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Research Article

The Effect of Intellectual Capital, Organizational Capability, and Governance, Risk, and Compliance (GRC) on Sustainability Competitive Advantage (SCA) with Bank Performance as an Intervening Variable at Regional Development Banks (BPD) in Sumatra Region

Roy Prakoso[1], Sri Widyastuti[2], Irvandi Gustari[3]
[1,2,3] *Faculty of Economics and Business, Pancasila University, Indonesia*
[1] *roy.prakoso@univpancasila.ac.id*

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ABSTRACT

This research was conducted with the aim of analyzing what factors influence the competitiveness of Regional Development Banks (BPD) in the Sumatra region, such as intellectual capital, organizational capabilities, and Governance Risk Management Compliance (GRC). This research uses eight banks in the Sumatra region, namely BPD Riau Kepri (Riau and Riau Islands), BPD North Sumatra, BPS Sumbel Babel, BPD Nagari, BPD Lampung, BPD Jambi, BPD Bengkulu, and BPD Aceh as the population and sampling through questionnaires to 60 respondents who are at the level of directors to top-level managers at the eight banks. Model estimation is done using SEM PLS to see the impact of independent variables on Sustainable Competitive Advantage (SCA) with bank performance variables as intervening variables, see the impact of independent variables on bank performance, and see the impact of independent variables on Sustainable Competitive Advantage. The results of this study indicate that each independent variable of intellectual capital, organizational capability and Governance Risk Compliance shows a positive influence on Sustainabale Competitive Advantage through bank performance as an intervention variable and the influence of independent variables on bank performance and Sustainabale Competitive Advantage shows a positive influence.

Keywords: BPD, SCA, intellectual capital, organizational capability, GRC.

1. Introduction

Banks must be able to provide high-quality goods and services to their clients in today's competitive business world. To meet these demands, banks must have intellectual capital, organizational capacity, and the ability to comply with strong policy risks. A bank is a type of financial institution that distributes funds to the public in the form of credit and other forms to improve people's living standards. The funds are collected from the general public through savings accounts. In line with Article 1 paragraph 2 of Law No. 10 of 1998 related to Banking, banks act as intermediaries between those who have funds and those who need funds (deficit units).

Based on Totok Budisantoso and Sigit Triandaru (2007: 10), banks have specific functions that include several main roles, namely: supporting the role of banks as agents of development, agents of trust, and agents of services. As an institution that acts as an intermediary to allocate public funds into productive asset investments, the banking industry helps the growth of aggregate output, capital accumulation, and real sector productivity (Bencivenga and Smith, 199: Hung and Cothern, 2022). It is expected that the Regional Development Bank (BPD) will act as a master in its own territory. As we know, Governors, Mayors, and Regents are the owners or shareholders of BPD in every province in Indonesia.

Regional Development Banks (BPD) have demonstrated the capacity to support the local economy and participate in the national banking industry. However, the progress that has occurred in the current digital era also shows that stakeholders and BPD must immediately take strategic actions to remain competitive and provide the best services, especially in contributing PAD (Regional Original Revenue). The stigma of BPD by some *stakeholders* as cashiers of local governments or the Bank of ASN (state civil apparatus) must also be a whip to be able to become more professional and ready to compete by relying on *the competitive* and *comparative advantages* of BPD inherent in local culture and wisdom. It is expected that the amount of credit and financing distributed to micro, small and medium enterprises (MSMEs) will have a multiplier effect, which means that the economy will develop and unemployment will be lowered. In addition, another positive effect of this credit and financing is that the urbanization rate of people in the regions to major cities in Indonesia will be reduced.

Based on the OJK report in December 2022, the growth of banking credit disbursement increased by 11.35% compared to the previous year (year-on-year/yoy). This shows that there is still a deviation of around 10.65%, so therefore banks, including BPD, are continuously required to be able to play a role in the economy, among other things, by actively disbursing their credit, in the productive sector, especially MSMEs, in order to encourage economic growth in the region and lead to an increase in GDP (Gross Regional Domestic Product).

