

9. From HR Strategy to HR Performance in Rural Banking

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FROM HR STRATEGY TO HR PERFORMANCE IN RURAL BANKING

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Abstract

This research used 194 HR managers from rural banks in Daerah Istimewa Yogyakarta and Central Java, Indonesia as the samples and used purposive sampling technique. The examining of the configuration and contingency approach included regression euclidience distance. The result of the configuration and contingency approach explained that there was misalignment between HR strategy and contingency variable such as external environmental. However, if it was analyzed deeply, this condition also emerged the traditional strategy and innovative strategy. In other contingency variables such as training model, there was an alignment of HR strategy, either traditional HR strategy or innovative HR strategy.

Keywords: external environmental, HR Strategy, HR Performance, and training model.

The human resources management (HRM) function today in Asian companies is increasingly concerned with much more than simple filling, house-keeping and record keeping. When HRM strategies are integrated within these organizations based on a strategic plan, HRM plays a major role in clarifying the firm's human resources problems and developing solution for them. Today, it is increasingly difficult for Asian firms wanting to become global firms to be without efficient program and activities (Ivancevich & Hoon, 2002).

In Indonesia, ever since the eighties there were various funding institution emerging and operating in village levels, from those who were managed by village cooperation or by BPR (*Bank*

Perkreditan Rakyat – Rural Banks). According to the Law of The Republic of Indonesia N.7 – 1992 on Banking as modified with The Law N. 10 – 1998, stated that Rural Bank (BPR) is a bank that performs conventional business activity and/ or based on Islamic principles where they do not perform services in payment traffic (Bank Indonesia, 2006).

Up until now, Rural Banks is acknowledged as a major contributor for SMEs (Small and Medium Enterprises) as banking service provider for these SMEs especially in rural area. For the last 5 years, Rural Banks have always shown a positive performance and significant improvement. But in reality, many SMEs and rural society have yet to receive banking service which means that there is

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a demand for a bigger role for said Rural Banks (Bank Indonesia, 2006). In 2013, the position of Rural Banks is even worse. In policy level, Rural Banks are facing micro financing institution as well as regular banking, the last one mentioned have always been aggressive in expanding in terms of small and medium enterprise penetration. Therefore, in order to compete, Rural Banks must be managed correctly and professionally, especially in customer service (<http://suaramerdeka.com>, 2013).

This condition will be an even more challenging task for in 2015, Indonesia will be included in Asean Economic Society. This situation indirectly pushes Rural Banks in DIY (Daerah Istimewa Yogyakarta) province and Central Jawa to possess an adequate human resource competency with global service so that it will be able to survive the competition. It is time for banking institutions in Indonesia to have competent and reliable employees in order to enter globalization era (Fitran, 2012). Companies need to have the ability to design employees training suitable to external environment for a better chance to compete in global era (Huselid, 1995; Saura & Gomez-Mejia, 1996; Harel & Tzafirir, 1999; and Valle *et al.*, 2000). If Rural Banks in DIY province and Central Jawa have a suitability between HR strategy with external environment as well as training model, HR performance will become more superior.

Environmental Uncertainty

Managers are often desperate in their effort to anticipate external environment changes. Various external elements is affecting various different strategies in different times with various force (Pearce & Robinson, 2007). Organizational environment is the main source from the contingency faced by these managers (Bourgeois, 1980 and Muafi, 2008). In several management reviews, author considered external environment especially in environmental uncertainty as a variable because

it's deemed as unsolved mystery that needs a rational process (Elbanna & Alhwarai, 2012). Managers are often facing limited information access that is hard to control. In a strategically competitive organization, managers in several companies will find a pattern that will help them to understand their external environment. It is deemed necessary for these managers to understand their companies' competitive position accurately. Managers should realize that knowledge on companies' environment will help them in improving their competitiveness, operational efficiency and winning the competition in global economy (Hitt *et al.*, 1999).

