







# Strategic Partnership in West Java Government Rural Banking

Puspa Dewi Yulianty<sup>1</sup>, Agus Rahayu<sup>2</sup>,  
Puspo Dewi Dirgantari<sup>3</sup>, and Lili Adi Wibowo<sup>4</sup>

<sup>1,2,3,4</sup> Universitas Pendidikan Indonesia, Bandung, Indonesia  
puspadewi91@upi.edu

**Abstract.** The performance of the banking sector, particularly in Rural Banking (BPR), is influenced by competition and resource constraints, especially after the regional government acquired BPR. The bank faces performance issues caused by internal and external factors, requiring continuous monitoring of its environment to identify opportunities, threats, strengths, and weaknesses. This study aims to evaluate the impact of a partnership strategy on BPR performance in West Java, using structural equation modelling (SEM) as the research methodology. A partnership strategy is identified as a potential solution to mitigate competition and resource limitations. The research design includes a population of 120 executive officers and managers of regional government-acquired BPR banks. Data collection and analysis were conducted to understand the relationship between the partnership strategy and performance. Data was analyzed using AMOS 22 software and the SEM approach. The findings reveal that implementing the partnership strategy dimensions, including collaboration, resource sharing, and innovation, significantly improves the performance of BPR banks post-merger. These findings address key challenges in enhancing operational efficiency, financial performance, and market competitiveness. This study provides practical recommendations for regional government-owned BPR banks to optimize their partnership strategies in response to internal and external challenges. It also highlights the importance of aligning partnership strategies with organizational goals to maximize effectiveness. The findings contribute to broader insights into improving performance in the banking industry, especially in post-merger scenarios, offering valuable lessons for a similar institution.

**Keywords:** Banking Performance, Merger, Partnership Strategy, Strategy.

## 1 Introduction

Rural Banks (BPR) in Indonesia face challenges such as competition levels, capital requirements, service quality, and human resource quality [1]. BPR is crucial in supporting Indonesia's economic equality, growth, and stability. However, the increasing competition in the banking sector, particularly from Fintech and peer-to-peer lending platforms, poses significant threats to their operations. To remain competitive, BPR needs to implement a differentiation strategy [2] while ensuring no conflicts between

various strategies. Additionally, an in-depth analysis of the internal and external environment is critical for identifying strengths, weaknesses, opportunities, and threats before formulating strategies [3].

The limited resources in BPR, including human resources, capital, and technology, present additional challenges [4]. Technology is a crucial enabler in implementing effective strategies [4, 5]. Partnerships are identified as a key strategy to overcome these challenges by fostering collaboration with suppliers, service providers, and other stakeholders, enabling resource sharing and cost reduction [6]. Partnerships also directly contribute to company performance by driving innovation and building competitive advantage [7]. This study aims to examine the impact of implementing a partnership strategy on the performance of BPR in West Java post-merger. By focusing on partnerships as a strategic approach, the study provides practical recommendations for improving operational efficiency and competitiveness in the banking sector.

### **1.1 Financial Technology Partnership Strategy**

In international business, having a broad network of business partners is crucial. Partnerships should include suppliers, service providers, competitors (alliance strategy), and distributors [8]. Partnership involves long-term views, information sharing, risk and reward sharing, and voluntary collaboration [9]. It also involves achieving goals that cannot be achieved alone, bringing together competencies, resources, and abilities [10, 11]. The goal is to achieve more significant results, reduce time and costs, build strategies, create new resources, and gain competitive advantages [6, 12, 13]. Previous research indicates that partnerships improve performance and customer acquisition [14, 15].

### **1.2 Competitive Intension**

Porter's five forces that influence competition in an industry are: (1) the threat of new entrants, (2) the bargaining power of suppliers, (3) the bargaining power of buyers, (4) the threat of substitute products, and (5) industry rivalry. To develop a good strategy and achieve a competitive position, companies must minimize the impact of these forces. These forces determine the intensity of competition and capabilities in the industry, serving as a basis for strategists in formulating strategies to secure a position that allows survival (Porter). Competitive industry forces directly and indirectly influence performance [16].

### **1.3 Strategic Resource**

The RBV (resource-based view) model posits that a company's unique characteristics determine its success, focusing on valuable, inimitable resources and capabilities. The RBV approach views organizations as collections of assets and capabilities, emphasizing that unique experiences, assets, and cultures provide a competitive advantage. Key resources offer the best competitive advantage tailored to a company's business and strategy.

## 1.4 Banking Performance

Performance is the workability shown by results. Company performance refers to output over a certain period, measured against established standards [17]. Performance assessment evaluates a company's work capabilities based on specific standards, aiming to describe the empirical conditions using various measures.

## 1.5 Hypothesis Development

### **Partnership Strategy and Competitive Intensity.**

Competition drives companies to form partnerships, especially in the banking sector, where domestic banks collaborate to compete with foreign banks.

### **Partnership Strategy and Resource Strategies.**

Small companies use partnerships to overcome financial, IT, and human resources limitations, which can enhance their performance.

