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## The Success Factors of Financial Performance of Bank Pembangunan Daerah (BPD), Indonesia Before and After Autonomy

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### ABSTRACT

This study aims to determine the success factors of financial performance of Bank pembangunan Daerah Indonesia before and after autonomy. The population for this study consists of 260 units analysis of financial statements from 26 banks (BPD) in Indonesia during 10 years. This study found the following results. First, the macroeconomic variable has no significant relationship with financial performance, both before and after the autonomy (-0.0407 and 0.1606). Second, the capital has significant relationship with market risk both before and after the autonomy (0.3141 and 0.3262), and capital has significant relationship with financial performance before the autonomy (0.4140) and no significant relationship with after the autonomy (0.0612). Third, the asset quality has no significant relationship with market risk (0.0511), but it was significant relationship with financial performance, prior the autonomy. Meanwhile, the period after the autonomy, the asset quality has significant relationship with market risk and financial performance (0.2995 and 0.1331). Fourth, the liquidity has significant relationship with market risk both before and after the autonomy (0.4330 and 0.2087), and the liquidity also has significant relationship with financial performance, both before and after the autonomy (0.2312 and 0.2362). Fifth, market risk has significant relationship with financial performance, both before and after the autonomy (0.3251 and 0.5389), and the sixth, also found that unlicensed interpretation kewangan after regional autonomy means to qualities of BPD after regional autonomy was also better than before autonomy. Furthermore, the results of this study explained that the capital played an important role on Bank Pembangunan Daerah financial performance in Indonesia both before and after the autonomy. Therefore, it is important to strengthen the bank's capital in order to further enhance its soundness.

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## INTRODUCTION

Management institutions need to get serious attention from the government and society in order to improve their economic status. Interests in community banking presence are to help economic activities that could boost the economy. When the standards of developed economies, means economic growth will be stable. Real effects of economic progress are the development of financial institutions, particularly banking (Zuhdi 1997). The financial crisis that hit the nation of Indonesia in mid-1997 gave a result of the weakening of the rupiah exchange and affect the political situation, peace and had an impact on many troubled financial institutions due debts that can not be recovered by the bank to its customers. For the banking sector, the crisis that weakened the rupiah exchange have significant effects on the banking institutions due to increased debt in the U.S. dollar and the loan is not paid (non performing loan) as a result of the number of customers or clients who do not successfully pay off the debt (default). Various things have been getting on the banking situation worsened over the years has had a number of drawbacks: 1). The existence of hidden guarantee (implicit guarantee) issued by the Central Bank on a number of banks as a result of the economic crisis. However, this has given rise to dishonesty or corruption among bank managers and owners, 2) Total loans larger than payments received by the bank, 3) weakness bank management capabilities, the bank faced an increased risk as a result of monitoring and system internal information and weaknesses in monitoring, detecting and resolving troubled loans, and 4) There is no integrity of the bank in providing information about the bank. By looking at the financial banking interests, the efforts to improve and strengthen the financial sector, especially banking becomes very important. The

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banking sector has a major role in the recovery of the economy as a whole. This is due to its role in the maintenance of the national payment transactions and intermediary functions. The banking sector also serves as a transfer of supervision policy. With the banking industry in general is experiencing difficulties, changes in policy through the banking sector supervision does not work as expected. This result is often less effective supervision policies to achieve the target.

Process of overall economic recovery, will take a longer time when compared to the fall, as part of the economic infrastructure of the fall may have suffered damage that takes time and effort to restore it to normal. To overcome the effects of the crisis, immediate action is necessary to do banking natural setting in an effort to build public trust and the original depth beyond the financial and economic system of Indonesia. In addition, to try to get a better bank to get back to function as intermediary institutions that can support economic growth while improving the effectiveness of monitoring implementation.

Implementation of Law No. 22 of 1999 (Law No.22/1999) on Regional Government and Law No.25/1999 on Financial Balance between Central and Local Government has given the widest opportunity for the district to optimize the management of the potential of the area districts . This situation would directly influence the aspects of life in the county area with a large area of natural income. Therefore, through this regional autonomy, the role of regional leader to optimize the potential of the region will cause investors attracted to improve Indonesia's involved in the financial crisis.

Regional Development Bank (BPD) as the holder of the financial district set forth in the Law on foundations No.13/1962 Conditions Regional Development Bank serves as a catalyst for the region's economy and moving the county's economic development to improve the living standards of the community as well as providing development financing in the area, raising funds and to implement and save the district money (shareholders or depositors province) as well carrying out the activities of banking business. With the availability of capital from third parties, particularly the ruling capital deposited in the District Development Bank, it will be one-off costs of income. Cost is obtained as the bank is obliged to pay interest rates that are placed in the form of local government savings (Local Government). When the difference is greater than the cost of pendatan, then losses are obtained. Instead when income is greater than the cost of bank profitability is happening.

Regional autonomy laws that manage the financial balance area will contribute to the increase in third party funds in the banking industry in Indonesia. This can be seen from the increase in funding between 2000 and 2003 by the national banking system. Total funds raised by the national banking system can be seen in Table 1.

**Table 1:** Total National Banking Fund (in Trillion Rupiah)

Aktiviti	Dis 2000	Dis 2001	Dis 2002	Dis 2003	Dis 2004	Dis 2005
Total Funds	859.3	929.3	934.9	975.4	1,076.5	1,252.2
1 loans receivable	46.3	28.7	13.7	7.5	9.8	11.4
2 Priced letter published	10.6	9.6	4.1	10.8	14.3	13.4
3 Interbank Pasiva	699.1	797.4	853.8	888.6	963.1	1,127.9
4 Interbank Pasiva	103.3	93.6	81.3	68.6	89.4	99.4

resources: www.bi.go.id

Aspects of the fund's investment banking nationally significant increase. This can be seen with the increase in national investment banking funds as a whole are presented in Table 2.

**Table 2:** National Investment Banking Fund (in trillions of rupiah).

Activity	Dis 2000	Dis 2001	Dis 2002	Dis 2003	Dis 2004	Dis 2005
Pelaburan Dana	539.3	634.5	663.8	765.4	889.5	1,010.5
1. SBI	58.7	74.3	76.9	101.4	94.1	54.3
2. Priced letter	24	49.2	46.9	68.7	90.8	60.8
3. Interbank Assets	129.8	149.4	124.6	112.2	103.5	159.1
4. Participation Capital	6.4	3	5.1	5.9	6.2	6.1
5. Credit	320.4	358.7	410.3	477.2	595.1	730.2
a. in Rupees	178	228.6	296.9	362.6	459.1	584.4
b. in Currency	142.4	130.1	113.4	114.6	135.9	145.8

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Regional Development Bank as a percentage of the national banking system is still relatively small but due to the characteristics possessed by the BPD as a driving force in the economy of the district and as a source of income as well as native district governors were appointed as district money, the existence Role of BPD will continue to rise. Furthermore, with the implementation of the 1999 Law on local government and law No. 25 of 1999 on the financial balance between central government and local governments are then replaced with law No. 32 of 2004 and Law No. 33 of 2004, the BPD should be able to provide optimal contribution to local government. However, the mission statement and vision of the Regional Development Bank economic wheel driving in the area just slogan, because the District Development Bank management should change the behavior

of the bureaucratic attitude into business orientation. In the future in line with the policy of regional autonomy, the existence of BPD predicted to be more important. As a banking institution operating in the region, the role of driving economic sebagai BPD in the district to be very significant. What's more, BPD is currently experiencing liquidity advantage. One of them comes from the General Allocation Fund (DAU) that dikucur by the central government with greater amounts relative to bank size classmates BPD (Eco B.Supriyanto, 288 Info Bank, Vol.XXII November 2001).

