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The Forming Factors of Rural Bank Performance

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Abstract:

Rural Bank Performance in Jabodetabek¹ fluctuated and tended to decrease. Bank performance can be influenced by many factors. Good Corporate Governance (GCG) is a hot topic whether it is a mandatory or a voluntary. On the other hand, a product development is an activity which has been done from time to time by bank. Based on these reasons, this research analyzes forming factors of rural bank performance from perspective of product development and GCG. By using moderated regression analysis, from 150 rural banks, it can be concluded that product development is a key factor of bank performance. However, GCG, which is still not a mandatory, is perceived as a bad thing to push bank performance recently, although it is needed in the long term period. This research suggests that bank should develop their products through augmented, service, actual, and core product development. In addition, implementing GCG is an investment. It is not just an expense. Bank should also realize that GCG sooner or letter GCG will be as a mandatory for doing a business.

Keywords: company performance, product development, and good corporate governance

1. Introduction

A performance can be understood as a benchmark for company management in determining the policy of the company. Performance is the achievements of the organization in the accounting period. Performance is usually measured by using a comparison standard (Shim, 1999 in Kusmayadi, 2012: 150). Furthermore, the performance of the company is the view intact for a specific time period. Performance is the result or achievement. It is affected by the operations of the company in utilizing the resources-owned resources (Helfert, 1996 in Ceacilia Srimindarti, 2004: 53).

In the terminology used, performance is considered successful if the realization exceeded the target set. However, these criteria are more inclined to use quantitative criteria that are objective and relatively easy to measure. Performance measurement more emphasis on financial standpoint and often eliminates another viewpoint. For that we need a balance between financial performance measurement and the measurement of non-financial performance. The balance between financial performance measurement and nonfinancial it will be able to help the company identify and evaluate its overall performance. Performance measurement in the banking industry often uses quantitative criteria. Today the measurement of financial performance is not enough to reflect the actual performance of the organization, so that the number of companies adopting the concept of the Balanced Scorecard.

Balanced Scorecard concept, measuring the performance of an organization can be viewed from four perspectives namely financial perspective, customer perspective, internal business process perspective, learning and growth perspective. (Kaplan and Norton in Kussetya, 2000). In the banking industry, including the Rural Bank (RB), performance measurement often use quantitative criteria. The bank's performance, including the performance of RB, always delivered by Central Bank of Indonesia (BI) to the community as a form of accountability of BI. Society then can determine whether the quantitative performance in the category increased, fixed, or decreased.

Banking statistics from the BI, showed that the quantitative performance in the Area and sub-urban area of Jakarta, in the period from October 2012 until February 2013, fluctuated and tended to decrease. RB performance downward trend in the Jabodetabek, can be understood as a problem, because in fact the performance of an organization should reflect an increase from one period to the next.

Kusmayadi (2012) mentioned that GCG has a positive and significant effect on performance. He also noted that the GCG is the principal instrument of an entity in achieving good performance. Meanwhile, Meizart (2005) mentioned that the savings product development activities have a positive influence on the increase in funding. It can be understood as the positive effect of product development to increase the bank's performance. Furthermore, Kotler (2010) stated that the diversification of products is always necessary to improve the performance of the company.

The company's performance will never be run out for discussion. The performance of company, which is viewed from objective and subjective perspective, is an ongoing discussion by management. Many quantitative performances reflect the objective conditions.

However, subjective performance is also a never ending study. It is because there is always no same perception between the perception of leaders and its employees.

GCG is a topic that can be contradicted by government authorities to the perpetrators of the business, although the regulations of GCG had been enforced in many organizations. The question is whether the Bank RB in the Jabodetabekarea have applied GCG?.

Product development is always done by a company that wants to develop. However, the company that puts the agency in a comfort zone felt no need to conduct product development. The question is whether the bank RB in the area continuously makes efforts to develop their products. Based on the description of the condition of the performance of RB in the area, and based on research conducted Kusmayadi (2012) and Meizart (2005), as well as based on concepts that are presented by Kotler (2010), this study is to analyze the determining factors of the performance of RB.

The purpose of this study is to determine and analyze: (1) Forming Factors of GCG Practices, Product Development, and Performance of RB in the Jabodetabekarea (2). Effect of Product Development on the performance of the RB in the area, and (3) Effect on the Performance Products Development of RB in the area, with GCG practices as a moderator variable.

