EVALUATION OF MCKINSEY 7S FRAMEWORK MODEL APPROACH TO CREDIT DISTRIBUTION WITH 5C AND 7P PRINCIPLES AT COMMERCIAL BANKING

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Abstract

The strategic management process in lending is carried out starting from environmental analysis when determining market targets and credit risk assessments, then formulating strategies in lending by applying the principle of prudence in each credit process which then implementing the strategy can be seen from the NPL ratio, and the last process is an evaluation of the implementation of the 5C and 7P principles on lending at the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk. The study aims to find out the implementation of the 5C and 7P principles. This study uses descriptive methods to identify problems, explain symptoms, and examine conditions and prevailing practices based on the information collected. Moreover, based on the explanation, from each item of the questionnaire, it can be concluded that the application of the 5C and 7P principles to credit distribution at Bank Mandiri is quite good, but it is necessary to pay attention to several subvariables, especially personality on the 7P principle, profitability on the 7P principle, and the Bank's profitability.

INTRODUCTION

Citing Law No. 10 of 1998 concerning banking, it is stated that the Bank is a business entity tasked with collecting public funds in the form of savings and channeling them back to the community in the form of credit and/or other forms, in order to improve the standard of living of the people at large. Sayekti dan Mauleny (2013), said that the Bank functions as an intermediary institution between people who have more funds and people who need funds.

According to the quote in Law no. 10 of 1998, it is stated that credit has the meaning as a facility for providing money/bills that can be equated with it based on an agreement or agreement between other parties and the Bank, in which the borrower has an obligation to repay the loan according to the agreed term and interest between the borrower. and Banks.

Collection and Distribution of Credit is a very important role of the Bank for the Indonesian economy, considering that the flow of funds is used for various economic needs, both consumption, business capital, and investment channeled through the Bank. For this matter, the Bank as one of the drivers of the country's economy, is required to be able to achieve its performance and maintain business continuity in a healthy, transparent, and accountable manner (Buchory, 2014).

Putra dan Widjaja (2019) stated that lending has the largest contribution to bank income through interest income. This is in line with the purpose of credit, namely obtaining profits which are generally obtained from

interest, helping customers' businesses by channeling credit for investment and working capital, and helping the government through the profits earned (Kasmir, 2014).

Yanti (2020), states that credit risk is the potential failure of the borrower to fulfill his obligations to the Bank according to the agreement that has been determined between the customer and the Bank. Credit risk is still the most significant risk for financial institutions as the devastating effects from the current credit crisis will affirm (Psillaki et al., 2010). This is also in accordance with what is written in the Circular Letter of Bank Indonesia No. 13/24/DPNP/2011, it is stated that Credit risk is the risk caused by the failure of the borrower (customer/ debtor) to fulfill its obligations to the Bank (Kola et al., 2019).

Non-Performing Loan (NPL) is the ratio of non-performing loans classified into three categories, namely substandard loans, doubtful loans, and bad loans (IBI, 2015). Based on Bank Indonesia Regulation (2017), NPL is the ratio obtained from the distribution of total loans of substandard, doubtful, and bad quality to the total loans disbursed, according to Bank Indonesia Regulations, the maximum value set is 5%.

State-owned banks are banks that contribute to the progress of the Indonesian economy, because the majority of state-owned banks' capital is financed by state assets, so state-owned banks are required to provide benefits to the state, including PT Bank Mandiri (Persero) Tbk (Raharjo et al., 2018).
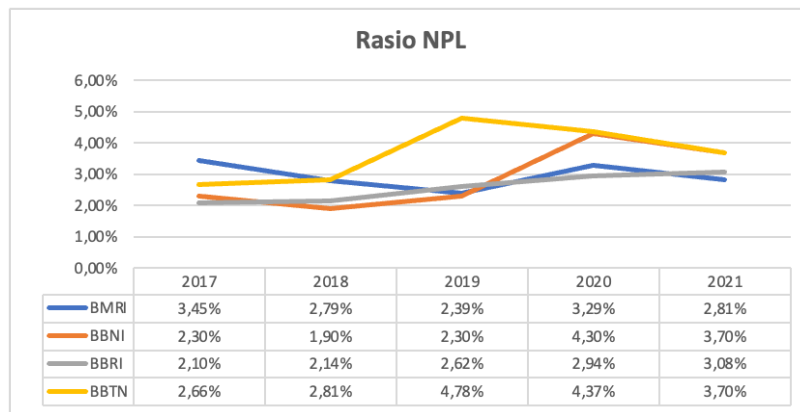