In performing its functions, BPD suffer from a number of obstacles, such as map competition between banks in the region may not always be well utilized by among BPD. Jurubayar sebagai paradigm of local government (local government) is not a bank position BPD (Infobank, number 283, December 2002), and also mentioned the advantages of accumulated funds not channeled as sector This real credit to their fullest potential. In general, a number of policy constraints faced BPD presented by Tambunan Infobank (2002: (a). Measure is too small bank in terms of assets, particularly compared to the national private sector, (b). Reputation BPD has not been convincing in the eyes of the Customer; (c). skills and human resources BPD has not been commensurate with human resources to other banks (d). bad governance organization, the stakeholders in the business world should not government officials, weakness Regional Development Bank for this is due to the slowness of Human Resources (HR ). Human Resources BPD requires agility. energy SDM must be able to follow the acceleration, growth, and this development of their own bank.

According to a number of analysts and bank members (Info bank; 2002), there are some things that should be done by the BPD, among others: 1) BPD should be more active to extend credit as anticipation face stability of money market and interest rate cuts, 2) Perform risk management better because of the weakness of national banking including none other BPD lies in risk management, 3) Preparing the Human Resources (HR) and a more flexible organization, including the development of technology and of government based on the principles of good industrial Stewardship, and 4) Change the paradigm of the owner to BPD current position as purely jurubayar local government and non-banks.

Specialized in channeling credit, BPD suffer from some other obstacle between capitalization limitations owned. Capitalization is a very important thing for the bank to support the functioning of credit intermediation through. This is because even if the third party funds collected very large, but if not offset by additional capital will be limited in the bank credit channel. Each loan expansion plan should be supported by the availability of additional capital, because when it is not then credit expansion will only impact on the decrease in Capital Adequacy Ratio (CAR) of the bank. Thus, on the one hand capital is a very important factor for banks to actively support the expansion of credit operations, and to fulfill the minimum capital duty and penompang risk of loss. However, on the other hand local governments as owners (shareholders) Estimated funds rely District Income and Expenses (regional budget) are limited to capital participation to BPD. Other obstacles are less selarasnya between BPD owned fund resources particularly in the period, in which most of the funds collected by BPD sourced from local government savings with a relatively short period of time while the use of the funds allocated to the transmission of credit with repayment period relatif more long. In addition, the generally close most of the credit went to the consumptive.

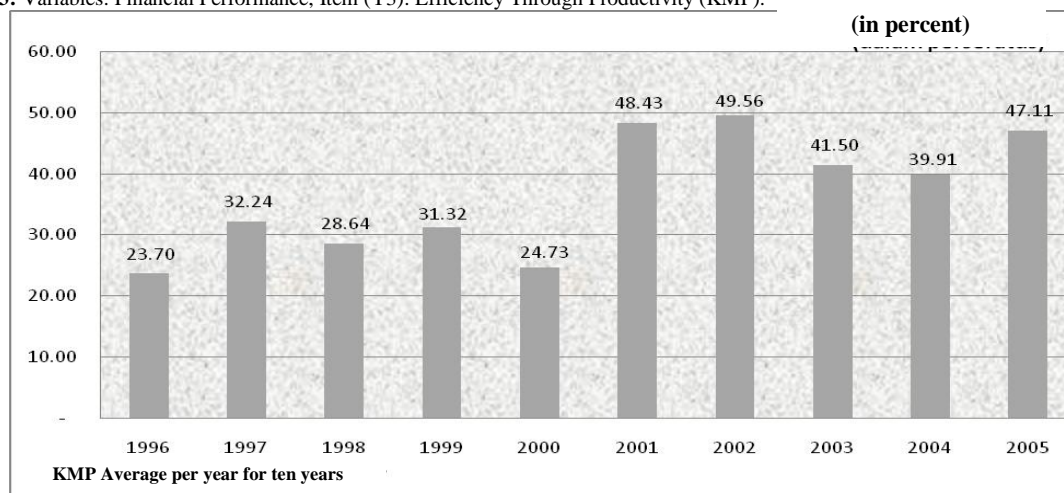
Of research covers issues such as macro-economic factors, capital, asset quality, liquidity, market risk and financial performance BPD in Indonesia. As to the question of this study can be summarized as follows: 1) Is there influence of macroeconomic variables, variable capital, asset quality variables, variable market liquidity risk and financial performance, 2) Is there a variable influence on the performance of the market risk Development Bank's financial district, and 3) What impact the financial performance of the District Development Bank in Indonesia before and after the autonomous region? The financial performance of BPD in Indonesia seen through productivity growth efficiency (Y3) as shown in Table 3.

From the above data can be explained that before the financial performance of regional autonomy stable and there were things that stand out, but there is an increase from the year 2000 until mid-2003, then at the end of 2003 and 2004 there was a significant decrease. Efforts made to improve the financial performance of them is the understanding of BPD queries macroeconomic situation, which consists of economic growth and inflation. Having regard to the macro-economy, the bank can improve its performance, as expressed by Syafnir (1995) that the macro-economic situation, which is becoming a part of the external factors in analyzing recovery in the stock market and banking. The next factor is taken into account in the improvement of the financial performance of BPD is the capital, as quoted by Rose (2002) that bank capital plays a very important role in supporting the operation and survival (survival) of the bank in the long run. Next factor in asset quality, that is, if the bank is unable to manage well, it can also affect the asset quality of the banking performance as quoted from Lukman (2003). Implications for the bank as a result of the problematic emergence of productive assets can result in the loss of the opportunity and the chance to earn a return on total assets increased.

The next factor that could affect the financial performance of banking liquidity factor. Availability of liquidity to explain the source of funds at the moment and the future. When liquidity is disrupted, then the chance of earning will be disturbed. It is therefore very necessary liquidity observed, as pointed out by Hirt and Block (1999) that the main emphasis of the liquidity ratio is the determination of the company's ability to pay

short-term obligations on a long-term fall in the period. This ratio can be related to the accounts receivable turnover and inventory turnover faster making for cash through the liquidation of the company and increase liquidity.

**Table 3:** Variables: Financial Performance, Item (Y3): Efficiency Through Productivity (KMP).



A further factor that could affect the financial performance of the banking market risk (capital backups or backups that are designed to cover fluctuations in interest rates and the exchange rate). Risks can not be avoided, but should be managed, the ability to manage the risk of chairman will affect our financial performance. The interest rate is the price paid to borrow debt capital, with capital available, investors hope will earn dividends and capital gains (Brigham and Ehrhardt: 2002).

Based on the above background, the objectives of this study are: 1) To test the effects of macroeconomic variables, variable capital, asset quality variables, variable market liquidity risk and financial performance, 2) To test the effects of market risk variables for Regional Development Bank's financial performance, and 3) to compare the financial performance of the District Development Bank in Indonesia before and after the autonomous region.

