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Strategic Decision of Product Diversification Alternatives Based On Capability: An AHP-Based Study On Bank Orange

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Abstract
The performance of Bank Syariah in Indonesia (Bank Orange) is declining because the asset growth slows down, decreases in ROA and rosing NPF are driven by being dependent on one ultra-micro product. This paper on the other hand tests which diversification path is most aligned with a bank's internal capabilities, recognizing that outcomes from banking diversification are equivocal and non-linear. Internal readiness is evaluated in a two-step process based on expert interviews grounded in the Resource-Based View and analysed by Thematic Analysis; The Analytic Hierarchy Process (AHP) on capabilities and diversification alternatives follows. The findings reveal Micro financing as the most aligned, Corporate financing second and low alignment for Joint financing. The research combines RBV and AHP in Sharia banking diversification, and characterizes the capability-based model as a roadmap for Bank Orange.

Keywords: *Diversification, Strategic Decision, Banking, Resource Based View, Analytic Hierarchy Process*

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INTRODUCTION

Indonesia is the largest economy in Southeast Asia and has aspired towards being one of the advanced economies of the world placing the banking sector at its nucleus. In 2023, the government promoted the development of this sector in a more comprehensive level by law number 4/2023 on Building Up and Strengthening Financial Sector. At December 2024, total financial assets were IDR 25.2 trillion with the banking sector as the dominant sector that contribute of 50% (IDR 12.7 trillion), which is a backbone for Indonesia's financial system. "This reflects the high reliance of the economy on bank performance.

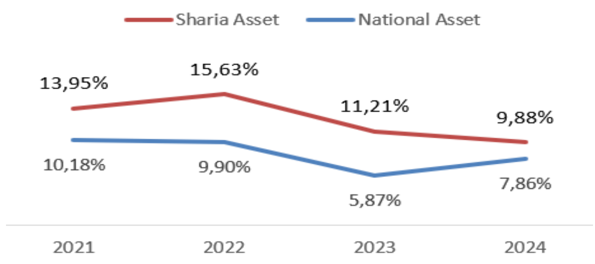

Figure 1. Growth of Bank Asset (Source: OJK, 2024)

Under Law No. 10/1998, Indonesia adopts a dual banking system that allows conventional and Sharia banks to operate in the same market, creating a diverse competitive landscape. By the end of 2024, conventional banks dominated with 92.3% market share, while Sharia banks held 7.7% (IDR 980.3 trillion). Although still small in comparison, Sharia banking has surpassed its long-standing 5% stagnation following the merger of state-owned Sharia banks into Bank Syariah Indonesia. Over the past four years, Sharia banking assets have consistently grown faster than the national banking industry—mostly at double-digit rates except for the latest figure of 9.8%—indicating stronger growth momentum in the Sharia financial market.

Based on the data above about the market share and growth asset, the sharia bank is growing but the national or conventional also growing. This condition is opportunity and challenge for sharia bank to grow bigger. From other perspective the Sharia bank is growing but still cannot catch up to the conventional market share.

One of the key drivers of Sharia banking growth is innovation (Chang & Taylor, 2016) and product diversification (Markowitz, 1952), consistent with basic economic principles that emphasize innovation and product variety for sustainable growth. In Indonesia's dual banking system, Sharia banks must compete directly with more mature conventional banks, making innovation and market-driven product development essential. Without the ability to introduce new products or innovate, Sharia banks risk declining growth and weakened competitiveness, as reflected in performance trends observed in 2024.

Bank Orange was established in 2008 as a Sharia business unit of its conventional parent bank to serve the ultra-micro productive segment, and in 2010 launched TUR which more known as Group Financing as its core product. In 2014, the Bank Orange spin-off into a fully independent Sharia commercial bank, becoming the 12th in Indonesia, Bank Orange continued to grow, listing on the Indonesia Stock Exchange in 2018, upgrading from BUKU 2 to BUKU 3 in 2020, and achieving AAA(idn) long-term credit ratings from Fitch. Despite this progress, Bank Orange remains heavily dependent on a single group financing product for underprivileged women entrepreneurs, offering Rp1.5–100 million bi-weekly installment financing determined by character-based credit cycles. This dependence on one product increases the sustainability risk as any slowdown of the targeted sector will directly undermine bank growth prospects.