The management literature has shown that organizations face many different kinds of environment (Tsai *et al.*, 1991; Shane & Kolvereid, 1995; Yeoh & Jeong, 1995; Robertson & Chetty, 2000; Muafi, 2008; Muafi, 2009a; and Elbanna & Alhwarai, 2012;). The result of theoretical and empiric studies from some experts has categorized the environment differentially (Schuler & Jackson, 1987; Li, 1991; Shane & Kolvereid, 1995; Ward, *et al.* 1995; Hunger & Wheelen, 1996; Desler, 1997; Grant, 1998; Hitt *et al.*, 1999; Luo, 1999; Beal, 2000; and Mathis & Jackson, 2000). For example, the following dimensions have often been used to conceptualize the environment, uncertainty, turbulence, complexity, hostility, heterogeneity, and dynamism. Other dimensions have often been used to conceptualize the environment; industry, internal and macro. Generally, it is categorized into external and internal environments. Boyd *et al.* (1993) more explain about the way to analysis the environment variable using 2 alternatives approaches objective and perceptual. In this research, we focus on the perception on the environment, following the logic of Tsai *et al.* (1991) explain that "perception are important because they are the basis for entrepreneurial action".

Organizations theorist have long viewed the environment as important sources of organizations contingencies (Ward *et al.*, 1995). Miller (1988) ex-

plain that environment and strategy interact in a dynamic co-alignment process and the resulting fit between strategy and its environmental context has positive implication for performance. This statement supported by Luo (1999) and Miller & Friesen (1983), they explain that contingency theory holds that an interaction between strategy and environment determines firm performance. Business success is a function of the manager's or entrepreneur's ability to develop effective strategies that best fit environmental conditions (Luo, 1999).

An uncertainty environmental condition is referring to the uncertainty in relation to specific occurrence such as uncertainty decision (Elbanna & Child, 2007) and general environmental uncertainty (Elbanna & Alhwarai, 2012). In this research, external environmental uncertainty is referring more to hostile and benign environmental faced by the managers in general (Covin & Slevin, 1989; Robertson & Chetty, 2000; and Muafi, 2009a).

Human Resources Management (HRM) Training

Recently, there are more businessmen who consider that human resources practice particularly training is very vital. Businessmen in America ever spend minimal \$50 milliard for training annually. There is increasing of businessmen who consider that training is not only as a cost but also as human asset investment in an organization which have benefit for the entire organization. When organizational restructuring and implementation of strategic changing happened, so training is more significant (Mathis & Jackson, 2000). In other word, defending fundamental health from the firm's capability of productivity is part of training department's responsibility.

Human resources management activities such as training have been found to have a positive effect to organizational performance (Huselid,

1995 and Harel & Tzafrir, 1999), and contributes to its continuous competitive advantage (Harel & Tzafrir, 1999). Training is considered one of the most significant processes in the Human resources management function in organizations. It plays a critical role in maintaining and developing the capabilities of both individual employees and the organization as a whole, and contributing to vital process of organizational change as well (Valle *et al.*, 2000).

Werbel & DeMarie (2005) emphasizes that the organization with effective engagement in vertical strategy in human resources practice towards cooperative strategy has a power doing training and development programs. It means have correlation with research study that analyzing the influence of external fit (vertical integration) 'strategy' with contingency elements (environment uncertainty and training model) examined towards its performance. Some researches and literature of theories explain that training have influence in enhancing the organizational performance (Hansson, 2007 and Delaney & Huselid, 1996). Investment in training can give benefit for the performance (Delaney & Huselid, 1996; Werther & Davis, 1996; Valle *et al.*, 2000; Cunha & Cunha, 2004; and Hansson, 2007). Especially Phillips (2003) adds that training is important to know: enhancing of productivity, enhancing of quality, decreasing cost and saving time. It is also believed be able to increase consumer's satisfaction, moral and build team work. While (Valle *et al.*, 2000 and Weinsten & Obloj, 2002) have found a result that the firms which choose defenders business strategy will tend to adopt mechanical training model. The firms which choose prospectors business strategy will tend to adopt organic training model. The firms which choose analyzer business strategy will tend to adopt mixed (organic and mechanical) training model. This explain is also supported by Dyer & Reeves (1995) explain that extensive training is include in innovative of HR strategy.