Figure 1. NPL Ratio

Credit distribution will always be attached to the NPL ratio of each bank. Based on the picture above, the average NPL of the four state-owned banks is around 2% - 5%. Based on Bank Indonesia Regulation (2017), each Bank must maintain a maximum NPL value of 5%. Based on this, it can be

concluded that the average NPL value of the four state-owned banks is around 2.1% - 4.78%, including Bank Mandiri. For five consecutive years, Bank Mandiri has continued to maintain its credit quality, as reflected in the NPL ratio as determine

Table 1
Bank Mandiri Wholesale Unit NPL Ratio

Wholesale Unit	2017	2018	2019	2020	2021
Corporate Banking	0,38%	0,20%	0,04%	1,33%	1,31%
Commercial Banking	10,01%	10,54%	9,68%	11,27%	8,77%
Institutional Relations	0,00%	0,00%	0,00%	0,00%	0,00%

(Source: Annual Report 2017 - 2021)

Evaluation of Mckinsey 7s Framework Model Approach to Credit Distribution With 5C and 7P Principles at Commercial Banking

Loans disbursed are the result of a decision from a process carried out by applying the precautionary principle, which is expected to minimize the risk of non-performing loans, as seen from the NPL ratio. During the last 5 (five) years (2017 - 2021), Bank Mandiri's NPL ratio ranged from 2.39% - 3.45%. Commercial Banking is a wholesale unit with an NPL ratio of 8.77% - 11.27%. This value has exceeded the provisions stipulated by the 2017 Bank Indonesia Regulation, with a maximum NPL value of 5%. Although this does not violate the established regulations, according to research conducted by Puspitasari (2009), it is stated that NPL has a negative effect on ROA, where the higher the NPL value, the lower the profit.

Generally, every Bank is required to apply the prudential principle, through the 5C principles and the 7P principles (Rahmi, 2022). However, this needs to be taken into account, how to apply the 5C and 7P principles applied by the Commercial banking Directorate, considering the NPL value that exceeds the maximum limit set (Sabrie et al., 2022). This assessment is used through the McKinsey 7S Framework approach, to be one of the research method guidelines.

McKinsey 7S Framework is one of the evaluation tools, which consists of strategy, structure, style, system, staff, skills, and shared values, which is expected through this method to reflect the problems that occur in the Commercial Banking Directorate of Bank Mandiri, considering that the model is implemented (Hanafizadeh & Ravasan, 2011). Bank Mandiri in carrying out its business activities.

Indeed, it is necessary to evaluate the implementation of prudential principles, namely the 5C and 7P principles for lending at the Commercial Banking Directorate, considering that the Commercial Banking Directorate's NPL is above the stipulated provisions. The evaluation that will be carried out later in accordance with the last stage in the strategic management process is evaluation and control.

Based on research conducted by several researchers, the McKinsey 7s framework model can be used as an evaluation tool for the implementation of prudential principles in lending at the Commercial Banking Directorate. Considering, in carrying out its business activities, Bank Mandiri is supported by several factors which are also included in the McKinsey 7S Framework model, including the Commercial Banking Directorate.

The process of granting credit in Bank Mandiri's Commercial banking is in accordance with the understanding of Strategic Management conveyed. Commercial Banking credit disbursement is a business unit proposal through the Relationship Manager as an Account officer who goes through a process of managerial decisions and actions that will affect the performance of Bank Mandiri in the future.

The strategic management process in lending is carried out starting from environmental analysis when determining market targets and credit risk assessments, then formulating strategies in lending by applying the principle of prudence in each credit process which then implementing the strategy can be seen from the NPL ratio, and the last process is an evaluation of the implementation of the 5C and 7P principles on lending at the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk.

