

Fostering Project Delivery Capabilities in Indonesian Commercial Banks

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ABSTRACT

To be competitive in their business, many of Indonesian Commercial Banks create strategic initiatives that are managed in form of projects and expect that the impact of this projects will bring quantified value to the organization in form of firm performance. Nevertheless, it is important to know organizations capability and project prioritization in delivering those projects so that the quantified value can be optimized. This paper aims to explore how the project portfolio management supports the project delivery capabilities through PMO to respond the environmental uncertainties and how it affects the bank performance that is measured using Return on Asset (ROA). Data were obtained from 74 respondents representing each of 74 commercial banks and analysed using the partial least squares structural equation modelling software SmartPLS 3.0. Study was concluded that project delivery capabilities had a significant impact on ROA in banks with larger equity category. This empirical research reveals that the environmental uncertainties are responded by the banks with bigger equity category (3 and 4) through implementing the right strategic initiatives in form of project that is managed with sufficient project delivery capabilities through PMO and significantly affecting the ROA. This phenomenon, however, is not reflected in Commercial Banks with smaller equity category (1 and 2). The result of this study shall provide insights to Indonesian Bank Regulatory to provide governance in managing strategic initiatives in the form of projects to the Indonesian Commercial Banks.

Keywords: Equity category, project management office, project portfolio management, return on assets

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INTRODUCTION

In the business world, economic turbulence is marked by intermittent changes that can be sudden and at times uncontrolled. Such conditions pose a threat to firms' performance, especially their financial performance. To respond to such dynamic changes, firms must be able to respond with quick actions and by being innovative (Hamel, 1996). This can be done through the type of strategic initiatives that firms formulate and implement. Most of these activities or endeavours are considered to be temporary (Boppel, 2013) and are therefore managed as projects (Project Management Institute, 2017).

Financial services sectors also have to deal with the uncertainties that arise from such conditions (Oliver Wyman, 2015). The financial services sector in Indonesia is dominated by banks, with the banking industry accounting for 74% of the sector's assets (Indonesia Financial Services Authority, 2016). However, despite the tendency for the business characteristics of banks to be short-term and very sensitive to global financial reforms, they remain attractive prospects for further exploration and exploitation (Indonesia Financial Services Authority, 2016).

Regulatory bodies such as the Indonesia Financial Services Authority (Otoritas Jasa Keuangan - OJK) and the Central Bank of Indonesia (Bank Indonesia) exert strict control over banking operations; hence, banking is a highly regulated industry in Indonesia. Ernst and Young (2017) outlined the role of Central Bank of Indonesia in

lowering down the SBI (Bank Indonesia Certificate) rate from 7.5% to 6.5% per annum in 2016 in fact gave benefits to banks with larger equity such as banks in Category (BUKU – Bank Umum Kelompok Usaha) 3 and 4. However, the consequences of lower SBI rate were the other way around, banks in Category or BUKU 1 and 2 were disbenefit. Furthermore, the performance of banks can be affected by macroeconomic factors such as the Industrial Production Index (*Indeks Produksi Industri*), inflation rate, central bank rate (BI rate), exchange rate, and Composite Stock Price Index (IHSG), as well as the global price of crude oil (Aviliani et al., 2015).

Pricewaterhouse Coopers (2018) published its Indonesia Banking Survey Report, the findings of which indicated that banking strategies were changing. A total of 45% of the survey respondents reported a significant change in strategy over the previous 18 months. The technology transformation strategies of banks have driven them to focus more on their front-end customer platforms (Pricewaterhouse Coopers, 2018). As stated in the survey report by Pricewaterhouse Coopers (2018), the volume of transactions undertaken via digital channels has overtaken those using traditional branches. Such technological advancement leads to banks re-shaping their strategy to become more technology-oriented. However, the advancing technology in financial services has also engendered disruption to the business. The birth of financial technology, or fintech, companies (Indonesia Financial Services

Authority, 2017) has acted as a disruptor, with the banks regarding such firms as a unique form of competition since they are actually considered as non-financial services companies. The report concludes that fintech companies will continue to cause significant disruption to businesses for the next 5 years, especially for BUKU 3 and 4 banks.

In order to be more effective in implementing technology-related strategy, banks may formulate, select, and implement initiatives in the form of projects; however, there are often a large number of initiatives to consider during any given time span, which must always be aligned with the objective of improving the performance of the banks (ROA). Managing such relatively parallel projects, however, may lead to problems if they are not managed effectively. Some business organizations have faced challenges in simultaneously managing their strategic initiatives in the form of projects; hence, they need a structured management approach using project portfolio management (PPM), in which the organization can select, prioritize, balance, and even reconfigure its projects to ensure they are continually aligned with the objectives of the initiatives (Dietrich & Lehtonen, 2005; Killen et al., 2008a, Killen et al., 2008b; Martinsuo & Lehtonen, 2007; Project Management Institute, 2017). Some businesses will also need to establish a function, possibly as a formal entity or group, to support them in managing their parallel strategic initiatives in the form of projects. This type of practice is commonly called a project management office, or

PMO (Aubry et al., 2009) and underlines the importance and challenges of managing multiple projects using a PMO (Aubry et al., 2007; Hobbs & Aubry, 2007; Singh et al., 2009; Too & Weaver, 2014).

