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## Implementation of corporate culture moral values (Akhlak) for PT Pegadaian's competitive advantage

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### ABSTRACT

PT Pegadaian continues to show positive performance throughout the 2020 fiscal year, an increase from 2019. This shows that PT Pegadaian can compete and develop during the Covid-19 pandemic. In addition, to increase competition with other companies, human resources with competitive advantages are needed which are assessed through corporate culture and AKHLAK or moral values. The purpose of this research is to see how the influence of corporate culture and AKHLAK values on the competitive advantage of PT Pegadaian. The research samples taken were employees of PT Pegadaian throughout Indonesia, namely 250 samples. Analysis method Structural Equation Model (SEM) program through Smart PLS software. the results of the study show that corporate culture has a positive and significant impact on company excellence, corporate culture also has a positive and significant impact on AKHLAK values. AKHLAK values do not have a significant influence on competitive advantage nor are they able to mediate the influence of corporate culture on competitive advantage.



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### Introduction

PT Pegadaian continued to show positive performance throughout the 2020 fiscal year with an increase in Operating Income which increased by 24.27% from 2019 of Rp. 17.67 trillion to Rp. 21.96 trillion. Meanwhile, in terms of assets, it rose 9.40% from Rp. 65.32 trillion in 2019 to Rp. 71.47 trillion in 2020. The number of customers served also increased by 22.15% from 13.86 million people. to 16.93 million people. As for the turnover of financing disbursed, there was an increase of 13.34% from 2019 of Rp. 145.63 trillion to Rp. 165.06 trillion in 2020.(Pawnshop, 2020). According to PT Pegadaian's Director of Marketing and Product Development Harianto Widodo, a positive trend in 2020, is a pride for PT Pegadaian because it can still survive during the pandemic, but to stay ahead, PT Pegadaian has a strategy through company transformation in five things or what is called G-Star. First, grow core, namely focusing on the main business as a player in the pawn industry. Second, grab new, develop new businesses. In addition, it is also necessary to pay attention to the HR in the pawnshop itself, to be able to compete, it is necessary to have human resources with competitive advantages (Deviana, 2019).

In today's competitive business world, corporate leaders must realize that business requires speed, flexibility, and continuous innovation. Leaders must understand that skilled and motivated people from

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various backgrounds and experiences generate a significant competitive advantage over the company. (Moore et al. 2010). Hunger & Wheleen (2001) define competitive advantage strategy as a business strategy that focuses on improving the competitive position of the company's products and services in the industry the company serves. With a competitive advantage strategy, it is expected that the company can maintain its competitive position against competitors (Anning-Dorson 2018).

The company does not operate in a vacuum but plunges into a universe of relationships with various stakeholders. With globalization the scenario in which companies operate has become equally more complex, given the emergence of global stakeholder groups. In addition, globalization has also increased the level of competition among companies, therefore creativity is needed in order to achieve competitive advantage (Friedman 2000). Strategic resources controlled by the company, corporate culture, is a potential source of sustainable competitive advantage (Barney, 1986; Flamholtz and Randle 2012). The company's success depends on the resources it has and its ability to control those resources, including intangible assets (Galbreath 2005).

One competitive advantage that can be consistently exploited is corporate culture. according to (Arsawan et al., 2020) Companies are aware of the business value of a strong corporate culture. Eighty-two percent of people who responded to the survey characterized corporate culture as a potential competitive advantage. Every organization has a culture (Lynch 2000). according to (Scheeres and Rhodes 2006), organizational culture is a valuable asset that cannot be bought with money and is a powerful determinant that can easily make or break an organization. However, there are some research gaps, regarding the lack of a clear relationship between organizational culture and its influence on sustainable competitive advantage (Scheeres and Rhodes 2006). Wallace, Hunt, and Richards (1999) further observed that the nature of corporate culture is one of the most misunderstood concepts in business. This argument is supported by Marler, Liang, and Dulebohn (2006) whose research shows that in addition to corporate culture becomes important for the development and survival of the organization. President Director of PT Pegadaian (Persero) Kuswiyoto stated that Pegadaian is one of the SOEs that is proactive and committed to implementing AKHLAK values. These values were initiated by the Minister of SOEs Erick Thohir and have been established as a guideline for the work culture of all SOEs under the auspices of the Ministry of SOEs.