#### Review Literature:

##### Some Earlier Studies:

Clarity to the validity and usefulness of a study conducted by a researcher will be clearly visible when the researcher is able to search a number of previous findings of others then position the existence of studies done right now. Findings of a survey used as reference in this study is a study that addresses the theory of macroeconomic capital, asset quality, market risk, and financial performance in the financial or banking institution. In connection with the foregoing, it will be discussed in the findings of several previous studies taken the only study that researchers have an influence on the financial performance of other banking institutions; Pi and Timme (1993) concluded that Peak management team ownership structure, composition of the board of directors, influence the work of the bank while no significant internal monitoring of the effectiveness of the operation. The next year, Robert Halt and Karen Walewski (1994), a study of the performance of 300 banks on the boards that have good performance according to the Federal Deposit Insurance Corporation to use Return on Assets (PAA), and Return on Equity (PAE) as a measure for profitability. Based on the results obtained conclude that the bank has a high work of PAA and PAE can earn above the average banking industry. This can be achieved because the banks: (a) organizing the asset portfolio and the risk of bank liabilities contained effectively, (b) increased pendatan not spring from bank employees high quality, and (c) optimize the size of bank liabilities obligations -mainly to assets that produce.

Further in 1995, O'Driscoll and Berger, from The Federal Reserve Bank of Dallas also has studied the possibility that bank failures reflect decisions made by the Portfolio Manager Asset Liability of a bank. On the big issues, bank failures during the time of the 1980s and 1990s had befallen the large banks in the United States as the Franklin National, Commonwealth National Bank, Hamilton National Bank, First Pennsylvania, United American Bank, and Penn Square Bank. They compare the performance of financial ratios 1974, 1985, and 1992 with measuring tools; ratio of loans to assets, the ratio of U.S. treasury securities assets, the ratio of core deposits to total liabilities, and the ratio of funds that have been purchased on the amount of the obligation. Results of their study concluded that the results of the risk manager to bring the portfolio holds a very significant role in determining bank failure is ketidakahlian fundamental factors of a bank manager who cause a bank failure. In addition, in connection with bank failures, the Federal Deposit Insurance Corporation (1996)

have also studied the causes of the failure of 124 banks in the bank for a period of time from 1984 to 1992 based on the size of banks. The findings concluded that the causes of bank failures in large banks due to credit risk (76%), interest rate risk (14%) and liquidity risk (10%). Cause of failure in small banks are due to the credit risk (76%) and the risk of fraud (24%). In 1998, The Office of the Comptroller of the Currency has also done research on the causes of bank failure. The study focused on three issues, namely: (a) Why do banks face problems, (b) Why some banks successfully bounced back while others fail, and (c) Why some banks are healthy. Analysis was performed on 171 bank failures, 51 banks and 38 banks restored healthy, using the approach CAMEL (Capital, Asset Quality, Management, Earning and Liquidity). The findings concluded that despite the poor economic conditions have difficulty in obtaining bank for a profit, but the procedures and policies of a bank management and board of directors have a greater influence on the success and failure of a bank.

Studies on the performance of banks also done by Ayadi *et al.* (1998). This study, it was found that the poor performance of banks in Nigeria, especially due to the severe management. It is characterized by credit risk, and liquidity risk much, worse credit quality and the ability to create awkwardness capital sourced from internal bank. In 1999, Misrha and Nielsen conducted a study on the linkage between bank performance, independence and sensitivity Board CEO contractual performance. Based on the study, obtained the conclusion that for large banks that have a high regard for the existence of a bank manager, then director of the bank will be bought off to labor in one of the departments. Current bank situation is below average, it is not necessary alignment of the CEO compensation contract with the interests of shareholders, but the current financial performance of banks in weak situation, then the alignment of incentives through the CEO compensation contract to be an important thing. The study of the relationship between the efficiency and results of commercial banks in the United States over the 1994-1998 time period were also made by Barr & Korry.

We also want to see the impact of the global economy on the performance of Japanese banks in the post Basel Accord Environment (1990), Weber and Williams (2002) has done a study on the economic impact. The study found that of adjusting to exogenous changes in Japanese banks in increments as an institutional structure designed to reduce and manage external influences on domestic products.

Studies on the performance of banks in the various banks that are experiencing economic transition also has been done by Fries *et al.* (2002). The results showed that excessive risk-taking will reduce bank profits should register a cost accounting due to higher risk. Relate to matters described above in 2002, Cornet *et al.* has done research on the effect on Section 20 Subsidiary Compliance of bank work. Based on the results, it was found that the banks are adopting Section 20 Subsidiary increase in return on assets (ROA), but no difference in risk for both sample groups. Furthermore, Chung (2003) conducted a study of the relationship between the structure of bank management and the bank's performance in Shanghai banking industry in the Republic of China. The sample consists of 67 Shanghai Bank between 1912 and 1937. Based on the findings, general conclusions obtained banking considers that the application of risk management by banks is an obligation and not a necessity.

Furthermore, Chong (2005) conducted a study that focused on operational risk management capabilities in four areas, namely the strategic, organizational, and system evaluation or analysis or operations. Based on the findings, conclusions obtained that: (a) public financial institutions in Malaysia have started to develop proactive management of operational risk, faster expansion needed to meet the requirements of Basel II, (b) adherence to a standard of operational risk capital charge set by regulators reflect the risk profile of individual financial institutions, (c) the determination of substantial risk by 12 percent charge when it will be allocated a greater impact on risk adjusted capital calculation.

Based on the findings of several studies conducted by the researchers, the validity and positioning research done in this thesis is the influence of macro-economic, capital, asset quality, liquidity as independent variables to market risk and financial performance of the bank, also influence the market risk of financial performance. Several previous studies have not been there a test or a direct relationship of each of the variables in this study. If there are previous studies that discuss the same variables as the performance of banks, capital, asset quality and liquidity, performed stand-alone or associated with other variables that vary with the variables discussed in this thesis.

#### *Framework Concept:*

The financial crisis that hit the world which travels to Indonesia is not due to poor economic fundamental factors, such as alleged by Tarmidi (1999), namely: "the primary cause of private debt out of the country that have achieved a huge amount. Rupiah in domestic sector is not experiencing the severity but abroad, particularly the U.S. dollar exchange experience overshooting very far from the real value. This prolonged crisis of crisis rupiah exchange impairment is very sharp, as a result of sudden raids repeatedly against the U.S. dollar (speculation) and run the external private debt in large numbers ". The influence of the crisis that occurred cursory supervision can be seen from the bank's financial performance during the before, during and after the crisis happened when. Be reflected in the financial performance of the financial report published annually by the bank. The studies done on the issue of financial performance including macroeconomic factors, capital, asset

quality, liquidity, market risk and financial performance. In between the McNew (1997) who suggested that: "the financial risks faced by the modern banking currently consists of counterparty credit risk, market risk, liquidity risk, operational risk, regulation, and risk factors of human resources".

Then, Setyaningsih (1996) found that: "The financial performance of the company went public after experiencing an increase which will ultimately enhance the value of the company". Liquidity in respect of which the findings of Kim et.al (1998) stated: "That the optimal investment in liquidity will increase external financing, cash flow variations, and returns from investment opportunities, but reduce the difference between the return on the company's physical assets and asset tunaian ". Further, the study of the capital structure and financial performance done by Simerly & Li (2000). Results of their study found that there is strong support for prepositions where mismatch between the company's capital structure and environment will reduce the company's performance. Later research by Ratnawati (2001) found that the variables that influence the value of the company's capital structure, tax payments, company size, company growth, fluctuations in interest rates and foreign currency exchange rates.

