get ahead of the market. The

pressure is felt across the regions including Asia Pacific (APAC) region which has topped the growth in the last decade. When the global average banking ROE still in single digits, APAC banks averaged 13% from 2007 to 2014 (Ernst&Young, 2015). Indonesia ranked as top three countries in APAC category of emerging markets for driving the growth in the region. However, since 2014 APAC is experiencing slower growth. Although still in leading position, it needs a deeper understanding of the market strategy of the players involved.

The aforementioned situations have forced bank industry to evaluate its strategy to adapt to the current situation. In order to evaluate strategy, it is prerequisite to know the state of play in the industry to assess internal and external challenges. One of the methods that are rarely employed in the banking industry is Strategic Position and Action Evaluation Matrix, developed by Rowe et al. (1994). The Strategic Position and Action Evaluation Matrix (SPACE Matrix) is a four- quadrant framework, which indicates whether aggressive, conservative, defensive or competitive strategies are most appropriate for a given organization (David, 1997).

The objective of this study is to understand the state of play of banking industry in Indonesia and to evaluate the competition using SPACE analysis framework. SPACE matrix method is selected since it is more superior than others due to its capability to take account many factors in building the dimensions. SPACE Matrix will result in one of the four suggested postures based on the positioning of the banks judged by internal and external factors. Thus, the result should contribute suggestion of appropriate strategy for the banks. The study also takes account various sizes of banks in order to give a more comprehensive view of the market positioning of each size and whether they need to develop a different strategy in the market.

SPACE Matrix

The use of analytic tools helps in building strategies to win in the complex market (Rudnicki & Vagner, 2014). Various methods have been employed to assess the environment and determine the competitiveness of an organization. Methodologies such as Boston Consulting Group (BCG) product portfolio, McKinsey's Industry Attractiveness/Company Strength Matrix, General Electric (GE) Stoplight Strategy, Directional Policy Matrix (DPM) and Profit Impact of Market Strategy (PIMS) have been known and widely used. However, some limitations are identified with these methods. The Strategic Position and Action Evaluation (hereby, SPACE) Matrix developed by Rowe et al. (1994) is trying to overcome the limitations of the previous frameworks by incorporating more factors and adding two key dimensions into its internal and external evaluation.

The SPACE matrix starts with internal and external evaluations, which are depicted in the area in a four-quadrant matrix, consists of two axis. The axis represents the combination of internal dimensions and external factors. Internal dimensions consist of Financial Strength (FS) and Competitive Advantage (CA). External dimensions consist of Environmental Stability (ES) and Industry Strength (IS). Each dimension has building factors. The factors are assigned appropriate numerical values, which then averaged to determine the position of dimension in the matrix. The position in the matrix will result in four basic strategic postures in SPACE matrix: aggressive posture, competitive posture, conservative posture and defensive posture (Radder & Louw,

1998).

The SPACE matrix are commonly used in strategic management literature larger due to its integrative power over the standard tools and techniques (Radder & Louw, 1998). The framework application in has been favorably used to evaluate competition in various areas and industries, including sport industry (Cross & Henderson, 2003), leisure centers (Benson & Henderson, 2005), airlines industry (Torlak & Sanal, 2007), destinations (Courtis & Mylonakis, 2008), environmental management (Nouri, Karbassi & Mirkia, 2008), volunteer tourism organizations (Benson & Henderson, 2011) and small-medium enterprises. However, the application in banking is somewhat scarce.

Methodology

The study is a mixed method comprised of the interview and a survey. The study conducted 3 (three) initial interviews to confirm SPACE variables. After the variables were confirmed, the study planned to interview up to 12 respondents to answer the SPACE matrix questionnaires. The respondents were selected with following profiles: senior bankers with 20+ years experience in the industry and have or had been working in the target bank in a decision-making position. This includes director and commissioner position of the bank. The investigation involved 12 different banks with different bank sizes. According to Indonesian's Central Bank (Bank Indonesia) there are four bank categories grouped by their core capital size. Category I is for bank with core capital less than IDR 1,000,000 million, category II is for bank with core capital between IDR 1,000,000 million to IDR 5,000,000 million, category III is for bank with core capital between IDR 5,000,000 million to IDR =30,000,000 million and lastly, category IV is for bank with core capital above IDR 30,000,000 million. Three banks from each category were conveniently selected to be interviewed. The result of the interview is a filled out survey, which then calculated and plotted to develop the matrix.

There are two approaches in SPACE matrix numerical calculation, one is by (Rowe et al., 1994) and the other by (David, 1997). A recent development by Borocki (2011) has also provided a modified version of the calculation. Despite having a slight variation on assigning the values of factors and on the numerical scale both Rowe et al. (1994) and David (1997) approach aimed for the same end result. Thus, this study is following methodology from Rowe et al. (1994), which also had been followed by Radder and Louw's (1998) research.