The training aspect is more important when restructuring of organization and implementation of strategic changing happened (Mathis & Jackson, 2000). Clarified that enduring fundamental health from the firm's productive capability is part of training department's responsibility. Werbel & DeMarie (2005) emphasizes that the organization with effective engagement with vertical strategy in human resources practice towards corporation strategy has strength in training program and development. Hansson (2007) believe that training has positive effect towards performance and related to productivity and profitability. Delaney & Huselid (1996) in progressive human resources practice, like training and selection aspects will enhance the competition in global market so it will increase the performance. In addition, the organization can enhance the quality of employees by supplying comprehensive training and development activity after selection. Investment in training can give benefit towards the performance (Delaney & Huselid, 1996 and Cunha & Cunha, 2004).

Valle *et al.* (2000), Nawawi (2005), and Muafi (2008) had classified training model into bipolar group. Mechanical training model has several characteristics such as: seeking specialization, oriented towards individual, planned and oriented towards future needs, oriented toward the direct and immediate improvement of productivity and Trades union attitude of collaboration. Organic model has characteristics such as: multiskills, group work, unplanned and oriented short-term, improved medium term results and related to general performance and obstruction. According to Valle *et al.* (2000) companies that use defenders strategy tend to adopt mechanical training model, on the other hand, companies that use prospector tend to adopt organic training model. Strategically, training has become a contingency variable in business strategy and work process.

Altogether, training process in an organization should be able to motivate individual and should

be used to custom with organizational needs, mission and strategies. It is expected that simultaneously, it will be related with customer oriented area, communication and promotion in organizational value sharing, internal relationship enhancement, internal communication and teamwork (Iveta, 2012).

Human Resources (HR) Strategy and Human Resources (HR) Performance

The strategic importance of HRM that a number of key concept must be applied. Some of theses concept are; assessing and interpreting cost or benefits of HRM issues such as productivity, organizational effectiveness, absenteeism, employee turnover and employee attitudes in the area of satisfaction, and commitment (Ivancevich & Hoon, 2002). Strategic HRM links HRM with strategic goals and objectives in order to improve business performance (Ivancevich & Hoon, 2002 and Weinstein & Obloj, 2002). Strategic HRM means accepting the HR department as a strategic partner in the formulation of the company's strategies, as well as in the implementation of those strategies through HR activities such as recruiting, selecting, training and rewarding personnel (Ivancevich & Hoon, 2002). In Asian, many companies competing on low prices are a suicidal strategy in the medium or long run. Innovation is relatively new to Asia (Meyer & Garg, 2005).

Traditionally, the HR strategy is defined as a consequence of the business strategy; hence the HR strategy is driven by, or follows, the business strategy. This aspect is identified as 'HR alignment'. A central thema of strategy human resources management literature has been and still is the congruent of generic strategies (Hoogervorst *et al.*, 2002). Dyer & Reeves (1995) classified HR strategies into two typologies; traditional type and innovative type. Refer to generic strategy classification from Porter (1980) and Miles & Snow (1978), Schuler & Jackson (1987) clearly differentiate the

classification of competitive strategy in human resource strategy into 3: cost reduction, innovation, and quality enhancement. In the cost reduction, the firm typically achieves competitive superiority through low cost production. Innovation strategy is applied to develop a different product or service from the competitors; the main focus is offering a new or an unique thing. Meanwhile, strategy of product or service quality enhancement is the major focus in the strategy of quality enhancement. This strategy is pure for single unit or in functional area, but it also overlaps where in a business unit or functional area has two or more competitive strategies simultaneously all at once (Schuler & Jackson, 1987). It is said that this strategy must not be separated apart since an organization is possible concerning about one strategy for one product or service and different strategy for another product or service (Mathis & Jackson, 2000).