2. Theoretical Basis

GCG is one key element in improving economic efficiency. GCG includes a series of relationships between the company's management, board of directors, shareholders, and stakeholders. GCG also provides a structure that facilitates the determination of the objectives of a company, and as a means to determine the performance monitoring techniques (Darmawati, et.al, 2004). While, based on the Ministry of State Owned Enterprises No. Kep.117 / M-MBU / 2002 dated August 1, 2002 on the Implementation of Good Corporate Governance in State-Owned Enterprises, Corporate Governance is the principles that underlie a process and mechanism of operation.

GCG is the structure, systems and processes used by the organs of the company in an effort to provide value-added enterprise sustainable in the long term, based on the principles of openness, accountability, responsibility, independence and fairness (Kusmayadi, 2012).

GCG as contained in the revised Code of Indonesia Bank is a governance that contains five key principles, namely transparency, accountability, responsibility, independence, fairness and reasonableness. GCG principles according to Central Bank of Indonesia Regulation Number 8/4 / PBI / 2006 regarding the implementation of GCG for Commercial Banks, included: transparency, accountability, responsibility, independence and fairness. According to the Corporate Governance Perception Index (CGPI), there are four benefits of the application of corporate governance, namely: a. Improve corporate performance through the creation process of making better decisions, improve the efficiency of the company, and further improve service to stakeholders. b. Facilitate obtaining cheaper financing funds (because of the trust), which in turn will increase the corporate value. c. Restore the confidence of investors to invest in Indonesia, d. Shareholders will be satisfied with the performance of the company as well as will increase shareholders' values and dividends.

In terms of product, a product is a set of tangible and intangible attributes, Including packaging, color, price, manufacturer's prestige, and manufacturer's retailer, the which the buyer may accept as offering want - satisfaction (Stanton, 1981: 192). In addition, Kotler (2000: 394) in Alma (2011) states "A is anything product that can be offered to a market to satisfy a want or need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas.

Based on the above definition, it can be said that the product is not only something tangible shape in the form of goods, but also something intangible like services. All dedicated to satisfying the needs and wants of consumers. One of the greatest challenges faced by each company is a matter of product development. Product development can be carried out by the company by developing existing products (Alma, 2011: 139-140).

Product development can be understood as a strategy for company growth by offering new or modified products to current market segments. A company can be said to be successful if it can seize the target market and maintain sales volume and has a maximum profit. It could be implemented if the company is always trying to create a product that meets the tastes of consumers in accordance with its development. Product development includes technical activities such as research, product engineering and design, where all of this is necessary in the process of transformation of an idea. In addition, one of the most important reasons to hold new product development is because the product is already out of date despite the ever reliable and profitable first tends to lose its attractiveness and its earnings power (Meizart, 2005).

Three categories of new product development are: (1) items are truly innovative a product that until now has not been found yet really desperately needed,(2) product replacement is totally different from existing product,(3) product imitative is a new product for a specific company but in the market is not a new product again. The purpose of product development is maintaining a position in the market, where consumer choices offered increasingly varied and if the company's competitors offer their products more useful and interesting, then it is a threat to the company that rivaled that encourages companies which match to create new products as well.

Corporate performance is a term generally used for part or all of the actions or activities of an organization in a period with reference to a standard amount as expenses past or projected, on the basis of efficiency, accountability of management (Srimindarti, 2004: 53). Furthermore, performance is the achievement of an organization or entity in a given accounting period measured by comparison with the standard variety (Shim, 1999 in Kusmayadi, 2012: 150). The company's performance is a display state of the whole of the company over a given period. The result or achievement is affected by the operations of the company in utilizing the resources-owned resources (Helfert, 1996 in Srimindarti, 2004: 53). Currently there are models of integrated performance measurement system which is very popular and widely used in industry or company, one of which is the Balanced Scorecard.

Balanced scorecard was developed in 1993 by Robert Kaplan and David Norton. It is still continues to be improved recently (David, 2006 in FriskaSipayung, 2009: 7-14). Balanced scorecard concept was developed to complement the measurement of financial performance (or known by traditional performance measurement) and as an important measuring tool within the organization to reflect new thinking in the era of competitiveness and effectiveness of the organization. This concept introduces a performance measurement system company using certain criteria. The criteria are a translation of what the mission and strategy of the company in the long term, which are classified into four different perspectives: (1) financial perspectives; how the appearance of the company in the eyes of shareholders, (2) customer perspective; how the views of customers of the company,(3). internal business perspective; what the advantages of the company, and(4). perspectives of growth and learning; what companies need to continually make improvements and create sustainable value. Authors restrict performance measurement is based on the performance of non-financial companies is by using a third perspective is the internal business processes and fourth perspective that is learning and growth. Internal business process perspective, companies take measurements of all activities performed by the company both managers and employees to create a product that can provide a certain satisfaction for customers and shareholders. In this case the company focuses on three core business processes, namely process of innovation, surgery, and sales service. In this process of innovation is creating added value for customers. Process of innovation is one of the critical processes, where efficiency and effectiveness and timeliness of the process of this innovation will promote cost efficiency in the process of creation added value for customers. In this process, the business unit tries to dig an understanding of the needs of customers and create products and services that they need. Process innovation in companies is usually conducted by the marketing division so that every spending decision to market a product has met the terms of marketing and can be commercialized.