In order to achieve sustainable excellence (SCA), BPD can only have resources with valuable quality, cannot be imitated, scarce, and cannot be substituted. In addition, they can only achieve a level of sustainable excellence (CA) if the resource is of valuable and scarce quality (Barney, 1991). The results of SCA are positively correlated with placement capabilities and technology resources (Alamsjah, F. 2021). This is in line with Berney's previous best resource proposition (RBV) which states that a bank, SCA, starts from a specific resource and has superior capabilities. In other words, the position of SCA banks' resources and capabilities determines the results, while the market position of CA banks determines the results. If the market position is weak, it will have an impact on the bank's CA results, due to the risk of insufficient capital to pool resources and the ability to become SCA.

Some researchers argue that improving the ability to use and adapt information technology is the most important component to achieve SCA. According to Amoako (2019), sustainability practices help banks develop opportunities and manage economic, environmental, and social risks. Therefore, new development models must be adjusted and incorporated into the bank strategy of business decision managers to face changes because they are related to changes in attitudes, cultures, and interests (Arsawan, I.W et al., 2022).

Gallego et al. (2020) stated that building an organization that is able to adapt to a dynamic operating environment is an important ability of an organizational leader. This function is an important component of the success of an organization. To help organizations adapt, leaders must support, take risks and accept new ideas, work together, and value individuals' ability to adapt. When an organization is able to adapt to its changing environment, it is called success.

Intellectual capital can affect business performance or performance, although this research focuses on the banking sector. After testing the hypothesis, Konno, N, and Elita S (2021) came to the conclusion that intellectual capital greatly affects the performance of companies. They also stated that intellectual capital significantly affects a company's performance in the long run. Another study conducted by Dhar, B.K. (2019) shows that the average growth of intellectual capital benefits the company's future performance, and overall, intellectual capital benefits the company's current and future performance (Dhar, B.K. 2019). However, research conducted by Hossa M.T. and Jahan R.I. (2022) found conflicting results. Research by Amelda B et al. (2021) aims to find a conceptual relationship between IC management and company performance. The results show that there is no positive relationship between IC and company performance, there is no relationship between IC and company performance in the future, and IC's contribution to company performance is different.

The company's capacity allows them to present and capitalize on external opportunities and develop lasting advantages. Competitive excellence starts from the company's knowledge that is reflected and instilled in a competitive organization (Hitt et al., 2001:113). Studies show that the ability to increase competitive advantage; Scarce and valuable capacity will result in a greater advantage over its competitors. Competitive advantage is enhanced by cultural management and organizational quality (Amelda, B et al., 2021).

The impact of intellectual capital, organizational capabilities, and GRC on a bank's competitiveness can be described as follows: Intellectual capital can help banks to produce more innovative products and services, which can attract new customers and increase customer loyalty. Organizational capabilities can help banks to operate efficiently and effectively, which can lower costs and increase profitability. GRC can help banks to protect their assets, avoid risks, and comply with applicable regulations, which can increase customer and investor confidence. Thus, it can be concluded that the competitiveness of banks is influenced by intellectual capital, organizational capabilities, and GRC. Banks that can manage these three components well will have a stronger competitiveness in facing competition in the banking industry.

