Internal Process Performance as an Indicator of Financial Performance

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ABSTRACT

The characteristics of resources approach can contribute to strategic practices and strategic practices can improve financial performance of the companies. Financial performance can develop the capabilities and competencies of companies and this can bring the increasing of competitive advantage. The companies could reach the global competitive advantage by utilise intangible resources. The research method used in this paper is based on a literature review who discuss the RBV theory in relation to capabilities and competencies in creating superior competitiveness. Performance of internal processes as one of the intangible resources is an important company capability that can bring an improvement of the company performance. Internal Proces Performance as an intangible asset which in turn are strategic assets that can affect the company's performance. The view of RBV theory provides knowledge of how important internal resources are in achieving competitive advantage. Therefore, this study focuses on the Resource Based View as a view that affects the existence of internal process performance as an indicator of a company's financial performance.

1. Introduction

Internal process performance is one of the management controls processes. According to Scheer (2016), this control process includes the following points: (1) Evaluation, analysis and continuous improvement of business workflows both automatically and manually, (2) Map of the reality process in an issue-oriented manner tasks and tasks that have been carried out, The result of the control process is the transparency of the process, in terms of structure and for evaluation purposes, (4) The result of the internal process is used as a base point for process optimization. The performance of this internal process includes operations management process.

Performance of internal processes is an important company capability in improving company performance. Companies can also pay attention to how these types of intangible assets become strategic assets that can affect the company's performance. The study of the Resource Based View (RBV) approach by utilizing its resource assets and capabilities to be used effectively and efficiently in order to achieve increased financial performance and maintain the company's competitive advantage. The view of RBV theory provides knowledge of how important internal resources are in achieving competitive advantage. The RBV approach also emphasizes that companies that have good financial performance can survive in the long term.

An internal business process is any set of steps that are followed to complete a particular task within your organization. That last part is crucial. We can distinguish an *internal* process by the fact that it doesn't involve external stakeholders, like customers, clients, or vendors. Like any process, we're also only really concerned with tasks that are carried out regularly or at least, semi regularly. So, we wouldn't really consider the steps behind a task a *process* if they were only ever followed once.

Rather, it can only call something a process if *(more or less)* the same steps are carried out to reach *(more or less)* the same goal every time. Still that's not to say that employees always *know* that they are following a process. This might seem a little counterintuitive but stick with company.

A *formal* internal process is one that's codified, documented or prescribed from above. Often though not always this has been explicitly designed with the intention of being the most efficient way to do the task in question. There are myriad important reasons to formalize internal processes. The central benefit is simple. When everyone has a shared understanding of how things are meant to be done, we can reliably scale the relevant process - without compromising accuracy, consistency, or any other important quality metrics.

This is any set of steps that your team follows in practice - without it necessarily being the *official* way of doing things. There might not be an official process or else, there is, but employees prefer their own way of doing things. Informal processes aren't *necessarily* a bad thing. We don't need an official handbook for every little activity. Some types of tasks suit a more flexible or case by case approach for example, many creative processes. However, these are more of an exception than a rule. For most tasks, we need standardization to ensure that we can achieve sufficient accuracy, consistency, and quality of outcomes.

Based on the RBV theory's view of improving financial performance, it is influenced by various internal resources, one of the internal conditions in the form of intangible assets that can affect financial performance is internal process performance. Internal process performance is a form of intangible internal strength that can be used to improve the company's financial performance. Internal Process performance is a resource owned by a person or group of people by utilizing a structured of internal strength to control the production and final company performance Scheer (2016). Internal process performance is formed through investment strategies oriented good corporate governance and management accounting strength owned by business managers who are able to provide more value for the existence of financial performance so that it can become a competitive advantage for the company.

Literature Review

The RBV theory considers the company's internal capabilities as an important factor in managing the company's resources so that the company is able to gain a competitive advantage. Schienstock (2019) stated that the consequences of management's ability to manage company resources in an integrated manner can increase the company's competitive advantage position. Chua (2018) states that managerial capability will increase along with the increase in the company's competitive advantage so that it is finally able to improve organizational performance.