Dyer & Reeves (1995) claims that HR strategy links to organizational effectiveness. It is likely that bundles of or configurations of activities are more important in enhancing productivity than any single activity. Theoretically, bundling should promote organizational effectiveness. At a minimum, bundles should produce greater performance effects than any of the individual human practices of which they are composed. But, it is unlikely that all bundles are created equal; that is some types should produce greater performance effects than others. First, about organizational effectiveness. In research pertaining in HR strategy, there are several types of outcomes which might apply. The 4 most defensible are: (1) HR outcomes such as absenteeism, turnover and individual or group performance; (2) organizational outcomes such as productivity, quality and service; (3) financial or accounting outcomes such as return on invested capital or return on asset; and (4) stock market performance as measured by stock value or shareholder return.

Armstrong (2000) added that HR strategy should focus on organization's specific goals which is needs that should be executed or modified by the organization. Problems that become attention of HR strategy is making sure that organization has a need that demanded by the employees such as training, motivation, incentive, flexibility, teamwork, and stable employees relationship. This problem could facilitate the success of corporate strategy achievement. Therefore, strategic HRM decision is built into strategic plan and HR strategic decision is originated from strategic plan. The process of strategy formulation should not be seen as a passive process. Strategic HRM concept demands that objectives is decided during altogether plan development. This condition may be a repetitive process. All strategic HRM concepts is based on the belief that HR strategy should be integrated with corporate strategy and business. Miller (1989) stated that companies would have a suitability with HRM with organizational strategic objectives. Tyson & Witcher (1994) realized that HR strategy can only be studies in corporate strategy and business context. HR will be positively contributing to organizational performance (Tyson, 1997).

Iveta (2012) reviewed HR performance measurement through balance scorecard approach with four indicators: (1) finance (labor costs, decreasing of turnover rate, and effective using of training budget); (2) customers (succession planning, using of human capital, retention of the employees, and corporate social responsibility); (3) internal (internal flexibility, simplify of the sales process, increasing of motivation, employee survey, idea management, and online HR tools); and (4) learning and growth (consistently supporting of employees qualification, increasing of internal customer orientation, multiprofession, rewarding system improvement, consistently develop of leadership skills and strengthen manager's role as a coach and a mentor). Harrison *et al.* (2012) from University of Westminster described key perfor-

mance indicator in HR including staff turnover, sickness (absence), development/ training, staff profiles, and trade union relationship management. In this study, HR performance in measure by manager perception approach namely low staff turnover, low sickness (absence), the existence of development/ training, customer oriented, and a fine trade union relationship management. Based on these literature studies, the following model is proposed:

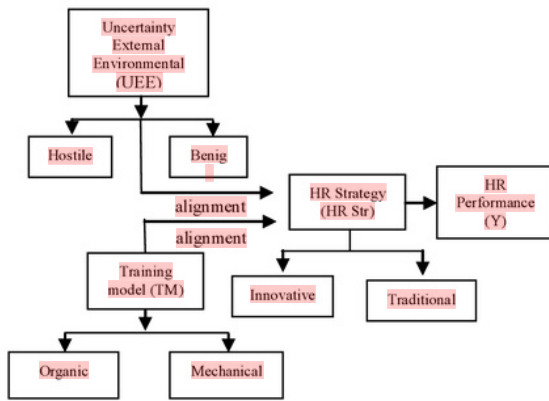


Figure 1. The Research Model

Based on these theories, the following hypotheses are summarized:

- H₁: in contingency approach, there is more alignment relation between HR strategy (innovative-traditional) and uncertainty external environment (hostile-benign), it will be able to increase the HR performance
- H₂: in contingency approach, there is more alignment relation between HR strategy (innovative-traditional) and training model (organic-mechanical), it will be able to increase the HR performance.
- H₃: in configuration approach, there is more alignment between HR strategy (innovative-traditional) and each variable of uncertainty external environment (hostile-benign) and training

model (organic-mechanical), it will be able to increase the HR performance.

H₄: in contingency approach, there is more alignment relation between innovative HR strategy and hostile external environment, it will be able to increase the HR performance.

H₅: in contingency approach, there is more alignment relation between innovative HR strategy and organic training model, it will be able to increase the HR performance.

H₆: in configuration approach, there is more alignment between proactive HR strategy and each variable of hostile external environment and organic training model, it will be able to increase the HR performance.