### **Partnership Strategy and Bank Performance.**

Effective use of resources, including human capital and organizational systems, influences performance. Differentiated competencies and superior routines can give small firms a competitive edge.

## 2 Methods

The research employs a quantitative method, focusing on BPR customers in the Cirebon Region. A purposive sampling technique was used, targeting post-merger BPRs owned by the Regional Government, resulting in a total of 120 respondents. The research design clearly describes the population, data collection procedures, and analysis techniques. Data was collected using questionnaires distributed physically and via Google Forms, measured on a Likert scale of 1 to 5. The analysis was conducted using the structural equation model (SEM) approach with AMOS 22 software, allowing for the evaluation of complex relationships between variables. The method ensures validity and reliability in measuring constructs, adhering to rigorous quantitative research standards.

The study consists of one exogenous (Partnership Strategy) variable and three endogenous variables: competition intensity, strategic resources, and bank performance. Each variable is operationalized with specific indicators to ensure measurable outcomes: Partnership Strategy is measured with four indicators, competition intensity with seven indicators, strategic resources with three indicators, strategic generic with three indicators, and bank performance with three indicators. This research design facilitates an in-depth understanding of the relationships among variables, ensuring that the methodology aligns with the research objectives and addresses the key challenges identified in the study.

### 3 Results and Discussion

#### 3.1 Validity Measurement

The research tested the content and face validity of five primary constructs: competitive advantage, environmental certainty, resource strategies, generic strategy implementation, and business performance. Expert opinions and theory confirmation were used for content validity. Confirmatory factor analysis (CFA) using AMOS 22 confirmed the validity of the 20 instruments, with most factor loadings being  $\geq 0.5$ , indicating good and acceptable validity for the constructs. Table 1 shows Factor Loadings for each item and construct using Confirmatory Factor Analysis.

**Table 1.** Factor Loadings for each item and construct using Confirmatory Factor Analysis.

Construct	Indicator	Factor				
		1	2	3	4	5
Partnership Strategy	1	0.877				
	2	0.814				
	3	0.721				
	4	0.762				
Competitive Intensity	5		0.642			
	6		0.297			
	7		0.201			
	8		0.756			
	9		0.786			
	10		0.517			
Strategy Resource	11		0.141			
	12			0.700		
	13			0.570		
Generic Strategy	14			0.824		
	15				0.385	
	16				0.761	
Banking Performance	17				0.258	
	18					0.661
	19					0.735
	20					0.168

#### 3.2 Reliability Measurement

Cronbach's Alpha coefficient is calculated to estimate the reliability of each scale (observed variable or indicator). Based on Table 2, the tests show good reliability, with Cronbach's Alpha  $\geq 0.5$ , and construct reliability and variance extracted meeting the recommended thresholds.

**Table 2.** Reliability Consistency Internal Measurement

Construct	Indicator	<i>Item to total correlation</i>	<i>Cronbach's Alpha</i>
Competitive Advantage	1	911	8687
	2	849	
	3	808	
	4	817	
Environmental Certainty	5	560	7448
	6	595	
	7	711	
	8	443	
	9	555	
	10	604	
	11	578	
Resource Strategies	12	701	5799
	13	744	
	14	767	
Implementation of Generic Strategies	15	503	2924
	16	721	
	17	705	
Business performance	18	779	5600
	19	692	
	20	602	

### 3.3 Multicollinearity and Singularity Test

There are no signs of multicollinearity, as the determinant of the sample covariance matrix ( $4.4971e+002$ ) is far from zero, indicating that the model's assumptions are met.

### 3.4 Model Measurement

Some criteria from the model evaluation showed poor results, indicating poor fitness. As shown in Figure 1, the model needs modification using Amos data management.

