Isomorphism in the Banking Industry of the Regional Development Banks in Indonesia

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Abstract: Isomorphism is an industry pressure on companies to be uniform through coercive, normative and mimetic mechanisms. Banking is an industry that has strong isomorphism. This study aims to investigate isomorphism in the banking industry of the Regional Development Bank (BPD) group in Indonesia. This research uses mixed method research design. The first stage is to collect questionnaire data on top management and financial data from 26 BPDs for quantitative data analysis. Quantitative data processing uses partial least square-structural equation model (PLS-SEM) to observe the relationship between the coercive, normative and mimetic dimensions of isomorphism variable. The second stage is the collection of information through in-depth interviews and focus group discussions with BPD leaders, the Association of Regional Banks (Asbanda), and the Financial Services Authority (OJK) to review the results of the quantitative. The results show that mimetic isomorphism pressure has the greatest influence in creating uniformity in the industry. The success of one company in marketing and operating will soon be imitated by competitors and in turn create uniformity in the industry. The findings suggest that the BPD industry environment situation in Indonesia is waiting and seeing the actions that competitors undertake to be imitated if they show superior performance.

1 INTRODUCTION

This study is about the environmental pressure on the banking industry. The banking industry nature is in the pressures of the industrial environment against strong corporate individuals that lead to strong uniformity or isomorphism. Uniformity due to environmental stress is neutral as it occurs to every individual in the industry, where the difference is how each individual responds to the pressure of uniformity (DiMaggio and Powell, 1983: 149; Deephouse, 1996: 1024). Isomorphism is divided into three category, namely; (I) coercive uniformity or coercive isomorphism, (ii) normative uniformity or normative isomorphism, and (iii) mimetic uniformity or mimetic isomorphism (DiMaggio and Powell, 1983: 150).

Strict regulation forces an industry to experience a high degree of isomorphism. Isomorphism enforced by regulation with the imposition of sanctions is a coercive isomorphism mechanism. Regulatory pressures are carried out by regulators, Bank Indonesia (BI) and the Financial Services Authority (Otoritas Jasa Keuangan-OJK) as well as policies, procedures and limits established by head office (Deephouse 1996: 1024;-Haveman and Wang, 2013: 18). Strict application of certification makes banking actors have a high degree of isomorphism in the industry. Isomorphism through certification and accreditation is a normative uniformity mechanism (Haveman and Wang, 2013: 31). Isomorphism of views and behavior in the banking industry has a high degree of isomorphism. Isomorphism through logic, views, behaviors and actions is applicable to the mimetic uniformity mechanism (Haveman and Wang, 2013: 33).

The situation is faced by the banking industry which focuses on banks belonging to the Regional Development Bank (BPD) group in Indonesia. A group of banks organized under the law to provide financing for the implementation of regional development efforts in the framework of the national development. The population of banks belonging to the BPD group is 26 banks. When viewed from isomorphism, the posture and performance of the banks should be equal or at least on average with a low standard deviation. In fact, the banking posture and performance are highly unbalanced. Based on table 1, it can be seen that the inter-BPD does not have a uniform performance. For example, the total assets of PT BPD Jawa Barat dan Banten, Tbk are about 20

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times the total assets of PD BPD Sulawesi Tenggara. This gives an idea that the inter-BPD itself is not at the same level of playing field. This difference in situation will be an interesting finding in this study where the situation of isomorphism does not necessarily make it uniform.

Previous research on isomofism focuses more on exposure to isomorphism occurring in various industries. This research would like to see how BPD adapt to isomorphism that occurs in the industry. Adaptability will release individual BPDs from uniform pressure and produce better performance. The findings of this study are expected to contribute to the idea of how good the adaptation of firms in the face of isomorphism in the industry.

The main purpose of this research is to investigate the isomorphism in BPD banking industry in Indonesia. The purpose of the study is to explain the results of the study of how BPDs adapt to isomorphism to produce better performance. The study was conducted on all BPDs in Indonesia from July to October 2016 by sending questionnaires to respondents and conducting interviews to informants. This study uses the banks incorporated in the category of BPD in Indonesia as its unit of analysis. The unit of observation is the management of each bank, in this case the President Director or any party authorized to represent the President Director.

Furthermore, this article will be structured as follows: First, the development of the literature used in the entire study. Second, the discussion of research motodology conducted. Third, the explaination of the findings resulted in the research. Fourth, the recommendations of implications, limitations and direction for subsequent research.

2 LITERATURE REVIEW

Based on the concepts from previous research journals, the recapitulation of isomorphism concept definitions is outlined in table 1 below:

Table 1: Recapitulation of isomorphism concept definitions.

