

Responding Business Uncertainties with Effective Strategic Initiative Implementation: An Empirical Study in Indonesian Banks

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Abstract—The purpose of this paper is to explore how project portfolio management capabilities mediating the strategic orientation and strategic initiatives implementation in responding to environmental uncertainties. Using PLS-SEM, 61 responses representing 61 banks have been analyzed with SmartPLS 3.0. The findings show that the environmental uncertainties significantly influence strategic orientation. The analysis leads to result that the strategic initiative implementation is significantly influenced by strategic orientation and partially mediated by project portfolio management capabilities. Based on this findings, it can be concluded that the project portfolio management capabilities is very essential in aligning the strategic orientation to strategic initiatives implementation.

Keywords— environmental uncertainties; strategic orientation; project portfolio management capabilities (PPM)

I. INTRODUCTION

Today's business uncertainties - such competitions, government regulation, economic environment, rapid technology growth, globalization and customer demands [1]- they have led dynamic changes at the organization strategy level. Hamel (1996) in [2] stated that in the recent economic turbulence, marked by changes that intermittent, sudden and sometimes uncontrolled, the firm should be able to make quick action and responsive and innovative strategies for survival. Strategy has always been critical to be formulated prior to its implementation. In average, only 56% of strategic initiatives have been considered successfully implemented, where most of them were managed in form of projects [3]; Project Management Institute, 2013a). It is perceived that

some firms have been facing challenges in implementing their strategy.

Some business organizations have been facing challenges in managing their implementation of strategic initiatives in form of projects, simultaneously and hence they need a structure management approach using project portfolio management [4]; [5];[6];[7], Project Management Institute, 2013a). Recent global report from Project Management Institute (2013d) has shown that 77 percent of the projects were meeting original goals and business intent in the organization, which applied highly effective project portfolio management.

Unfortunately, it is believed that evidence of empirical studies is lacking in exploring the effect of project portfolio management capabilities in banking industries, especially related to its influence to strategic initiative implementation. This study has the purpose of to analyze how project portfolio management capabilities align the strategic orientation with strategic initiative implementation in responding the environmental uncertainties.

II. LITERATURE REVIEW

Business organizations must deal with unknown variables in the uncertain environment while adopting or implementing their business strategy. Strategy formulation perspective shall consider that strategy, structure and process must fit the environmental circumstances and these conditions may change over time (Child, 1972; Lawrence and Lorsch, 1967; Thompson, 1967 in [8]. [9] argued that a strategy needs not only to take into attention the demands for flexibility and responsiveness to clients' needs but also considering various degrees of environmental uncertainty. Lawrence and Lorsch (1967) in [9] embraced the notion that environmental uncertainty is both a threat and an opportunity to the

development of an organization's internal structures and processes.

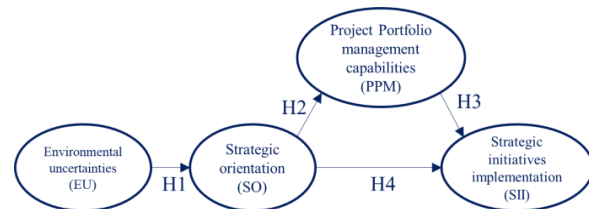
Furthermore,[8] quoted Venkantraman and Prescott (1990) who found a positive performance impact for environment-strategy co-alignment among firms in the market economy. [ibid] have defined the environmental measures such as regulation, competitor, international, technology, supplier, customer, economic, socio-cultural. Furthermore, [9] and [1]proposed the type of uncertainty such as customer demands, tastes, and preferences, supplier action, market

activities of competitors, deregulation, and globalization, government regulation and policies, economic environment, design, and information technologies. Apart from the previous studies, there were no such specific studies related to environmental uncertainties in the context of banking industries, especially in Indonesia. Therefore, the author believes that there is a need to explore this to fill the gap.

According to Porter (1980, 1985) and Gatignon and Xuereb (1997) in [10]by having a well-conducted strategic orientation (cost leadership, marketing differentiation, and innovative differentiation), a business organization can earn above-average returns. The orientation to market and innovation are two most significant strategic orientations for a business organization to achieve a long-term success (Berthon et al., 1999; Deshpande et al., 1993; Hurley and Hult, 1998; Noble et al., 2002) in [10]. According to Kerin et al. (1992) in [11], strategic orientations are a determinant of competitive sustainability.