Despite various studies on the importance of the application of PMOs and PPM capabilities, there appears to be a lack of evidence in the form of empirical studies on whether Indonesian commercial banks apply PMOs and PPM capabilities in managing their strategic initiatives in the form of multiple and parallel projects. Furthermore, it is also important to know the implication of such applications with regard to the firm performance of banks as measured by their Return on Assets (ROA). The purpose of this study is to explore whether PMOs and PPM capabilities are applied in responding to such a technology-driven dynamic environment and how this contributes to the ROA of Indonesian commercial banks.

The remainder of this paper is structured as follows. Section 2 contains a review and discussion of the significant literature related to the research topic. Section 3 outlines the method used for this research, while the data analysis and research results are discussed in Sections 4 and 5, respectively. Lastly, Section 6 contains the conclusion of the research.

Literature Review

A firm's strategy orientation considers the way in which its strategy, structure, and processes must fit with the environmental circumstances it faces, in addition to taking

into account that these elements may change over time (Tan et al., 1994). It may cover measures such as stability environment, regulation, competition, global trends, technology, the effect from suppliers and customers, and economic as well as sociocultural conditions (Sung et al., 2010; Tan & Litschert, 1994; Wong et al., 2011). In the past, it was relatively easy to achieve alignment between a firm's strategy and external environment owing to the relative stability of market conditions; hence, it was possible for the strategy to follow a relatively clear path through the stages of planning, execution, and control. In a more dynamic environment, however, the external factors may not simply change, but they are also interconnected and have variables. As a result, changes in strategic orientation are required in order to continually adapt to the changing external environment (Priem, 2007). with some of the external environmental variables including regulation, competitor activity, international circumstances, technology, suppliers, customers, and economic and sociocultural. Strategy formulation is commonly referred to in the field of strategic management using the term strategic orientation. Porter (1980, 1985) argued that by having well-conducted strategic orientations (cost leadership, marketing differentiation, and innovative differentiation), a business organization could earn above-average returns or achieve superior performance and that these orientations could serve as a determinant of competitive sustainability (Gatignon & Xuereb, 1997; Kerin et al.,

1992). Maintaining this line of argument, this research will test how environmental uncertainty leads to strategy formulation or strategic orientation, presenting the following hypothesis.

H1: Environmental uncertainty (EU) positively influences strategic orientation (SO).

Smith (2011) argued that there was a range of measures that could be taken in terms of successful strategy implementation. These included building a capable organization, marshalling resources, instituting policies and procedures, adopting best practices and continuous improvement, imparting information and operating systems, providing rewards and incentives, instilling a corporate culture, and effective leadership. Furthermore, Milosevic and Srivannaboon (2006) formulated a framework for the nature of alignment that was developed by integrating Porter's generic strategy, namely differentiation strategy, cost leadership strategy, and best-cost strategy, for instance, quality or cost, along with the project management elements of Shenhar et al.'s strategic project leadership framework, to formulate a new framework for project and strategic management (Shenhar et al., 2007). Meanwhile, Saunders et al. (2008), in their research, outlined seven constructs of strategy deployment such as communicating the initiative, achieving buy-in, aligning implementation, learning, creating an infrastructure for deployment, understanding the business drivers and identifying deployment options.

An examination of the previous studies leads to the establishment of the following hypothesis.

H2: Strategic orientation (SO) positively influences strategic initiatives implementation (SII).

In some organizations, however, the implementation of strategic initiatives may present a challenge, as a lack of execution know-how and ability to tackle constraints such as politics and bureaucracy in the organizations acts as a limitation (Hrebiniak, 2006; Smith, 2011; Saunders et al., 2008). As a result, organizations may expect to be able to measure the impact of strategic initiatives on their organizations from the perspective of firm performance. Firm performance is a continuous and important theme across most branches of management, including strategic management, and it is of interest to both academic scholars and practitioners. Hult et al. (2004) defined firm performance as the achievement of organizational goals related to profitability and growth in sales and market share, as well as the accomplishment of general firm strategic objectives. Meanwhile, Tseng (2010) in her research based on a consolidation of previous studies, concluded that firm performance could be defined as an integral improvement in financial and performance aspects (e.g., as measured by sales, profits, or return on investment). In the context of banks, performance can be measured using the components of the CAMEL (stands for capital adequacy, assets quality, management, earnings and liquidity)

model (Boubakri et al., 2017; Nurazi & Evans, 2005). This study looks at the firm performance of banks with reference to these CAMEL components in areas such as capital growth, credit growth, net interest margin growth, third-party fund growth, and total assets growth. Boppel (2013) used ROA to measure firm performance as it provided the best measure for indicating earnings efficiency (McNamara et al., 2003). ROA is also used due to the fact that it provides a direct reflection of the strategic decisions taken on the asset mix of financial services firms (Reger et al., 1992) and is the least sensitive performance measure (Barkema & Schijven, 2008). For this study, ROA is used to measure the firm performance of banks. Boppel (2013) argued that implementation of the right strategy might lead to a better ROA performance for financial institutions; as such, it could be stated that the right SII might positively influence the ROA of banks. In relation to this notion, the following hypothesis is proposed:

H3: Strategic initiatives implementation (SII) positively influences the firm performance (FP) of banks.