The research followed basic steps to develop SPACE matrix (Rowe et al. 1994; Radder & Louw 1998). The first step is to select a set of variables to define Financial Strength (FS), Competitive Advantage (CA), Environmental Stability (ES) and Industry Strength (IS). Interviews were conducted to crosscheck the variables from Rowe et al. (1982) to ensure the relevancy of each variable to the banking industry. The next step is to assign a numerical value ranging from +1(poor) to +4(excellent) to each of the variables that make up the FS and IS dimensions and assigns a numerical value from -1 (excellent) to -4 (poor) to each of the variables that make up the ES and CA dimensions. The third step was to compute the average score for each variable by summing the values given to the variables of each dimension and dividing by the

number of variables included in respective dimension. The scores for FS, IS, ES and CA were then plotted on the appropriate axis in the SPACE matrix. To result in coordinate is a by adding two scores on the axes opposite each other to obtain directional vector points. The x axis coordinate is determined by sum of CA and IS, while the y axis coordinate is determined by the sum of FS and ES. Knowing the x and y coordinate result in a point in the matrix which then a directional vector can be drawn from the origin of SPACE Matrix through the intersection point to reveal the type of strategies recommended for the organization.

The result then plotted to the four quadrants of strategic posture with different characteristics. There are four basic strategic postures in SPACE matrix: aggressive posture, competitive posture, conservative posture and defensive posture (Radder & Louw, 1998). Aggressive posture is usually found in an attractive industry with a stable economic condition. Competitive posture is defined by attractive industry in a relatively unstable environment. The organization has high competitive advantage qualities, however, critical disadvantage in its financial strength. Conservative posture is marked by unattractive industry in a relatively stable environment. The organization in the conservative area lack of products or services with a competitive edge. The Defensive posture is characterized by unattractive industry where competitiveness is also low. The organization is critical in its financial strength and lacks of competitive products.

In the SPACE Matrix meetings with the respondents, a short in-depth interview is conducted in an average length of 30 minutes to one hour. The interview is aimed to give a further elaboration on current industry standing, as well as investigating recent issues faced by the industry.

Result

The analysis of result will start with the development and confirmation of indicator in the survey. Followed by sample profile explanation and plotted SPACE matrix result and the strategy recommendation.

Survey development and confirmation

The variables used as a base for the initial interview was following Rowe et al. (1982) and several changes have been made incorporating the suggestions from the experts. The final variables comprise of the indicators FS, CA, ES and IS as listed in table 1.

Table 1. List of SPACE Matrix Factors

INTERNAL STRATEGIC POSITION		EXTERNAL STRATEGIC POSITION	
Financial Strength (FS)	Competitive Advantage (CA)	Industry Strength (IS)	Environmental Stability (ES)
Capital (CAR)	Market Share	Growth Potential	Technological Changes
Loan Quality (NPL)	Product Quality & Pricing	Profit Potential	Rate of Inflation
Loan (Growth)	Customer Loyalty	Financial Stability	Interest Rate
Asset (Growth)	Competition's Capacity	Technological	Competitive

	Utilization	Knowhow	Pressure
ROA	Technological know-how	Resource Utilization	Foreign Exchange
ROE		Productivity and Capital Intensity	Macro Economics
Liquidity (LDR)			Regulatory
NIM			
Cost Income Ratio			

After the expert interviews, two suggestions have been incorporated into the final survey format. First, the study follows the suggestion to shorten the scale from 1-6 scale to 1-4 scale. The survey also accepts the suggestion to revise several indicators for the matrix until internal and external indicators ready to be asked to respondents.

Measurement of Internal strength consists of Financial Strength (FS) measurement and Competitive Advantage (CA). Financial Strength (FS) factor includes the question on the capital situation of the bank indicated by Capital Adequacy Ratio, loan quality and growth, return on asset (ROA), return on equity (ROE), liquidity ratio (LDR), net interest margin (NIM) and costs to income ratio. Another factor measuring internal environment is a competitive advantage (CA). The competitive advantage compares the performance of the bank with the industry average in terms of market share, product quality and pricing, customer loyalty, competition's capacity utilization and technological know-how.

External environment represented by two factors, industry strength (IS) and environmental stability (ES). Industry strength factor is judged by growth and profit potential of the industry, financial stability, technological know-how, the utilization of resources and also productivity and capital intensity. While environmental stability assessed the technological changes, the rate of inflation, interest rate, competitive pressure, foreign exchange, macroeconomics conditions and the regulatory role.

After the confirmation of factors had been conducted, respondents were asked to complete a questionnaire regarding the list of internal and external factors in table 1. The study has completed 12 interviews with senior bankers from 12 banks in various sizes.