Studies on liquidity ratios and capital structure has been done by Bruinshoofd & Col (2002). The findings of the relationship between the liquidity ratio with a capital structure significantly negative. This is due to higher long-term debt will reduce the risk. Therefore, it is not required ample liquidity. Furthermore, Anderson (2002) found that: "There is a positive relationship between liquidity liabilities. These results suggest that high debt ratio will result in high liquidity and low growth. "

Studies done by Chathoth (2002), found that financial performance is influenced by the capital and large corporations. Capital structure is influenced by the liquidity ratio significantly. Next, the research conducted by Indahwati (2004) findings which found that: (1) the company's ability variables significant positive effect on capital structure policy, (2) the performance variables significantly negative effect on financial performance. Related to financial performance, a study performed by Made Putu Antara Indah Lestari (2006), concluded that the factors affecting the stock performance of macro factors (foreign currency, inflation and interest rates) and micro factors (Earning Per Share, Net Profit Margin, Prices Earning Ratio, Return on Investment and Return on Equity). This study uses data Time Series, which examined the company's financial data from 2001 to 2004, with a total sample of seven businesses listed in the Jakarta Stock Exchange. Another study by Erlin and Alvina (2006) concluded that the effect on the financial ratios in stock prices Jakarta Stock Exchange.

Robert and Karen (1994) concluded that banks can obtain high performance ROI and ROE over most of the industry. Then, a similar study done by Ayadi *et al* (1998) to revise bank achievement in developing countries among others in Nigeria who found that the poor performance of banks in Nigeria due to poor maintenance. It is characterized by too much risk and liquidity risk, poor quality loans and a slowdown in the ability to create internal capital from banks.

Another study on the performance of banks, also done by Barr & Richard (2002), this study concluded that: (1) there is a clear relationship between the level of efficiency in non interest income, other non-interest Expense, purchased funds, earning assets and return on average Assets, (2) there is a strong negative relationship between low levels of efficiency in the bank that has a high percentage of fixed assets compared to the bank that has a high percentage of the loan, (3) the level of non-performing loans that affect the low level of bank efficiency is achieved; (4) return on average assets, the ration non performing loans to gross loans and the relative level of purchased funds is influenced by economic conditions, and (5) based on CAMEL-level test, banks that have a high level of CAMEL or banks strong performance has a high level of efficiency when compared with weak banks.

Other studies on the macroeconomic performance of the bank and performed by William et.al. (2002) study they found that there was adaptation to exogenous changes in Japanese banks in increments as an institutional structure that is designed to reduce and manage external influences on gross domestic product.

The real economic actors prefer financial institutions through public debt and equity markets. Japanese banking experience provides two important and very valuable lessons for government in setting polisy or market and economic base. First, the world economy, the rules of the government is not allowed against the market power between nations. Second, efforts to avoid market will only worsen the situation. What you should do is adjust and avoid potential problems. Based on the previous description, the theoretical framework used in this study underlying reasoning is based on the general theory (Grand Theory), the theory of financial institutions from Saunders (1998) and Hubbard (2000). In this theory, explained that the financial institution is an institution that facilitates the importance of surplus units and deficit units through its brokerage and asset conversion tool. Collection of funds from surplus units can be done directly by the financial institution depositors, the banking and other financial services by offering non-bank financial institutions.

Next, the theory of the maintenance of financial institutions and financial procedures of Hempel (1994) and Cornett (1999) is used as an intermediary theory, the theory mentioned that implementing institutions in the implementation of financial intermediation always followed there is an element of risk must be managed well, if risk is not managed properly will cause damage and will reduce capital structure that will ultimately affect the financial performance of banking. While the application of the theory used in this study was taken from Weston

(1996) who studied the capital structure. In this theory, noting that the capital structure decisions related to how much of the debt and equity that should be used by a company. Macroni and Siegel (1989), Mulyono (1990) also examined the financial performance and review of financial analysis dibidang banking.

#### Research Methodology:

##### Samples, Unit Analysis, Variables and Dimension Study:

Sampling units in this study purports Regional Development Bank (BPD) totaling 26 banks, which were observed for 10 years, meaning a unit of analysis (sample observations) totaled 260 (26x10) in the form of financial reports from the bank's own regional development, divided in 2 days the 5 years prior to the autonomous district (1996-2000) with a total sample of 130 observations (unit of analysis) and 5 years after autonomous region (2001-2005) with a total of 130 units of analysis (sample observations). Software used in this study are; Statistical Package for the Social Sciences (SPSS), Linear Structural Relationship (LISREL). As for data analysis Berstruktur Equation Modeling (SEM) with time series data.

The data used in this study is panel data. Gujarati (2004) defines as a combination of panel data and time series data on cross-sectional data (cross-section), which is obtained by combining the advantages of time series data and cross-section is to provide more information, more varied data, low kekolineran between variables, and more efficient. Gujarati data combined with cross-sectional time series (total sample).

##### Methods and Data Analysis:

Data are collected, analyzed using SPSS and LISREL statistical software. Data analysis methods used were structured equation modeling (SEM). PPB is a statistical methodology with validation approach to multivariate data analysis (Byrne 2001; Hair *et al.*, 2006).

#### 1. Normality Test:

Normality test is a test done to determine whether data derived from our study population has a normal distribution. This test should be done for all parametric statistical calculations have normality assumption.

#### 2. Test Reliability:

The concept of reliability can be understood through the concept of consistency of policy ideas (Indriantoro and Supomo, 1999). A measuring device is said to be trusted when the tool always shows the same results when measuring a symptom at a different time. So, the device is said to be trusted if consistently give the same measurement results.

##### Structured Equation Modeling (SEM):

Structural equation modeling requires a large number of samples due to the matching assessment procedures on the basis of the model is the assumption of a large sample Hair *et al.* (2006). This study uses population (all BPD) in Indonesia, which amounted to 26 banks. When viewed from the list of total BPD in Indonesia and multiplied by years of survey data, then there were 260 units of analysis, which consists of six variables as shown in Table 4.