The resource based view (RBV) theory or the resource-based view focuses on an internal-level analysis of the firm's strengths. The theory of the company's resource-based view has been revealed in various studies as a means of explaining competitive advantage which ultimately results in superior performance in the company (Clulow et al., 2017). The resource-based view theory posits the importance of key resources that exhibit certain characteristics enabling firms to execute strategies to meet customer needs, thereby increasing the firm's ability to secure sources of competitive advantage and in turn superior performance in the firm.

The resource-based view focuses on analyzing the various resources owned by the company, stating that differences in company performance can be related to differences in resources and capabilities. Resources can be defined as intangible and tangible factors that the company is able to control (Amit et al, 2013). Intangible resources include capabilities and assets including knowledge, skills, reputation, and managerial abilities (Hall et al, 2017). Clulow et al, (2017) show the relationship of intangible asset resources (eg client trust, reputation, network, strategy and intellectual property) and capabilities (eg knowledge, organizational culture, skills and experience) as valuable, unique and complex resources with sustainable competitive advantage.

The types of capabilities are divided into (1) Dynamic Capability, which is the ability to find and use company resources, respond quickly to new opportunities and be able to create something new and adapt to the external environment. (2) Absorptive Capability, is the ability related to the process of processing information originating from the external environment and then combined with the ability to integrate that information with available resources in order to provide products that are in accordance with what the market wants.

Capabilities consist of (1) Intentionality, which means the ability of managers to use both tangible and intangible resources to achieve company goals. (2) Reliability, which means the ability of managers to manage the company's operations needed to produce quality products according to market desires (Edelman et al, 2015). Organizational capabilities in addition to helping managers make the right decisions, also facilitate the formation and integration of networks of cooperation both internally and externally. Capabilities enable companies to effectively solve their main problems (Heuetal et al, 2016).

2. Research Method

This study uses a qualitative research design based on a literature review from the opinions of experts who discuss the theory of Resources Base View in relation to capabilities and competencies in creating superior competitiveness especially that related to the internal process performance. Some of the literature analyzed include:

1. Ahangar (2018)
2. Anklam (2016)
3. Edelman et al (2015)
4. Evans P (2016)
5. Paldam et al (2020)
6. Ramandai et al (2019)
7. Lumusu et al (2013)
8. Shadig et al (2013)
9. Boritz et al (2017)
10. 10. Lucas (2018)
11. Svendsen GT (2020)
12. Fukuyama F (2019) 13. Bram (2018)
14. Aghion (2018)
15. Weaver (2018)
16. Spender, & Groen, (2016)
17. Utterback,(2013)
18. Woolcock and Narayan (2017)
19. Liao and Welsch (2015)
20. Davidson et al,(2013) 21. Tsai,(2015)
22. Hit and Hesterly,(2014)
23. Chen et al (2015)
24. Aghion et al (2016)
25. Edison et al (2018)
26. Damanpor (2014) 27. Cork (2015)
27. 28. Assad (2015)

No	Research (Year)	Internal Process Performance	Financial Performance
1	Weaver and Weston (2015)	X	X
2	Ramandai et al (2019)	X	X
3	Lumusu et al (2013)	X	X
4	Shodig et al (2013)	X	X
5	Boritz et al (2017)	X	X
6	Asaad (2015)	X	X

3. Result & Discussion

Resources Base View (RBV) Theory studies have been carried out since the 1960s. The contribution of this theory to the company is a direct strategy on the existence of the company's internal resources that affect the company's performance. RBV theory states that sustainable competitive advantage rests on organizational resources that are very valuable, rare, difficult to imitate and non-substitutable (VRIN) as well as intangible assets in the form of performance of internal processes in organizational settings which are strategies to improve the company's financial performance (Spender, & Groen, 2016). The development of the RBV concept leads to the perspective of how the existence of internal resources in the form of tangible assets and intangible assets can then improve financial performance and can then become a company strategy to achieve competitive advantage (Boritz, 2017). The resources referred to in this view concept are the company's internal strengths in the form of tangible and intangible assets (Ramandai, 2019). Company resources are tangible and intangible assets that are tied semi-permanently to the company and are able to provide improvements to the company's financial performance (Utterback, 2013).

This study provides an overview of the characteristics of the resource approach that can contribute to strategic management practices and improve the capabilities and competencies of companies to increase competitive advantage through the utilization of resources, both tangible and intangible. It is expected that the company can optimize the internal strength of its resources, which in this paper are in the form of the existence of the performance of internal processes for improving financial performance and achieving the company's competitive advantage.