1.1 Problem Formulation

1. Does *intellectual capital* have an influence on *sustainable competitive advantage* ?

2. Does *intellectual capital* have an influence on bank performance?

3. Does the organization's capabilities have an influence on *Sustainable Competitive Advantage* ?

4. Does the organization's capability have an influence on the Bank's Performance?

5. Does *Governance, Risk and Compliance* have an influence on *Sustainable Competitive Advantage* ?

6. Does *Governance, Risk and Compliance* have an influence on the Bank's Performance

7. Does bank performance have an influence on *Sustainable competitive Advantage* ?

8. Does *intellectual capital* have an influence on *Sustainable competitive Advantage* through Bank Performance*?*

9. Does the Organisation's Capability have an influence on *Sustainable Competitive Advantage* through the Bank's Performance*?*

10. Does *Governance, Risk and Compliance* have the influence *of Sustainable Competitive Advantage* on the Bank's Performance*?*

2. Literature Review

2.1 Resources Based Theory (RBT)

According to the RBT theory, a company is a collection of capabilities and resources. To gain a competitive advantage, companies can manage their resources in a way that is appropriate to their capabilities. Thus, the basis of this theory is that companies can take advantage of resource management to gain competitive advantage in order to gain a competitive advantage.

2.2 Stakeholder Theory

Theory *Stakeholders* emphasizing that the stability and survival of the organization depends not only on the aim of satisfying the interests of key stakeholders, but also on the need to seek support from all stakeholder companies (Haataja D, 2020).

2.3 Governance, Risk, Compliance (GRC) Theory

GRC is a structured approach to manage and harmonize aspects of governance, risk management, and compliance with regulations and laws. With this method, companies can ensure that their goals are achieved in an effective and efficient way.

2.4 Intellectual Capital

Intellectual capital has constituents, including human capital and structural capital. Referring to existing literature or written sources that human capital has a positive effect on structural capital and customer capital (the initial interpretation of relational capital is limited to customer relationships). Sayed & Nefzi, (2024) has also considered the reciprocal influence among several components of the IC, specifically describing the interdependence between human capital and structural capital, but also emphasizing the influence of corporate culture on stakeholder relationships.

2.5 Organizational Capabilities

The relationship between organizational resources and organizational performance is strengthened by organizational competencies that receive a lot of attention (Mulyasari, 2019). In addition, organizational capabilities, which are internal qualities, help the company gain an edge over its competitors and ultimately result in better performance. From the results of research conducted by Banon Amelda (2019), it was found that organizational capabilities represented by leadership and management from bank officials in Indonesia have a positive and significant effect on company performance.(Rehman, Mohamed, & Ayoup, 2019)(Amelda, Alamsjah, & Elidjen, 2021)

2.6 Governance Risk Management Compliance (GRC)

The concept of GRC was further shaped by OCEG as an approach *Principled Performance*, or ways to achieve goals, face uncertainty, and behave respectfully.(Pertiwi, 2023)

2.7 Competitive Advantage

The company's strategy to achieve its main goal, namely performance that generates large profits, depends on sustainable competitive advantage. In other words, the ultimate goal of the organization, which is to improve the company's performance, can be achieved by building a sustainable competitive advantage (Alalie et al., 2019)

2.8. Bank Performance

According to Gilbert (Syofyan, 2003), the best way to evaluate a bank's performance is to look at its ability to generate profits from various activities it does. This is because, in many cases, when a company is established, high-value achievement is its primary goal. Businesses must be able to manage various tasks successfully and efficiently. Looking at a company's profitability is one way to measure how much efficiency and effectiveness has been achieved; The higher the profitability, the more effective and efficient the organization's activities are managed (Robele, 2021).

2.9 Research Hypothesis

The hypothesis in this study is as follows:

H1: Ha : $\beta_{1\neq 0,}$ there is an influence of Intellectual Capital (variable X_1) on *Sustainable Competitive Advantage* (variable Y).
H2: Ha : $\beta_{2\neq 0,}$ there is an influence of Intellectual Capital (variable X_1) on Bank Performance (variable Z).
H3 : Ha : $\beta 3\neq 0$, there is an influence of Organizational Capability (variable X_2) on bank performance (variable Z)
H4 : Ha : $\beta_{4\neq 0,}$ there is an influence of *Governance Risk Compliance* (variable X_3) on bank performance (variable Z).
H5 : Ha : $\beta_{5\neq 0,}$ there is an influence of *Governance Risk Compliance* (variable X_2) on the Performance *of Sustainable Competitive Advantage* (variable Y).
H6 : Ha : $\beta_{6\neq 0,}$ there is an influence of Organizational Capability (variable X_3) on *Sustainable Competitive Advantage* (variable Y).
H7 : Ha : $\beta_{7\neq 0,}$ there is an influence of Bank Performance (Z variable) on *Sustainable Competitive Advantage* (Y variable).