Indonesia also follows a dual banking system where both conventional and Sharia banks are allowed to exist side by side, providing competition not only among the conventional banks but also between the conventional and sharia institutions. Mirroring Conventional Product Sharia banks tend to imitate conventional product as it support to make a customer familiar with the products and lower their adaptation risks (Šeho et al., 2024) while they should compete with conventional ones having superior IT, distribution networks, and HR. Therefore, Sharia banks should be innovative in developing new products to compete (Zaini et al., 2019), but they also face drawbacks, such as the need for higher operational expenses which are returned on complying with the Sharia law and lack of product innovation (Khotib & Siddiqi, 2025). Bank Orange that has only one group finance product, is susceptible to sustainability risk as Modern Portfolio Theory (Markowitz, 1952) argues that diversification eliminates risk by offsetting performance reducing assets. Its focus on the fragile ultra-micro segment exacerbates vulnerability to policy changes and economic disruptions, as the situation during COVID-19 (2020–2022), when recovery was slower: the CCC shows a K-shaped recovery, with low-income consumers—Bank Orange's main segment—returning sluggishly.

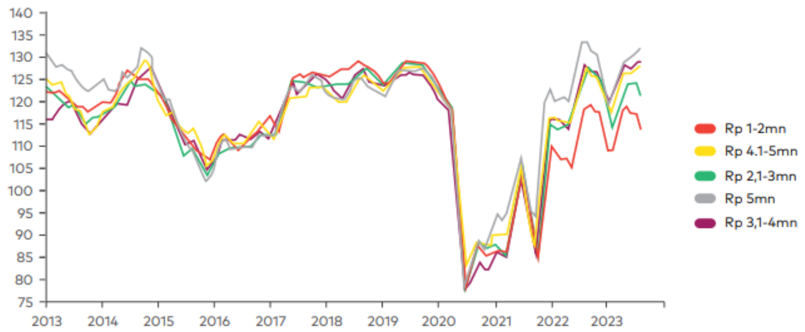

Figure 2. Consumer Confidence Level (Source: Annual Report, 2024.)

For the last six years, there has been a 12.2% CAGR in terms of assets for Bank Orange from IDR 12.0 trillion in 2018 to IDR 21.4 trillion in 2023; however, asset growth has decelerated over recent years according to Figure 3. Profitability and portfolio quality show a similar trend: ROA dropped from 12.37% (2018) to 6.34% (2023), opposite to rising industry ROA, whereas NPF hiked up from 1.39% to 2.94%, above the declining industry NPF as suggested in Figure 4 over the same period.

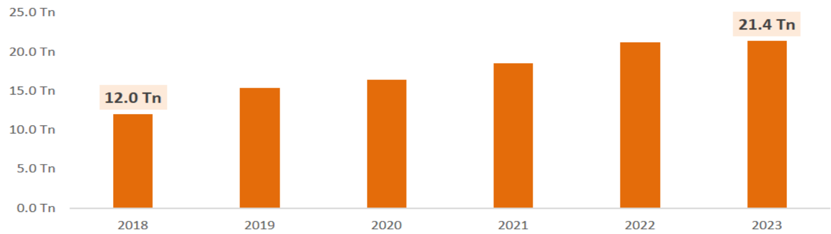

Figure 3. Asset Growth of Bank Orange (Source: Annual Report, 2024)

Figure 4. ROA & NPF Growth of Bank Orange (Source: Annual Report, 2024)

These trends suggest that decelerating ROA and asset growth are driven by the worsening financing quality, which signals the protracted recovery of low-income customers post-COVID-19. Bank Orange's dependence on one specific financing product, alongside the ultra-micro portfolio, exposes its strategy to a high degree of risk, as any shock in this segment has a direct impact on performance of the whole Bank. To underpin its long-term sustainability, Bank Orange needs to diversify the portfolio and income base: new product development or a chance for more group synergies.