The process of surgery is the process to create and deliver products / services. Activity in the operation process is divided into two parts, namely, product manufacturing process and process of delivering products to customers. Performance measurement related to the process operations are grouped on time, quality, and cost. Process of sales service is a service charge to the customer after the sale of products / services are performed. Companies can measure whether efforts in the after-sales service has to meet the expectations of customers, using benchmarks that are quality, cost, and time as is done in the operating process. For cycle time, companies can use the measurement of time from the moment a customer complaint is received until the complaint is resolved.

Learning and growth perspective identify the infrastructure to be built the company in creating growth and increase long-term performance. The three main sources of learning and growth of the company come from the people, systems and procedures of the company. Financial, customer and internal business processes perspective in the Balanced Scorecard will usually show the gap between the capabilities of human resources, systems and procedures current with what is required to produce a full performance breakthroughs. To close this gap, companies must invest in employees, enhancing technology and information systems as well as harmonize the various procedures and daily activities of the company. Kaplan (1996 in Kussetya, 2000: 21-35) reveals the importance of a business organization to continue to pay attention to its employees, to monitor the welfare of employees and increase the knowledge of employees. That is due to the increasing level of knowledge of employees and it will also increase the ability of employees to participate in the achievement of objectives of the company.

In the learning and growth perspective, there are three dimensions that must be considered to make the measurement, namely: employee capability, information systems capabilities, motivation, empowerment and limitation of authority to employees.

3. Research Method

This research is a quantitative research, and analysis using statistics, the statistical test such as: validity and reliability, the classic assumption test, moderated linear regression analysis test. This study also used to describe the variables descriptive analysis GCG, Product Development, and Performance Rural Bank (RB) in the area and sub-urban area of Jakarta.

In the study used two types of data, namely primary data and secondary data. The population in this study is the Chairman of Rural Bank (RB) in the Area and sub-urban area of Jakarta. Study population was 150 RB with an email address. The sample is part of the number and characteristics possessed by this population. In this study, the authors use a sampling technique that is saturated sampling technique, when all members of the population used as a sample.

Research data collection techniques implemented through the distribution of questionnaires. Data collection through a questionnaire conducted behind closed doors, there are many possible answers. The questionnaire addressed to the Chairman of the RB in the Area and sub-urban area of Jakarta. Questionnaires are sent via email and postal mail or equipped with a stamp for reply. If, within one week of no reply email or postal mail, the researcher contacted via telephone and email you back. If not returned within three weeks after that, it is considered or assumed that the respondent cannot participate in this study.

This study uses quantitative descriptive analysis. Quality data test uses validity and reliability. Linear regression analysis is using Moderated Regression Analysis (MRA).The dimensions of GCG are as follows: (1) transparency, as measured in term of openness in financial and non-financial information that is relevant to transparency in the decision making process, (2) accountability which is measured based on effectiveness of management,(3)responsibility, which is measured by suitability of the management of the bank with the applicable laws and regulations and principles of bank management,(4) independency, as measured by bank management in a professional manner without any influence from any party and without any pressure from any party, (5) fairness, as measured by justice and to fulfill stakeholder rights arising under the laws and regulations applicable and equality in fulfilling the rights of stakeholders.

Variable product development can be elaborate into(1) deposits, as measured by gifts for customer deposits, special services to customers deposit with a certain amount, and information maturity date of deposit,(2) loans, as measured by working capital,

investment business support and consumption, (3) savings, as measured by gifts for saving clients, total savings, and points of lottery prize with applicable to legislation.

Corporate performance variables, which is used is theory of Balanced Scorecard developed by Kaplan, as well as a compilation by Friska Sipayung (2009) and Kussetya (2000). Indicators for the performance of the company are as follows: (1) internal business perspective, as measured by process of innovation, operation process, and after-sales service process, (2) perspectives of growth, as measured by capability of employees, information system capabilities, motivation, empowerment and alignment.