According to [11], marketing differentiation can be benchmarked against Miles and Snow's (1978) analyzers, meanwhile, innovative differentiation can be benchmarked against Miles and Snow's prospectors. Furthermore, [12]have argued that there are alternatives of strategic orientation such long-term focus and profit focus. [13]defined that strategic initiatives are understood as a temporary undertaking at renewing or expanding capabilities of firms and as the character of strategic initiativesis aligned with the character of projects (Project Management Institute, 2013), most of the organization managing them as projects. In some organizations, the implementation of strategic initiatives cannot be considered easy as it lacks execution know how, the abilityto tackle some constraints such politics and organizations [14]; Neilson, 2008 in [15]; [16]. It is getting more difficult, as more and more organizations have to manage multiple strategic initiatives or projects to achieve their strategic objectives. In extending the capabilities of the organization to manage the strategic initiatives implementation, the application of dynamic capabilities in form of project portfolio management can be translated to several factors such business objectives, prioritization, dynamic balancing and reconfiguration of projects ([6]; [17]; Project Management Institute, 2013a) and hence it is the enhancement of the theory of dynamic capabilities[18];[19]; [20]; [21]; [22]

Fig. 1. Research model and hypotheses



III. RESEARCH MODEL AND HYPOTHESES

The literature reviews have led to an establishment of the research variables and the structural model as shown in Figure

1., where the environmental uncertainties (EU) is an exogenous latent variable, strategic orientation (SO) and strategic initiatives implementation (SII) are endogenous variables. This structural model has a mediating effect, which is project portfolio management capabilities (PPM).

The strategic initiatives implementation can be managed with or without project portfolio management capabilities. Considering the impact strategic orientation to strategic initiatives implementation mediated by project portfolio management capabilities, following hypotheses are proposed:

H1. Environmental uncertainties (EU) influences positively the strategic orientation (SO)

The strategic orientation will lead to strategic initiatives implementation with or without mediating effect from project portfolio management capabilities (PPM), hence it leads to proposed hypotheses:

H2. Strategic orientation influences positively project portfolio management capabilities.

H3. Project portfolio management capabilities influences positively strategic initiatives implementation.

H4. Strategic orientation influences positively strategic initiatives implementation.

The main concern of this study is to measure how big the effect of project portfolio management capabilities (PPM) in mediating the strategic initiatives implementation (SII).

IV. METHODOLOGY

Using a perspective of positivist paradigm, this study is designed to be empirical and quantitative. The unit of analysis is a bank as a company and the object of analysis is the

Executives (C-Suites) or Top Management (Vice Presidents, General Managers, Heads or equals. The sampling frame is the list of banks in Indonesia based on Indonesia Finance Services Authority (2015). When this study was performed, the total number of banks is 117, however the targeted banks are banks Category¹ 4, 3 and 2. Considering the population is known and the number of banks is relatively small, census approach was advised. The questionnaires were set up with statements used in the questionnaires mostly refer to ones used in previous researches as they were empirically tested. The measurement of each item using 6 (six) Likert Scale (1 = "strongly disagree" up to 6 = "strongly agree") with the intention to force the respondent to commit to a certain position. The pilot test has been conducted to check item validity and reliability.

The data was planned to be gathered through a survey using a structured questionnaire. The questionnaires were sent through emails and on-line survey tools. Very few follow up required for clarification and friendly reminder. As the purpose of this study to explore how the PPM capabilities affecting the other latent variables in an integrated model, the structural equation modeling was proposed. Furthermore, as the number of the banks relatively small, the analysis was aimed to be using a partial least square structural equation model (PLS-SEM). The analysis of PLS-SEM will be using software called SmartPLS3.0.

V. RESULTS

The survey has been performed from October 2016 to January 2017. From total 117 banks, 83 respondents representing 83 banks returned the questionnaires and all of them are complete. As the targeted banks only from category 4, 3 and 2, 61 responses from banks category 4 (5 banks), 3 (20 banks) and 2 (36 banks) that are considered valid to be analyzed.

Using Cochran formula $\alpha = 0.09$ was calculated. From total 83 respondents, where majority of respondents are 36 banks Category² 2 (43.37%), 15 banks Category 1 (18.07%), 20 banks Category 3 (24.10%), 9 foreign banks (8.43%) and 4 banks Category 4 (6.02%).

