

The Rural Community Recognitions with Integrity in Influenced of Financial Synergy to Excellently of Bank Financial Performance

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Abstract: Merger is an attractive strategy to the bank that is able to face the global challenges such as restructuring assets, efficiency and productivity. Some researchers argue the motive efficiencies gained through financial synergy. Whether financial synergy give the effect on the excellence of bank financial performance. This study has been implemented with develop 4 hypothesis and to investigate empirically financial synergy effects and advantages of post-merger. The model consist of a generating variable, dynamic variable and social-environment variable. The samples were involved is about 116 small bank at Central Java, Indonesia. The result show that the model solution for obtaining some variable positive effect on excellently of bank financial performance. This study is proven that financial synergy through the mediation of the rural community recognitions has positive effect on the bank financial performance.

Keywords – merger, the rural community recognitions with integrity, small bank, bank financial performance, financial synergy

I. Introduction

The merger is an alternative strategy for the bank that is able to face global challenges such as the continuance restructuring for assets, efficiency and productivity to achieve the growth of the bank. However, the merger indirectly represents application of the theory of monopoly which has been used as the power of influence on the market to acquire margin of profit on a long term. The bank has opportunity to merge in an effort to obtain efficiency by financial synergy and operating synergy. Financial synergy performed by utilizing the concept of the relevant economic. Synergy on financial policy aims to the achievement of the financial position of economic that provide financial at lower cost and contribute to greater profits than without the merger [1-3]. This study is based on the phenomenon of small bank in Central Java, Indonesia after merger for 5 years. The high level of non-performing loans (NPL) is about 6.06% (2012), the declining of return on assets (ROA) is about 2.62% (2012).

Table 1 Bank financial performance of small bank at Central Java, Indonesia

Year	ROA	NPL
2007	5,92	12,73
2008	2,38	10,21
2009	2,94	8,83
2010	2,76	8,49
2011	2,85	6,89
2012	2,62	6,06

Cuesta and Orea reported that efficiency with financial synergy have an effect on the decrease in ROA [4]. The goal of financial synergy and operational synergy depend on several factors such as the smooth process, internal restructuring, and market structure. William and Molyneux concluded that the post-merger uncertainty profitability depend on several assumptions related to external factors geographical area market such as the use of the market and the expectation of the community. These factors are formed because of a common interest between the bank and the rural community as is the expectations of society, the suitability of local wisdom, as well as mandatory bank as an agent of trust and agent of intermediation [5]. Valerijus have explained that the effect of the merger affected the price of services and positive impact to the social welfare [6]. In this research, we perform the indicators of merging variable and limited empirical facts. We focused on post-merger of small bank at Central Java which still effort to improve by generating variable, dynamics variable and social environment.

II. Literature review and hypothesis development

2.1. Financial synergy and the recognition of the rural community

Hypothesis 1. Financial synergy have positive effect on the recognition of the rural community with integrity

The monopoly power as the power and influence on the market is one of the merger motive which be known as a condition of relative market power. Post-merger, Bank is able to increase the business level until some conditions which can be achieved market position. These abilities depend on two factors: industry attractiveness and competitive advantage owned banks [7]. Bank also has a competitive advantage in the form of availability of qualified financial resources. On the other hand, bank establishes policies to achieve the rural community recognitions with integrity. Financial resources are built based on the resource-based theory to bear the financial costs with low cost [8]. The availability of financial resources can be oriented to increase the attractiveness of the industry as an economic power of society. Commitment is a strength and excellence that's the entrance to achieve equality between the bank and the rural community. A good financial relationship will make easy for bank to achieve a level of credibility and trust. The agreement between of those is the basic framework of the implementation of contingency theory. The unifying theory of internal and external factors achieve the goals of the organization.

Financial synergy and the rural community recognitions is described by dependence theory that explain phenomenon in organizations which have a dependency on the external environment, particularly in the fulfillment of resources. These conditions may create excessive dependence, so the bank is actively developing a pattern of behavior and mutual control over resources with each other. Sapienza reported that merger has positive impact on the credit decision by the declining level of the final price (pricing of loans) [9]. The lower of financial costs decrease the pricing of loans, thus affecting the success rate of the bank to increase the volume of credit and credit expansion. Financial synergy in the dimension of switching cost with low level has equality to condition of the rural community and the commitment of trust which have not adverse impact, benefits and morality.

Bank has obtained the strength and influence on the market is an indicator that the bank achieved the rural community recognitions. Financial Synergy is an evaluation of the bank will be achieved through the market share. A new open business opportunities for the bank is able to integrate the changes in efficiency, market power, economies of scale and the scope of the economy in the achievement of the availability. The financial can give the impact to the community which will make the bank obtain new advantage on the business opportunities [10]. Various theories and research results has been used with combining some variables that the effect of financial synergy has relation to the rural community recognitions.