Respondents' profile

The respondents consist of senior level personnel with 10 to more than 30 years work experience in banking industry. More than half of the respondents were in the age range of 41 to 50 years old (67%) and the rest were above 50 years old. The experience respondents have in the banking industry were various, 42% had 10 to 20 years experience and the rest have more than 20 years experience. Most of the respondents interviewed were in the department head position (42%), followed by division head position (25%) and commissioner (25%).

Table 2. Respondents' Profile

		Number of respondents	Percentage
Age	41 to 50 years old	8	67%
	51 to 60 years old	1	8%
	> 60 years	3	25%
Experience	10-20 years	5	42%
	21-30 years	5	42%
	≥ 30 years	2	17%
Position in Bank	Department Head	5	42%
	Division Head	3	25%
	Director	1	8%
	Commissioner	3	25%

Plotted SPACE Matrix result

After the respondents assign the value of each variable, the average score is calculated for each factor of SPACE, namely FS, CA, IS and ES. The x axes has FS and CA in different pole and y-axes has IS and ES also in the different pole. The coordinate of each respondent score was the resultant of each factor score (table 3). The score was then plotted into the SPACE matrix diagram (figure1) thus determine each assigned posture.

Table 3. Coordinate result

Banks' Categorization	Coordinate		Posture
	X axes	Y axes	
Category I: 1. Bank A 2. Bank B 3. Bank C	0.83 0.80 -0.40	0.52 0.38 1.00	Aggressive Aggressive Conservative
Category II: 1. Bank D 2. Bank E 3. Bank F	1.00 1.00 0.93	0.19 0.92 2.57	Aggressive Aggressive Aggressive
Category III: 1. Bank G 2. Bank H 3. Bank I	1.17 0.80 0.50	1.03 0.32 0.89	Aggressive Aggressive Aggressive
Category IV: 1. Bank J 2. Bank K 3. Bank L	2.43 2.10 2.27	1.92 1.22 1.83	Aggressive Aggressive Aggressive

From the score, the study found that Environmental Stability is rated "fair" by the respondents, similarly, the Competitive Advantage is also rated as "fair". While Industry Strength and Financial Strength, the respondents rate both "good". This has led most of the banks surveyed into Aggressive Posture. However, there is one bank that has a different result and was categorized in the Conservative Posture of the SPACE Matrix.

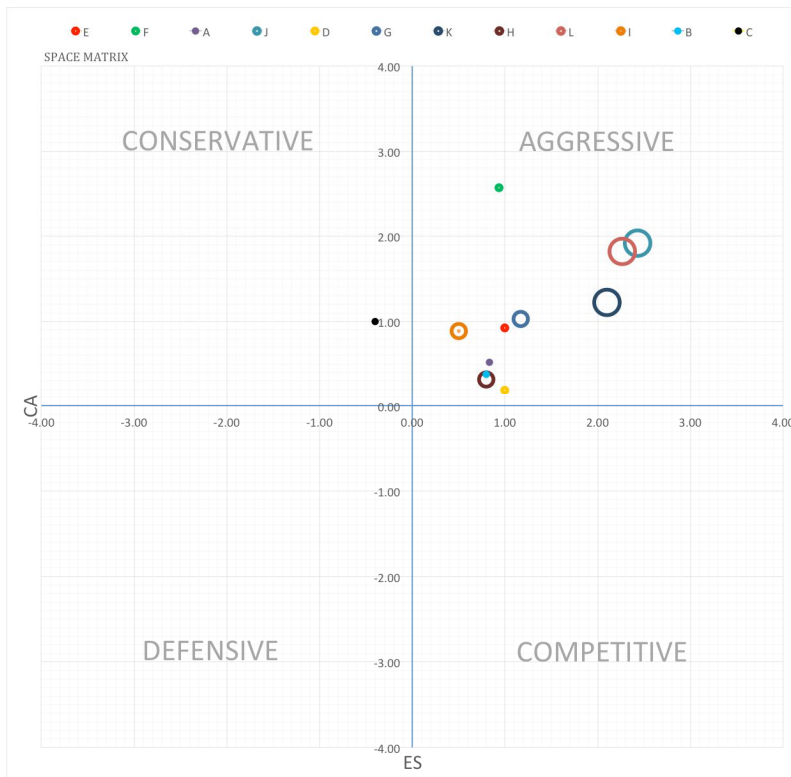


Figure 1. SPACE Matrix result

Figure 1 shows the matrix consisting of four quadrants, defensive, competitive, conservative and aggressive postures. The circles are representing the banks surveyed and their position within the matrix. The size of the circles is representing the banks' category. The smallest ones are category I while the biggest circles are category IV. According to the scores, most of the banks were in an aggressive posture. Only one bank that has conservative posture.

Aggressive strategic posture

The interview score results in 11 out of 12 banks in the right-up quadrant, which led to Aggressive Posture of SPACE Matrix. Aggressive posture characterized by attractive industry with a stable economic condition. The organization can compete intensely in the market as it is supported with strong financial resources.

