

DEVELOPING ISOLATIVE GOVERNANCE TO IMPROVE ORGANIZATIONS' PERFORMANCE

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***Abstract:** The purpose of this study is to investigate the influence of environment adaptability on isolative governance advantage and the organization's performance. Moreover, this study also investigates the influence of social capital on isolative governance advantage and competitive advantage and their influences on the organization's performance. Respondents in this study are 90 directors of Rural Bank, listed in Indonesia Bank and operate in Indonesia legal territory at Western Java Province and Banten Province. Structural Equation Modeling as data analyses tool is used in this study, it is specifically named as SEM based Variance. The study uses Smart PLS software system. The results from this study state that the managers who have environmental adaptability and social competence will have the advantage to improve isolative governance. In addition, isolative governance will become the company's competitive advantage which is hard to imitate by competitors. Finally, the competitive advantage will improve the organization's performance.*

***Keywords:** Adaptability, isolative governance, competitive advantage and performance*

BACKGROUND

If the external environment changes, an organization will be demanded to be able to accommodate itself in order to keep its survival (Calantone, 1994). Recently, there emerges an inability from many Rural Bank in Indonesia to adapt with its external environment's change. Many banks of this kind are no longer being able to operate, and it can be said that they don't have the capability to influence and manage its environment. It indicates that there's a decreasing performance of Rural Bank in Indonesia from 2008 until 2012. Therefore, there are many collapsed Rural Bank, on the other hand there are also many newborn Rural Bank.

The bankruptcy of a bank can be triggered by many factors, both direct and indirect ones. A bank can be bankrupt and must be closed down if its performance is bad since its troubled credit, or any problems related with its asset. Another factor of a bank's bankruptcy is the liquidity difficulty because of mass withdrawal at a time due to systemic crises, bank run, or people's disbelief to the bank.

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Liquidity difficulty can be triggered by mismatch of short term funding structure. Another cause of bank's bankruptcy, like the 1997 – 1998 Indonesia crises, is the interfere from the bank owner in daily operation, hasty credit loan and bank to bank practice. All these factors may not overview the risk management aspects, good governance and careful judgment principle (Sugiarto, 2009). It can be assumed that governance has an important role for the bank's bankruptcy in many Rural Bank because of the incompatible real performance with the expected performance. It can also be caused by the environment adaptability which is not able to be precisely accommodated by Rural Bank.

Strategy as one factor must be balanced with environment factor and it becomes the company's internal factor. The decreasing organizational performance and emergence of organizational crises can be caused by the inability of an organization to meet the environment demand (Elenkov, 1997). This condition can be avoided by performing through organizational strategy or in other words the effort to balance the organizational adaptation with the environment's change. The balance of organizational strategy is needed to improve the organizational performance in any certain model and situation.

To reach a success, an organization must continually adapt with its environment (Gibbons, et.al, 2003). A successful organization must balance its strategy and show high rate of adaptation and flexibility degree with its environment, show a better performance compared with another organization which is not too successfully balance its strategy (Covin and Slevin, 1989; Elenkov, 1997; Keats & Hitts, 1998).

Over adaptability rate, however, will make a counter productive performance, and it will diminish organization's performance (Bourgeois, 1980; Snow and Hrebiniak, 1985; Noble, 2000). Organizational strategy is an adaptability form to respond the external environment in certain condition, but not all adaptation form can be successfully proved in performance improvement. The author states that there is no assurance which said that adaptation will improve performance.

The purpose of this study is to investigate the influence of environmental adaptability on isolative governance and organizational performance. In addition, this study tries to investigate the social capital on isolative governance advantage and competitive advantage and their impacts on organizational performance.