H₇: in contingency approach, there is more alignment relation between traditional HR strategy and benign external environment, it will be able to increase the HR performance.

H₈: in contingency approach, there is more alignment relation between traditional HR strategy and mechanical training model, it will be able to increase the HR performance.

H₉: in configuration approach, there is more alignment between reactive traditional HR strategy and each variable of benign external environment and mechanical training model, it will be able to increase the HR performance.

METHOD

This research is a survey research. The population is all rural banks in DIY amounted to 54 banks and all rural banks in Central Java amounted to 251 banks (Bank Indonesia, 2013). Sample target in this research is part of rural banks leaders or HR managers of rural banks in DIY and Central Java. Leaders and managers are having authorities to design and propose policies related to employees training and at least have 3 years of experience in managing HR. These leaders and managers were given questionnaires through e-

mail or given directly. Questionnaires were given to 250 respondents and 194 of them were given back with 77% response rate. Relationship suitability concept that has been used was based on configuration and contingency perspectives through euclidean distance measurement (Selto & Renner, 1995; Delery & Doty, 1996; and Muafi, 2009b). In the analysis, data were separated into two groups: leaders and managers in companies with traditional HR strategy and innovative strategy. The highest mean value will be used to separate companies into two groups. Scaling technique from HR strategy variable, environmental uncertainty, and training model were using semantic differentials with score 1-7. This semantic differentials scale is utilized to measure an object or a concept for a respondent and it contains 2 contrary adjectives (Muafi, 2008, 2009b and Hair *et al.*, 1998).

HR performance was using likert scale from score 1-7. If the mean score of HR strategy is above 3,5, it will be put into innovative HR strategy group and vice versa. The separation result was using previous references (Muafi, 2009b and Robertson & Chetty, 2007). Validity and reliability tests for each item has resulted item correlation with significance of $d'' 0,05$ (valid) (Appendix A). However, in reliability examining points out Cronbach's alpha $e'' 0,6$ (reliable) (Appendix B). Statistical technique used in this research is regression euclidean distance as well as anova (analysis compare means one way anova). Van de Ven & Drazin (1985), Selto & Renner (1995), and Muafi (2008, 2009b) suggest that the most appropriate in operationalization of configuration and contingency approaches is alignment system approach by looking for regression euclidean distance (ED). The excess of this method is the coefficient of regression negative and significant. The bigger of euclidean distance score the smaller of alignment among variable, it means give effect on HR performance. Anova is used to understand the difference between two strategy groups.

Next, the measurement for linear regression with euclidean distance score through the following steps: (1) both HR strategy (innovative and traditional) used 194 samples of respondents; (2) those samples were divided into 2 groups, innovative and traditional HR strategy; (3) the value for relationship fit ideal type or ideal profile between HR strategy, uncertainty external environment and training model is determined; (4) the value of deviation or misfit score or often known as euclidean distance score (Dist) which is the ideal difference between HR strategy variable with contingency variable of uncertainty external environment and training model is measured and summed, formulated as following:

$$\text{Dist} = \sum \sqrt{(X_{id} - X_{ac})^2}$$

X_{id} = ideal score of contingency variable for HR strategy

X_{ac} = actual score of contingency variable

Fifth, hypotheses are tested through simple linear regression coefficient with simple linear regression equation.

RESULT

Regression Analysis for HR Strategy (Traditional and Innovative)

Simple linear regression analysis was used to test H_1 , H_2 , and H_3 on HR strategy group (traditional and innovative) the result can be seen in Table 1. The result is not accepting H_1 . This is caused by HR strategy (traditional and innovative) for the uncertainty of external environment that has a positive coefficient regression. Next, H_2 is accepted, because HR strategy (traditional and innovative) for the uncertainty of external environment that has a negative and significant coefficient regression. H_3 is also having the same result with a conclusion that there is alignment between HR strategy with environment uncertainty and training model.