3. Research Methods

3.1 Framework of Thought

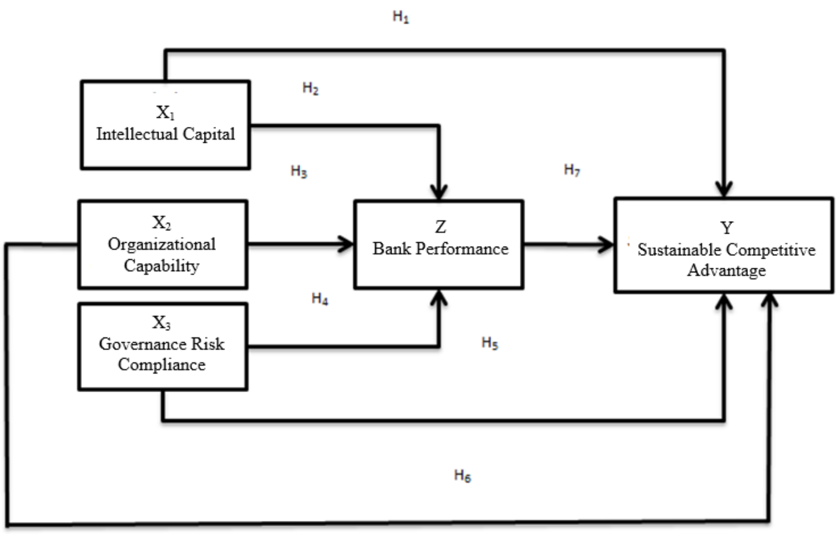

Figure 1. Framework of Thought.
Source : Prepared by the Author (2024)

3.2 Data Analysis Methods

SmartPLS, which is run with computer media, is used to conduct data analysis in this study. Variance-based structural equation analysis (SEM), PLS (Partial Least Square) has the ability to test measurement models as well as structural models. Measurement models are used to test validity as well as reliability, while structural models are used to test causality. Because PLS (Partial Least Square) is a soft modeling analysis, it does not collect data on a special scale, which means that the number of samples can be below 100.

4. Analysis and Discussion

4.1 Descriptive Analysis

Table 1. Description of Variables

Variable	Indicators	Mean	Min	Max
Intellectual Capital (x1)	*Human Capital*	3.67	1	5
	Structure Capital	3.71	1	5
	Relational Capital	3.98	1	5
Organizational Capabilities (X2)	Strategic Capabilities	4.23	3	5
	Operational Capabilities	4.29	3	5
	Innovation Capability	4.22	2	5
	Learning Capabilities	4.19	2	5
Governance Risk Compliance (X3)	Governance	4.30	2	5
	Risk	4.25	1	5
	Compliance	4.20	1	5
Bank Performance (Z)	Profitabiliy	4.44	2	5
	Productivity	4.27	1	5
	Market Share	4.21	2	5
Sustainable Competitive Advantage (Y)	Differentiation	3.80	2	5
	Cost Leadership	3.45	1	5
	Outreach Level	3.80	1	5

Source : SPSS Data Processing (2024)