THE INFLUENCE OF ENVIRONMENTAL ADAPTABILITY ON ISOLATIVE GOVERNANCE ADVANTAGE

Adaptability is how an organization adapts itself with the assumed changes (McDaniel and Kolari, 1987). Adaptability is a concept which is imported from biology discipline, which is related with a way to reach fitness among the

entire life system. This term is also used in cultural ecology which indicates an interactional aspect between social aspect and its environment. Hallen et al (1991) stated that in organizational contexts, adaptability is closely related with the unity of organization and environment interface. Bourgeois (1980) had defined adaptability, in organizational context, as an actual resource which will allow an organization to properly adapt with the external pressure to change any policies, as well as to instill a change in a strategy related with the external environment.

Carter (1990) stated that adaptability has potent to perform the readjustment. The ability to manage and adapt with an environment will create a strategy that is oriented in competitive advantage. Amit & Schoemaker (1993) stated that an organization must adapt with its environment both in its change and fast pace technology to reach the competitive advantage. He also stated that competence is the ability of an organization to exploit any different resources, by using organizational process to reach the desired result. It shows that adaptability of an organization to reach the desired result will be reached through the competitive advantage in which an organization must be adapted with its environment. This ability is called as an organizational competence.

H1: The higher the environment adaptability rate of an organization, the higher the isolative governance advantage.

THERELATIONSHIPBETWEENSOCIALCOMPETENCEANDISOLATIVE GOVERNANCE ADVANTAGE

Rules and norms used to assure the internal and external part's necessity in an organization (Freeman, 1983). Internal party and external ones of an organization who have important roles in an organization will represent its importance through rules and norms that are made in a way so as to an organization will be able to be supervised and controlled, it is called as corporate governance (Freeman, 1983). The size of control and supervision process is shown by internal party and external party in an organization, and it is exposed through the obedience rate of organization's management in fulfilling rule and norms in the organization.

To reach the goal, the supervisor must obey the rules and norms as a good base of an organization. Chaplin (2001) stated that competence is the ability fitness to perform a duty, it is needed competence from the manager of an organization in performing its duties to fill the obedience in rules and norms (Chaplin, 2001).

Further overview of a competence can be read in Topping (2000) who stated that social competence covers a range of main ability, attitude, cleverness and functional feeling by cultural context, environment, situation, in which a social competence will always be related with the influence of social situation, social

group's condition, and social duty as well as the individual situation to adapt with any changes in a situation and environment surrounds an organization.

Ford (1982) defined social competence as an attitude which is in line with the purposes of a certain social context, by using a proper way and by providing positive effect on a development. The positive effect of social competence will be exposed to all people who has high social competence and capable to express a higher social attention, being more sympathetic, prefer to help and capable to love. These traits show social competences, and they can produce an action that will provide a positive impact, furthermore the positive effect will impact on more positive governance quality, so as the manger will be more competent in fulfilling their duties related with governance matter such as rules and norms obedience. Based on the explanations above, it can be hypothesized as follow:

H2: The higher the organization's social competence, the higher the isolative governance advantage.

THERELATIONSHIPBETWEENGOVERNANCEISOLATIVEADVANTAGE AND COMPETITIVE ADVANTAGE

It is stated that competence is the organization's ability to exploit different resources, by using many kinds of organizational process to reach the desired result (Grant, 1991; Amit and Schoemaker, 1993). In competence field, it is called corporate governance, as a result governance ability can be meant as searching and using organization's resource to reach the desired things.

Meanwhile, the result from Wheelen and Hunger' study 92002) defined resource as an asset, competence, process, skill or knowledge which are controlled by a an organization, therefore governance included in organizational resource needs to be properly developed to reach a certain purpose, in which the relatedness in an organization is depicted as resource relationship and mediated by management part by using available resource in its purposes achievement (Rivard, 2006).

Capability refers to organizations' capability to preserve its existed resource. This resource usually takes form in combination, the usage of organizational process to influence final desire (Amit and Schoemaker, 1993). According to Carmeli and Tishler, this definition shows that capability is a part of basic process, while Teece et.al (1997) stated that capability is a hidden asset, a real or abstract organizational process and can be developed by an organization for some periods, it can't be bought and must be shaped (Ismail, 2015; Meutia, 2015). Related with governance matter, it is not only limited by resources searching process, but also by resource preserving process.