2.2. Financial synergy and excellently of bank financial performance

Hypothesis 2. Financial Synergy have positive effect on excellently of bank financial performance

Financial synergy are characterized with low financial costs, set up cost, flotation cost and the low capital costs [8]. Financial synergy is a collaboration of financial resources to produce low financial costs and contribute to the achievement of the bank growth. These conditions have more challenge and difficult, but it could be potentially as a source of bank competitiveness. According to the resource-based theory, these challenges solved by: (1) an increased role on heterogenitas entire bank financial resources, (2) an unique portfolio of resources can be changed to any other source that is capable of increasing competition, (3) the management and development of resources heterogeneous forming capability and competence when compared with competitors [10]. These conditions drove organizations achieve sustainable living that is supported by the presence of the profit rate (economic rent) that is capable of supporting the growth and improve the performance of the bank merger participants. Somoye explained that the motive efficiency by increasing financial synergy can be oriented by increased funding source. Savings that bear the financial costs (cost of funds/capital) the low, bank will be more resilient and secure the life of financial performance (ROA) on a long term [11]. Thus, the variation in achieving financial synergy has positive effect of increasing excellently of bank financial performance.

2.3. The rural community recognitions with integrity and excellently of bank financial performance

Merger is basically strengthen the market structure that is supported by ownership competence internal forces to increase the attractiveness of the market. Restructuring the internal processes are forming the competitiveness of original, unique and not owned by other banking institutions. These factors include financial synergy and operational synergy dedicated ideals to achieve the rural community recognitions. The recognition process is the condition of institutions that have achieved a level integration and provide

new opportunities achieving management control function. The core implementation integrity behavioral theory lies in the achievement of recognition as a means of social control. As a means of social control, the achievement level integratif evaluated by management to question the influence of social control on the performance of the bank. The growing of recognition with integrity after the bank implements a function as an agent of trust and agent of intermediation. Bank integrate external financial position such as the role of the real sector, and increasing the attractiveness of business in a sustainable business [12].

Along with the movement of transparency international community with the concept of "The integrity pact (IP)", then the bank is likely to uphold the level of transparency as a contract agreement with the general public (public contracting), clean and not corrupt. The society expresses appreciation as a form of trust, good behavior and very useful for the general public. The rural community recognitions is constancy to position with closer to the rural communities that are supported by the commitment, the uphold transparency, utility and morality. Various efforts of the bank ability to strengthen the structure of bank in the market. Ownership structure of bank is increasingly strong market that will get the results is directly proportional to the increasing in financial performance. The organization has gained recognition rate and justified as a member of a community, it has positive effect to rural retailers and improve the financial performance. Because the organization can not be separated from the system, the relationship forms of performance-oriented organization requires task (task-oriented performance) is based on social and cultural norms (socio-cultural norm-based performance). Such actions as the bank business strategy and gained the recognition by the community.

2.4 Integrity and financial performance

Hypothesis 3. The rural community recognitions with integrity has positive effect on excellently of bank financial performance.

Kumar reported of his research that the dimensional hierarchy trustworthiness of financial service providers as a factor that describes the criteria integrity as improvised bank in retaining customers (customer) has positive effect on sales growth and the company profitability [13]. Kumar and Somoye have concluded that the level of efficiency achievement does not necessarily improve the ability of bank resilient life, thus the bank requires a strategic position as bank-oriented rural communities (believed). Horncastle also concluded that the tendency of the implementation verification as a community-oriented bank rural reliable ES-based implementation paradigm (efficiency structures paradigm) produces support for the rural community with good effect [14].

2.5 Financial synergy mediated the rural community recognitions with integrity and excellently of bank financial performance

Hypothesis 4. The rural community recognitions with integrity has positive effect to financial synergy on excellently of bank financial performance.

Based on previous studies and the relationship between the variables associated explained that the recognition of the rural community which mediate integrity financial synergy is able to effect better improve financial performance.

III. Data and methodology

The data sample is taken based on the survey were 116 primary and secondary data on small bank at Province Central Java, Indonesia. Theoretical model was tested based on data that has been processed using multi-group structural equation modeling. SPSS 16.0 and AMOS 16.0 was used to analyze the structure of the model equations. An alternative solution change the indicator to be a model with a composite indicator. The measurement of excellently of bank financial performance is able to demonstrate the achievement of excellence of ROA, the excellence of profit margin, the excellence of operating income on total loans and the excellence of total loans on total assets. Financial synergy is an ability to explore the potential and actualization increased post-merger financial resources. The collaboration between financial synergy and financial policies will ensure the achievement of quality management efficiency (cost of scale economics) and the cost of money will be lower and the position of increasing returns to scale with better cash flow. Synergy was measured by 8 indicators such as the market asset coverage, financial costs, the dominance of profit and volume, the average credit, the effectiveness of credit procedures, quality of cash flow, finance and investment issues and attractiveness of savings program.