Based on Table 1, information on Intellectual Capital is presented, consisting of Intellectual Capital Human capital has *a mean* of 3.67, Intellectual Capital Structure Capital has *a mean* of 3.71 and Intellectual Capital Relational Capital has a *mean* of 3.98. All three have a *mean* close to *the maximum value*, this condition shows that the intellectual capital of the Sumatra Regional Development Bank is good. Organizational capabilities consist of strategic capabilities with *a mean* of 4.23, operational capabilities with *a mean* of 4.29, innovation capabilities with an average of 4.22 and learning capabilities with a *mean* of 4.19. The four have a *mean* close to *the maximum value*, this condition shows that the organizational capability of the Sumatra Regional Development Bank is good. Governance Risk Compliance as measured by Governance has a *mean* of 4.30, Risk has a *mean* of 4.25 and Compliance has a *mean* of 4.20. All three have a *mean* close to *the maximum value*, this condition shows that the Governance Risk Compliance of the Sumatra Regional Development Bank is good. Bank performance as measured by Profitability has a *mean* of 4.44, Productivity has a *mean* of 4.27 and Market share has a *mean* of 4.21. The three *mean* are close to *the maximum value*, this condition shows that the performance of the Sumatra Regional Development Bank is good. Sustainability Competitive Advantage, as measured by Differentiation has a *mean* of 3.80, Cost Leadership has a *mean* of 3.45 and Outreach level has a *mean* of 3.80. All three have *a mean* close to *the maximum value*, this condition shows that the Sustainability Competitive Advantage of the Sumatra Regional Development Bank is good.

Table 2. Path Coeficient on Smart PLS Output

	Original Sample (O)	T statistics	P-Value (P<0.05)Sig	Conclusion
Intellectual Model -> Bank Performance	0,330	3.703	0,000*	Hypothesis Accepted
Intellectual Model -> Sustainable Competitive Advantage	0,384	2.249	0,012*	Hypothesis Accepted
Governance Risk Compliance -> Bank Performance	0,487	4.644	0,000*	Hypothesis Accepted
Governance Risk Compliance -> Sustainable Competitive Advantage	0,317	3.501	0,004*	Hypothesis Accepted
Organizational Capability -> Bank Performance	0,041	3.364	0,004*	Hypothesis Accepted
Organizational Capabilities -> Sustainable Competitive Advantage	0,089	2.579	0,013*	Hypothesis Accepted
Bank Performance -> Sustainable Competitive Advantage	0,211	2.841	0,033*	Hypothesis Accepted

The results of the table with a confidence level of 95% show:

1. MI has a positive effect on *sustainability competitive advantage* at a P-Value of 0.012 below 0.05
2. KO has a positive effect on *sustainability competitive advantage* at a P-Value of 0.013 below 0.05
3. GR has a positive effect on *sustainability competitive advantage* at P-Value of 0.004 below 0.05
4. MI has a positive effect on the Bank's Performance at a P-Value of 0.000 below 0.05
5. KO has a positive effect on the Bank's Performance at a P-Value of 0.004 below 0.05
6. GR has a positive effect on the Bank's Performance at a P-Value of 0.000 below 0.05
7. The Bank's performance had a positive effect on *the sustainability competitive advantage* at a P-Value of 0.003 below 0.05

Table 3. Specific Indirect Effects on Smart PLS Output

	Original Sample (O)	T statistics	P-Value (P<0.05)Sig	Conclusion
Intellectual Capital -> Bank Performance -> *Sustainable Competitive Advantage*	0,070	3.506	0,006*	Hypothesis Accepted
Governance Risk Compliance -> Bank Performance -> *Sustainable Competitive Advantage*	0,103	2.653	0,049*	Hypothesis Accepted
Organizational Capability -> Bank Performance -> *Sustainable Competitive Advantage*	0,009	3.216	0,006*	Hypothesis Accepted

The results of table 3 with a confidence level of 95% show:

1. Intellectual capital through bank performance is able to mediate *Sustainable Competitive Advantage* at a P-value of 0.006 below 0.05
2. *Governance Risk Compliance* through bank performance was able to mediate *Sustainable Competitive Advantage* at a P-value of 0.049 below 0.05

3. Organizational Capability through bank performance is able to mediate *Sustainable Competitive Advantage* at a P-value of 0.006 below 0.05