Bu using isolation mechanism from Rumelt (1984), Mahoney and Pandian (1992), it is emphasized that main thing to protect organizational difference is by using certain resources that refers to isolation mechanism concept. Isolation mechanism in Resource Based Theory is resource feature that halt another organization to get and to imitate the existed resource belonged to another company (Mahoney and Pandian, 1992; Rumelt, 1984). Based on the explanations above, it is obvious that an organization needs a certain resource to protect its differentiation. One certain resource in an organization in this study is the isolative governance advantage, in which this advantage will yield resource management as a result it will become a unique resource. Therefore, in this part, the proposed hypothesis will be related with isolative governance factor and the unique resource in an organization will be as follow:

Competitive advantage will be preserved and maintained only if there is a capability that will create an advantage supported by a resource that is not easily to be imitated by competitor, or it can be said that organization resource must be a "imitation barrier" (Barney, 1991).

Competitive advantage achievement in an organization must be comprehended in Resource Based Theory. Barney (1991) stated that in Resource Based Theory, competitive advantage will be existed if there will be heterogeneous and immovable resource, in which competitor won't take the existed resource.

One aim of Resource Based Theory is to help the manager to understand and highly respect competence that will be the most valuable asset and by using this asset, an organization will use it to improve organizational performance. From Resource Based Theory, it can be concluded that an organization must have heterogeneous and immovable resource to reach its competitive advantage, and this organization must accept an experience related attribute (Stewart, 2002), organizational culture, and competence (knowledge and skill).

Barney (1991) stated that physical resource (such as, technology, building and equipment, geographical location, and material access) rarely able to produce continuous competitive advantage since this kind of resource is relatively easy to be imitated and it is moveable. From this kind of resource, it seems that "invincible assets" or "core competence" derives from human resource and specific organizational skill that may be the source to reach the real continuous advantage of an organization.

Based on the explanations above, invincible assets becomes a certain criteria of an organization (firm specific) so it can properly admitted as a strategic asset. If these assets have certain characteristic of an organization (Lindquist & Tallman, 1997), it is generally connected with socially complicated organizational environment, therefore it will be hard to be specifically identified and imitate.

Based on the explanations above, an organization must create an immovable resource, in which its competitor won't take the existed resource in an organization. The resource will be a barrier to entry and barrier to imitation,. As a consequence, there is a special assimilation relationship between isolative governance and competitive advantage as follow:

H3: The higher the organization's social competence, the higher the rate of organization's competitive advantage.

THERELATIONSHIPBETWEENCOMPETITIVEADVANTAGEAND ORGANIZATIONAL PERFORMANCE

Diosdad (2003) stated that competitive advantage can be seen from organization's position which is analyzed by seeing the strength and weakness of an organization if it is compared with its competitor. Competitive advantage derives from organization's ability to maintain resources superiority and its ability. Competitive advantage means superior skill and resources which are based on customer's perception or the achievement of lower cost, the larger market share and the higher profitability performance. Competitive advantage can be partly reached from resources and capital.

Porter (1998) emphasized the importance of competitive advantage that can't be ignored. Basically, competitive advantage grows from value and benefit that can be created by an organization for its buyer, which is higher than the expended cost from the organization. This value or benefit will be paid by buyer, and superior value will come from the lower price offering than the competitor's price to get a balanced benefit or to the excess benefit offering. Cravens (1996) stated that competitive advantage must be overlooked as a dynamic process and not just an end result.

Another research stated that competitive advantage is a part of strategy forms to help an organization to maintain its survival. This statement is supported by Ferdinand (2003) who said that in competitive market, organization's ability to produce financial performance really depends on the rate of competitive advantage. To maintain its existence, competitive advantage must be continuous, since an organization basically wants to preserve its existence (Day and Wensley, 1988).