The field of strategic management has undergone rapid development, from Porter's (1980, 1985) competitive advantage to the resource-based views of Wernerfelt (1984) and Barney (1991), up to the dynamic capabilities of Teece et al. (1997). This paper has a core theoretical framework of dynamic capabilities, as it aims to demonstrate how an organization can implement, build, or integrate its competences to respond to the

rapidly changing environment, where the responses could be strategic initiatives that are mostly managed in the form of projects. This concept shall be considered suitable for selecting, prioritizing, and reconfiguring the strategic initiatives in responding to such an environment.

The implementation of strategic initiatives is thus imperative as a response to the types of external factors that organizations face. The effectiveness of such implementation is also becoming critical for firms, commencing with the selection of the right strategic initiatives prior to their implementation. There is also the possibility that banks may have to deal with multiple strategic initiatives. This could raise the challenges when it comes to managing multiple strategic initiatives or projects with the goal of achieving strategic objectives since each may have different priorities and the banks always have to align with the strategic objectives. In extending the capabilities of the organization to manage the implementation of strategic initiatives, the application of dynamic capabilities in the form of PPM can be translated into several factors such as business objectives, selection, prioritization, dynamic balancing, and the reconfiguration of projects (Daniel et al., 2014; Kock & Gemünden, 2019; Martinsuo & Lehtonen, 2007; Project Management Institute, 2017), thereby implying an enhancement of the theory of dynamic capabilities (Clegg et al., 2018; Killen et al., 2008a; Killen et al., 2008b; Killen, 2008c; Killen & Hunt, 2013; Killen & Hunt, 2010). Therefore, the approach to

applying the capabilities of PPM should be considered in effectively managing the implementation of multiple strategic initiatives. Such consideration leads to the following proposed hypothesis:

H4: Project portfolio management (PPM) capabilities positively influence strategic initiatives implementation (SII).

Such capabilities are hard to manage, especially where the organization has to deal with multiple projects. In order to address this issue, an organization may choose to apply project management practices (Aubry et al., 2009; Dai & Wells, 2004; Hobbs & Aubry, 2007; Project Management Institute, 2017). Such capabilities shall provide the organization with project management standards and methods, the development of lessons learned, administrative support, staffing assistance, support in developing project management resources, and strategic management.

According to the Project Management Institute (2017), the organization may have different types of PMO depending on their needs. The PMO practices may also be extended to the supporting of banks' PPM capabilities in order to align the implementation of strategic initiatives with the formulated strategic objectives. There is a lack of evidence in previous studies as to whether PMO practices can influence the performance of banks, so it is interesting to observe their direct influence on ROA. The following hypotheses are therefore proposed:

H5: Project management office practices (PMOP) positively influence project portfolio management (PPM) capabilities

$$\eta_{SO} = \gamma_1 \cdot \xi_{EU} \quad (1)$$

$$\eta_{SII} = \beta_1 \cdot \eta_{SO} + \beta_3 \cdot \eta_{PPM} \quad (2)$$

$$\eta_{PPM} = \gamma_2 \cdot \xi_{PMOP} \quad (3)$$

H6: Project management office practices (PMOP) positively influence firm performance (FP)

$$\eta_{FP} = \beta_2 \cdot \eta_{SII} + \gamma_3 \cdot \xi_{PMOP} \quad (4)$$

The research model in Figure 1 illustrates the structural model/inner model and its related hypotheses as a result of a review of the relevant theoretical aspects from the prior related studies.

In the research model the Firm Performance (FP), Strategic Initiatives Implementation (SII), Project Portfolio Management Capabilities (PPM) and Strategic Orientation (SO) are the proposed Endogenous Variables (η), meanwhile Environmental Uncertainties (EU) and Project Management Office Practices (PMOP) are the proposed Exogenous Variables (ξ). The mathematical model that represents the structural model can be proposed as follows:

MATERIALS AND METHODS

Using a positivist paradigm perspective, the study was designed to be empirical and quantitative in nature. The data used in the study were obtained from the population of commercial banks in Indonesia, using Infobank (2017) as the sampling frame reference and giving a total population size of 115. A simple random sampling approach was considered since the population of commercial banks was known and the number of banks was relatively small. The primary data were collected via a survey using a structured questionnaire addressed to the senior management personnel (Director, General Manager, Head of Department/Unit, or their equivalent) representing each of the