The rural community with integrity is operationally as the level of conformity based on actualization recognized of the attractiveness of the rural community. It has value-based integrity such as commitment, transparency, utility, spirit and morality. The variable of the rural community recognitions

was measured by 8 indicators such as commitment to the rural community, the level of transparency, utility and morality effects, community spirits, constitutive relations, conflict resolution, the representation of the bank and the level of self-rationalization.

IV. Empirical results

4.1. Results

In the first stages, the research can be divided in five steps evaluation model development process to achieve a model that has the model fit criteria as is shown in Table 2.

Table 2 Comparison results of process model fit with 1, 2, 3, 4 and 5

Fit Criteria	Process 1	Process 2	Process 3	Process 4	Process 5
Chi-Square TT: > 0.05	0.000	0.000	0.000	0.000	1.785 (0,181) (good)
CMIN/DF TT:< 2.0	2.026	2.122	1.935	31.325	1.785 (good)
GFI 0-1	0.682	0.781	0.806	0.828	0.994 (good)
AGFI ≥ 90	0.634	0.721	0.742	0.139	0.908 (good)
TLI ≥ 90	0.755	0.783	0.829	1.403	0.933 (good)
RMSEA < 0.08	0.089	0.094	0.084	0.482	0.083 (marginal)
CFI > 0.95	0.774	0.813	0.858	0.279	0.993 (good)
NFI > 0.90	0.640	0.704	0.747	0.310	0.986 (good)
Notes:	BT	BT	BT	BT	TT

Source: Processing data AMOS 16.0

Table 2 shows that the development has fulfilled the criteria of fit model, the last evaluation process produces optimal model fit criteria (criteria for a good average) is mainly indicated by the model fit criteria such as: Chi-Square with probability 18.10 (>0.05) (good) , CMIN 1.785 (<2.0) good), GFI 0.994 (good), AGFI (0.908) (good), TLI 0.933 (good), RMSEA (0.083) (marginal), CFI (0.938) (good) and NFI 0.986 (good) . The results of testing for three hypotheses is a direct relationship and one hypothesis is an indirect relationship which is shown in Table 3.

Table 3. Maximum Likelihood Estimates (Standardized)

Variable		Variable	Estimate	SE	CR	P	Hypotesis
The rural community recognitions with integrity	←	Financial synergy	0.46	0.117	4.17	***	Accepted
Excellently of bank financial performance	←	Financial synergy	-0.31	0.271	-1.10	0.270	Rejected
Excellently of bank financial performance	←	The rural community recognitions with integrity	0.54	0.284	1.72	0.085	Accepted

Source: Processing data with AMOS 16.0

Table 3 shows that the rural community as a mediating variable is determined on the comparison of the value of directly and indirectly influence. The results are described as: (1) the value of direct influence between financial synergy and excellently of bank financial performance is about -0.31 with probability 0.27 alpha 5% and the value of indirect influence between financial synergy and the rural community recognitions, and between the rural community recognitions and excellently of bank financial performance is about 0.2484. These results can be stated that the direct connection > indirect relations (0.31>0.404), (2) the result of testing the mediating effect between three variables as follows:

Regression1

$$RC *) = 3.291 + 0.449 FSC$$

$$SE=0.593 \quad SE=0.113$$

Regression2

$$EBFPC *) = 0.542 - 0.09 FSC + 0.327 RC$$

$$SE=0.474 \quad SE=0.585 \quad SE=0.068$$

*) RC=RECOGNITION COMPOSIT; FSC=FINANCIAL SYNERGY COMPOSIT; EBFPC (Excellently of bank financial performance composit); SE=STANDARD ERROR.

The result of Sobel test, it can be seen that coefficient t between multiplication regression 1 and regression 2 and compared with the standard error of the indirect effect coefficients {(S (a) (b)} with t-defined table can be shown as

$$\begin{aligned}
 Sab &= \sqrt{b^2 Sa^2 + a^2 Sb^2 + Sa^2 Sb^2} \\
 Sab &= \sqrt{(0.327)^2 (0.110)^2 + (0.449)^2 (0.062)^2 + (0.110)^2 (0.062)^2} = 0.0464 \\
 a.b &= 0.061335 \\
 t_{hitung} &= \frac{ab}{Sab} = \frac{0.061335}{0.0464} = 3.123 \\
 t_{alpha}(\alpha 0.05) &= 1.96
 \end{aligned}
 \tag{1}$$

The Sobel test calculations shows that the result of the $t > t_{table}$ or $3.123 > 1.96$. These results it can be concluded that the coefficient significant mediation 0.327 with 5% alpha. It can be interpreted that there are significant influence between the rural community recognitions with integrity financial synergy in relation to excellently of bank financial performance. These calculations can be shown that the relationship of three variables is about 0.2484 with significantly. The result provide evidence that hyphotesis 4 can't be accepted or rejected. Overall of 4 hypothesis is shown in Table 4.