Continuous competitive advantage is an organization's strategy to reach its final purpose that is a performance to produce high profit. It means that, continuous competitive advantage is not the end purposes, but it is merely a way to reach the end purposes of an organization, that is to improve the organizational performance.

According to Barney (1991), an organization can be told to have one competitive advantage when it applies a value creation strategy which is simultaneously applied by potential competitor at a time (Inkovies, 2004; Jennings and Lumpkin, 1992; Tyler' Bettenhaus and Daft, 1999; Yasat Arkedani & Nostrum 1993). Unfortunately, neither study focuses on small scale company. Apart from it, strategy can strengthen organizational performance. Strategic approach has potent to improve competitive ability to provide a contribution; in return it will improve organizational performance (Han, Kan and Srivastavo, 2004).

Respatya (2001) explained that an organization which produced goods and services must begin to pay attention on competitive advantage concept, therefore an organization can be preserved and get its profit. Hall (1990) stated that competitive advantage comprised of three dimensions: sustainable endurance, difficult to imitate, and the easiness to keep its pace. Competitive advantage will push business performance through the profit growth, sales growth, and customer growth. The result from Lisman, Margareth, Snape (2004); Paul, Philips (2004); Anom (2003)'s studies explained that competitive advantage will positively influence organizational performance.

Based on the explanations above, it can be hypothesized a relationship between competitive advantage and organizational performance as follow:

H4: The higher the organization's competitive advantage, the higher the organizational performance.

THERELATIONSHIPBETWEENGOVERNANCEISOLATIVEADVANTAGE AND ORGANIZATIONAL PERFORMANCE

Some empirical results show that the establishment of proper governance will be able to improve the organizational performance (Ashbaugh et.al, 2004; Firth et.al, 2002). Organization which performs a proper governance will improve the value of return of average, and they will also face a significant risk declining (Alexakis et.al, 2006) organizations which perform proper governance will experience significant expected stock return value (Dobetz et.al, 2003).

Survey results from Mc Kinsey (2002) showed that corporate governance becomes the main attention of investor, especially in developing market. Investor tends to avoid organization or company which has bad corporate governance system. Black et.al (2003) explained that the relationship between governance practices with organizational values is signaling and endogeneity. In signaling, governance practice cause the improvement of organizational value since the application of proper governance will provide positive signal. Endogeneity means

that an organization which has high market value will tend to apply a better governance system. The benefit of governance will be seen through the share price that investors willing to pay. If investors willing to pay more expensive price, the organizational value will be better (Kusumawati and Riyanto, 2005).

Based on the explanations above, it can be hypothesized the relationship between isolative advantage with organizational performance as follow:

H5: The higher the isolative advantage, the higher the organizational performance.

RESEARCH METHOD

Respondents in this study are 90 directors of Rural Bank, listed in Indonesia Bank and operate in Indonesia legal territory, at Western Java Province and Banten Province. Construct of environmental adaptability will be operated as the ability of an organization to adapt with unstable environment, such as the changes in customers preference, market changes, competition, the changes in government's policy and technology. This construct will be measured by indicators adapted from Covin and Slevin's study (1988), by using five questions in questionnaires. The isolative advantage will be measured by six indicators. Social competence is an individual ability to effectively interact with environment and influence other people for reaching a goal in a certain social context which is suited with culture, environment, at a time situation, individual value, and this construct will be measured by using four questions (Topping et al., 2000). Business network accessibility construct is a media for an organization owner to get an access to the resources that they don't have by using an economical way so as to influence the business' success (Zao and Aram, 1995). This construct will be measured by four questions. Construct used in this study is the competitive advantage which is operated as an organization's ability to provide additional value compared with its competitor (Barney, 1991), this construct will be measured by using five questions. Last construct used in this study is organizational performance as a reached result of what the owner and or the manager performs its business. This construct will be measured by using four questions. All the questions will be measured by using scale which ranges from one to ten.