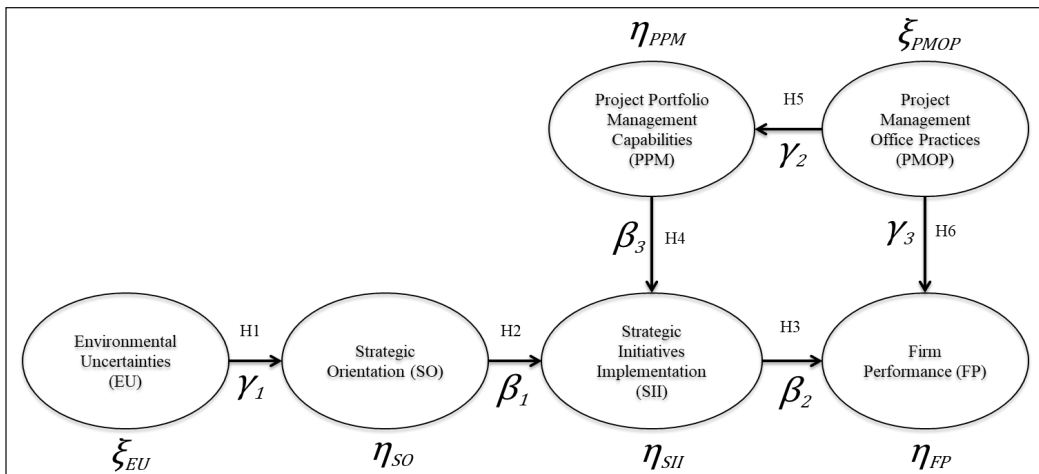


Figure 1. Research model

banks as a respondent. The respondents were probed regarding the strategic initiatives that they managed during the period 2013-2015. The questionnaires were established using statements that had been used and tested in previous research and were sent to the respondent through various channels such e-mails in electronic format, electronic questionnaires using Google Form and hardcopy questionnaires through mails or courier services. Each statement was measured using a 6-(six-) point Likert Scale (ranging from 1 = “strongly disagree” to 6 = “strongly agree”). The purpose of this is to force the respondents to commit to a certain position. A pilot test was conducted prior to the survey to check item validity and reliability. Furthermore, the secondary data were taken from a special edition of the magazine Infobank (2015, 2016, 2017), with the aim of establishing the growth in the firm performance of the banks from 2014 to 2016.

The unit of analysis is a bank as a company, and the objects of analysis are the banks’ executives (C-Suites) or top management (Vice Presidents, General Managers, Heads, or equivalent). The sampling frame is the list of banks in Indonesia based on Infobank (2017). There was a total of 115 banks at the time the study was conducted. Considering that the population was known, and the number of banks was relatively small, a census approach was considered advisable. Finally, the questionnaires were distributed using several channels such as email and online survey tools.

As the number of the banks was relatively small, the decision was taken to use a partial least squares structural equation model (PLS-SEM) to analyse the data. Firstly, the analysis is done of a total of 74 banks and followed by an analysis of each Equity Category to see whether there is a difference of each influence in each bank category. The geometric mean was proposed to measure the growth during the period in question. As the primary data for variables Environmental Uncertainties (EO), Strategic Orientation (SO), Strategic Initiatives (SII), Project Portfolio Management Capabilities (PPM), Project Management Office Practices (PMOP) were ordinal and the secondary data for variable Firm Performance were ROA (interval data) that are taken from Infobank (2015; 2016; 2017). A conversion from ordinal to interval data was undertaken using the Method of Successive Intervals (Edwards, 1952). Analysis of the PLS-SEM was carried out using SmartPLS3.0 software.

RESULTS

The survey was conducted during the period of October 2016 to January 2017. From the total of 115 banks, 74 respondents, representing 74 banks, returned their questionnaires, all of which were complete. The Cochran formula was used to determine $\alpha=0.06$. Additionally, due to the small number of samples, as well as considering the effect of the sample β size and statistical power, $p<0.1$ was considered in order to test the hypotheses (Hair et al., 2017). From the total of 74 respondents, the majority,

40, were Category¹ 2 banks (54%). There were also 11 Category 1 banks (15%); 16 Category 3 banks (22%), and 7 Category 4 banks (9%). The respondents held the following positions: Vice President or similar (28; 38%); General Manager or similar (25; 34%); and C-Suite (18; 24%), with the remainder holding other positions (similar to the three designated positions in the questionnaire). A total of 41 respondents held a bachelor's degree or similar (56%), 32 had a master's degree or similar (43%), and the remaining one respondent had a diploma (1%). Of the total respondents of banks, 44 (59%) had a formal PMO entity, while the other 30 (41%) did not. From Table 1, there is a positive correlation between banks with higher equity levels (Category of the Banks based on equity) and the greater presence of a formal PMO within the banks.

The proposed research model was analyzed using SmartPLS3.0 software. The

¹ According to Regulation of the Central Bank of Indonesia (Regulation No. 14/26/PBI/2012), commercial banks can be categorized as four types, based on their equity. Category 1 banks have equity < IDR 1 trillion; Category 2 banks have equity in the range IDR 1 trillion – IDR 5 trillion, Category 3 banks have equity in the range IDR 5 trillion – IDR 30 trillion; and Category 4 banks have equity > IDR 30 trillion.

PLS algorithm and bootstrapping with 2,000 subsamples (Hair et al., 2017) was used to perform an assessment of the model with the aim of achieving several criteria. All of the loading factors (λ) had values greater than 0.70, thus the indicator reliability is greater than 0.5. This means that it passed the criteria for model assessment. Furthermore, the SRMR value is 0.175, as indicated in Table 2, which is greater than the threshold of 0.08, thereby indicating that the model is not fit. Figure 2 provides the hypothesis results of the analysis of all banks (n=74).