Next, before executing regression analysis for innovative HR strategy group (code 1) and traditional HR strategy (code 2), Anova test is executed. The result shows that there is a real strategy difference between innovative HR strategy group (code 1) and traditional HR strategy (code2) with significance of 0,00. Because there is a strategy difference, analysis then continued for each group (innovative and traditional).

Innovative HR Strategy Group (n= 109 with Code 1)

Table 2 shows the result for innovative strategy group. Contingency approach, there is misalignment between innovative strategy with hostile external environment. But there is alignment between innovative strategy with organic training

model. Configuration wise, there is alignment between innovative strategy with hostile external environment and organic training model. This explanation is also rejecting H_4 and accepting H_5 and H_6 . This is because on innovative HR strategy, the regression coefficient is negative and significant for all equation models.

Traditional HR Strategy Group (n= 85 with Code 2)

Table 3 shows the result on traditional HR strategy group. Contingency approach, there is misalignment between traditional HR strategy with benign external environment. But there is alignment between traditional HR strategy with mechanical training model. Configuration approach, there is alignment between traditional HR

Table 1. The Result of Hypothesis Testing Traditional HR Strategy and Innovative HR Strategy (n= 194)

Regression Equation Model	Constanta	Coefficient (Beta)	T	Sign
H1. $Y = a + b \text{ dist (UEE.HR Str)} + e$	4,994	0,472	8,313	0,000*
H2. $Y = a + b \text{ dist (TM.HR Str)} + e$	4,932	-0,444	-7,686	0,000*
H3. $Y = a + b \text{ dist (UEE.TM.HR Str)} + e$	6,052	-0,557	-10,419	0,000*

* Significance at the 5% level

Table 2. The Result of Hypothesis Testing Innovative HR Strategy (n= 109)

Regression Equation Model	Constanta	Coefficient (Beta)	T	Sign
H4. $Y = a + b \text{ dist (UEE.HR Str)} + e$	4,981	0,499	7,683	0,000*
H5. $Y = a + b \text{ dist (TM.HR Str)} + e$	4,906	-0,466	-7,018	0,000*
H6. $Y = a + b \text{ dist (UEE.TM.HR Str)} + e$	5,913	-0,543	-8,635	0,000*

* Significance at the 5% level

Table 3. The Result of Hypothesis Testing Traditional HR Strategy (n= 85)

Regression Equation Model	Constanta	Coefficient (Beta)	T	Sign
H7. $Y = a + b \text{ dist (UEE.HR Str)} + e$	5,163	0,443	5,235	0,000*
H8. $Y = a + b \text{ dist (TM.HR Str)} + e$	5,145	-0,428	-5,007	0,000*
H9. $Y = a + b \text{ dist (UEE.TM.HR Str)} + e$	5,549	-0,384	-4,407	0,000*

* Significance at the 5% level

strategy with benign external environment and mechanical training model. This explanation is also rejecting H_7 and accepting H_8 and H_9 . This is because on traditional HR strategy, regression coefficient is negative and significant for all equation models.

DISCUSSIONS

The result for statistical test explained that both contingency and configuration have misalignment between environmental uncertainty when HR strategy (innovative and traditional) is implemented at the same time or separately. This needs to be realized fully that rural banks nowadays is facing a competitive business environment. The emergence of new regulation from the government of Indonesia has pushed rural banks to compete, not only with other rural banks but also with regular banks. Cooperative institution and micro financing institution has made leaders and managers of such rural banks desperate to anticipate the environmental change. Let alone the various needs from external customers. But, the existence of rural banks need to be consistent and committed to their task to serve rural area and focus on small and micro scales. Rural banks must be able to prove an even wider service coverage and supported by office branch that reaches rural area. Intervention from the owner, stockholders, commissioner and director that like to 'play' should be avoided to not make rural banks collapsed.

Bank Indonesia has advised to improve rural banks role in giving service to SMEs by enhancing rural banks institutional status with fixing various factors such as funding structure, HR, consumer's taste, supporting infrastructure and efficient rural banks operational. Because of bigger competition, rural banks must be managed professionally for it to survive the invasions from competitors. The prospect of rural banks for SMEs funding in the future is still really major. This is in

accordance with the prediction that shows the development of SMEs in the future. This condition seems show the role of SMEs as the backbone of economy that can be relied on, so central government will keep pushing the development of SMEs to contribute even more for the economy. The characteristic of rural banks that has easy of in credit distribution as well as saving benefit compared to other conventional bank is one of its superiority.

