

# The effect of paradoxical strategies on firm performance: An empirical study of Indonesian Banking industry

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## Abstrak

Recently, research on paradoxical strategies is receiving considerable attention from both researchers and practitioners. The value of paradoxical strategies is currently considered critical in increasing firm performance and winning in the competitive dynamic landscape, which is characterized by uncertainty and rapid changes in the industry and business environment (Barney and Hesterly, 2006). Such perceived environmental characteristics require firm to apply paradoxical strategies; combining strategic flexibility and strategic consistency (Pamell, 1994).

This study addresses four main questions. First, what is the effect of strategic flexibility on firm performance. Second, what is the effect of strategic consistency on firm performance. Third, what is the effect of combining strategic flexibility and strategic consistency on firm performance. Fourth, what are the contingent effects of perceived environmental uncertainty on the relationship between paradoxical strategies and firm performance. This study conceptualizes the application of paradoxical strategies as a set of capabilities that enable an organization not only adapt to changing environmental conditions, but also to maintain current strategies and actions for a considerable period of time.

Recognizing the broad nature of strategic flexibility, it is measured in terms of pre-emptive moves, exploitative moves, protective moves, and corrective moves. Strategic consistency is measured in terms of proactive consistency and reactive consistency. Perceived environment is measured in terms of munificence, dynamism, and complexity. Overall firm performance is measured in terms of financial performance and strategic performance, among others are profit, profitability, income, market share, position in the industry, and customer loyalty.

A survey was conducted in the Indonesian banking industry to measure the degree of perceived environmental uncertainty, the level of strategic flexibility and strategic consistency, and the resulting firm performance. Questionnaires were distributed to 131 CEOs or members of top management team of commercial banks (including sharia banks) and the 59 returned responses were analyzed to test hypotheses.

The results indicate that strategic flexibility has positive effect on bank performance, while strategic consistency does not have positive effect on bank performance. In terms of combining these two paradoxical strategies, the results of this study confirm that the effect of strategic flexibility on bank performance depends on strategic consistency and/or perceived environment. Contrary to expectation of this

study, the effect of strategic consistency on bank performance insignificantly depends on perceived environment.

This study makes several important contributions to growing literature on paradoxical strategies and strategic management discipline. First, this study is one of limited researches on the effect of paradoxical strategies on firm performance. It examines the effect of combining paradoxical strategies on firm performance with considering perceived environmental uncertainty as the antecedent. Second, it also fills in the gap in previous study on managing paradoxes in service operations setting at the corporate/strategic level. Third, this study develops a set of measures of strategic consistency and strategic performance that captures building on prior concepts.

The findings in this study offer inputs for the development of banking industry in Indonesia. For bank management, to sustain its growth, banks should increase its information technology capabilities, which are mainly supported by flexible systems and knowledgeable people. For the banking regulator and the government agency alike, the inputs are as follows: carry out the detailed research on the impact of regulation and government policy on bank flexibility; take Bank NTT, Bank Jatim, and Bank Sumsel as samples for other regional development banks as the agile banks with high performance; create regulation and policy to drive innovative banking product development; encourage the commercial banks to undertake information technology investments to boost innovative financial products and services; create specific regulation about outsourcing service provider; and encourage further development of Internet banking services by improving system infrastructure environment, enabling policy and regulatory environment for this business, and building up a comprehensive e-security public policy framework.