The concept of RBV theory involves the existence of intangible assets as organizational resources that are valuable, unique, rare and difficult to imitate as a strategy for company excellence (Weaver, 2018). Utilization of intangible assets in the form of social capital and internal process performance as an implementation of the RBV view is a strategy that companies can use to improve financial performance in order to achieve competitive advantage (Davidsson et al, 2013). The resources-based view is and managerial framework used to determine the strategic resources a firm can exploit to achieve sustainable competitive advantage.

Barney's 1991 article "Firm Resources and Sustained Competitive Advantage" is widely cited as a pivotal work in the emergence of the resource-based view. However, some scholars argue that there was evidence for a fragmentary resource-based theory from the 1930s. RBV proposes that firms are heterogeneous because they possess heterogeneous resources, meaning firms can have different strategies because they have different resource mixes. The RBV focuses managerial attention on the firm's internal resources in an effort to identify those assets, capabilities and competencies with the potential to deliver superior competitive advantages.

Achieving a sustainable competitive advantage lies at the heart of much of the literature in strategic management and strategic marketing. The resource-based view offers strategists a means of evaluating potential factors that can be deployed to confer a competitive edge. A key insight arising from the resource-based view is that not all resources are of equal importance, nor do they possess the potential to become a source of sustainable competitive advantage. The sustainability of any competitive advantage depends on the extent to which resources can be imitated or substituted. Barney and others point out that understanding the causal relationship between the sources of advantage and successful strategies can be very difficult in practice. Thus, a great deal of managerial effort must be invested in identifying, understanding and classifying core competencies. In addition, management must invest in organizational learning to develop, nurture and maintain key resources and competencies.

In the resource-based view, strategists select the strategy or competitive position that best exploits the internal resources and capabilities relative to external opportunities. Given that strategic resources represent a complex network of inter-related assets and capabilities, organizations can adopt many possible competitive positions. Although scholars debate the precise categories of competitive positions that are used, there is general agreement, within the literature, that the resource-based view is much more flexible than Porter's prescriptive approach to strategy formulation.

The RBV is an interdisciplinary approach that represents a substantial shift in thinking. The resource-based view is interdisciplinary in that it was developed within the disciplines of economics, ethics, law, management, marketing, supply chain management and general business. RBV focuses attention on an organization's internal resources as a means of organizing processes and obtaining a competitive advantage. Barney stated that for resources to hold potential as sources of sustainable competitive advantage, they should be valuable, rare, imperfectly imitable and not substitutable (now generally known as *VRIN* criteria). The resource-based view suggests that organizations must develop unique, firm-specific core competencies that will allow them to outperform competitors by doing things differently.

Although the literature presents many different ideas around the concept of the resource-advantage perspective, at its heart, the common theme is that the firm's resources are financial, legal, human, organizational, informational and relational; resources are heterogeneous and imperfectly mobile and that management's key task is to understand and organize resources for sustainable competitive advantage. Key theorists who have contributed to the development of a coherent body of literature.

Good financial performance will be obtained by the company if the entity is able to optimize the unique strengths of its internal company. RBV theory (resources base view theory) considers the company's internal capabilities as an important factor in managing the company's resources so that the company is able to gain a competitive advantage. Internal process performance is one of the intangible internal factors that can encourage increased financial performance for the achievement of competitive advantage. Management's ability to manage company resources in an integrated manner can increase the company's competitive advantage position.

Internal Process Performance as a form of intangible assets that is important in the companies. Improving financial performance is a common thing that is used as a measure of organizational performance which is the result of the influence of a company policy (Weaver et al, 2015). Financial performance is the final process of profit-oriented organizational activities. Financial performance focuses on revenue growth, asset growth and profit growth. Good financial performance based on the views of the Resources Based View (RBV) theory will depend on the utilization of the company's internal resources both related to tangible assets and intangible assets. One form of intangible fixed assets that can be utilized by companies to improve financial performance as a strategy for achieving competitive advantage is the existence of good internal process performance. Good internal process performance is a complementary element of the suitability of an entity. Internal process performance is one of the management controls processes. According to (Weston et al, 2018), this control process includes the following: (1) Evaluation, analysis and continuous improvement of business workflows both automatically and manually, (2) Map of the reality process in a task issue-oriented manner and the tasks that have been carried out, (3) The results of the control process are process transparency, in terms of structure and for evaluation purposes, (4) The results of internal processes are used as the basis for process optimization. Internal process performance includes operations management process, customer management process, innovations process and regulatory and social processes. achieving good performance (non-financial and financial), involves the existence of a competitive advantage, so that it can compete in the global market. Competitive advantage can be achieved by involving a good internal process performance strategy which can further improve the company's financial performance. Internal process performance is a control related to the achievement of performance. Entity performance that must be achieved is a requirement for a company to be above the average of its competitors.

The essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Company structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. Firms exist within a dynamic environmental context that demands constant engagement to ensure adequate adaptation by the firm. The strategies a firm adopts have to be cognizant of the ever changing environment and seek to align business practices to environmental demands through relevant strategies. The author further asserts that the goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favour. The information age environment for both manufacturing and service organizations requires new capabilities for competitive success. The ability of a company to mobilize and exploit its intangible or invisible assets has become far more decisive than investing and managing physical, tangible assets.

Organizational performance means the "transformation of inputs into outputs for achieving certain outcomes. With regard to its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realised output (efficiency) and between output and achieved outcome (effectiveness)". There are various ways to understand organization performance but in this project report, it has been judged upon the growth of the company and sales performance which lead towards the growth. Sales performance can be explained as all the activities or investment carried out in the firm in the given period of time. It can be measured by total amount of revenue collected for the goods sold. Growth revenue defined as total amount of money collected by the company for the goods they sold in a specific time and this amount is calculated before any expenses are subtracted. Effectiveness of the organization depends on the three basics performance determinants. Efficiency and process reliability, human resource and relations and Growth and adaptation to environment. Efficiency is defined as a term practiced by organization or firm to use people and resources to carry out important operations in way which minimizes the costs. When the resources will be used in a proper way as compared to the competitors the cost of operation will decrease and the profit margin will increase. Efficiency is important when the competitive strategy of the firm offers products and services at lower rates than the competitors. Human resource relation is defined as trust, organizational commitment, collective identification and cooperation among the employees.

The business processes perspective is primarily an analysis of the organization's internal processes. Internal business processes are the mechanisms through which organizational performance expectations are achieved. This perspective focuses on the internal business results that lead to financial success and satisfied customers. Therefore, managers need to focus on those critical internal operations that enable them to satisfy customer needs Kaplan & Norton, (2002). Organizations should decide at what processes and competencies they must excel and specify measures for each. Key internal processes are monitored to ensure that outcomes will be satisfactory. The measures should also link top management's judgment about key internal processes and competencies to the action taken by individuals that affect overall corporate objectives. Further (Kaplan & Norton, 2005) notes that these linkages ensure that employees at lower levels in the organization have clear targets for actions, decisions and improvement activities that will contribute to the organization's overall mission. Customer and internal business process measures identify the parameters that the organization considers most important for competitive success.

Internal processes perspective focuses on the internal business results that lead to financial success and satisfied customers. To meet the organizational objectives and customers expectations, organizations must identify the key business processes at which they must excel. These key business processes are monitored to ensure that outcomes will always be satisfactory. The internal processes perspective reports on the efficiency of internal processes and procedures. The premise behind this perceptive is that customer- based measures are important, but they must be translated into measures of what the organization must do internally to meet its customers expectations are of the view that internal business processes provide the organization with the means by which performance expectations may be accomplished.

Learning and growth consider the flexibility of a firm and its adaptability to change in the business environment, how fast new technology is deployed to counteract change in business environment, total firm capabilities and innovativeness. A company innovative ability, learning and improvement skills tied directly to the company's value and growth. Further look at this perspective as the one which identifies the human relations, technological and general systems infrastructure that the organization must develop if it is to achieve long-term growth and organizational improvement. Appropriate measures would include those relating to the level of relevant employee skills, how up to date the organization's information technology systems and programs are, and the ability of the organization's system architecture to provide the information in an efficient, timely and cost effective way.

There had been a challenge in knowledge on the part of the staff since most were not able to formulate objectives adequately. This was attributed to insufficient training. They felt that if the staff and the line managers that were responsible for the scorecard were not conversant with the technique, the objectives, measures and targets end up either being unrelated to the vision or cannot be measured. However, there was consensus among those interviewed that it had been difficult to measure the qualitative aspects of the business which was difficult to assign a value even though they constituted the overall organizational performance. Issues like employee morale, which though important for the attainment of the bottom line score could not be quantified.