Most of the respondents have a position as Vice President or similar (29; 35%), General Manager or Similar (27; 32%), C-Suites (14; 17%) and the rest have other position (that similar to three designated position in the questionnaire). The proposed research model was analyzed using software SmartPLS3.0. Using PLS Algorithm and bootstrapping with of 1,000 sub samples (Hair et al., 2017), the assessment of the model has been performed to achieve several criteria, as has been shown in Table I

¹According to Regulation of Federal Bank of Indonesia (Regulation No. 14/26/PBI/2012), general banks can be categorized up to 4 (four) types based on asset, banks BUKU 1 have the asset less than IDR 1 Trillion, banks BUKU 2 have asset between IDR 1 Trillion up to IDR 5 Trillion, banks BUKU 3 have the asset between IDR 5 Trillion up to IDR 30 Trillion and banks BUKU 4 have the asset more than IDR 30 Trillion.

²ibid

TABLE I
CONSTRUCT VALIDITY AND RELIABILITY

Construct	Cronbach's Alpha	rho A	Composite Reliability	Average Variance Extracted (AVE)
Alternatives to SO	0.808	0.810	0.866	0.722
Buss Obj. Drives Project	0.889	0.899	0.931	0.818
Cancel and reconfigure project	0.865	0.867	0.937	0.881
Competitor's activity	0.903	0.911	0.939	0.837
Cost leadership	0.861	0.866	0.915	0.782
Cust. Demand	0.856	0.863	0.932	0.873
Dyn. Balancing risk rewards	0.835	0.836	0.902	0.753
Environmental Uncertainties (EU)	1.000	1.000	1.000	1.000
Global influence	1.000	1.000	1.000	1.000
Innovative differentiation	1.000	1.000	1.000	1.000
Marketing differentiation	0.912	0.914	0.945	0.851
Multiple dyn. Prioritization	0.904	0.906	0.940	0.839
Project Portfolio Management capabilities	1.000	1.000	1.000	1.000
Regulation & Policy	0.897	0.987	0.951	0.906
Strategic initiatives implementation (SII)	0.870	0.876	0.903	0.611
Strategic Orientation (SO)	1.000	1.000	1.000	1.000
Supplier Action	0.795	0.812	0.906	0.829

TABLE II
MODEL FIT

Criteria	Saturated Model	Estimated Model
SRMR	0.080	0.126

All loading factors λ have value more than 0.70 and hence the indicator reliability is bigger than 0.5. It means that it has passed the criteria for model assessment. Furthermore, HTMT Meanwhile, the SRMR value is 0.08 which gives the indication that the model is considered fit as shown in Table II.

To reach the fitness of the model, however, there are some indicators were deleted and 1 (one) construct has been merged using model assessment process (Hair et al., 2017). The finalized model is shown as per Figure 2 below. The path

coefficient and p-value (in bracket) is herewith calculated for

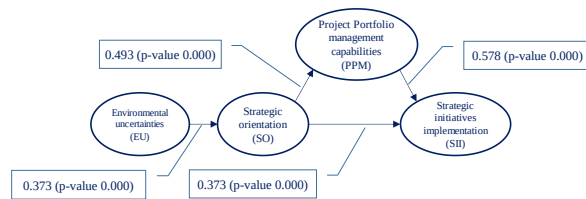


Fig. 2. Path Coefficient and p-value Using Bootstrapping with 2,000 Sub-Samples

further analysis.

After the analysis, using the calculated $\alpha = 0.09$, the testing

TABLE IV
HYPOTHESIS TESTING RESULT

Hypothesis	p-value	Result
H1	0.000	Accepted
H2	0.000	Accepted
H3	0.000	Accepted
H4	0.001	Accepted

result of the hypothesis can be found in Table IV below. If p-value < 0.06, then there is a significant relationship between the constructs.

VI. DISCUSSION AND CONCLUSION

As H1 is accepted, it can be concluded that the environmental uncertainties positively influence the strategic orientation. All decision on strategies are significantly made based on these uncertainties for Bank category 4, 3 and 2. Furthermore, strategic orientation influences strategic initiatives implementation significantly, hence it can be concluded that decision made that lead to strategic initiatives will be implemented.

It is interesting to see that the mediating effect of project portfolio management apply in the case as H2 and H3 are accepted, however since H4 is also significantly influencing strategic initiatives, the mediating effect will only work partially (Hair et al., 2017)

All of the findings lead into final conclusion that project portfolio management capabilities play very big role in managing strategic initiative implementation, despite of the partial mediating effect as has been resulted from the analysis. It is recommended that banks implement and nurture the PPM capabilities to strengthen the strategic initiative implementation as it brings significant effect not only to the result, but also in alignment of the strategic initiatives. This study will need to see further of comparison between bank category 4, 3 and 2 with bank category 1, to see whether there's difference of those groups of banks in managing the capabilities.

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