The analysis result shows that environmental uncertainty (EU) has no significant influence on strategic orientation (SO). It is thus understood that the banks' strategic initiatives are formulated and implemented with no significant effect from the EU. It can also be understood that such initiatives are perceived as regular activities as part of the banks' yearly strategic plans (*Rencana Bisnis Bank*). Furthermore, the influence of project management office practices (PMOP) has no significant direct influence on ROA. It can thus be understood that the application of PMO practices does not have much effect on ROA if there is no proper selection,

Table 1
PMO presence in the banks

No	Equity Category Type	Number of banks without a formal PMO	% of total respondents	Number of banks with a formal PMO	% of total respondents	Total respondents
1	Category 1	7	63.64%	4	36.36%	11
2	Category 2	21	52.50%	19	47.50%	40
3	Category 3	2	12.50%	14	87.50%	16
4	Category 4	0	0.00%	7	100.00%	7
		30		44		74

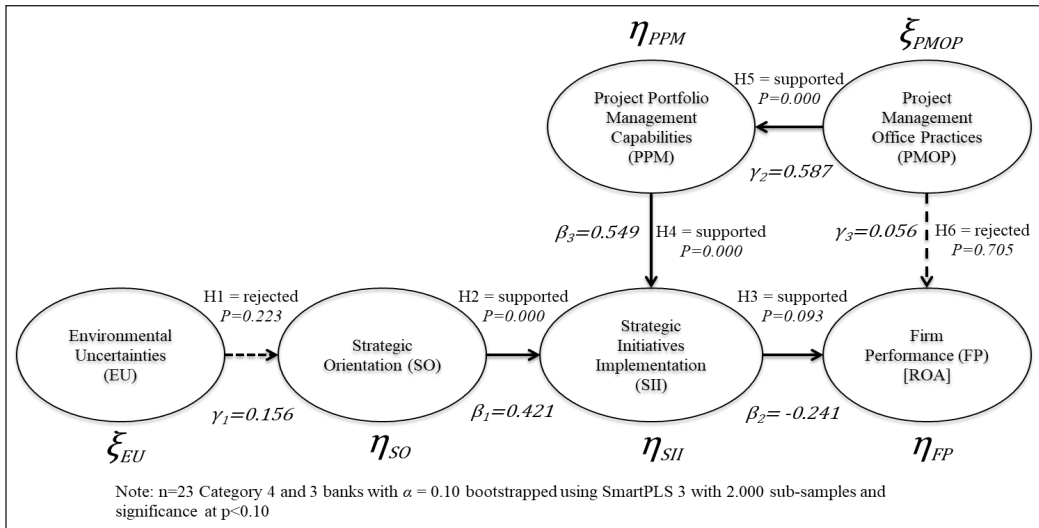


Figure 2. Hypothesis test results using bootstrapping for all banks (n=74)

reprioritization, and reconfiguration of the strategic initiatives (in the form of projects) to align the business objectives of the banks. The relationship between SO and strategic initiatives implementation (SII) has a significant relationship at $p < 0.1$, with a loading factor of 0.421 for $n = 74$ and 0.312 for $n = 37$. Meanwhile, the relationship between PPM capabilities and SII is also significant at $p < 0.1$, with a loading factor of 0.549 for $n = 74$. The influence of project management office practices (PMOP) and project portfolio management (PPM) capabilities is also positively significant at $p < 0.1$, with a loading factor of 0.587 for $n = 74$. Firm performance (FP) is also significantly influenced by SII at $p < 0.1$, but the loading factor is negative (-0.240 for $n = 74$). This negative loading factor indicates that the weakening influence of strategic initiatives may be decreasing ROA, but it can also be understood that ROA is pushed back due to external factors such as

the Industry Production Index and IHSG. The impact of this influence on ROA will be explored for each bank asset category in the ensuing analysis. Figure 3 depicts the hypothesis results of the analysis of Category 3 and 4 banks ($n = 23$).

After the analysis using all samples ($n = 74$), further analysis is required to determine how PPM capabilities are influenced by PMOP, how SII is influenced by PPM capabilities and the impact of SII on the FP of the banks (as measured in ROA) in each bank category. It is impossible to conduct analysis for the Category 4 banks with PLS-SEM using the SmartPLS 3.0 software due to the limited size of the Category 4 sample (that is 7 banks). It was therefore decided to combine the Category 4 and Category 3 banks to give a total of 23 banks. There is then a total of 40 Category 2 banks. Figure 4 provides the hypothesis results of the analysis of Category 2 banks ($n = 40$).