In order to support rural banks HR to be professional, leaders and manager of rural banks in DIY and Central Java has realized the importance of employee development and the improvement of employee competency. This is proven from the result that shows the alignment between HR strategy with implemented training model, be it from innovative or traditional strategy. The option of innovative strategy is accustomed with organic training model, such as multiskills, group work, unplanned and oriented short-term, improved medium term results and related to general performance and obstruction. On the other hand, traditional strategy is accustomed with mechanical training model, such as seeking specialization, oriented towards individual, planned and oriented towards future needs, oriented toward the direct and immediate improvement of productivity and trades union attitude of collaboration.

Innovative training model means companies should create the ability to respond to changes, immediately, quickly, and creatively. Companies able to develop a product and service through product diversification as well as improving service quality and modern technology. Such product and service must also be different, unique, and hard to imitate by competitors. As referred to Valle *et al.* (2000) and Nawawi (2005), the main objective is to hold on to the principal of customers' needs.

Training must also be directed to not make the employee wait and straining information but

also to be swift in decision making process based on information analysis, including beneficial and harming factors in order to avoid risk. Employees must also be provided with the ability to give orders to avoid misdirection. In operational action, they need to be taught work method and effective use in designing a product, production process, product development and in giving feedback from customers. In working, they need to be taught the process of workteam so they can contribute for organization's sake.

On the other hand, if a company chooses to implement traditional HR strategy, it means they have an understanding that employees must be able to avoid risk and they are directed to improve company's competitive advantage. Training could be done by improving line employees' abilities, reducing production cost and providing service without reducing market or quality. Employees must work hard with high level of precision, able to do quality control to avoid bad product, including service quality control, transportation cost reduction and other activities that supports traditional strategy.

The biggest challenge for rural banks nowadays is the shifting strategy of regular bank to serve on retail, by funding focus on building micro service unit. Competition level between micro financing players is getting tight and need response from rural banks industry by doing internal maintenance including enhancement of rural banks capacity (Bank Indonesia, 2011). Moreover, rural banks need to initiate governance that refers to good governance principal. Owners or managers need to have integrity and capability to increase organizational credibility, especially in doing analysis and diagnosing external environment so that it will be able to pay attention to business development and external environment demand that also influences company performance. Organizational maintenance and financial governance is also important. Altogether needs a reliable HR, leaders, and staffs need to have a strong commit-

ment to develop rural banks so they will still have a continuous competitive advantage in long term.

This is in accordance with the recommendation of Bank Indonesia (2011) that the HR of rural banks must: (1) has a high integrity (trustworthy in stakeholder's eyes); (2) professional (competent in operational and understanding of rural banks regulation as well as independent); and (3) has an understanding on business potency, as well as regional characteristic and society (market) served by rural banks. Therefore, in HR practice especially training aspect can be done regularly on hardskills aspect (related to task and obligations of the employees) as well as softskills (personality development, self efficacy, self confidence and other softskills). Rural banks need to do socialization and crystallization of organizational values, so they can create an innovative and conducive work culture. There is an expectation that company will be faced by the low rate of staff turnover, low rate of sickness (absence), and customer oriented employees and keep trade union relationship management. With that being said, employees will feel comfortable and loyal to the company. It needs to be remember that when a company tries to initiate a brand new strategy with traditional structure, they will face immediate problem with an inappropriate HR (Fombrun *et al.*, 1984).

Research Contribution

It is important to review the alignment of external environment uncertainty and the right kind of training model with HR strategy so the company will achieve a superior HR performance, contingency, and configuration. Banking companies that operate in certain environment need to adapt themselves with external and internal environment demands. A chosen strategy to face a certain situation is relied on the type of situation. To achieve competitive advantage, every business unit in a diversified company must customize their HR policies into their product market. For con-

figuration approach, companies need to consider both alignment concept (horizontal and vertical). Horizontal alignment shows HR practice consistency or internal employment system, while vertical alignment shows the alignment of strategy, structure, culture and HR system and its relationship that in the end will influence HR performance. HR bundles concept or configuration from HR activities is important in improving employees productivity.