**Table 4:** Variables and Item Review.

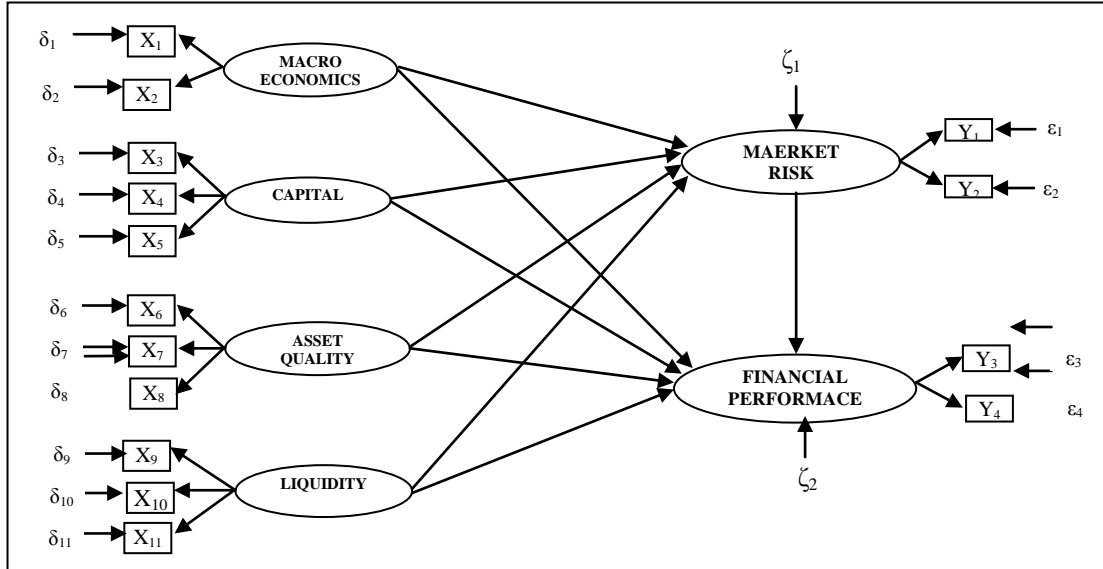
Variables	Item-Item	Kod
Macro Economics	1. Economic growth	X1
	2. Inflation level	X2
Capital	1. Preparation Obligation fulfillment adequacy Minimum Capital (KPM)	X3
	2. Productive assets are classified as compared to bank capital	X4
	3. composition of Capital	X5
Asset Quality	1. Productive assets are classified to the total productive assets	X6
	2. The development of productive assets problematic	X7
	3. Opt-sufficiency level formation Productive Asset Disposal (PPAP).	X8
Liquidity	1. Deposit Loans Ratio (NPD)	X9
	2. Stability Third Party Fund (DPK)	X10
	3. Dependence on funds between banks and depositors core.	X11
Market Risk	1. Capital or collateral designed to cover interest rate fluctuations.	Y1
	2. Capital or collateral designed to cover exchange rate fluctuations.	Y2
Financial Performance	1. Skills Through Web Interest Margin	Y3
	2. Skills Through Productivity	Y4

Source: Bank Indonesia (2004)

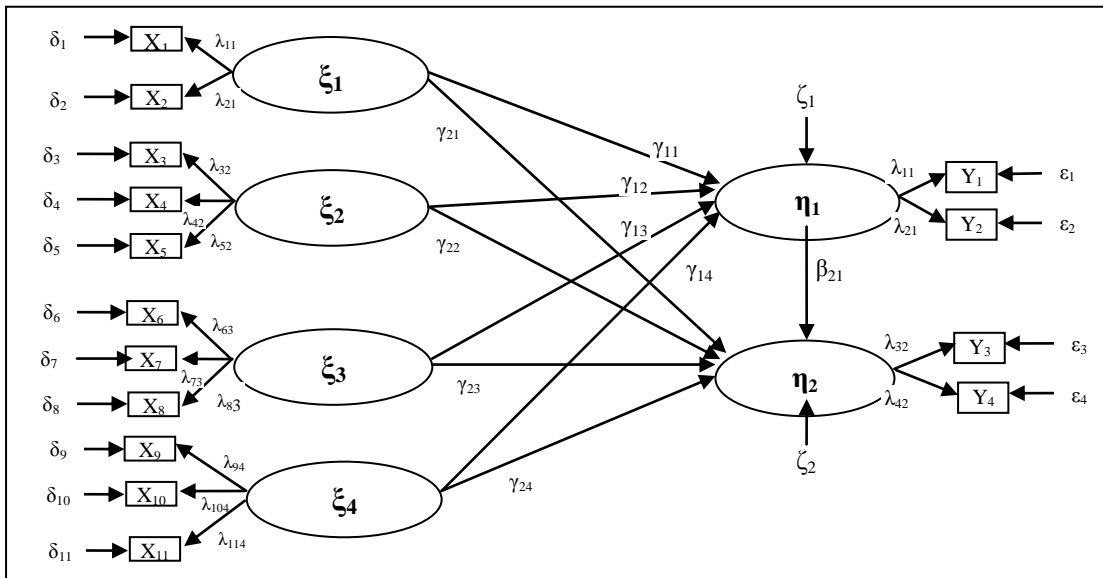
*Analysis Measures:*

Hair *et al.* (2006) recommends seven steps in the processing of structural equation modeling, namely: (1) development of a theory based on the model, (2) development path diagram, (3) the composition path diagram of the model structure, (4) estimation model, (5) the identification of the model, (6) an assessment of the model fit, and (7) modification and revaluation model.

Modification model (although very little) should be based on the theory that supports, and modifications to the model is not done just to achieve matching model (Hair *et al.*, 2006).



**Fig. 1:** Conceptual model of the band diagram form.



**Fig. 2:** Conceptual model of the band diagram form (LISREL notation).

Based on the line path can be expressed in equation form as follows;

a. structural similarity

$$\eta_1 = \gamma_{11} \cdot \xi_1 + \gamma_{12} \cdot \xi_2 + \gamma_{13} \cdot \xi_3 + \gamma_{14} \cdot \xi_4 + \zeta_1$$

$$\eta_2 = \gamma_{21} \cdot \xi_1 + \gamma_{22} \cdot \xi_2 + \gamma_{23} \cdot \xi_3 + \gamma_{24} \cdot \xi_4 + \beta_{21} \cdot \eta_1 + \zeta_2$$



## b. Exogenous variable equations

$$\begin{aligned}
 X_1 &= \lambda_{11} \cdot \xi_1 + \delta_1 & X_7 &= \lambda_{73} \cdot \xi_3 + \delta_7 \\
 X_2 &= \lambda_{21} \cdot \xi_1 + \delta_2 & X_8 &= \lambda_{83} \cdot \xi_3 + \delta_8 \\
 X_3 &= \lambda_{32} \cdot \xi_2 + \delta_3 & X_9 &= \lambda_{94} \cdot \xi_4 + \delta_9 \\
 X_4 &= \lambda_{42} \cdot \xi_2 + \delta_4 & X_{10} &= \lambda_{104} \cdot \xi_4 + \delta_{10} \\
 X_5 &= \lambda_{52} \cdot \xi_2 + \delta_5 & X_{11} &= \lambda_{114} \cdot \xi_4 + \delta_{11} \\
 X_6 &= \lambda_{63} \cdot \xi_3 + \delta_6 & &
 \end{aligned}$$

## c. Endogenous variable equations

$$\begin{aligned}
 Y_1 &= \lambda_{11} \cdot \eta_1 + \varepsilon_1 & Y_3 &= \lambda_{32} \cdot \eta_2 + \varepsilon_3 \\
 Y_2 &= \lambda_{21} \cdot \eta_1 + \varepsilon_2 & Y_4 &= \lambda_{42} \cdot \eta_2 + \varepsilon_4
 \end{aligned}$$

*Research Analysis and Discussion:**Data Analysis Results:*

As mentioned in Chapter IV will be submitted in advance detailed analysis Statistical Package for the Social Sciences (SPSS) to see the results of the normality test and reliability test (Cronbach Alpha), before use of structured equation modeling (SEM). From the comparison of the calculation results of normality test and reliability test using the SPSS program, the results obtained before and after regional autonomy and regional autonomy, as shown in Table 6.1 after it emerged that local autonomy normality test and reliability test better than before regional autonomy, this result can be seen through the normal average, KMO, MSA, and load factor (loading factor) were all above 0.500. Because based on the benchmark or standard that, statistical analysis of structural equation modeling (SEM) can be done when the new results in can be larger or above is 0.05. Means that the data will be analyzed by data berdistribusi PPB is normal and reliable.