No	Researcher(s)	Concept Definitions
1	DiMaggio and Powell (1983: 150)	Three concepts isomorphism occur, namely 1) coercive, which came from legitimacy problem and political influence; 2) mimetic, which came from uncertainty and how we respond to it; and 3) normative, which is associated with professionalism
2	Bromley and Meyer (2014: 14)	Isomorphism is a concept that explains the increase of uniformity among members in an organizational field, and can also explain the process of blurring across sector boundaries.
3	Francis, Harper and Kumar (2016: 4)	Isomorphism based on institutional theory is in conformity with institutional norms and values, which buffer companies from environmental turbulence and increase survival opportunities.
4	Shabana, Buchholtz and Carroll (2016: 1)	Isomorphism through three stages namely coercive isomorphism, normative isomorphism and mimetic isomorphism.

Source: Summary of findings from previous research.

The unit analysis in this research is service industry, i.e. banking, especially BPD as the object of research. The construct of dimensions and indicators is shown in table 2 below:

Table 2: Construct of dimensions and indicators of isomorphism variable.

Dimensions	Indicators
Coercive	▪ Utilization ▪ Regulations ▪ Laws ▪ Sanctions
Normative	▪ Social obligations ▪ Eligibility ▪ Certifications ▪ Best practices
Mimetic	▪ Taken for grantedness ▪ Shared beliefs ▪ Shared logics ▪ Shared understanding

Source: Summary of previous studies.

Based on the recapitulation of isomorphism concept and the construct of variable, the typology of environmental isomorphism against individual companies in the industry can be summarized. The summary is as presented in table 3 below:

Table 3: Typology of isomorphism.

Types of Isomorphisme	Coercive	Normative	Mimetic
Triggers	Authority	Society	Individual
Individual Response	Forced	Awareness	Volunteer
Level of Uniformity	High	Medium	Low

Legitimacy	Obedience	Acceptability	Success

Source: Summary of previous studies.

Based on the typology of isomorphism, the research hypotheses are as follows:

- Coercive isomorphism is done with compulsion to achieve compliance with the authorities.
- Normative isomorphism is done with awareness to achieve acceptability in society.
- Mimetic isomorphism is done voluntarily to achieve individual success.

3 METHODS

Based on the secondary data from BI and OJK, the population of all BPDs in Indonesia until March 24, 2017 is 26 BPDs. Given the small number of population, then this research uses all 26 BPDs in Indonesia. The domain of this research is in management strategy that emphasizes on observation of top management behavior in managing organization. Thus, the observation unit in this study is the top management of all BPDs namely the President Director.

Recognizing that this study has a small population size and the potential consequences that the predictive validity of the study is lower, the solutions undertaken to strengthen the research findings are: (1) The sampling method is censused to 26 BPDs and (2) Interviews and FGDs are conducted intensively to produce a thick description in the discussion of research findings. So in this research, the mixed research method becomes very relevant to be implemented.

This research uses explanatory design a two-phase mixed method, where the first phase involves collecting and analyzing quantitative data and the second phase includes qualitative data collection and analysis done to strengthen the result of quantitative research (Creswell, 2013: 203).

In QUAN process using PLS-SEM. PLS-SEM can still be implemented for small data, if the population surveyed is small and the consequence of predictive validity is lower (Hair et al., 2014: 48). Further, Hair et al. (2014: 16) provides a detailed description of the key characteristics of PLS-SEM-related data. It is said that the data size for PLS-SEM: (1) Unidentified problem with small sample size, (2) In general, although the sample is small, PLS-SEM is still able to produce high-quality statistical analysis; and (3) The bigger the data, the expected estimation of the research the more precise (consistent).

The process of sending and collecting questionnaires was conducted throughout July-August 2016. The mechanism of distributing and collecting questionnaires was through Asbanda. Of the 26 questionnaires sent to all BPDs, all were returned and answered in full by the respondents. Details of respondents who answered the questionnaire were: 12 BPD President Directors, 4 BPD Directors 8 BPD Division Leaders, 1 BPD Sub-Division Leader and 1 BPD Section Head.

All indicators can also be stated reliable with Composite Reliability (CR) value of 0.937 and Average Variance Extracted (AVE) value of 0.663. Both of these reliability indices have values greater than the minimum limit of 0.70 for CR and 0.500 for AVE. The CR value of 0.845 states that 84.5% of the mimetic dimension variation can be explained by its indicators and the AVE value of 0.646 states that 64.6% of all indicators' variation can be well explained by the mimetic dimension. This indicates all reliable indicators for measuring the mimetic dimension. The result is as presented in table 4 below:

Table 4: Measurement model of isomorphism variable.