With this, as a first paper comparing the performance of banks on the basis of their business models, and considering such challenges and strategic risks of single-product model like those faced by Bank Orange, how can the bank enhance sustainability with business diversification is looked for. The purpose of the research, accordingly, is twofold; to: (1) identify the internal capabilities—resources (tangible), competences/skills (intangible), and strategic resources (human skills)—that have the greatest influence on Bank Orange's preparedness for diversification and, (2) what effective diversification strategy(s) are align with these capabilities. These objectives determine the assessment and form a structured approach to the development of a diversification path for long-run performance enhancement.

LITERATURE REVIEW

1. Diversification in Banking

Diversification is significant in banking too. It is based on the Modern Portfolio Theory, which states that by diversifying investments across different activities, risk can be minimized and return/risk performance maximized (Markowitz, 1952). However, some financial studies have indicated that concentration may also lead to higher efficiency and performance (Tabak et al., 2011). The empirical evidence on bank diversification is conflicting. There are some researches, which reveal the positive outcomes—such as increasing profitability and enhancing financial performance (Al-Kayed & Aliani, 2020; Rossi et al., 2009; Shim, 2019). Some researches find that there is no gain at all, some even report negative effects such as less efficiency and lower return (Acharya et al., 2006; Huynh & Dang, 2021; Šeho et al., 2021; Sutrisno et al., 2023). Recent literature also demonstrates that the diversification effect is typically non-linear, particularly when focusing on Islamic banks. Šeho et al. (2023) show that an intermediate level of diversification can be bad for Islamic banks but good for conventional ones. AlKhouri and Arouri (2019) also indicates that the stability of Islamic banks is influenced positively by the diversification at the level of assets. In sum, these studies provide evidence that diversification is not a recipe for performance improvement but rather it depends on the presence of internal resources and capabilities required to undertake such type of business policy; internal readiness as an antecedent of successful application of a suitable diversification strategy.

2. Knowledge-Based Performance Management Systems (KBPMS) Resource Based-View (RBV) Concept

A bank should develop high internal preparedness prior to engaging in diversification, that is resources, capabilities and organizational competence necessary to implement new strategies successfully (Barney, 1991). This are logic is definable from the Resource Based View (RBV) that competitive advantage are derived of rare and inimitable resources (Barney, 1991; Wernerfelt, 1984). In Islamic (Sharia) banks, this preparedness also involves financial health as well as Sharia competencies and image capital values, human resource availability, skillfulness and organizational culture. Several such tool kits exist for the application of RBV, including VRIO (does this resource provide Value, is it Rare or hard to imitate and is it Organized in valuable ways?); Dynamic Capabilties (dynamic capabilities refer to how firms build their environment), Core Competencies (collective learning in an organization) and Knowledge-Based View, which focuses on knowledge as a critical resource. These viewpoints frequently are synthesized through the Resource Audit model that classifies resources into tangible, intangible and human (Amit & Schoemaker, 1993; Johnson et al., 2017). It is in combination that they provide a structured mean to evaluate if such bank has have bottle necks to expand internally their business toward new areas.

3. Multi-Criteria Decision Making and Analytic Hierarchy Process

On the other hand, strategic choices in banking are generally made based on simultaneous considerations of multiple criteria about financial performance, risk, regulations, Sharia compliance, internal readiness and so on; thus a single indicator method would not be adequate for decision making. Multi-Criteria Decision Making (MCDM) is a decision-making method that examines an electron transfer mechanism objectively by taking into account both quantitative and qualitative characteristics (Belton & Stewart, 2002). MCDM procedures are typically classified as Multi-Attribute Decision Making (MADM), which involves the evaluation of a given number of alternatives, and from Multi-Objective Decision Making (MODM) where the decisions are to be optimized with respect to several criteria (Greco et al., 2016). These techniques are very suitable for banking diversification because several internal and external dimensions on which diverse strategic alternatives must be appraised.

The most popular and well-known MCDM model, proposed by Saaty (1980), is the AHP. AHP breaks down multidimensional decisions into a hierarchical structure of goals, criteria, sub-criteria and alternatives, and translates subjective expert judgments into numeric priority weights using pairwise comparisons (Saaty, 1990). One of the AHP's strengths is that it has an internal method for testing decision logic consistency by means of a Consistency Ratio (CR), which in itself makes the prioritization process rational and defensible (Saaty, 2008). Within the context of Islamic banking diversification, AHP is appropriate as it combines financial, strategic, operational and Sharia aspects in one comprehensive model.