*In PPB have developed two types of models, the measurement model and model:*

Structured Equation Modeling Before and After Autonomous District Structural equation modeling for this study is shown in Figure 6.7 and 6.8. Figure 6.7 is a before and Regional Autonomy Autonomy Figure 6.8 after. In this model the first two tests performed, test the macro, capital, asset quality and liquidity risk affects the market before and after the Autonomous District. Second, to test the influence of macro-economic, capital, asset quality, liquidity and market risks on the financial performance before and after the Autonomous District.

Results from the matching equation modeling of the structure before Autonomy can be seen in Table 6.7. Based on the results of the analysis conducted found that the goodness of the model is acceptable because it has a relatively good model fit. Chi-squared value ( $\chi^2 = 123.6$ ) ( $p = 0.001$ ) and the value of  $p$  there is correlation with the sample data. Test results showed that the CFI value is 0.9628 and 0.9211 and the NFI is located at the proposed value (0.90). While the value of GFI reached 0.8867 and 0.90, and the value is still at the proposed value. While the RMSEA value of 0.078 and found to be good under the proposed 0.08. Overall, the value obtained approach proposed value and goodness of acceptable models (Hair *et al.*, 2006).

**Table 5:** Number Of Macro Economic Variables Influence (X1), Capital (X2), Asset Quality (X3) And Liquidity (X4) For Market Risk (H1) After Autonomous District.

0.1	Influence coefficients	Direct influence	Indirect Influence	total influence
$\xi_1$	0.1606	2.58%	-	2.58%
$\xi_2$	0.3141	9.87%	-	9.87%
$\xi_3$	0.2995	8.97%	-	8.97%
$\xi_4$	0.2087	4.36%	-	4.36%
Jumlah Pengaruh Secara Keseluruhan				25.78%

A direct influence = coefficient Kuadrat

Based on results as can be seen in Table 6, macroeconomic variables, capital, asset quality, liquidity and market risk after Autonomy is able to explain the changes that occurred in 25.78% of the market risk and the remaining 74.22% is explained by factors who were not examined. While the macro-economic variables, capital, asset quality and liquidity risk and market risk on its financial performance after local autonomy can be seen in Table 6.

The results of analysis of Table 6. macroeconomic variables, capital, asset quality, liquidity risk and market risk are able to explain the changes that occurred in the financial performance of 62.13% and the remaining 37.87% is explained by other factors that were not examined.

**Table 6:** Number of Macro Economic Variables Influence (x1), Capital (x2), Asset Quality (x3), liquidity (x4) and Market Risk ( $\eta_1$ ) On financial performance ( $\eta_2$ ) After Autonomous District.

Latent variables	Influence coefficients	Direct influence	Indirect Influence	total influence
$\xi_1$	0.0914	0.84%	8.65%	5.23%
$\xi_2$	0.0612	0.37%	16.92%	3.77%
$\xi_3$	0.1331	1.77%	15.92%	8.35%
$\xi_4$	0.2362	5.58%	11.24%	15.74%
$\eta_1$	0.5389	29.04%	-	29.04%
Jumlah Pengaruh Secara Keseluruhan				62.13%

Indirect influence = Multiplication coefficient influences from bands 2

#### Hypothesis Testing:

In this study, the measurement model fit (goodness-of-fit) is the main criterion for testing the hypothesis model. Weighted regression was used to test the hypothesis and the effects of latent variables exogen of endogenous latent variables.

#### *Influence of Macro Economics Against Market Risk and Financial Performance of Regional Development Banks in Indonesia:*

##### *a. Influence of macroeconomic variables on market risk before and after the regional autonomy:*

The hypothesis tested is the influence of macroeconomic variables ranging from the economic growth rate and the inflation rate, the market risk.

Results of previous studies of regional autonomy found that there was no significant influence of macroeconomic variables between market risk. This is evidenced by the results of path coefficient of macroeconomic variables on the risk of the market is -0.0407 with a negative direction, and found that the smaller t-calculate t-critical (-0.3624 < 1.96). Band with a negative coefficient indicates the macroeconomic variables the higher will reduce market risk. Furthermore it follows that after the regional autonomy are significant macroeconomic impact of market risk, it is proved that the path coefficients macroeconomic variables, the market risk of 0.1606 with a positive direction. Band marked positive coefficient macroeconomic explain the higher will increase the risk of the market. Found that the value of t-calculated is greater than t-critical (1.9797 > 1.96), with the amount of influence each the size of 0.17% and 2.58%. Hypothesis test of the influence of macro-economic impact of market risk before local autonomy does not give significant influence, do not give dikeranakan influence on the condition of local autonomy time before economic growth and inflation uncertainty, as seen in the 1998-1999 monetary crisis occurred up banking operations not running normal, many banking institutions in mergers or closed, while macro-economic post of regional autonomy is a significant influence on the risk of the market as the monetary crisis is almost non-existent. These findings are in line with studies done by Patro *et al.* (2000) stating that the macroeconomic influence on market risk. This study was supported by a statement made by Syafnir (1995) that the macro-economic situation has an important role in the analysis of the stock market and banking risk.

##### *b. Influence of macroeconomic variables on the financial performance before and after the regional autonomy:*

The hypothesis tested is the influence of macroeconomic variables ranging from the economic growth rate and the rate of inflation on the financial performance before and after the autonomous region.

The findings explain that there is no significant influence of macroeconomic variables on the financial performance before Autonomous District. This is evidenced by the coefficient band of macroeconomic variables on the financial performance of the negative size of -0.0164 and t-count leih lower than t-critical (-0.1732 < 1.96), this dikeranakan monetary crisis that occurred during the pre-autonomous region. Whereas after the autonomous region also has no significant influence. Can be seen that the coefficient of 0.0914 big band with the positive direction, t-count smaller t-critical (1.4205 < 1.96). Band with a negative coefficient explained that the macroeconomic variables the higher will improve financial performance while lowering financial performance with positive clarify, the amount of influence respectively 1.35% and 9.49%. Hypothesis test results show that both before and after the autonomous region of macro-economic variables do not provide a significant influence on the financial performance. These findings are not in line with the results of a study performed by Muslumov *et al.* (2005) on small and medium-sized companies stated that macroeconomic variables play an important role in improving the company's performance. This study is not consistent with Giovani (2005) stating that the performance of the banking company is highly dependent on macroeconomic factors.

In the context of the Regional Development Bank in Indonesia, no significant effect of macro-economic relationship with financial performance either before and after the regional autonomy implies that macro-economic items such as economic growth and inflation levels are not able to explain the financial performance of banking. This study has shown that in the time before or after the autonomy of regional autonomy, Indonesia's economic growth is not robust and relatively high inflation rate.