In addition to corporate culture to achieve competitive advantage, companies or leaders must be able to apply AKHLAK values to their employees. According to Erick Thohir, officially declared Core Value BUMN: AKHLAK, which is an acronym for trustworthy, competent, harmonious, loyal, adaptive, and collaborative. The advantages of AKHLAK values will make a person look more authoritative so that many people will respect him and the environment will be peaceful and prosperous because of the achievement of a balance between rights and responsibilities. Determination of morality as core value BUMN This coincided with the change of the Ministry's logo and slogan BUMN. The main values that become the pillars of "Akhlaq" are expected to be the identity and glue of work culture BUMN which is the basis for forming the character of human resources in the environment BUMN and its implementation must be carried out by all BUMN and other consolidated affiliated companies. There is no research that examines AKHLAK values on competitive advantage, therefore more research is needed on the impact of AKHLAK values on competitive advantage in an organization. (Gobel, 2021).

According to Jones and Fletcher (1992), that "work culture is a process of teaching the skills needed by employees to do their jobs". Furthermore, the notion of work culture is simply defined by Mondy et al. (2015), as "a learning process designed to change the ability of people's employees to do their jobs".

According to (Sadri and Lees, 2001), the dimensions of an effective work culture program provided by the company to its employees can be measured through the content of the work culture, work culture methods, instructor attitudes and skills, the length of time for work culture, and work culture facilities.

### **Moral Value**

Moral values are behavioral practices, goals, and habits that are validated by the society in which we live. This set of values usually becomes embedded in our behavior through a long process of observation, education, conditioning, and social guidance. Usually, these are universal and may not vary much in different parts of the world.

For example, no matter what community, religion, or region you come from, Moral values such as honesty, loyalty, courage, faith, and honesty will be equally respected almost everywhere. Moral values concern themselves with right and wrong. They also define what is socially acceptable, good, or evil. Moral values are ideas that are considered important by society (Hopepa, 2020). It is often seen that society rejects any changes to its own Moral values. The following are the dimensions of Moral value: 1) Kind; 2) Honesty; 3) Self-control.

In line with morale values, The Ministry of State-Owned Enterprises (SOE) of the Republic of Indonesia launched the AKHLAK Value. AKHLAK Value consists of:

- A- Amanah/ Trust
- K- Kompeten/ Competent
- H- Harmonis/ Harmonious
- L- Loyal/ Loyal
- A- Adaptif/ Adaptive
- K- Kolaboratif/ Collaborative

The implementation of this AKHLAK Value is a series of processes for the formation of a new spirit of the Ministry of SOEs which is then adopted and implemented in all SOE business processes. Previously, each BUMN had its own cultural values. AKHLAK cultural values ensure that every employee behaves in line with those core values. This alignment is expected to have a positive impact on the company's business performance (Prastika and Putri 2014).

AKHLAK is intended to be an important integrator, so that SOEs have the same core values. Certainly, this does not mean eliminating the unique cultural values of each company in a group or holding (Arifin, Vikaliana, and Latunreng 2021).

### **Competitive Advantage**

According to (Anning-Dorson 2018), explains that "competitive advantage is the capability possessed by a business or business in a strategy to earn more profits than its competitors in similar industries." The competitive advantage strategy implemented by the company has an impact on the company itself, which will have the expertise to learn quickly in reading market conditions than its competitors and be able to implement the right marketing plan. The following are the dimensions of competitive advantage: 1) Price; 2) Quality; 3) Innovation; 4) Time to Market

## **Method**

This study uses a quantitative approach with non-experimental methods (no treatment/treatment or manipulation of research variables), which is a study in which the variables to be measured are inherent in the respondents, with data collection techniques that can be done by means of interviews, questionnaires, and observations. Using an analysis tool in the form of a Structural Equation Model (SEM) program through Smart PLS software. Samples were taken based on 10 times the number of items 25, namely as many as 250 samples which includes all pawnshop employees in Indonesia.