The task of rural banks manager is to identify which method that will contribute best for organizational objective. Managers need to play an active role in deciding method and technique to be used in each case. Different situation needs different managerial reactions. If manager is facing certain situation, such manager needs to study certain important contingencies. Other than that, managers must: (1) responsive, because the competition is getting fiercer, between rural banks and other financial institution; (2) able to innovate and revolutionate new ideas into their business; (3) able to reduce cost with the principal of gaining bigger value with efficient cost; and (4) having training model formulation, customized with external environment demands. The limitations of this study are: (1) even if the research has been tested its validity and reliability, the probability of a bias is still there due the lack of assistance by the researchers when the respondents are filling out the questionnaires; (2) respondents are using purposive sampling so there is a possibility of the population not generalized enough; (3) researcher was not categorizing the size of the companies. These limitations are expected to be tackled for future researches.

CONCLUSION AND SUGGESTION

Conclusion

The result of the configuration and contingency approach explained that there is misalign-

ment between HR strategy and contingency variable such as external environmental. This condition also emerges on traditional strategy and innovative strategy. In other contingency variable such as training model, there is alignment with HR strategy, either traditional strategy and innovative strategy.

Suggestion

As referred to Nawawi (2005) and Valle et al. (2000), the main objective is to hold on to the principal of customers' needs. Training must also be directed to not make the employee wait and straining information but also to be swift in decision making process based on information analysis, including beneficial and harming factors in order to avoid risk. Employees must also be provided with the ability to give orders to avoid misdirection. In operational action, they need to be taught work method and effective use in designing a product, production process, product development and in giving feedback from customers. In working, they need to be taught the process of workteam so they can contribute for organization's sake. On the other hand, if a company chooses to implement traditional HR strategy, it means they have an understanding that employees must be able to avoid risk and they are directed to improve company's competitive advantage. Training could be done by improving line employees' abilities, reducing production cost and providing service without reducing market or quality. Employees must work hard with high level of precision, able to do quality control to avoid bad product, including service quality control, transportation cost reduction and other activities that supports traditional strategy.

The biggest challenge for rural banks nowadays is the shifting strategy of regular bank to serve on retail, by funding focus on building micro service unit. Competition level between micro

financing players is getting tight and need response from rural banks industry by doing internal maintenance including enhancement of rural banks capacity (Bank Indonesia, 2011). Moreover, rural banks need to initiate governance that refers to good governance principal. Owners or managers need to have integrity and capability to increase organizational credibility, especially in doing analysis and diagnosing external environment so that it will be able to pay attention to business development and external environment demand that also influences company performance. Organizational maintenance and financial governance is also important. Altogether needs a reliable HR. Leaders and staffs need to have a strong commitment to develop rural banks so they will still have a continuous competitive advantage in long term. This is in accordance with the recommendation of Bank Indonesia (2011) that the HR of rural banks must: (1) has a high integrity (trustworthy in stakeholder's eyes), (b) professional (competent in operational and understanding of rural banks regulation as well as independent), and (c) has an understanding on business potency, as well as regional characteristic and society (market) served by rural banks. Therefore, in HR practice especially training aspect can be done regularly on hardskills aspect (related to task and obligations of the employees) as well as softskills (personality development, self efficacy, self confidence and other softskills). Rural banks need to do socialization and crystallization of organizational values, so they can create an innovative and conducive work culture. There is an expectation that company will be faced by the low rate of staff turnover, low rate of sickness (absence), and customer oriented employees and keep trade union relationship management. With that being said, employees will feel comfortable and loyal to the company. It needs to be remember that when a company tries to initiate a brand new strategy with traditional structure, they will face immediate prob-

lem with an inappropriate HR (Fombrun *et al.*, 1984).

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