*Influence of Capital Market Risk And Performance Against Financial District Regional Development Bank in Indonesia:*

*a. The influence of variables on the risk capital market before and after the regional autonomy:*

The hypothesis tested was the influence of variables on the risk capital market before and after the Autonomous District. Capital variables measuring instrument consisting of a minimum capital adequacy provision of fulfillment, productive assets that are classified as compared to bank capital, and the composition of capitalization. Results of tests performed before and found that after the autonomous region between variables found significant influence on the risk capital market. This result can be seen from the path coefficient, the market risk capital variables each the size of 0.3262 and 0.3141 with the positive direction is the positive direction. Band with a positive coefficient value variables explain the higher capital will increase market risk. Further, it found that the value of t-calculated for each greater than 1.96, with the amount of influence each the size of 10.64% and 9.87%.

These findings are consistent with the views expressed by Brown (1994) which states that in order to be able to achieve good performance of banking, then the bank should identify the level of the risks and try to avoid high-risk markets. This view is supported by Fries *et al.* (2002) which states that high risk can affect the banking capital reduction. In this case, the capital of the bank is to eliminate the main proponent of an unexpected loss. Thus it can be said that the bank's capital is very important as a supporter to create confidence in the bank deal with uncertainty and risk as a buffer so that peace can be secured with good bank (Rose 2002 Sinkey 1998).

These findings also are consistent with studies conducted by Fraser (1990) stated that the success or failure of a bank can be seen from the extent to which management can balance between profit and risk. Management of risks, including market risk with effective and successful results that enhance shareholder value (Barton *et al.* 2002 Cooper 2006; Erns & Young 2003). Conversely when the risks are not well managed bank, it will be a negative influence on capital and bank performance (Driscoll 1995; Rose, 2002; Sinkey 1998). When the bank management is not able to manage counterparty credit risk, liquidity risk, poor quality loans and slow or less capable in creating internal capital sourced from the bank, then the bank will cause performance to be weak (Chong 2005; Ayadi *et al.*, 1998).

In the context of the Regional Development Bank in Indonesia, capital variables have a significant relationship with either market risk before and after due Autonomy Regional Development Bank has a minimum capital adequacy provision of fulfillment, productive assets classified as compared to bank capital, and the composition of bank capitalization on development province in Indonesia, and is not fully able to run independently by the relevant bank management. This is because good preparation and composition of capital is determined by the capital stock, which in this case is the State (Regional Government), so all the approaches to be taken by the management is inseparable from the interests of the State (District), taking into account factors such as the global banking environment the development of changes in interest rates and changes in the exchange rate.

*b. Capital variables influence on the financial performance before and after the regional autonomy:*

The hypothesis tested was the influence of variables consisting of capital adequacy provision of fulfillment of minimum capital, productive assets that are classified as compared to bank capital, and the composition of the capitalization of financial performance before and after the autonomous region.

It was found that before the autonomous region there is a significant influence on the financial performance pemolehubah capital, this can be seen from big band coefficient 0.4140 with the positive direction of 4.1821 and t-count greater than 1.96. Whereas after the autonomous region there is a significant influence can be seen from the big band coefficient 0.0612 with positive direction and t-count 0.8875 smaller than 1.96, and the amount of influence respectively 27.74% and 17.29%. Band coefficient to explain the positive direction of the higher capital variables will improve financial performance. Results of previous studies of regional autonomy in line with the research done by Cathoth (2002), states that the capital, firm size, and liquidity ratios have an influence on the financial performance, also in line with studies done Indahwati (2004) states that capital significantly affect financial performance. Studies done by Cathoth (2002) and Indahwati (2004) against the companies, whereas this study done for banking institutions (BPD), which is owned by the respective governments in Indonesia. Having found that the capital of the autonomous region has no influence on the financial performance as well as BPD capitalization funds owned by governments plus more from investors or any third party for Regional Development Bank (BPD) can maintain its quality even compete with banks others, however, governments, investors, and other third parties remain BPD as a bank of choice, coupled with the implementation of the Law # 22 and 25 years 1999 yang be effective beginning in 2001, governments are given autonomy (full rights) to dig the natural resources in their own state.

*Influence Against Market Risk Asset Quality And Performance Financial District Development Bank in Indonesia:*

*a. Variables influence the quality of the assets to market risk before and after the regional autonomy:*

Research hypothesis is the influence of variables ranging from the quality of assets classified productive assets compared with total productive assets, the development of productive assets and the level of distressed adequacy deletion sorting formation of productive assets to market risk before and after regional autonomy. The analysis showed that before the autonomous region there is a significant influence asset quality variables with market risk, this is evidenced by the coefficient 0.0511 band with the positive direction, with a t-count 0.4777 is smaller than 1.96. After autonomous region there is a significant influence can be seen, the coefficient 0.2995 big band with positive direction then calculate size of 3.9654 t greater than 1.96. Total size of local autonomy influences before and after 0.26% 8.97% autonomous region.

Before autonomous region found that asset quality has no effect on market risk. This dikarenakan governors or management of non-freedom in managing or organizing chairman of the bank (BPD), which in pimpinnya. Asset quality or market risk policy is heavily influenced by the majority shareholder, to give effect to the management of the bank itself. At the time of the occurrence is still the Law No.5/1974 cause many limitations to the management to develop BPD because BPD only as a place to store funds local governments, as well as management's own banking offices held by the government in the position of not course competencies in the management of the bank, resulting in negligible asset quality. With terabainya asset quality problems will cause bank asset quality problems. According Dendawijaya (2003) that the implications for the bank as a result of asset quality problems arise which may include the loss of opportunity to earn income from asset quality given to the borrower to reduce the revenue gains and poorly with the bank. In connection with the asset quality, according to the Banking Law No.10/1998 on article 29 paragraph 2 states that banks must maintain the bank's financial performance according to the requirements of capital adequacy, asset quality, management quality and liquidity in relation to the bank's efforts and must do business activities in accordance with the principle of caution of care.

After autonomous region we can see has been effective since the Law No.25 of 2001 governing BPD is not entirely from those in government positions but filled by people from outside professionals received through the tests (selection ) done strictly and proficiency test (fit and proper test) until the chairmen obtained to say.

*b. Variables influence the quality of the assets on the financial performance before and after the regional autonomy:*

Study was to test the hypothesis variables influence the quality of assets on the financial performance before and after the autonomous region. Results of the analysis concludes that the asset quality variables have significant effects on the financial performance both before and after the autonomous region. Results of this analysis is proved by the autonomous region as large as 0.2141 with the positive direction of t-count is greater than 2.3086 1.96 6.24% the amount of influence, while the coefficient of regional autonomy after big band in the positive direction of 0.1331, 2.2808 t-count is greater than 1.96 with 17.69% total influence . Path coefficients with positive values towards explaining the higher the quality of the assets that will improve financial performance.

The findings are consistent with studies conducted by Setyaningsih (1996) noted that asset quality significantly affected the financial performance and the company in Indonesia. After the significant influence of regional autonomy is due to asset quality management is done optimally by each of BPD in Indonesia, with: 1) analysis was performed with placement of asset quality and risk fundamentally analyze the financial aspects, 2) perform supervision, construction, and billing against the debtor or a related party asset placement is continuous; 3) have done well and optimized for handling of troubled credit.