Table 4. Direct and indirect testing can be seen in the table below:

	Direct Effect	Indirect Effect through Bank Performance	
Intellectual Capital -> *Sustainable Competitive Advantage*	2.249	3.506	Hypothesis Accepted
Governance Risk Compliance -> *Sustainable Competitive Advantage*	3.501	2.653	Hypothesis Accepted
Organizational Capabilities -> *Sustainable Competitive Advantage*	2.841	3.216	Hypothesis Accepted

Governance Risk Compliance can directly share the influence on *sustainable competitive advantage* by looking at the results of a larger t-statistic, in contrast to intellectual capital and organizational capabilities that must go through bank performance to be able to share the influence on *sustainable competitive advantage.*

4.2 Research Discussion

The Influence of Intellectual Models on *Sustainable Competitive Advantage*
Referring to the research findings, the amount of *intellectual capital* coefficient to *sustainability competitive advantage* is 0.384 at a P-Value of 0.012< 0.05. In conclusion, intellectual capital **has a positive influence on** *sustainability competitive advantage***,** meaning that the higher the intellectual capital, the higher *the sustainability competitive advantage*.

The Effect of Organizational Capability on *Sustainable Competitive Advantage*
Based on the findings, the research produced an organizational capability coefficient for *sustainability competitive advantage* of 0.089 and a P-value of 0.013 <0.05. In conclusion, organizational capabilities **have a positive effect on** *sustainability competitive advantage,* which means that the higher the organization's capabilities, the *higher the sustainability competitive advantage* can increase.

The Effect of Governance Risk Compliance on *Sustainable Competitive Advantage*

Based on the findings of the study, the amount of *governance risk compliance* coefficient to *sustainability competitive advantage* is 0.317 and P-Value is 0.004<0.05. In conclusion, *governance risk compliance capital* **has a positive effect on** *sustainability competitive advantage* , which means that the higher *the governance risk compliance* , the *higher the sustainability competitive advantage* can increase.

The Influence of Intellectual Models on Bank Performance

Based on the findings of the study, the amount of intellectual capital coefficient to bank performance is 0.330 at a P-Value of 0.000<0.05. In conclusion, intellectual capital **has a positive influence on** bank performance, meaning that the higher the intellectual capital, the bank's performance will also increase.

The Effect of Organizational Capabilities on Bank Performance

Based on the findings of the study, the size of the organization's capability to the bank's performance is 0.041 with a P-Value of 0.004 < 0.05. In conclusion, **it has a positive influence** on the bank's performance, meaning that the higher the organization's capability, the bank's performance can increase.

The Effect of Governance Risk Compliance on Bank Performance

Based on the findings of the study, the magnitude of *the governance risk compliance* coefficient to bank performance is 0.487 at a P-Value of 0.000 < 0.05. In conclusion, *governance risk compliance* **has a positive influence on** bank performance, meaning that the higher the *governance risk complianc* , the higher the bank's performance.

The Effect of Bank Performance on *Sustainable Competitive Advantage*

Based on the findings of the study, the bank's performance coefficient to *sustainability competitive advantage* is 0.211 at a P-Value of 0.033 < 0.05. In conclusion, bank performance has a **positive influence on** *sustainability competitive advantage,* meaning that the higher the bank's performance, the higher the *sustainability competitive advantage.*

The Influence of Intellectual Models on *Sustainable Competitive Advantage* through Bank Performance

Based on the findings of the study, the magnitude of the MI coefficient to *sustainability competitive advantage* through bank performance is 0.070 at a P-Value of 0.006 < 0.05. In conclusion, intellectual capital **has a positive influence on** *sustainability competitive advantage* through bank performance, which means that the higher intellectual capital , the *higher the sustainability competitive advantage* will increase through bank performance.