Implementation in the application of Resources Based Theory is a view that is oriented towards the utilization of the company's internal resources. Comprehensive internal process performance measurement includes performance measurement from various aspects (Cardinaels and Van Veen-Dirks, 2010). Performance measurement must inform the measurement of all aspects so that it becomes a comprehensive performance measurement (Banker et al., 2013). Designing an entity's internal process performance measurement requires an appropriate model. Measurement of internal process performance with the appropriate model will be able to describe the financial performance of the entity. Internal Process Performance is one of the multidimensional controls. Banker et al., 2014 who said that internal process performance is a comprehensive measurement, because it measures various aspects of internal process performance (Sveiby, 2014). Financial performance is the final process of profit-oriented organizational activities. Financial performance focuses on revenue growth, cost reduction or savings and increased use of assets (Gabby, 2018). Efforts to achieve good performance, the entity must have a competitive advantage, so that it can compete in the global market. Competitive advantage can be achieved by having the right competitive strategy that involves the existence of good internal process performance Efforts to achieve good performance, the entity must have a competitive advantage, so that it can compete in the global market. Competitive advantage can be achieved by having the right competitive strategy that involves the existence of good internal process performance Efforts to achieve good performance, the entity must have a competitive advantage, so that it can compete in the global market. Competitive advantage can be achieved by having the right competitive strategy that involves the existence of good internal process performance. Uzzi (2017) states that internal process performance is a pattern of decisions related to performance achievement. The performance of internal processes that are multidimensional in nature must be achieved so that the entity can achieve performance above the industry average. According to Resource Based Theory which emphasizes achieving organizational or company performance with performance above the industry average, it is largely determined by the characteristics and internal factors of the company (Burt et al., 2017). Implementation in Resource Based Theory is very dependent on the concept where good financial performance is the impact of the existence of internal process performance as adequate intangible assets.

The company or organization manages the performance of internal processes to deliver the different value propositions of the strategy. Managing the performance of internal processes will then go through four series of processes, namely: identifying opportunities for new goods and services, managing research and development portfolios, designing and developing new goods and services, and bringing new goods and services to customers where the whole process is able to increase profits in order to maximize profits. financial performance (Wong, 2015).

The implementation of internal process performance and the feedback obtained is expected to be used as an assessment material for the relationship between internal process performance appraisal and financial performance. so that the more effective the performance of internal processes, the higher the financial performance (Ramandei et al, 2019). The performance of internal processes is structured to provide confidence in the achievement of organizational performance goals and objectives so that it can be explained that the performance of internal processes has a positive influence on the financial performance of a company (Rai et al, 2018). Internal process performance has a positive and significant effect on performance (Lumusu et al, 2013).

Competitive advantage is obtained by assets that are intangible and have capabilities that are reflected in superior performance for company owners, while superior financial performance is reflected in financial capabilities such as higher profits, increased sales and market share (Ahangar, 2018, Chen, 2015 ,Firer, 2015). The results of various previous studies reveal that the Resources Based View is implemented on the utilization of intangible assets as the company's internal strength. Intangible assets such as internal process performance are strategic factors that affect the effectiveness of the company's financial performance (Anklam, 2016, Damanpor, 2014, Cork, 2015, Shadig, 2013).

4. Conclusion

The Among all the discussions about the resource-based view that have been discussed, there are similarities in research such as that conducted by Evans (2016), Edelman (2015) and Anklam (2016), it has been found that intangible assets in the form of internal process performance are based on the RBV view. is a valuable internal resource, unique and difficult to imitate. The value of intangible assets and capabilities can be adjusted by the company because of the unique combination of the company philosophy, in the utilization of performance of internal processes to improve financial performance for the achievement of sustainable or long-term competitive advantage. Utilizing the existence of the performance of internal processes as part of the strategy so that the company gets a competitive advantage and superior economic performance if the resources meet the VRIN criteria (Barney, 1991). Barney's model shows that resources are valuable (V), rare (R), expensive to imitate (I), and nondutiable (S), where resources can be a source of competitive advantage.

Suggestions for future research are: (1) considering the business life cycle and (2) analyzing other elements of intangible assets that are related to the existence of financial performance.

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