Dimensions	Manifest Variables	Standardized Loadings	R^2	Variance Error
Coercive Isomorphism	$\xi_{1.1}$	0.746	0.557	0.443
Normative Isomorphism	$\xi_{1.2}$	0.752	0.566	0.434
Mimetic Isomorphism	$\xi_{1.3}$	0.904	0.817	0.183
CR		0.845		
AVE		0.646		

Source: Quantitative result of the study.

The result of measurement model for isomorphism variable shows that all dimensions have factor loadings greater than 0.500, thus all dimensions are concluded as valid in measuring the isomorphism variable. In addition to valid, the three dimensions can also be declared reliable with CR and AVE values greater than 0.700 and 0.500 respectively. Based on the calculation results, it can be seen that the dimension of mimetic isomorphism is the dimension with the largest factor loading, which means that this dimension is most closely related to isomorphism variable.

In the QUAL data collection process, the confirmation of the problem formulation is done by conducting FGDs with banking experts to confirm the findings in the quantitative phase and to get input on what, how and why this occurred as a result of the quantitative findings.

The descriptions of the results of the questionnaire were further confirmed with in-depth interviews, focus group discussions and direct observations conducted from May 2016 to March 2017. In-depth interviews were conducted to the President Directors, Directors and Executive Officers of several BPDs. Focus group discussion was conducted to Asbanda and OJK leaders.

4 RESULTS

The variables of isomorphism were measured using three dimensions: coercive, normative and mimetic dimensions.

Table 5: Measurement model of coercive isomorphism dimensions.

Indicators	Manifest Variables	Standardized Loadings	R^2	Error Variance
Indicator-1	X1	0.794	0.631	0.369
Indicator-2	X2	0.779	0.608	0.392
Indicator-3	X3	0.698	0.487	0.513
Indicator-4	X4	0.833	0.694	0.306
CR		0.859		
AVE		0.605		

Source: Quantitative result of the study.

The indicator most closely related to the coercive dimension is "Understand that any violation of the law has consequences of strict sanctions against its offenders" with a factor loading of 0.833. This means that the coercive dimension is more perceived as an understanding of the law violation that has strict consequences. The R^2 value of 0.694 states that 69.4% of this factor variation can be explained by the coercive dimension.

All indicators can also be stated reliable with CR value and AVE value. The CR value of 0.859 states that 85.9% of the coercive dimension variation can be explained by its indiactors and the AVE value of 0.605 indicates that 60.5% of all indicators' variation can be well explained by the coercive dimension.

Table 6: Measurement model of normative isomorphism dimensions.

Indicators	Manifest Variables	Standardized Loadings	R^2	Error Variance
Indicator-6	X6	0.719	0.517	0.483
Indicator-7	X7	0.828	0.686	0.314
Indicator-8	X8	0.776	0.603	0.397
Indicator-9	X9	0.924	0.855	0.145
CR		0.887		
AVE		0.665		

Source: Quantitative result of the study.

The indicator most closely related to the normative dimension is "Implement best practices applicable to the banking industry such as governance, risk management and compliance (GRC)," with a factor loading of 0.924. This means that the normative dimension is more perceived as the implementation of best practices applicable to the banking industry. The R^2 value of 0.855 states that 85.5% of this factor variation can be explained by the normative dimension.

All indicators can also be stated reliable with CR value and AVE value. The CR value of 0.887 states that 88.7% of the normative dimension variation can be explained by its indicators and the AVE value of 0.665 states that 66.5% of all indicators' variation can be well explained by the normative dimension.

Table 7: Measurement model of mimetic isomorphism dimensions.

Indicators	Manifest Variables	Standardized Loadings	R^2	Error Variance
Indicator-10	X10	0.967	0.935	0.065
Indicator-11	X11	0.967	0.935	0.065
Indicator-12	X12	0.967	0.935	0.065
Indicator-13	X13	0.945	0.893	0.107
Indicator-14	X14	0.460	0.212	0.788
Indicator-15	X15	0.724	0.524	0.476
Indicator-16	X16	0.693	0.480	0.520
Indicator-17	X17	0.627	0.393	0.607
Composite Reliability (CR)		0.937		
Average Variance Extracted (AVE)		0.663		

Source: Quantitative result of the study.

The indicators most closely related to the mimetic dimension are (1) "Conducting all operational activities in accordance with the Standard Operating Procedures on the marketing of products that are prevalent in the banking industry", (2) "Conducting all operational activities in accordance with the Standard Operating Procedures on the marketing of services that are prevalent in the banking industry and (3)" Conducting all operational activities in accordance with the Standard Operating Procedures on the implementation of product operations that are prevalent in the banking industry "with a factor loading of 0.967.