RESEARCH METHODOLOGY

This paper followed an Mixed-Methods Design, Qualitative and Quantitative to investigate Bank Orange's internal preparation for diversification (Creswell & Clark, 2016) and prioritize strategic options. The research method consists of problem identification through historical performance appraisal, review of literature on diversification and internal readiness, qualitative inquiry including expert interviews, selection of criteria and sub-criteria as well as models using Analytic Hierarchy Process (AHP) analysis ($p<0.05$), the iteration process for strategic conclusions formulation.

The research distinguished leaders purposively in key areas for diversification (strategy; product development; operational management; information technology, IT; financial planning) using purposive sampling. The first was collection of primary data through semi-structured interviews used to overview internal conditions and verify activity factors, and Saaty pairwise comparison questionnaires with the same staff as experts in order to quantify judgments for AHP.

The expert insight and internal capability theory is used to define decision elements in the study. Internal readiness is theorized through three criteria—Tangible, Intangible and Human resources—using a theoretical foundation from the Resource-

Based View (RBV) and the Resource Audit approach. These are also divided into nine sub-criteria which are financial capability, IT infra structure, distribution network, Sharia reputation, product knowledge, organizational culture, managerial competence, employees expertise and Sharia governance capability. The substitute means evaluated are micro finance, corporate finance and joint finance.

The qualitative data was interpreted following the Braun and Clarke (2006) deductive Thematic Analysis. Predefined RBV categories guided coding and interview data was systematically sorted into Tangible, Intangible and Human resource themes. Codes were subsequently categorised into sub-themes, tested for internal consistency and collapsed into the final capability framework which directly feeds into the AHP model. This enables expert knowledge to be consistent with theoretical formulation but also reflect the contextual details in, from Bank Orange.

The quantitative stage used Analytic Hierarchy Process (AHP) to rank the internal capability factors and prioritise diversification options. The data responses. is verify by Consistency Ratios (CR) for logical consistncy and those of is lower than 0.10 are acceptable. The ultimate AHP assembly yielded hierarchical orderings of criteria, sub-criteria and strategic alternatives which formed the reference points for identification of optimal diversification avenue for Bank Orange.

RESULTS AND DISCUSSION

Result

1. Experts Qualitative Result

Through thematic analysis, it is apparent that Bank Orange's ability to diversify readiness are largely influenced by the three main capability domains: tangible assets, intangible resources and human resources. These elements surfaced in all expert interviews, suggesting a recognition that diversification is important and very much conditional on internal capabilities being shared. Tangible resources are financial capability, distribution channel and digital infrastructure; intangible capabilities are brand and Sharia reputation, product knowledge and organizational culture; human resources are Managerial competence, employee expertise and Sharia governing ability.

These qualitative reflections just describe the current state, for they also provide the conceptual underpinning for a systematic modelling of diversification willingness. The repeating themes can simply be mapped on to RBV and Resource Audit constructs, making it possible for us to use them as criteria or sub-criteria issues in the following AHP-method. This implies that the QM is well rooted in theoretical and practitioner's views.

2. Criteria and Sub-Criteria

Hypotheses testing, literature review and thematic analysis confirmed that three core variables (i.e., Tangible Resources, Intangible Resources and Human Resources) are determining forces of organizational diversification readiness. These were transformed into nine sub-criteria (Table 1) which constituted the hierarchical structure of AHP questionnaire.