In the SPACE Matrix result, most of the bank surveyed was in the aggressive posture with a different position. In analyzing the bank, the discussion highlights on the bank that has the maximum resultant score in each axes. The highest score for X axes, which was the resultant of competitive advantage (CA) and industry strength (IS), was Bank "I". Whilst, the highest score for y axes was Bank "F", which was the resultant of financial strength (FS) and environmental stability (ES).

Bank "I"

In the matrix, a bank with the strong aggressive posture is "Bank I" in the far-up -right quadrant. This bank is the one of the oldest, biggest banks in Indonesia in terms of

asset and profitability. It started as a bank that caters mostly to the rural areas, now the image is leveraged to more premium segments. In the past 10 years, this bank has continued to develop its image and expand the network to Asian countries. The recent move includes the launch of its own satellite, which marked the technological focus of its operation. The aggressive strategy is very obvious to be pursued by this bank.

Bank "F"

Bank "F" has a unique position within the aggressive posture quadrant. It is located above others in the matrix, signify its high score for financial and environment stability. This medium-sized bank (category II) is the only bank in the research that applies Islamic law in its operationalization. It has a parent bank that originates from an old bank catered for pensioners. Bank F used to be a business unit of its parents' bank, one of the fastest growing banks in Indonesia, before the business unit spin-off become a new bank in 2008. This Islamic bank is a new set up in 2014. Its clear differentiation of Islamic view in operationalization and support from the parent bank provide a promising future growth.

In order to act upon the aggressive posture, there are tactics to be employed. First is to invest in innovation to sustain and build competitive advantage. Innovation can be a source to develop alternative competitive advantages and differentiated customers' value proposition. A significant competitive advantage can raise the bar of the industry, to a level that that competitors' difficult to match. Second is to grow aggressively. Seize opportunities by vertical or horizontal integration. Growth can also be achieved by tapping into the new market which complements existing position by acquisition, expanding market share or investing in products that have a competitive edge.

Conservative strategic posture

The result found one bank in the conservative strategic posture, Bank "C". Conservative posture marked by unattractive industry in a relatively stable environment.

Bank "C"

Bank C belongs to category I of Indonesian bank industry. The business of Bank C is focusing on micro and small loans. This relatively small bank has undergone financial challenge in this past couple of years. From the end of 2015, this bank has actively downsized its staff and closing down 30% of its existing branch offices. The position in the SPACE matrix reflects the situation and categorized its posture as conservative. Along the efficiency measures, the bank also in the process of acquisition by a local state company.

The organization in the conservative area usually lacks product or services with a competitive edge. In this posture position, the organization should prune their existing product lines, cut cost to improve cash flow and invest in search of new product development with a competitive edge or try to enter a new market.

Size matters

From the result of 12 interviews, it is found that almost all of the banks' directional point leads to Aggressive Posture. The average coordinate is 1.1 for x axes and 1.07 for

y-axes. Interestingly, all of the bank in category 4 is performing way above the average. This suggests that bigger banks might lead to more resources for aggressive action and strategy. However, this suggestion might need further study.

Conclusion

The study started from the need to analysis the current state of play in Indonesia banking industry. SPACE matrix method of analysis is selected to conduct the analysis to target 12 banks in various sizes. The result of all banks interviewed has suggested that most of the banks are in the aggressive posture. The posture defines by attractive industry in stable economic condition. To act upon the posture is to maximize growth by acquisition and innovation.

In addition, the positioning of the plotted matrix also gives interesting insights regarding the banks' size. The bigger the size of the bank (category 4), the more that they are in the aggressive posture area (up and right quadrant). This might result from the efficiency of the bigger banks in the industry and as an indication that size does matter.

Although aggressive posture is the highly favorable position, there are concerns related to the strategy implemented. The two main concerns of this position are, to avoid complacency and to avoid anti-competition policies. In this posture, the threat can also come from substitute market or as technology makes different sectors converge. Since banking is a highly regulated industry, a bank that is too strong need to have strict control to avoid complacency issues.

The study has given valuable insights toward the state of play of banking Industry in Indonesia and practical suggestion for the strategy to be taken. It also contributes to the literature with the application of Strategic Position and Action Evaluation analysis in the banking industry. However, a limitation exists in the study. Although the study had tried to represent the industry by the various size of the banks, the sample still small compared to total players in the industry. Therefore the risk of underrepresented made the analysis must be deal with cautions. Future research should increase the number of sample and attention to respondent's profile to give more representation of the industry. It may also important to differentiate bank based on characteristic, for example conventional and Islamic bank. Secondly, SPACE method has evolved recently incorporating weight in the calculation. Future research should also try to employ a newer version of SPACE analysis to provide more insights on the result.

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