## **Results and Discussions**

### **Testing the Measurement Model (Outer Model)**

Convergent validity relates to the principle that the manifest variables of a construct should be highly correlated. Convergent Validity with PLS software can be seen from the loading factor for each construct indicator, as for assessing Convergent Validity the loading factor value must be more than 0.7, and the average extracted (AVE) and communality value must be greater than 0.5, the results obtained as following table 1.

The table 1 provides information about the loading factor value for each manifest variable, the loading factor value of all indicators on the latent variable shows  $> 0.7$ , so that all indicators are declared valid and able to measure the variable appropriately.

In the table 2, it can be seen that the four latent variables have an AVE. value which is greater than the specified value of 0.5. So that all variables are declared valid in explaining the latent variable which indicates that the use of the manifest variable meets the AVE requirements.

Therefore, all manifest variables are declared to have met the convergent validity requirements. Convergent validity itself is a proven validity if the scores obtained by the instrument measuring the concept or measuring the concept with different methods have a high correlation.

Table 1. Loading Factor

Variable	Manifest Variables	Loading Factor
Corporate Culture	BO1	0.812
	BO2	0.940
	BO3	0.773
	BO4	0.937
	BO5	0.914
AKHLAK Value	VA1	0.811
	VA2	0.965
	VA3	0.968
Competitive Advantage	KB1	0.961
	KB2	0.929
	KB3	0.820
	KB4	0.966

Table 2. Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Corporate Culture	0.771
Competitive Advantage	0.848
AKHLAK Value	0.842

**Discriminant Validity**

Discriminant Validity can be seen from the cross-loading factor with the construct and the comparison of AVE with the correlation of latent variables. If the correlation of the construct with the principal measurement (each indicator) is greater than the size of the other constructs, it is said that the variable has high discriminant validity. The cross-loading value is presented as follows:

Table 3. Cross Loading Factor Test Results

	Corporate Culture	AKHLAK Value	Competitive Advantage
BO1	0.812	0.518	0.455
BO2	0.940	0.596	0.533
BO3	0.773	0.471	0.415
BO4	0.937	0.583	0.536
BO5	0.914	0.590	0.490
VA1	0.453	0.811	0.250
VA2	0.619	0.965	0.333
VA3	0.642	0.968	0.343
KB1	0.532	0.324	0.961
KB2	0.546	0.375	0.929
KB3	0.385	0.198	0.820
KB4	0.558	0.330	0.966

Based on the PLS software results table above, it can be seen that the value of the correlation cross loading factor for each latent construct for the appropriate indicator is higher than for the other constructs, so it can be concluded that the indicators used to measure the latent variables have met the requirements.

**Reliability Test**

The reliability test in Partial Least Square (PLS) can use two methods, namely Composite Reliability (CR) and Cronbach's Alpha, which are presented as follows:

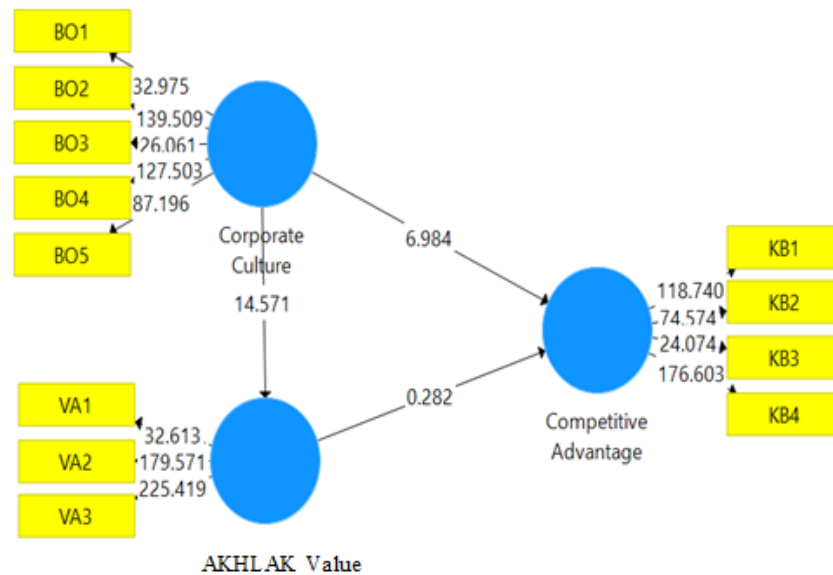
**Table 4.** Composite Reliability (CR) and Cronbach's Alpha Test Results