Table 4 The Conclusion of the evidentiary research hypothesis

No	Hypothesis	Conclusions
1	Hypothesis 1	Accepted
2	Hypothesis 2	Rejected
3	Hypothesis 3	Accepted
4	Hypothesis 4	Accepted

V. Discussions

The result of hypothesis 1 described that β_6 parameter regression coefficient +0.46 with a significant probability of 0.00 with 1% alpha. This means that the first hypothesis proposed is accepted. The verification of hypothesis 1 shows a commitment to the rural community is totality. The availability of financial resources is oriented to increase the attractiveness of the industry as an entrance to achieve equality between the bank and the rural community, so the people will give a positive appreciation. The hypothesis 1 has been proven that the financial efficiency with integrated financial synergy can improve the rural community recognitions. The hypothesis 2 shows that the theory of resource dependence (interdependence theory), the orientation of the financial synergy for obtaining the rural community recognitions in an effort to improve relations "interdependence" wuth the community or the environment. It will ensure the existence of the organization. The empirical result in line with the result of results conducted that the merger has positive impact to the credit decision. And this is true that the commitment don't adversely impact confidence (not been corrupted), having value (utility), and morality.

Form the statistical test, it can be concluded that the parameters of regression coefficient -0.31 β_1 obtained with a probability of 0.27 is not significantly with 5% alpha. This means that the second hypothesis is rejected, and it shows financial synergy is characterized by the financial cost low such as transaction costs. The manufacture cost is a new product introduction (set-up costs), and the capital cost are getting cheaper has a negative effect on excellently of bank financial performance. The empirical data in 2010-2012 shows the dimension of financial synergy are apparent in some financial synergy perception index tend to be high. The index level of earning profit is about 0.73, the credit average 0.71, total debtors and credit volume 0.71, then the attractiveness of the savings is about 0.72. In other words, the index total loans to total assets in 2010 decreased from 1.06 to 1.00 (in 2011) and 0.996 on the year shows a high empirical on 2012. It can be concluded that financial synergy is still not able to improve excellently of bank financial performance. Statistical tests of hypothesis 3: the rural communities recognitions with integritif positive effect on excellently of the bank financial performance advantages, with the parameters $\beta_2 = +0.54$ with a significant probability of 0.085 with an alpha of 10%, so that the third hypothesis is accepted.

The evidence of the third hypothesis is supported by empirical data on indicators largest perception index level of transparency 0.69 (loading factor of 0.78), the community spirit is 0.64 (loading factor of 0.81) and the level of constitutive relations (loading factor of 0.80). On the other hand, the dimensions of excellence in the bank financial performance indicators excellently profit margin the largest number of BPR BKK Central Java has a very high category (32%). At the level of excellently of bank financial performance indicators excellently total loans to total assets largest number of small bank Central Java have enough category (61%). Results of the evidence of the recognition hypothesis rural community is a form of constancy positioned closer to the people so banks have market structure that the stronger banks will get a result that is directly proportional to the increase in financial performance. The third

hypothesis is supported by empirical data on indicator of transparency level 0.69 (loading factor of 0.78), community spirit 0.64 (loading factor of 0.64), and the constitutive level of relations (loading factor of 0.81). On the other hand, excellently of bank financial performance in indicator of profit margin has a high category (32%).

The result shows the statistical correlation with comparison indirect financial synergy toward the recognition of the rural community against excellently of bank financial performance is about 0.2484 (with significantly 5% alpha). This result can be compared to the direct relationship of excellently of bank financial performance -0.31 with probability 0.27 is not significant 5% alpha). This comparison provides a good positive effect and significant. It can be concluded that hypothesis 4 is accepted. The evidence of hypothesis 4 provide a new intervening variable the rural community recognitions is capable of providing answers to the implementation and method on the influence of financial synergy and excellently of bank financial performance. The rural community recognitions is empirically proven capable to increase financial synergy to be higher against excellently of bank financial performance.

VI. Conclusions

This study provide a reaffirmation on small bank at Central Java that the empirical approaches have been implemented geographical, sociological, cultural, local knowledge. The financial strength is optimally oriented to increase the attractiveness of the rural community. This research is the first implemented in Central Java on the concept of economic geography approach. The rural community recognitions with integrity is a new variable and proven. This variable has an effect on financial synergy and excellently of bank financial performance. For further research, it needs to consider the full model of indicators, the fulfillment of the terms "Critical N" sample.

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