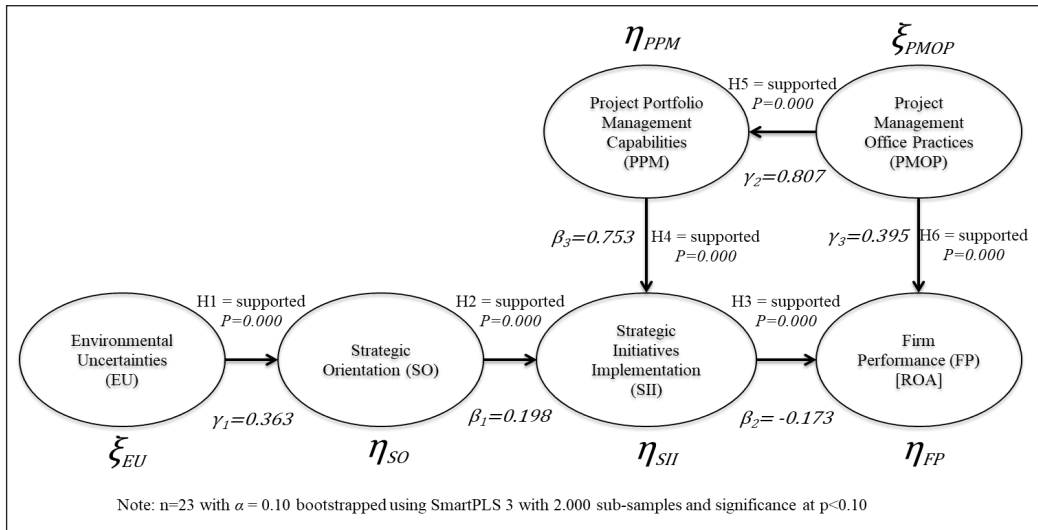


Figure 3. Hypothesis test results using bootstrapping for Category 3 and 4 banks (n=23)

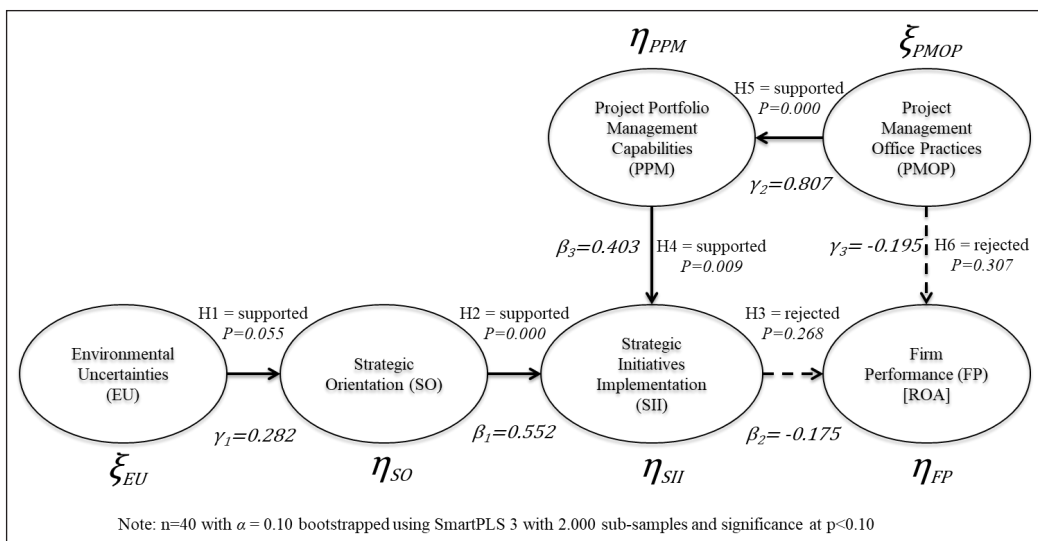


Figure 4. Hypothesis test results using bootstrapping for Category 2 (n = 40)

Finally, the Category 1 Commercial Banks as depicted in Figure 5, with 11 data were analysed.

The results of the whole analysis can be seen in Table 2.

The results show that the strategic initiatives in Category 4 and Category 3

banks tend to have a greater influence in comparison with those in the Category 2 and Category 1 banks, although the loading factor is still negative. It is interesting to observe that the influence of the strategic initiatives in Category 2 banks is not significant and that Category 1 banks have

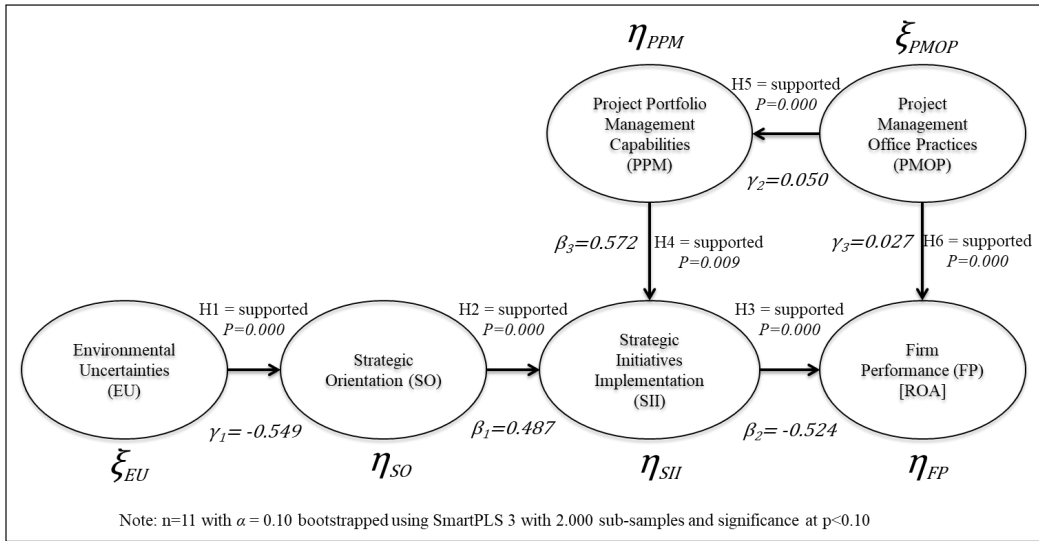


Figure 5. Hypothesis test results using bootstrapping for Category 1 (n = 11)