The Influence of Organizational Capabilities on *Sustainable Competitive Advantage* through Bank Performance

Based on the findings of the study, the magnitude of the KO coefficient to *sustainability competitive advantage* through bank performance is 0.009 at a P-Value of 0.032 < 0.05. In conclusion, organizational capabilities **have a positive influence** on *sustainability competitive advantage* through bank performance, meaning that the higher the organization's capabilities , the *greater the sustainability competitive advantage* will increase through bank performance.

The Effect of Governance Risk Compliance on *Sustainable Competitive Advantage* through Bank Performance

Based on the findings of the study, it shows the magnitude of the GRC coefficient to *sustainability competitive advantage* through bank performance of 0.103 at a P-Value of 0.049<0.05. In conclusion, GR **has a positive influence on** *sustainability competitive advantage* through bank performance, meaning that the higher the governance risk compliance, the higher the *sustainability competitive advantage* through bank performance.

5. Conclusion and Suggestions

5.1. Conclusion

Intellectual Capital has a positive influence on bank performance, meaning that the higher the intellectual capital, the bank's performance will also increase. Banks need to implement effective strategies to manage and utilize their intellectual capital. This could include employee training, investment in information technology, and the development of a company culture that encourages innovation and knowledge sharing.

Organizational Capabilities have a positive influence on bank performance, meaning that the higher the organization's capabilities, the bank's performance can increase. Overall, strong organizational capabilities help banks to operate more efficiently, innovate faster, better manage risk, and lead to increased customer satisfaction, all of which contribute to better performance and long-term growth.

Governance risk compliance has a positive influence on bank performance, meaning that the higher the *governance risk complianc* , the higher the bank's performance. Overall, effective GRC helps banks to operate more efficiently, better manage risk, ensure regulatory compliance, and lead to increased customer trust and satisfaction, all of which contribute to better performance and long-term sustainability.

Intellectual capital has a positive influence on *sustainability competitive advantage***,** which means that the higher the intellectual capital, the higher *the sustainability competitive advantage*. Intellectual capital is essential to a company's competitive sustainability strategy because it helps them compete in today's market and allows them to adapt to technological developments and market conditions.

Organizational Capabilities have a positive influence on *sustainability competitive advantage,* which means that the higher the organization's capabilities, the *higher the sustainability competitive advantage* can increase. Companies can guarantee they can not only compete in the current market, but also maintain and improve their position in the future by carrying out development and making optimal use of their capabilities. Strong capabilities create a solid foundation for sustainable competitive advantage

Governance risk compliance capital has a positive influence on *sustainability competitive advantage* , which means that the higher *the governance risk compliance* , the *higher the sustainability competitive advantage* can increase. By effectively implementing GRC principles, companies can ensure that they not only meet legal and regulatory requirements, but also create an environment that supports sustainability and long-term competitive advantage

Bank performance has a positive influence on *sustainability competitive advantage* , meaning that the higher the bank's performance, the higher the *sustainability competitive advantage*. Overall, good banking performance creates a strong foundation for sustainability and competitive advantage. By maintaining financial stability, managing risk effectively, innovating, and focusing on sustainability, banks can build a superior position in the market and maintain their competitive advantage over the long term.

Intellectual Capital has a positive influence on *sustainability competitive advantage* through bank performance, meaning that the higher intellectual capital, the *higher the sustainability competitive advantage* will increase through bank performance. The bank's improved performance due to strong intellectual capital creates the foundation for financial stability, continuous innovation, effective risk management, and a good reputation Organizational Capabilities have a positive influence on *sustainability competitive advantage* through bank performance, meaning that the higher the organization's capabilities , the *higher the sustainability competitive advantage* will increase through bank performance. The bank's improved performance due to strong organizational capabilities creates the foundation for financial stability, continuous innovation, effective risk management, and good reputation.