RESULT AND DISCUSSION

Structural Equation Modeling (SEM) is data analyses tool used in this study. Variance based SEM is specifically used in this study. Software which is used in this study is Smart PLS. According to Ghozali (2008, 106), the result from Smart PLS computation can be read in Table 1.

Table 1
Outer Model Value Discriminant Validity and Composite Reliability

Variable	Outer loadings	AVE	Composite Reability	R-Square
Environmental adaptability	0,716 - 0,842	0.615	0.918	
Social Competence	0,716 - 0,842	0.672	0.849	
Isolative Governance Advantage	0,763 - 0,875	0.695	0.931	0.901
Competitive Advantage	0,734 - 0,845	0.56	0.849	0.901
Organizational Performance	0.672-0.761	0.67	0.931	0.902

All variable on each outer model value between construct and indicator has fully filled the convergent validity requirement. The value is 0,50, as a result all the construct for all variables is accepted, therefore there is no eliminated variable in this model. Each construct has t-statistic value above 1.96 or t-count > t-table. It can be concluded that all variables in this study have filled the requirement of Convergent Validity. In this study all constructs have met the requirement of Discriminant Validity by viewing the Average Variance Extracted Values (AVE) for each construct which ranges from 0.56 – 0.695. Since AVE value for all construct above 0.50, therefore all constructs in this study have high reliability. Based on Composite Reliability value, all variables' value in this study are above 0.80 which ranges between 0.849 – 0.931, it means that all variables have proper composite reliability value. In this study, R-square value ranges between 0.901-0.902. It means that independent variable can strongly explain dependent variable.

To test all proposed hypotheses, it can be seen from the value of t-statistic. Border to accept or reject the proposed hypotheses is ± 1.96 . Estimation result of t-statistic can be seen from result for inner weight at Table 2, which shows that environment adaptability will positively influence the isolative governance advantage, in which it has positive value as 0.413 with t-statistic value as 2.070. It shows that an organization that adapts with its environment tends to have high isolative advantage.

Investigation on original estimate and t-statistic value shows that the relationship between social competence and isolative advantage is positive with loading factor value as 0.151 and significant at 0.05. It shows that manager who has high social competence tends to have high isolative governance. In other words, H2 is supported by the results from this study. Table 3 shows that isolative governance will produce competitive advantage in an organization. It is seen from loading estimate value as 0.51. The relationship between these two constructs is positive and significant at 0.05. In other words H3 is accepted, as well as H4 and H5. Two last hypotheses have loading estimate value as 0.789 and 0.651 and significant at 0.05.

Table 2
Result for Inner Weight

<i>Variable</i>	<i>Ori. Sample Est</i>	<i>Mean of Sub Sample</i>	<i>Standard Deviation</i>	<i>T-Statistic</i>	<i>Hypotheses</i>
Environmental Adaptability →Governance Isolative Advantage	0.413	0.711	0.101	2,070	H1 Supported
Social Competence →Governance Isolative Advantage	0.151	0.153	0.054	2.787	H2 Supported
Governance Isolative Advantage--> Competitive Advantage	0.501	0.451	0.031	2.87	H3 Supported
Competitive Advantage →Organizational Performance	0.789	0.531	0.134	2.67	H4 Supported
Governance Isolative Advantage →Organizational Performance	0.651	0.465	0.131	3.67	H5 Supported

CONCLUSION

This article shows the impact of isolative governance usage on organization's performance. The result from this study positively supports five proposed hypotheses, and the result from this study is also consistent with the previous result. Managers who have adaptability on the environment and have social competence will have high isolative governance advantage. Isolative governance will create competitive advantage for an organization that is hard to imitate by the competitor. In the end, competitive advantage will improve sustainable organizational performance.

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