the lowest loading factor. For each category, the influence of the EU on SO is significant at the $p < 0.1$ level. It can also be seen that the higher the category, the higher the loading factors for EU-SO. With regard to SO-SII, the relationships are all significant at $p < 0.1$; however, the Category 4 and Category 3 banks have the lowest loading factors in comparison to the Category 2 and Category 1 banks. This shows that the Category 4 and Category 3 banks may not implement their strategy based on a strategy formulation, which contrasts with the banks in Category 2 and Category 1 that are relatively stricter in terms of implementing strategic initiatives based on the strategy formulation. This is in line with the PPM-SII relationship that is significant in all banks and where the banks in Categories 4 and 3 have the highest loading factors. So, there is the high likelihood that the Category 4 and Category 3 banks are engaging in prioritization and reconfiguration during their SII, while the

Category 2 and Category 1 banks have lower loading factors compared to the Category 4 and Category 3 banks. The PMOP-PPM relationship is again significant at $p < 0.1$ for all of the bank asset categories; however, the Category 4 and Category 3 banks have the highest loading factors, followed by those in Category 2 and Category 1. This shows that the PMO practices are applied relatively better in Category 4 and Category 3 compared to Category 2 and Category 1. Finally, the relationship between SII and FP is significant at $p < 0.1$ for the Category 4, Category 3, and Category 1 banks, but not for the Category 2 banks. The Category 4 and 3 banks have higher loading factors compared to those in Category 1; however, the negative indicator shows that the Category 4 and Category 3 banks are undertaking a stronger push to improve their ROA compared to those in Category 1. Therefore, the impact of SII on ROA is greatest for those banks in Categories

Table 2
PLS-SEM analysis and hypothesis testing results

No	Equity category	Sample size (n)	Loading factor EU-SO	Loading factor SO-SII	Loading factor PPM-SII	Loading factor PMO-PPM	Loading factor SII-FP	Loading factor PMOP-FP	Remarks
1	All categories	74	Not significant	0.421***	0.549***	0.587***	-0.240***	Not significant	As has been analysed and shown in the research model
2	Category 4 and 3	23	0.363***	0.198***	0.753***	0.807***	-0.173***	0.395***	Sample size of category 4 (7 banks) is too small to be analysed, hence it is combined with category 3
3	Category 2	40	0.282*	0.552***	0.403***	0.576***	Not significant	Not significant	
4	Category 1	11	-0.549***	0.487***	0.572***	-0.050***	-0.524***	0.027***	

Notes: * Means significant at p<0.1, ** significant at p<0.05 and *** significant at p<0.01

3 and 4. All data analysis results have been communicated and validated by some subject matter experts from both academicians and commercial bankers. Both groups of experts confirmed and supported the results and hence herewith the results are validated.

DISCUSSIONS

The analysis result has led to 2 (two) general cases. First, exploring how the research model is applied and analysed using 74 samples and its validation using multistage sampling (stratified and simple random sampling). Second, the analysis explores the impact of SII, PPM capabilities, and PMO practices and their associated impact on ROA. Based on the analysis result using a sample size of $n=74$, it can be concluded that EU and SO have no significant influence. This could be understood as indicating that the formulation of any strategy is mainly predictive. There is thus no such uncertainty that leads the banks to formulate and initiate their strategy to be more competitive in their business. However, the analysis of each asset category reveals the influence of the EU on SO to be significant for each bank category at $p<0.1$. From the loading factor, meanwhile, it can be seen that the influence of EU on SO is greatest for the Category 4 and 3 banks. This leads to the conclusion that the research model can be applied only to Category 4 and Category 3 banks, which are the banks that may see an impact of the uncertainties in terms of an effect on their business. Furthermore, there will be a

systematic impact on government agencies like the OJK and Central Bank of Indonesia (Bank Indonesia) the systemic impact if the Category 4 and Category 3 banks are unable to respond to the uncertainties that affect their performance. The Category 2 and Category 1 banks may not see uncertainties, aside from regulation by the government, as the key drivers in the implementation of strategic initiatives. The banks may thus tend to follow government regulation as a basis for the formulation and implementation of their strategic initiatives. Furthermore, the risks posed to the FP of the banks by failing to respond to such uncertainty may be considered to be relatively manageable and easier to mitigate by the government as there is no associated systemic impact on the broader macroeconomic condition in Indonesia.