METHOD

This study uses descriptive methods to identify problems, explain symptoms, and examine conditions and prevailing practices based on the information collected. Sekaran dan Bougie (2017), state that the operationalization of variables is carried out by dividing the variables used into several stages, for example the nature, factors, and actions, which are then shown through ideas which are then used as a reference to form operationalization (Creswell & Poth, 2016).

This research uses two independent variables (X), namely the 5C principle and the

7P principle and one related variable (Y), namely credit distribution, which is detailed as follows:

1. Independent Variable (Independent Variable)

   The independent variables used in this research are as follows:

   X1 : Principle 5C (Character, Capacity, Capital, Collateral, and Condition of Economy)

X2 : 7P Principles (Personality, Prospective, Purpose, Payment, Protection, Party, and Profitability)

2. Related Variables (Dependent Variables)

   The related variables used in this study are as follows.

   Y : Credit Distribution (Bank Profitability, Non Performing Loans, and Credit Provision Procedures)

Table 2
Validity Test

Variable	Question Items	Validity Coef.	Table R Value	Information
5C Principle	X1.1	0.480	0.361	Valid
	X1.2	0.367	0.361	Valid
	X1.3	0.392	0.361	Valid
	X1.4	0.669	0.361	Valid
	X1.5	0.544	0.361	Valid
	X1.6	0.512	0.361	Valid
	X1.7	0.460	0.361	Valid
	X1.8	0.479	0.361	Valid
	X1.9	0.652	0.361	Valid
	X1.10	0.644	0.361	Valid
	X1.11	0.596	0.361	Valid
	X1.12	0.733	0.361	Valid
	X1.13	0.531	0.361	Valid
	X1.14	0.608	0.361	Valid
	X1.15	0.625	0.361	Valid
7P Principle	X2.1	0.737	0.361	Valid
	X2.2	0.707	0.361	Valid
	X2.3	0.660	0.361	Valid
	X2.4	0.407	0.361	Valid
	X2.5	0.531	0.361	Valid
	X2.6	0.449	0.361	Valid
	X2.7	0.527	0.361	Valid
	X2.8	0.592	0.361	Valid
	X2.9	0.432	0.361	Valid
	X2.10	0.508	0.361	Valid
	X2.11	0.432	0.361	Valid
	X2.12	0.623	0.361	Valid
	X2.13	0.763	0.361	Valid
	X2.14	0.622	0.361	Valid
	X2.15	0.626	0.361	Valid
	X2.16	0.485	0.361	Valid
	X2.17	0.547	0.361	Valid
Credit Distribution	Y1.1	0.539	0.361	Valid
	Y1.2	0.662	0.361	Valid
	Y1.3	0.635	0.361	Valid
	Y1.4	0.652	0.361	Valid
	Y1.5	0.713	0.361	Valid
	Y1.6	0.613	0.361	Valid
	Y1.7	0.703	0.361	Valid

By using a significance level of 5% as the testing standard, from the table above it can be seen that each indicator of all variables used has a correlation coefficient

that produces a significance level (calculation   result) of less than 5% each.

Table 3
Reliability Test

Variable	Coef. Reliability	Critical Point	Information
5C Principles	0.8192	0.7	Reliabel
7P Principles	0.8584	0.7	Reliabel
Credit Distribution	0.7054	0.7	Reliabel

Based on the table above, it can be seen that all variables have a Cronbach's Alpha value of more than 0.7, which means that all concepts of variable measurement in this study are reliable. Thus, this research can be carried out at the next test stage.

RESULTS AND DISCUSSION
A. 5C Principles

Table 4
Research Results of 5C Principles

Dimensions/ Variables	Frequency	Category					Total
		Very high	high	Currently	Low	Very low	
Character	F	208	104	6	0	0	318
	%	65,41%	32,70%	1,89%	0,00%	0,00%	100%
Capacity	F	281	37	0	0	0	318
	%	88,36%	11,64%	0,00%	0,00%	0,00%	100%
Capital	F	132	120	66	0	0	318
	%	41,51%	37,74%	20,75%	0,00%	0,00%	100%
Collateral	F	83	133	102	0	0	318
	%	26,10%	41,82%	32,08%	0,00%	0,00%	100%
Condition of Economy	F	148	149	21	0	0	318
	%	46,54%	46,86%	6,60%	0,00%	0,00%	100%
5C Principles	**F**	**156**	**162**	**0**	**0**	**0**	**318**
	%	**49,06%**	**50,94%**	**0,00%**	**0,00%**	**0,00%**	**100%**