	Cronbach's Alpha	Composite Reliability
<b>Corporate Culture</b>	0.924	0.944
<b>Competitive Advantage</b>	0.940	0.957
<b>AKHLAK Value</b>	0.905	0.941

From the test results above, it can be seen that the Composite Reliability (CR) value is greater than 0.7 and the value of Cronbach's Alpha is greater than 0.6, so it can be concluded that the data is reliable which shows that all indicators have consistency in measuring each variable.

**Structural Model Testing (Inner Model)**

The measurement of this structural model is to test the effect of one latent variable with other latent variables. The test is carried out by looking at the path value to see whether the effect is significant or not, it can be seen from the t value of the path value (the t value can be obtained by doing bootstrapping). The following is a picture of the results of the bootstrapping carried out in this study:



**Figure 1.** Bootstrapping

**Predictive Relevance (Q2)**

Q-square measures how well the observed values generated by the model and also the parameter estimates are. a Q-square value greater than 0 (zero) indicates that the model has predictive relevance, while a Q-square value less than 0 (zero) indicates that the model has no predictive relevance.

**Table 5.** Results of R Square

	R Square
<b>Competitive Advantage</b>	0.309
<b>AKHLAK Value</b>	0.398

To calculate Q2 the formula can be used, as follows:

$$Q2 = 1 - (1 - R12) (1 - R22)$$

$$Q2 = 1 - (1 - 0.309) (1 - 0.398)$$

$$Q2 = 0.584$$

The Q2 value achieved is 0.584, which means that the Q2 value above zero provides evidence that the model has Predictive Relevance.

**Hypothesis test**

The hypothesis in this study will be tested using path coefficient values and t values to see whether there is a significant effect or not. In addition, the results of the path significance test also show the value of the parameter coefficients (original sample). The parameter coefficients show the significance value of the influence of each research variable.

**Table 6.** Path Significance Test

	Original Sample	t-value	P Values
<b>Corporate Culture -&gt; Competitive Advantage</b>	0.566	7.352	0.000
<b>Corporate Culture -&gt; AKHLAK Value</b>	0.631	14,608	0.000
<b>AKHLAK Value -&gt; Competitive Advantage</b>	-0.017	0.276	0.783
<b>Corporate Culture -&gt; AKHLAK Values -&gt; Competitive Advantage</b>	-0.011	0.274	0.784

In this study, researchers used a 95% confidence level because according to Indrawati (2015), business research usually uses a 95% confidence level. The path coefficient score indicated by the T-Statistic value must be above 1.65 for the one-tailed hypothesis.

Based on the Path Coefficient and T-Statistics in the table above, the following conclusions can be drawn: 1) Corporate Culture has a positive and significant influence on Competitive Advantage; 2) AKHLAK Value does not have a significant effect on Competitive Advantage; 3) Corporate Culture has a positive and significant influence on AKHLAK Value; 4) Corporate Culture does not have a significant influence on Competitive Advantage mediated by AKHLAK Value.

The calculation results show that organizational culture has a positive and significant impact on competitive advantage. according to(Chatzoglou and Chatzoudes 2018). Organizational culture is one of the dominant forces and acts as an influence in achieving the goals and objectives of the organization. A reasonable organizational culture generates motivation for high performance goals and employees are always enthusiastic to give their best contribution in the organization. To meet organizational goals and achieve competitive advantage, all organizations thrive on hiring highly accomplished individuals. On the other hand, individuals need a supportive organizational culture to help them achieve their individual goals. Petty, Haugtvedt, and Smith 1995), conducted a study among 3977 employees across US companies to assess whether there is a relationship between organizational culture and organizational performance.