Table 1. Definition of Criteria and Sub-Criteria

Criteria	Sub-Criteria	Description
Tangible Resources	Physical and financial resources that can be easily identified and measured, such as capital, IT infrastructure, distribution networks, and physical assets.	
	Financial Capability (CAR, Equity, Liquidity)	Evaluates the bank's financial strength, capital adequacy, liquidity, and ability to absorb losses or fund new products without disrupting core business.
	Branch & Distribution Network	Assesses reach and effectiveness of branch networks to penetrate target markets for new products.
	IT & Digital Infrastructure	Measures capability of core banking, IT systems, and digital channels (mobile/online) to support scaling and servicing new products.
Intangible Resources	non-physical or abstract assets such as brand reputation, product knowledge, innovative capabilities, and organizational culture.	
	Brand & Sharia Reputation	Evaluates confidence and trust of customers toward the bank's brand image and Sharia compliance, influencing product acceptance.
	Product Knowledge & Innovation Capability	Measures technical expertise, past experience launching products, and innovation capacity to develop competitive Sharia products.
	Organizational Culture	Assesses cultural capability for change, risk-taking, and internal resistance toward diversification strategies.
Human Resources	the competencies, skills, experience, and governance capacities possessed by management and employees	
	Managerial Competence	Evaluates the ability of senior management to design strategy, make decisions, and execute product diversification initiatives.
	Employee Expertise	Measures operational skill, technical capability, and adaptability of employees to new business processes and systems.
	Sharia Governance Capability (DPS)	Assesses capacity of Sharia Supervisory Board (DPS) to review, approve, and monitor new product compliance effectively.

Source: Author, 2025

These nine sub-criteria constitute a complete review system for evaluation of internal readiness and content for synthesis using AHP.

3. Priority Criteria for Diversification

The global prioritization results based on AHP model clearly differentiate the nine sub-criteria (Table 2). Managerial Competence (30.3%) and Financial Capability (28.6%) are the two most influential capability factors, which shows that strategic leadership and financial resourcefulness are essential preconditions for effective diversification operations. A group of capability secondary-tier are Product Innovation (8.5%), Sharia Governance (7.6%), and IT & Digital Infrastructure (7.5%). These dimensions are the operational and compliance spine that firms need in order to innovate, validate, and launch new Sharia-compliant products at scale.

Contributions of the Branch Distribution (5.9%), Employee Expertise (5.7%), Organizational Culture (3.0%), and Brand Reputation (2.8%) fall into a third tier, reflecting supportive rather than decisive roles in diversification.

Table 2. Consolidated Global Priority of Sub-Criteria

Sub-Criteria	Priorities	Ranking
Financial Capability	28.6%	2
Branch Distribution	5.9%	6
IT Digital	7.5%	5
Brand Reputation	2.8%	9
Product Innovation	8.5%	3
Organizational Culture	3.0%	8
Managerial Competence	30.3%	1
Employee Expertise	5.7%	7
Sharia Governance	7.6%	4

Source: Author, 2025.

This result indicates that the Bank Orange one of internal strength lies on the leadership, financing and innovation-ability area in addition to governance.

4. Experts Qualitative Result

With the weighted criteria and sub-criteria, the AHP synthesis resulted in a straightforward diversification strategies ranking (Table 3).

Table 3. Consolidate Priorities Decision Hierarchy

Decision Hierarchy							
Level 0	Level 1	Level 2	Glb Prio.	Ranking	Corporate	Micro	Joint Financing
Internal Readiness	Tangible 0.420	Financial Capability 0.682	28.60%	2	0.633	0.275	0.092
		Branch Distribution 0.140	5.90%	6	0.307	0.218	0.475
		IT Digital 0.178	7.50%	5	0.658	0.259	0.082
	Intangible 0.143	Brand Reputation 0.195	2.80%	9	0.182	0.721	0.097
		Product Innovation 0.594	8.50%	3	0.145	0.73	0.124
		Organizational Culture 0.211	3.00%	8	0.154	0.738	0.108
	Human 0.437	Managerial Competence 0.694	30.30%	1	0.144	0.777	0.079
		Employee Expertise 0.131	5.70%	7	0.179	0.737	0.084
		Sharia Governance 0.175	7.60%	4	0.257	0.62	0.123
			1		**34.40%**	**54.10%**	**11.50%**

Source: Author, 2025.

Micro Financing (54.1%) is the most feasible pathway to diversification indicating high consistency with human and intangible assets, including corporate culture, employee skill and experience, product innovation. Corporate Financing (34.4%) comes next in line. It will have stronger financial strength, digital preparedness, and branch network as support, but we may moderate corporate financing due to managerial competence and innovation capabilities which are relatively lagging behind – hence some more preparation before implementing it in large scale. Joint financing (11.5%) is the least favoured with respect to these overarching considerations, reflecting low adherence with any key capability cluster. The operational difficulty and lack of infrastructure means it is not a solution that can be implemented immediately as a diversification option.