All indicators can also be stated reliable with CR value of 0.937 and AVE value of 0.663. The CR value

of 0.937 states that 93.7% of the mimetic dimension variation can be explained by its indicators and the AVE value of 0.663 states that 66.3% of all indicators' variation can be well explained by the mimetic dimension. This indicates all reliable indicators for measuring the mimetic dimension.

4 DISCUSSION

Isomorphism in the banking industry especially BPDs in Indonesia is mimetic isomorphism. Mimetic isomorphism is the behavior of mutual imitations between business actors creating isomorphism in the end. The advantages of products and services from a bank will soon be imitated by competitor banks, so that the benefits are temporary and not sustainable.

The actual situation in the banking industry including BPDs in Indonesia is (i) the marketing of products and services is in accordance with the SOPs that are prevalent in the banking industry and (ii) the operation of products and services is in accordance with the SOPs that are prevalent in the banking industry.

Table 5 and 6 provide information that is beyond the dimension of mimetic isomorphism, isomorphism-based variables consisting of normative isomorphism and coercive isomorphism. Normative isomorphism has the highest indicator of best practices applied to the banking industry. Whereas coercive isomorphism has the highest indicator of understanding that any violation of the law has consequences of strict sanctions against its offenders.

Based on the description per indicator of the dimensions of mimetic isomorphism described in table 7, the following table 8 presents the key strategy prescriptions facing isomorphism in the industry.

Table 8: Prescriptions of primary strategies facing isomorphism in industry.

Strategy Level and Strategy Prescriptions
Corporate Level ▪ Set the organization's vision of whether to go beyond, equal or behind the industry average to be more clear in the preparation of missions and goals. ▪ Make updates of SOPs on marketing and operations of products and services offered by benchmarking against role models banks.
Business Level ▪ Competitive - Updating best practice in products and services with the nearest competitor banks. If equal or better, do a competitive strategy. ▪ Cooperative - Updating best practice in products and services with the nearest competitor banks. If the bank lose, work with partners to improve competitiveness.
Functional Level ▪ Marketing - Updating best practice products and services with competing banks. Aggressive if it has a competitive advantage. ▪ Finance - Provide adequate attention and support to the competitive environment situation. Support should be based on effective and efficient cost-benefit principles. ▪ Operational - Updating best practices of products and services with competing banks. Prioritize effective and efficient operations with a focus on achieving the vision-missions-goals of the bank. ▪ HR - employee ownership is fast responsive and solutive in the face of competitive environmental pressures.
Shareholders Provide full support to management in order to win the competition in the industry in line with the joint consensus between management and shareholders. Full support in the form of additional capital until the regulations are aligned. Based on the full support provided, there is a measurable and objective reward-punishment for management.
Regulator and Bank Supervisor Establish anticipatory regulations (regulations and circulars) in following the development of products and services of the banking industry in particular and the financial industry in general. Anticipatory regulation is very important in preventing the occurrence of risks in the implementation of products and services offered by banks.

Source: Quantitative result of the study.

Based on the description per indicator of the dimensions of coercive isomorphism described in table 5 and normative isomorphism described in table 6, the following table 9 presents the complementary strategy prescriptions that can be applied by banks to deal with isomorphism in the industry.

Table 9: Prescriptions of complementary strategies facing isomorphism in industry.

Dimension	Strategy Prescriptions
Dimension: Normative Isomorphism	
Implement best practices in the banking industry	Banks shall make updates and implement best practices that could be applied to the banking industry in particular and the financial industry in general. Best practices are required to be implemented so that banks are not alienated from the bank's business community nationally and internationally. This may refer to national practices (under the supervision of BI and OJK) and

	international practices (under the supervision of BIS or BC).
Dimension: Coercive Isomorphism	
Understand that any violation of the law has consequences of strict sanctions against its offender	Regulations and legislation are established to regulate social order. Banks as part of the public are exposed to the obligation to comply and implement them. Bank regulations refer to the PBI-SEBI and POJK and the specialized SEOJK, as well as higher hierarchical rules and legislation. Banks must regularly update.

Source: Quantitative result of the study.

This research has one main limitation, i.e the small scope of research that is limited to the BPD group in Indonesia. In addition, this study has not examined the adaptability of the isomorphism offered for the implementation of the strategy towards the improvement of performance. Given the banking industry is loaded with isomorphism, it is important to do research on isomorphism, implementation strategies and company performance simultaneously. It would be more useful if the research was conducted on a broader scope of banking within a country.

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