The results of this study indicate that organizational performance is related to organizational culture. The author confirms that there is a proven strong relationship in the correlation between teamwork and performance. This correlation indicates that teamwork, as a key aspect of culture, is significantly related to performance. The authors also argue that behaviors such as helping others, sharing information and resources, and working as a team seem to improve performance in the organizations studied. This study reveals four factors that differentiate financially successful companies from less successful ones: the company. The four factors are successful companies have greater horizontal coordination; have more affective internal communication; encourage their employees to express conflicts and criticism openly and show greater concern for developing employees(Obaji, Daniel, and Olaoli 2017).

The calculation results show that the AKHLAK value does not have a significant impact on competitive advantage. These results are in line with research conducted by Bonn and Fisher 2005 and Schwartz, 2000), In general, ethical values are needed to improve corporate governance practices. This has led to increased interest in the code of ethics and personal moral values of directors to ensure the best possible performance (Arjoon 2005, (Arjoon 2005, (Bragues, 2008). Encouragement can be drawn from the area of ethical decision making where studies have found that certain ethical values or value orientations are associated with ethical/unethical behavior in organizations.(Hitlin, 2003, (Fritzsche and Oz 2007). However, this field has also been dominated by positivist methodologies, seeking a correlation between respondents' value structures and decision outcomes. As a result, there is a dearth of knowledge about subjective aspects in the context of moral behavior.

The calculation results show that organizational culture has a positive and significant impact on AKHLAK values. A strong and highly effective culture is characterized by three main factors: (1) performance of managerial roles in particular decision, informational and interpersonal roles in the manner desired by the company; (2) an internal environment that sets the tone and provides clear guidelines for desired employee behavior and performance; and (3) human resource programs to implement and maintain the desired culture. Other factors we would like to consider are dynamic value systems and ethical standards for decision making that can make organizational culture more dynamic(Sankar and Ph 2013). according to Sankar and Ph (2013), the fact is that basic ethical rules are at the heart of organizational culture. In fact, if ethics is the heart of

organizational culture, then myths, symbols, rituals, ideologies and customs, cultural elements, also become the foundation in culture to produce change. In a sense, all cultural learning ultimately reflects a person's true values, their sense of what "should" be, different from what it is. Arsawan et al. (2020). The set of values embodied in an organization's ideology or philosophy can serve as a guide and a way of dealing with the uncertainty of an intrinsically complex event.

The calculation results show that it is unable to mediate the influence of organizational culture on competitive advantage. This could be due to the conditions in which the research was conducted, although according to the researcher, culture and ethical values were closely related. However, the concept of AKHLAK value in this study is deeper into the spirituality of employees.

## Conclusions

Based on the results of the analysis and discussion that have been carried out previously, the conclusions in this study are Corporate Culture has a positive and significant influence on Competitive Advantage, AKHLAK Value does not have a significant effect on Competitive Advantage, Corporate Culture has a positive and significant influence on AKHLAK Value, and Corporate Culture does not have a significant influence on Competitive Advantage mediated by AKHLAK Value.

Today's globally competitive business environment has had a positive impact on corporate culture, which is an important aspect of success for the company. It is no longer just a competitive advantage; it has become a prerequisite for success. We strongly recommend that organizations of all sizes assess and categorize corporate culture, looking specifically at the impact that culture has on employee productivity and morale. Where culture also has an impact on AKHLAK values, so management must take proactive steps to change the corporate culture to be better or more positive so that the impact on AKHLAK values is also more positive. Just like national culture, our understanding of corporate culture and its impact on employee behavior is still in its infancy but one thing is for sure, Culture can have a tremendous positive impact on employees. In conclusion, companies to shape corporate culture by increasing AKHLAK values to improve employee experience in the workplace and, in turn, improve employee performance.

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