5. Consistency Check

To ascertain the reliability, consistency ratios (CR) were computed for all pairwise comparison matrices. There was also Fuzzy Consistency which were satisfied by all CR values below the 0.10 threshold recommended by Saaty (2012) and thereby indicating that expert judgments were consistent internally and mathematically valid. As consistency was satisfied for all the matrices, re-assessment was not necessary and geometric mean aggregation followed disjunctively without modification. The result shown in Table 4.

Table 4. Consistency on the Alternative Assessment

Sub-Criteria	CR	Standard CR <0.1
Financial Capability	0.073	Consistent
Branch Distribution	0.011	Consistent
IT Digital	0.076	Consistent
Brand Reputation	0.030	Consistent
Product Innovation	0.004	Consistent
Organizational Culture	0.022	Consistent
Managerial Competence	0.039	Consistent
Employee Expertise	0.071	Consistent
Sharia Governance	0.003	Consistent

Source: Author, 2025.

Discussion

AHP output results support the study's hypothesized expectation that Bank Orange's readiness in diversification is based predominantly on its internal competencies. The result demonstrates that Human Resources (43.7%) and Tangible Resources (42.0%) are the core capability groups of diversification, indicating that leadership strength, workforce quality and solidity of finance constitute the backbone for strategic move out. At the sub-criteria level, Managerial Competence (30.3%) and Financial Capability (28.6%) are also the two most significant factors. These results confirm that diversification choices should be based on internal fitting and not solely on market opportunities.

Applying this capability weight to the three different diversification alternatives synthesised AHP results give a clear decision - Micro Financing (54.1%) as the strongest option, followed by Corporate Financing (34.4%) and Joint Financing (11.5%). Micro Financing has a higher score, but mainly due to being closely related to the bank's existing strengths that include strong management, organizational culture and employee skills. Such capabilities are ingrained in the bank's operating model, given its lengthy experience in ultra-micro business. This makes Micro Financing the most politically acceptable and strategically aligned choice for Bank Orange.

Corporate Financing gets a fair rating. While its proximity with bank's strong financial strength, IT capability and branch network reflects the prime focus of banks to leverage on these as sources of competitiveness in banking business but lesser alignment with management competence and product innovation implies that there are a few internal capabilities which need to be further developed before it can succeed into this segment. Joint Financing receives the lowest score as it does not closely match with a single dominant capability cluster and hence it implies that there are operational and structural constraints which make this configuration less feasible in the near future.

The findings of the research are generally supportive for the goal to integrate diversification alternatives with internal capability situations. The findings indicate that the success of Bank Orange in diversification depends on making use of what it already knows and avoiding strategies that require capabilities that do not exist within the bank. One Lessons The hierarchy of alternatives thus gives a clear strategic direction that places Micro Financing as the main and Corporate Financing as a secondary track requiring capacity building with Joint Finance as an under-ready option.

CONCLUSION

This research, therefore, aimed to identify the internal capabilities that more affect Bank Orange's readiness for product diversification and to determine which strategy is most aligned with the sustainability over time. The results indicate that readiness for diversification is influenced by Human and Tangible resources than Intangible ones, while Managerial Competence and Financial Capability are significant antecedents. It can take pride in these strong capabilities as it would be impossible to grow beyond its existing single product proposition without these, however the other capabilities such as Product Innovation, Sharia Governance and IT & Digital Infrastructure are playing an important but secondary role.

Related to AHP synthesis, Micro Financing can be seen as the diversification alternative whose internal capability profile is more closely related with those of the bank. The strong alignment with leadership capability, organisational culture and workforce expertise of the long list makes it the most practical path for now. CF is still a promising but secondary alternative, and we argue that it needs more managerial and product development readiness, whereas JF presents the weakest alignment at this early phase, since it is an operationally complex investment option with not enough supportive infrastructure to date.

In general, the results show that Bank Orange should focus on expanding in micro-segments and equip itself for future entry into corporate. This is how RBV and AHP are theoretically established in this research to evaluate readiness of diversification among Sharia banks. In practical terms, 'it offers an evidence-based guide to capability-congruent strategic decisions'. This analysis is based on internal expert views and does not consider market demand evaluation, indicating a direction for future research that may use external competitive and customer factors.

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