The next discussion looks at the influence of SO on SII, which is also significant across all of the bank asset categories, as well as within each individual category. The loading factor for those banks in Category 4 and Category 3 tends to be smaller in comparison to the Category 2 and Category 1 banks. This indicates that the Category 4 and Category 3 banks tend to implement dynamic strategic initiatives so that the PPM capabilities provide continuous support to the strategic initiatives implemented to align the project objectives, which may differ from the original formulation. This can be seen from the significance of PPM-SII and the loading factor in Category 4 and Category 3. Category 2 and Category 1 tend to have smaller changes or reconfiguration

of their strategic initiatives and to continue following the original formulation. The PMOP-PPM relationship also reveals the significant influence of PMOP in all categories; however, Category 4 and Category 3 have the biggest loading factors, hence there is a strong influence of PMOP on PPM. ROA for Category 4 is relatively higher in comparison to the other categories. The Category 3 banks with a PMO tended to have a higher ROA in 2015 and 2016, but not in 2017. The Category 2 banks with a PMO tended to have a lower ROA in 2015 and 2016, although there was an increasing trend in 2017. This could be because the Category 2 banks tend to have some PMO functions despite them lacking any formal PMO organization. Such a condition is seen in around 40% of the Category 2 banks. The Category 1 banks with a PMO tended to have a higher ROA in comparison with those that do not have any PMO presence in the organization. The influence of SII-FP in all categories is significant at $p < 0.1$; however, the Category 4 and Category 3 banks show a very strong significance and have a bigger loading factor in comparison to the banks in Category 2 and Category 1. The negative indicator can be seen as a weakening effect, but in this case, it could indicate a retaining effect of the strategic initiatives toward the external factors that decrease ROA. The final part of the discussion concerns the presence of a PMO as a control variable in the FP of the banks (ROA). The presence of a PMO has a significant effect at $p < 0.1$. The hypothesis is rejected for the Category

2 banks as some of the banks in Category 2 have a PMO function in place, despite there being no formal presence of a PMO organization.

In summary, the FP of the banks can be measured using ROA. During the period 2014-2017, ROA is significantly affected by external factors such as the Industry Production Index and IHSG and therefore exhibits a continuous decreasing trend. Strategic initiatives are formulated with the aim of pushing back this declining ROA and are implemented in accordance with the right project selection, prioritization, and reconfiguration, with projects even being terminated if required, to ensure that they remain aligned with the current needs of the business. This capability can be supported using PPM where a PMO plays a very important role in providing the required support to the organization to not only implement but also to continue aligning the strategic initiatives (projects) with the organization's strategic objectives. The impact of the strategic initiatives and the ways in which the banks apply the PPM and PMOP vary between each bank asset category. The higher the category, the greater the impact of the strategic initiatives as these banks are relatively good at applying PPM capabilities and PMOP. Not having a formal PMO in place does not necessarily mean there is a lack of application of PMO practices. This is the case with the Category 2 banks, which do have some PMO functions in place.

CONCLUSION

This study has led to the general conclusion that Indonesian banks, depending on the category type, have been implementing strategic initiatives that are driven by environmental uncertainties. Furthermore, the strategic initiatives are significantly influenced by the banks' PPM capabilities, where initiatives in the form of projects are selected, prioritized, balanced, and aligned to the latest business needs. Furthermore, projects that have already been selected and are progressing can be re-prioritized, reconfigured, balanced, or even cancelled in order to align with the organization's strategic objectives, with the aim of optimizing the result of such projects and minimizing their negative impact. This result is aligned with the previous study of Boppel (2013).

In the area of project management practices, the result leads to the conclusion that PMO practices have a direct effect on PPM. The presence of a formal PMO does not necessarily indicate that PMOP is being applied more effectively within the organization. Apart the previous of studies revealed of existence of PMO predicts the increasing degree of effectiveness in managing projects (Otra-Aho, et al, 2018), nevertheless, the direct contribution to the organization performance is not seen yet unless it is seen as multiple coexisting values within the organization (Aubry et al, Aubry et al., 2009). The result reveals that regardless of the bank equity category, the PMO practices tend to manage the organization's capabilities in delivering

the projects. The result of the impact of SII needs to have been tracked from the very beginning and subsequently monitored and measured in the form of the realization of benefits to the organization, and only then can the isolated impact of the strategic initiatives can be measured.

This is supporting the previous study from Killen (2008), Killen et al. (2008a), Killen et al. (2008b), Killen and Hunt (2010), Killen et al. (2012) and fully aligned with the middle theory Dynamic Capabilities (Teece et al, 1997). In accordance with PMO practices in influencing the FP of the banks (measured in ROA), this study has proven that PMO practices have a significant indirect influence in the firm performance of the bank through PPM capabilities and hence enriching the previous study from Aubry et al. (2007) and Aubry et al. (2009).

This research has also proven that the impact of implementing strategic initiatives in the banks (in the form of projects) can be more effective if project portfolio management capabilities in selecting the right project in the very beginning. If there is any dynamic environment that might change the strategic objective of the banks, this can be managed by re-prioritizing and reconfigure the projects to ensure that the outputs are still aligned with the objectives, especially if the banks managing multiple projects or/and program. Without such capabilities, a waste of efforts is expected. In the aspect of policy implication, this study provides insight into Indonesian Banks Regulatory to equip the commercial banks with governance in managing strategic initiatives from perspectives of PPM.

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