There are 9 items of product development and company performance contained 11 questions. Data ordinal were obtained from responses to questionnaires from respondents, and it needs to be transformed into an interval scale. In this study, the authors raise the scale of measurements using Method of Successive Interval.

4. Results and Discussion

Quality of data tests, using correlation and Chronbach'Alpha, show that mostly data are valid and reliable. In addition, assumption of normality test, using Kolmogorov and Smirnov, can be identified as normal data. Data, then, is transformed into scale data, using method of successive interval. From this data, it can be concluded as follows.

GCG can be formed from four dimensions. There are transparency, responsibility, fairness, and equality. Value of Kaiser-Meyer-Okin Measure of Sampling Adequacy is 0.687 with Bartlett's Test of Sphericity is 0.008. By using Principal Component Analysis, it can be identified that from 13 indicators, the forming factors of GCG consist of 4 indicators. They are fairness to stakeholders (0.828), information of non financial is open (0.757), clear job description (0.733), openness of decision making (0.565), and operation of bank compliance with rule of Government (0.548). These dimensions have initial Eigen values in the amount of 48.307%.

Product development can be formed from four dimensions. There are augmented products, services, core benefits, and actual product. Value of Kaiser-Meyer-Okin Measure of Sampling Adequacy is 0.714 with Bartlett's Test of Sphericity is significance. By using Principal Component Analysis, it can be identified that, from 9 indicators, the forming factors of product development consist of 4 indicators. They are remembering the important date of customers (0.939), product development of working capital (0.926), specific services for certain deposit (0.793), and gifts for customer (0.485). These dimensions have initial Eigen values in the amount of 65.074%.

Company performance can be formed from two dimensions. There are internal business process and learning and growth perspectives. Value of Kaiser-Meyer-Okin Measure of Sampling Adequacy is 0.725 with Bartlett's Test of Sphericity is significance. By using Principal Component Analysis, it can be identified that, from 11 indicators, the forming factors of product development consist of 6 indicators. They are ease process of services (0.876), evaluation of customer satisfaction periodically (0.839), make process of services faster (0.785), evaluation of employee productivity (0.745), handling process of complain is faster (0.607), and innovation of services (0.522). These dimensions have initial Eigen values in the amount of 54.696%.

From regression analysis, it can be informed that 36.8 % variety of rural bank value can be explained by product development. From forming factors of product development and company performance, it can be concluded a linear regression equation as follows: Company Performance = 0.607 Product Development. Based on perception of manager at the company and when the company applies GCG as a moderating variable, for running the business, the moderated linear equation is: Company Performance = 0.007 + 0.5 Product Development + 0.135 GCG - 0.02 (Product Development)(GCG). Thirty seven point six percent of variety of bank performance can be explained by these two independent variables and one moderating variable. In this research result, GCG as a moderating variable, has negative contribution to company performance.

Many researcher places GCG as antecedent of company performance with a reason that GCG is as a mandatory. GCG is as independent variable due to that running a good business is an obligation to satisfy shareholders and stakeholders. Perspective of this business is that business is about the long term period of time of activities. So, business is not just about short term period. In the contrary, a company which has no enough capital, lack of cash flow, lack of profit, very hard to expand their company, GCG tends to be ignored. So, GCG is a choice. It is not a must and it is not a mandatory.

GCG in the rural banks, so far, is not a mandatory yet. Perception of implementing CGG is still viewed as something of expense and GCG is a constraint in implementing company operation in making a profit. However, contribution of GCG in a company can share a greater explanation in making a profit.

5. Conclusions and Recommendations

In Rural Banks, product development is a key factor to improve a company performance. In detail the product development can be classified into augmented products, services, core benefits, and actual product. As an augmented product, delivery system of information flow is highly expected by customers. As services, how to handle complain of customers is facing as a good problem solving in handling customers' problem. In terms of core benefit, main value of customer in choosing a rural bank is that destination between bank and place of customer is relatively closed. In addition, customers feel more convenience when bank is placing themselves as an equal treatment with customers. As a actual product, customers is seeing the bank administration procedure as something that make customers boring to fulfill the procedure.

Moreover, it can be concluded that implementing GCG, so far, is still not necessary yet. GCG is still not a mandatory. So that, as long as it is not a mandatory, rural banks do not implementing GCG fully, until the government makes a rule that GCG is a must.