Based on the table above, it is reflected that on the 5C principle of 318 respondents as many as 49.06% in the very high category and 50.94% in the high category. Furthermore, from the five indicators, the capital dimension is reflected in 20.75% in the medium category and in the collateral dimension 32.08% in the medium category.

The processing results presented in the table above are an illustration of the 5C Principles of Employees of the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk. From the table above, the mean total score is 1327 (84.54%). Then the total average is entered into a continuum line as follows:
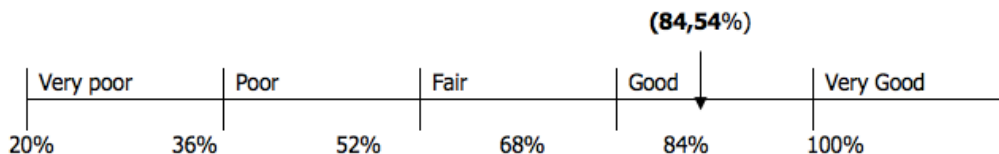

Figure 2. Variable Continuum Line Principle 5C

From the picture above, it shows that the level of achievement of respondents is in the very high category.

Thus, it can be stated that the employees of the Commercial Banking Directorate of

PT Bank Mandiri (Persero) Tbk have very high 5C Principles.

B. 7P Principles

Table 5
Research Results of 7P Principles

Dimensions/ Variables	Frequency	Category					Total
		Very high	high	Currently	Low	Very low	
Personality	F	16	54	189	59	0	318
	%	5,03%	16,98%	59,43%	18,55%	0,00%	100%
Party	F	261	57	0	0	0	318
	%	82,08%	17,92%	0,00%	0,00%	0,00%	100%
Purpose	F	183	135	0	0	0	318
	%	57,55%	42,45%	0,00%	0,00%	0,00%	100%
Prospect	F	169	111	38	0	0	318
	%	53,14%	34,91%	11,95%	0,00%	0,00%	100%
Payment	F	98	139	55	26	0	318
	%	30,82%	43,71%	17,30%	8,18%	0,00%	100%
Profitability	F	15	21	143	139	0	318
	%	4,72%	6,60%	44,97%	43,71%	0,00%	100%
Protection	F	0	0	102	216	0	318
	%	0,00%	0,00%	32,08%	67,92%	0,00%	100%
7P Principle	**F**	**13**	**245**	**60**	**0**	**0**	**318**
	%	**4,09%**	**77,04%**	**18,87%**	**0,00%**	**0,00%**	**100%**

Based on the table above, it is reflected that the 7P principle out of 318 respondents was 4.09% in the very high category, 77.04% in the high category, and 18.87% in the medium category.

Furthermore, of the seven indicators, there are several dimensions that are categorized as low, namely the personality dimension reflected 18.55,

profitability 43.71% and 67.92% in protection.

The processing results presented in the table above are an illustration of the 7P Principles for Employees of the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk. From the table above, the mean total score is 1156 (72.71%). Then the total average is entered into a continuum line as follows:
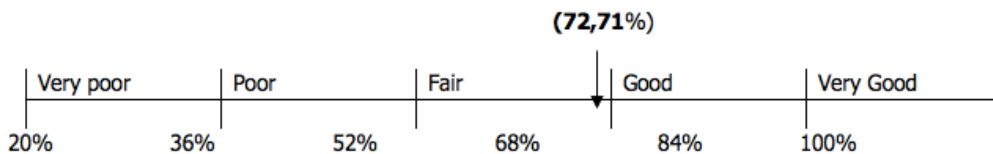

