

CHAPTER 1

INTRODUCTION

1.1 Research Background

Lately, technology and competition in the financial institution landscape has been highly competitive. Starting from digital financial institutions to corporate financial institutions, they've been forced to innovate from product offerings, how they distribute products, and how they present themselves through platforms. Innovation has been spearheading ways in diversifying assets, in order to maintain a stable operation trend. (Elsas et al., 2006)

In the Asia region, non-interest income effects vary broadly (Smith et al., 2003). Phan et al. (2023) identifies adverse effects on non-interest income, where it deducts profitability and escalates exposure to risks imposed on savings financial institutions and that non-interest activities raises challenges for financial institutions to increase revenues (Phan et al., 2023). Meslier et al. (2014) stated that profitability of financial institutions is influenced by a combination of internal and external factors and further variety of income sources (particularly through non-interest income) tends to enhance profitability (Meslier et al., 2014). However, there isn't a definitive consensus on if income variety clearly improves financial institution operation and reduces risks.

Moreover, there's still an absence of clear, structured understanding of why variety differs among different financial institutions. Meng et al. (2018)

hypothesize that financial institution variety serves as an indicator of range of management competencies (Meng et al., 2018). Other studies have also suggested that a financial institution's variety is linked to its intellectual assets (Duho et al., 2019). Studies upon the investigation into the effect of a financial institution's intellectual assets is scarce, although other studies suggest that intellectual assets contribute significantly and positively to financial institution operation. Additionally, financial institution operation is primarily driven by the effectiveness of capital utilized (Vo & Tran, 2021).

While investigation in the Asia region has yielded mixed results regarding the effects of income variety on financial institution operation, a thorough grasp of the fundamental elements that contribute to variety variations remains elusive. Some scholars have proposed that financial institution variety may serve as an indicator of management competencies, while others have posited a connection between variety and a financial institution's intellectual assets. Although investigation on the impact of intellectual assets on financial institutions is limited, existing studies suggest that intellectual assets is positively significant on overall financial institution operation (Majumder et al., 2023).

The choice to investigate the financial institutioning industry in the Indonesian region is strategic for several compelling reasons, per stated by Soewarno and Tjahjadi (2020). The analysis's choice of focus is significant. The sector under examination heavily relies on intellectual assets, making it a relevant subject. This sector faces strong competition, especially from technologically advanced foreign players, which forces local firms to innovate. To tackle global

challenges, the industry invests in bolstering its intellectual assets resources. Lastly, analysing this within an emerging economy context offers a unique chance to understand the broader implications of intellectual assets within the industry. Thus, this focus promises valuable insights into how intellectual assets affects variety and operation, applicable in various contexts within the evolving financial landscape (Soewarno & Tjahjadi, 2020).

1.2 Research Objectives

The following thesis has the objective to examine on how a financial institution's intellectual impact variety, specifically on patterns in financial institution business concerning assets and income in connection with human resources, structural capital, and the effectiveness of capital utilized. the Indonesian region's financial institution landscape has been chosen specifically due to its context: where the size and ownership varies, high level of competitions, and additional factors that might affect financial institutions' investment in intellectual assets.

1.3 Research Question

Given the background of the research, the problem statement can be articulated as follows:

1. What is the effect of Human Capital Efficiency to the strategy of bank diversifications?
2. What is the effect Structural Capital Efficiency to the strategy of bank diversifications?

3. What is the effect Capital Employed Efficiency to the strategy of bank diversifications?

1.4 Research Beneficiary

The significance of the analysis will be beneficial for:

- a. Academics and Future Researchers:

This analysis enhances the existing knowledge in financial management by illuminating the complex interactions among human resources effectiveness, structural capital effectiveness, capital utilized effectiveness, and approaches for income variety. It can serve as a valuable academic resource and a foundation for future investigation endeavors, particularly for scholars and investigators exploring topics related to corporate finance, approach, and the optimization of resource allocation.

- b. Companies:

For businesses and financial managers, this analysis offers practical insights into the strategic implications of human resources effectiveness, structural capital effectiveness, and capital utilized effectiveness on income variety. The findings can aid decision-makers in formulating optimal capital structure policies and making informed financing choices that align with the company's growth objectives and overall financial health. Implementing the insights from this investigation may lead to improved financial outcomes and competitive advantage in a dynamic business environment.

1.5 Thesis Structure

The author has structured and sorted the sections of each chapter in this analysis into five different chapters with the aim of providing a more in-depth and detailed explanation.

Chapter 1 – Introduction

This chapter sets the stage for the analysis, introducing the investigation problem, objectives, and the context of the analysis. It provides an overview of what the analysis aims to achieve.

Chapter 2 – Literature Review

In this chapter, the author reviews and synthesizes existing literature and investigation relevant to the analysis's topic. It establishes the theoretical framework and provides insights into the investigation's context.

Chapter 3 – Research Methodology

This chapter outlines the investigation methods and approaches employed in the analysis. It details information collection, analysis techniques, and the overall investigation design, ensuring transparency in the investigation process.

Chapter 4 – Result and Discussion

In this section, the findings of the analysis are presented and thoroughly discussed. The chapter offers an analysis of the gathered information and connects the results to the investigation objectives and hypotheses.

Chapter 5 - Conclusion

The final chapter summarizes the key findings, discusses their implications, and draws conclusions based on the analysis's outcomes. It also suggests areas for future investigation and provides a sense of closure to the analysis.