Governance Risk compliance has a positive influence on *sustainability competitive advantage* through bank performance, which means that the higher the governance risk compliance, the higher the *sustainability competitive advantage* through bank performance. The bank's improved performance due to a strong GRC creates the foundation for financial stability, continuous innovation, effective risk management, and a good reputation

5.2. Suggestion

5.2.1. Suggestions for further research

a. The next researcher can develop more comprehensively the competitiveness of BPD against National Commercial Banks, especially Government Banks (SOEs), private and foreign, considering that in 2023 BPD assets will only be approximately 8.17 of national banking assets (OJK source).
b. The next researcher is advised to conduct research related to the National Commercial Bank and also the sharia-based BPD or BUS (Sharia Commercial Bank), how the development of Islamic finance and banking will be in the future. According to data submitted by the Financial Services Authority (OJK), in July 2023, the total national Islamic financial assets were recorded at US$163.17 billion, or equivalent to Rp2,461.11 trillion. This achievement was recorded to increase by approximately 13.00% compared to the same period as the previous year, in line with international developments. With this result, the share of the Islamic financial market is at the level of 10.89%. The total assets of Islamic banking were recorded at IDR 819.10 trillion, or an increase of 13.55% (yoy) in July 2023, and the total market share of Islamic banking reached 7.30%.

5.2.2. Advice for BPD

a. BPD or Regional Development Bank, where the majority of shares are owned by provinces, regencies and mayors, where BPD's profits are one of the contributors to regional PAD, are expected to not only focus on financial activities in one province (Provincial Government) in the future.
b. As a regional bank, BPD is required to continue to *exist* and *sustain* in its region, amid the onslaught of expansion of government banks (SOEs) and national and foreign private banks.
c. In the future, BPD must get out of the comfort zone, namely focusing on credit/financing to employees/ASN and Regional Government (Pemda) funds, although credit to ASN is still maintained and also improved because it is a *captive market* of BPD. In the context of GRC, especially risk management, there is a concentration risk, both

credit and funding, which must be mitigated and managed properly, among others by diversifying business strategies through credit expansion/financing outside ASN and also the Provincial Government's finances.

d. The development of BOD business strategy must be carried out by exploring business activities, not only *cash loans* but also *non-cash loans*, such as the provision of LC (*Letter of Credit*), BG (Bank Guarantee) facilities, especially in an effort to obtain FBI (*Fee Based Income*) income, outside of the main income based on *interest based income* or income based on credit interest or profit sharing for Islamic banks.

5.2.3. Advice for regulators (policymakers)

a. Regulators are expected to consistently carry out their supervisory function over banks, considering that as agents of trust, development and service banks are constantly required to continue to perform well, so that customer trust is maintained and even grows, so that the public is not worried about placing their funds in banks.

b. With active supervision by regulators, banks are expected to be consistent in the implementation of GRC considering that bank compliance with the implementation of governance will be able to mitigate and minimize existing risks, where conventional banks have 8 risks and Islamic banks have 10 risks that must be mitigated. The consistent implementation of GRC indirectly obedient and compliant banks with regulatory provisions and in the long term contributes to the positive impact on improving the performance and (durability) of the bank's own sustainability.

c. Banks must be consistent in achieving their business plans contained in the RBB (Bank Business Plan) which is made every year and must be approved by regulators on that condition OJK (Financial Services Authority), therefore regulatory supervision of the achievement of RBB is *mandatory* so that banks remain *right on track* and consistent in achieving the targets that have been set.

d. Regulators, in addition to supervision, are also expected to continue to provide guidance, especially on the consistency of banks in the implementation of rules from regulators and their internal policies, distributing reprimands and sanctions for each violation committed, so as not to adversely affect the bank's performance.

e. Referring to the various acceleration of changes in the industry, both financial and the real sector, banks need to be a reference in carrying out their operations so that there are no mismanagement due to various external changes that have not been detected and properly managed. Therefore, the role of regulators in making regulations and policies to be implemented and obeyed by banks consistently, because there are dynamics in the industry is an urgency for banks to remain compliant with regulatory rules made to secure the banking business.

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