Figure 3 Principle Variable Continuum Line 7P

C. Credit Distribution

Table 6
Frequency of Credit Distribution

Dimensions/ Variables	Frequency	Category					Total
		Very high	High	Currently	Low	Very low	
Bank Profitability	F	65	146	60	47	0	318
	%	20,44%	45,91%	18,87%	14,78%	0,00%	100%
Non-Performing Loan	F	27	48	59	184	0	318
	%	8,49%	15,09%	18,55%	57,86%	0,00%	100%
Credit Granting Procedure	F	179	125	14	0	0	318
	%	56,29%	39,31%	4,40%	0,00%	0,00%	100%
Credit Distribution	**F**	**22**	**193**	**102**	**1**	**0**	**318**
	%	**6,92%**	**60,69%**	**32,08%**	**0,31%**	**0,00%**	**100%**

Based on the table above, it is reflected that the lending of 318 respondents was 6.92% in the very high category, 60.69% in the high category, 32.08% in the medium category and 0.31% in the low category.

Furthermore, from the three indicators, there are several dimensions that are categorized as low, namely the profitability dimension of the Bank which is reflected by 14.78% and non-performing loans 57.86%.

The processing results presented in the table above is an illustration of Credit Distribution of the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk. From the table above, the mean total score is 1142 (71.84%). Then the total average is entered into a continuum line as follows:
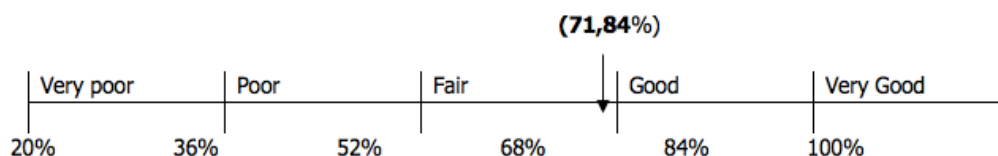

Figure 4. Continuum Line of Credit Distribution Principle Variables

From the picture above, it shows that the level of achievement of respondents is in the high category. Thus, it can be stated that the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk has a high credit distribution.

Based on the descriptive results of the 5C principle variable, it can be seen that the implementation of the 5C principle carried out by PT Bank Mandiri (Persero) Tbk in general can be said to be "high", this is because the majority of the sub-variables in the 5C principle have "high" information (50.94 %). Furthermore, for the descriptive results of the 7P principle implementation variable, it can be seen that the 7P principle implementation carried out by PT Bank Mandiri (Persero) Tbk in general can be said to be in the "high" category (77.04%).

Based on this, it can be stated that the results of primary data processing, namely research questionnaires, can be conveyed that each research variable, namely the 5C principle, the 7P principle, and credit distribution has a "high" category.

Referring to the background of this study, the statistical results of this study are inversely proportional to the background of the study, in which the NPL of the Commercial Banking. Directorate

exceeded the maximum NPL limit set by Bank Indonesia. For this matter, a research study was then carried out based on observations and interviews with respondents. If you look thoroughly into each of the questionnaire items submitted to the respondents, there are several questionnaire items that have poor responses, which could be one of the causes of the formulation of the problem in this study.

Based on the explanation, from each item of the questionnaire, it can be concluded that the application of the 5C and 7P principles to credit distribution at Bank Mandiri is quite good, but it is necessary to pay attention to several subvariables, especially personality on the 7P principle, profitability on the 7P principle, and the Bank's profitability.

CONCLUSION

The results showed that the respondents' responses regarding the application of the 5C principle scored very high, which means that the account officer of the Commercial Banking directorate applied the 5C principle very high.

The results showed that the respondents' responses regarding the implementation of the 7P principles obtained a high score, which can be stated that the account officer of the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk applied the 7P Principles high.

The results of the study indicate that the respondents' responses to credit distribution obtained a high score. Based on the results of simultaneous hypothesis testing, it can be stated that Principle 5C and Principle 7P simultaneously affect credit distribution at the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk.

The results of the study indicate that with the McKinsey 7S framework model approach that has been described descriptively, that the implementation of the 5C and 7P principles on lending at the Commercial Banking Directorate of PT Bank Mandiri (Persero) Tbk based on the McKinsey 7S concept has been carried out properly and in accordance with the stages. and existing regulations.

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