This research suggests that rural banks should improve capability of managers, in terms of system thinking. It means that manager should think and act using out of the box system thinking. It is not just thinking that business is not a routine activity. So, in

developing existing and new products, new ideas can be improved properly and continuously. In addition, GCG, in long term period of time, will be places as a mandatory. So that rural banks should well prepare to implement the GCG.

6. Acknowledgement

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Annexure**1. Good Corporate Governance**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.687
Bartlett's Test of Sphericity	Approx. Chi-Square	23.701
	df	10
	Sig.	.008

Table 1

Anti-image Matrices						
		GCG4	GCG5	GCG7	GCG9	GCG12
Anti-image Covariance	GCG4	.647	.003	-.251	-.062	-.152
	GCG5	.003	.772	-.137	.138	-.219
	GCG7	-.251	-.137	.669	.015	-.095
	GCG9	-.062	.138	.015	.739	-.274
	GCG12	-.152	-.219	-.095	-.274	.533
Anti-image Correlation	GCG4	.744 ^a	.004	-.381	-.089	-.258
	GCG5	.004	.650 ^a	-.190	.183	-.341
	GCG7	-.381	-.190	.742 ^a	.022	-.159
	GCG9	-.089	.183	.022	.599 ^a	-.437
	GCG12	-.258	-.341	-.159	-.437	.670 ^a
a. Measures of Sampling Adequacy(MSA)						

Table 2

Total Variance Explained						
Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.415	48.307	48.307	2.415	48.307	48.307
2	.995	19.900	68.207			
3	.746	14.919	83.126			
4	.471	9.419	92.545			
5	.373	7.455	100.000			
Extraction Method: Principal Component Analysis.						

Table 3

Component Matrix^a	
	Component
	1
GCG4	.757
GCG5	.565
GCG7	.733
GCG9	.548
GCG12	.828
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

Table 4

2. Product Development

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.714
Bartlett's Test of Sphericity	Approx. Chi-Square	45.223
	df	6
	Sig.	.000

Table 5

Anti-image Matrices					
		PD3	PD4	PD5	PD6
Anti-image Covariance	PD3	.836	.107	-.091	-.025
	PD4	.107	.539	-.099	-.069
	PD5	-.091	-.099	.219	-.170
	PD6	-.025	-.069	-.170	.238
Anti-image Correlation	PD3	.789 ^a	.160	-.212	-.057
	PD4	.160	.854 ^a	-.288	-.192
	PD5	-.212	-.288	.660 ^a	-.743
	PD6	-.057	-.192	-.743	.683 ^a
a. Measures of Sampling Adequacy(MSA)					

Table 6

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.603	65.074	65.074	2.603	65.074	65.074
2	.888	22.207	87.281			
3	.378	9.458	96.739			
4	.130	3.261	100.000			
Extraction Method: Principal Component Analysis.						

Table 7

Component Matrix ^a	
	Component
	1
PD3	.485
PD4	.793
PD5	.939
PD6	.926
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

Table 8

3. Company Performance

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.725
Bartlett's Test of Sphericity	Approx. Chi-Square	56.976
	df	15
	Sig.	.000

Table 9

Anti-image Matrices							
		CP2	CP3	CP4	CP5	CP8	CP9
Anti-image Covariance	CP2	.678	.124	-.084	-.087	-.224	-.020
	CP3	.124	.261	-.137	-.030	-.170	-.135
	CP4	-.084	-.137	.449	-.233	.059	-.054
	CP5	-.087	-.030	-.233	.633	-.022	.096
	CP8	-.224	-.170	.059	-.022	.330	-.063
	CP9	-.020	-.135	-.054	.096	-.063	.501
Anti-image Correlation	CP2	.593 ^a	.294	-.152	-.133	-.474	-.034
	CP3	.294	.693 ^a	-.400	-.074	-.579	-.373
	CP4	-.152	-.400	.752 ^a	-.437	.154	-.114
	CP5	-.133	-.074	-.437	.748 ^a	-.049	.170
	CP8	-.474	-.579	.154	-.049	.706 ^a	-.155
	CP9	-.034	-.373	-.114	.170	-.155	.845 ^a
a. Measures of Sampling Adequacy(MSA)							

Table 10

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.282	54.696	54.696	3.282	54.696	54.696
2	.958	15.965	70.661			
3	.859	14.319	84.980			
4	.399	6.657	91.637			
5	.340	5.670	97.307			
6	.162	2.693	100.000			

Extraction Method: Principal Component Analysis.

Table 11

Component Matrix^a	
	Component
	1
CP2	.522
CP3	.876
CP4	.785
CP5	.607
CP8	.839
CP9	.745

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Table 12