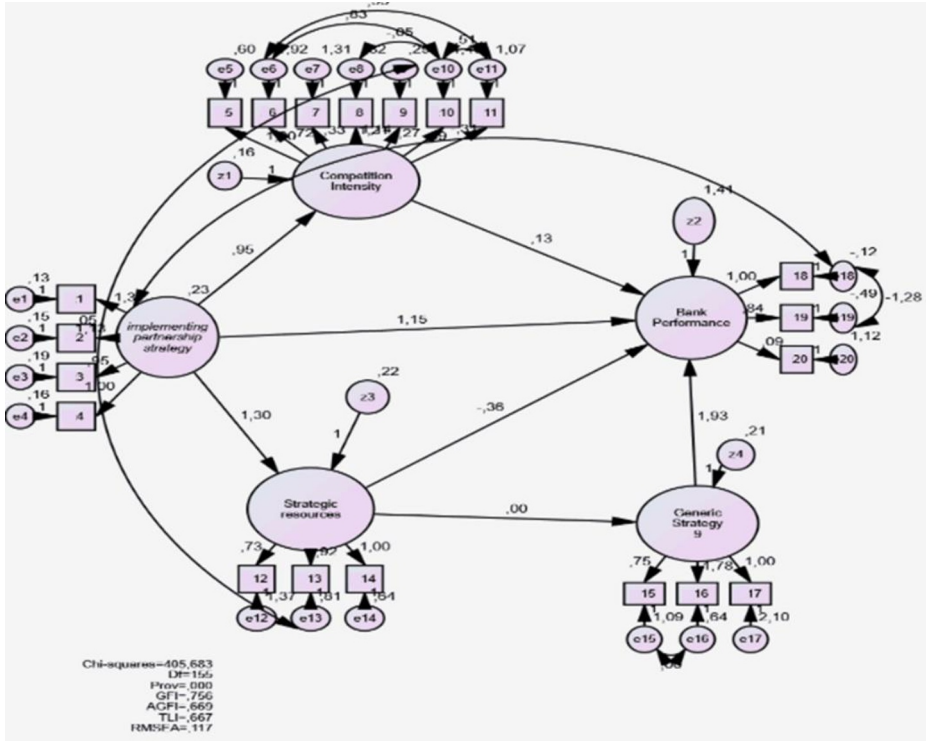


Fig. 1. Model Measurement.

The causality test in the model involves testing the null hypothesis that the regression coefficient between relationships is zero using the t-test. The C.R. (Critical Ratio) values for each causality relationship are provided in Table 3 for clarity.

Table 3. Standardized regression weight for Structural Equation Model of factors that influence Bank Performance.

Regression construct	Estimate	SE	CR	P
Implementing Partnership Strategy → Strategic Resources	0.979	0.210	6,225	0.000
Implementing Partnership Strategy → Competition Intensity	0.892	0.331	4,927	0.000
Strategic Resources → Generic Strategy	0.169	0.190	-.014	0.989
Implementing Partnership Strategy → Bank Performance	-0.264	0.289	2,135	0.030
Competition Intensity → Bank Performance	1.247	0.616	0,435	0.663
Strategic Resources → Bank Performance	-0.008	0.332	-1,177	0.239
Generic Strategy → Bank Performance	-0.348	0.453	2,228	0.023

Table 3 shows the result of Standardized Regression Weight for the Structural Equation Model of Factors that Influence Bank Performance. Hypothesis testing (alternative) is carried out by comparing the probability (p) value, which is significant if the p-value is 0.05. With these criteria, it can be seen that not all paths are significant. In the sense that implementing partnership strategy has a direct (significant) influence on Strategic resources with a CR value of 6.225 and a P value of 0.000 > 0.05, while

implementing partnership strategy has an effect on Competition Intensity with a CR value of 4.927 and a P value of 0.000 > 0.05. Strategic resources have no influence on Generic Strategy with a CR value of 0-.014 and a P value of 0.007 > 0.989. Implementing partnership strategy influences bank performance with a CR value of -0.911 and a P value of 0.362. implementing partnership strategy affects business performance with a CR value of 2.135 and a P value of 0.033. Competition Intensity has no effect on bank performance, with a CR value of 0.435 and a P value of 0.663. Strategic resources have no effect on bank performance, with a CR value of -1.177 and a P value of 0.239. Generic Strategy influences bank performance with a CR value of 2.228 and a P value of 0.023.

### 3.5 Discussion

The results show that the partnership strategy (*implementing\_partnership\_strategy*) significantly influences the strategic resources variable (Strategic resources). These results indicate that the partnership strategy has a positive and significant effect on strategic resources, suggesting a positive causal relationship between these two variables. Increasing the partnership strategy can help address resource limitations, such as financial constraints, IT limitations, and human resource shortages. This finding is supported by [18], who demonstrated that small companies with limited resources can still achieve high performance through a partnership strategy. However, the research also indicates that the partnership strategy affects competition intensity (Competition Intensity).

Partnerships involve various parties, including suppliers, service providers, competitors (alliance strategy), and distributors. Research by [6, 9-13] emphasizes various aspects of partnerships such as commitment, sustainable growth, information and risk sharing, and achieving joint goals to achieve greater results and reduce development costs. However, strategic resources do not affect generic strategies, competition intensity does not affect bank performance, and strategic resources do not affect bank performance. These findings suggest poor resource management has not resulted in an effective generic strategy or optimal bank performance.

## 4 Conclusions

Implementing a partnership strategy has a significant direct effect on strategic resources and affects competition intensity. However, strategic resources have no influence on generic strategies. In addition, implementing a partnership strategy also affects bank performance, both directly and indirectly. However, competition intensity and strategic resources have no influence on bank performance. In contrast, a generic strategy is proven to influence bank performance. The implication for BPR banks is that the partnership strategy implemented by BPR banks can increase strategic resources and competition intensity, which in turn can positively impact overall bank performance. However, strategic resources alone cannot directly influence generic strategies or bank performance. Therefore, BPR banks must focus on developing and implementing effective partnering strategies to improve their competitiveness and performance. In addition,

although competitive intensity does not directly affect bank performance, BPR banks should still consider a generic strategy that can provide a competitive advantage and improve bank performance.

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