*Liquidity influence Against Market Risk and Financial Performance of Regional Development Banks in Indonesia:*

*a. Variables influence market liquidity risk before and after the regional autonomy:*

Hypothesis of this study is the influence of liquidity variables consist of the Capital Adequacy Ratio, Stability of Third Party Funds, and dependence on the Interbank Funds & Depositors essence of market risk before and after regional autonomy. Results of the analysis showed that there is significant influence between variable market liquidity risk before and after the autonomous region. This can be seen by the autonomous region as big band coefficient 0.4330 in the positive direction, t-4.0674 calculate more than 1.96, and 18.75% total influence. Whereas after autonmi band coefficient 0.2087 area with positive direction, t-count and the amount of influence 4:36 2.5181%. Band coefficient to explain the positive direction of the higher variable cash will increase market risk. Significant influence is in line with the results of studies conducted by Anderson (2002) which states that there is a positive relationship between leverage with liquidity. These results suggest that high debt ratio will cause high levels of liquidity and low growth. These findings fit well with the results of a study performed by Bruinshoofd and Col (2002) stating that the relationship between the liquidity of capital is

significant. This is due to higher long-term debt will reduce the risk. Therefore, do not require substantial liquidity.

*b. Liquidity variable influence on the financial performance before and after the autonomous region:*

The hypothesis tested is the influence of the liquidity variables on the financial performance before Autonomous District. Outcomes research analysis above shows that there is significant influence between liquidity variables with good financial performance prior to, or after the autonomous region. This is reflected by the coefficient of regional autonomy strip of liquidity variables on financial performance as big as 0.2312 in the positive direction, t-count 2.5237 greater than 1.96, the amount of influence as large as 19.42%. While the size of regional autonomy 0.2362 after the positive direction, t-count 3.3297 greater than 1.96, and a large amount of influence of 16.82%. Bands with positive coefficients towards explaining that young variable cash value higher will improve financial performance.

Hypotheses regarding the influence of liquidity on the financial performance before and after the Autonomous Region is significant and indicated that the funding needs to be given priority investment funds derived from internal funds prior to taking funds from outside and new stock. External funds in the form of smooth asset is less expensive when compared with external funds or external equity. What more if there is not symmetrical due to intake of information from the external fund, the greater the resulting additional risk and ultimately make the fund more expensive capital cost reductions are expected to improve financial performance. Liquidity influence Against Market Risk and Financial Performance of Regional Development Banks in Indonesia. Similarly, the study conducted by Wang (2002) stated that there is significant influence between liquidity variables on financial performance. The study found that BPD in Indonesia before carrying Autonomy Pecking Order theory to make investments in assets smooth (liquid) to reduce the impact of external funding so that it can be obtained cheaper sources of funds such as from savings each state government to local governments account opening ( Local Government) in BPD each State so as to improve their financial performance. Whereas after the autonomous region still carry the pecking order while working on funding a large number of third parties to the fund can also be channeled to companies in need.

*Variables Influence Market Risk Financial Performance Against Regional Development Bank in Indonesia:*

The hypothesis tested was the influence of variables that comprise market risk capital or collateral designed to mengkover fluctuations in interest rates and capital or collateral designed to mengkover exchange of financial performance before and after the autonomous region. Explained that there was a significant test significant influence between market risk and financial performance before and after the autonomous region. These results can be seen before the band coefficients of regional autonomy risk variables on the performance of financial markets as large as 0.3251 with a t-count positively towards 3.6478 is greater than 1.96, and the amount of influence of 10.57%. After dapt local autonomy is seen that the coefficient of 0.5389 big band with the positive direction, t-count 4.9009, and 4.29% as large as the amount of influence.

Bands with positive coefficients towards explaining that the higher the market variables will result in increase of financial performance. There was a significant influence on the performance of financial market risk, due to market risk consisting of interest rates or the exchange rate, when the high level of interest rates is a negative signal for the stock price, this negative signal will indirectly influence the financial performance of the company. High level of interest rates will reduce the percentage of cash flow and will reduce the attractiveness of the investment to be said that the effect of interest rate inversely proportional to the stock price up will reduce the company's financial performance. These findings are in line with studies done by Sugeng (2000) which states that the level of interest rates negative effect on stock prices. The study conducted by Reilly and Brown (1997) also support these findings, stating that the influence of changes in levels of interest rates and inflation on stock prices can have a positive or negative influence on the financial performance. Further Sugeng (2000) also says that the growth rate level is part of the process of evaluating the financial performance and also can be used in assessing the ability of banks in financial activities. So, it can be concluded that the growth rate level effect on the financial performance of the BPD in Indonesia.

*Findings and Outcomes Research:*

The findings from this study do not miss out the theory of contingent stating that the application of a concept or a system is unlikely to be effective and the same for every company. It is highly influenced by the concept or the management system applied (Govindarajan, 2005).

The implications of these findings fit with the benefits from the research that has been mentioned previously, the expansion of financial knowledge that macroeconomic variables for market risk will affect the financial performance of BPD in Indonesia. Therefore, to achieve good financial performance, the quality of assets, liquidity, market and macroeconomic risks in BPD in Indonesia should always be supported by adequate capital factor. Based on the analysis in this study, it appears the banks' capital variables have the greatest impact

on performance (quality) of BPD as large as 25.79%. Thus, capital is becoming very important factor for the Chairman or investor capital to produce or form a thriving bank.

#### *Conclusions and Recommendations:*

##### *Conclusion Studies:*

The study found that the influence of macroeconomic variables before the market risk is not significant regional autonomy and regional autonomy is a significant post. While the relationship between macroeconomic variables and financial performance before and after the regional autonomy was found to be significant.

1. There is no significant influence of macroeconomic and market risk before the financial performance of regional autonomy, while after the autonomous region there is a significant influence on market risk, but has no effect on financial performance. After autonomous regions, increased economic growth rate and low inflation rate, but these encouraging developments had little influence on the financial performance of the District Development Bank in Indonesia. This is due to that the operation of the District Development Bank in Indonesia should refer to the Law Number 13 Year 1962 (Law No.13/1962) which states that the Regional Development Bank is owned by the State (Government of Indonesia), and this has indirectly influence on the financial performance of banking.

2. There is significant influence of the variables in the risk capital market before and after the regional autonomy, while the capital has a significant relationship with financial performance before autonomous regions, and capital has no significant influence on performance after regional autonomy. This is due to the fulfillment of the provision of the minimum capital adequacy, asset classified productive when compared with the composition of the bank's capital and capitalization on Regional Development Bank in Indonesia immediately before and after the autonomous region. In addition, the ability of bank management in managing the optimal bank capital has caused the bank can effectively improve financial performance.

3. There is no significant influence of the variables on the quality of assets before the market risk of regional autonomy has significant influence on financial performance. And have an influence on market risk and financial performance after the autonomous region, this is due to the decisions made by enormous Regional Development Bank are affected by the decisions and interests of the majority shareholder of the State Government. This is due to management of the District Development Bank in Indonesia has been optimized in the effective management of asset quality. Regional Development Bank has done a thorough analysis of asset quality and risk placement, loan collection and monitoring has been carried out effectively.

4. There is a significant influence liquidity variables with market risk and financial performance before and after the autonomous region. It is clear that before regional autonomy, there is a close relationship between the liquidity of financial performance. Regional Development Bank received funds from the State of liquidity in bulk and indirect impact on the financial performance of the District Development Bank.

5. There is significant influence between the market risk variables before and after the financial performance of regional autonomy. This is due to market risk consisting of interest rates or the exchange rate, when the high level of interest rates is a positive sign for the stock price. The positive sign will indirectly affect financial performance. Level high interest rates will reduce the percentage of the invoice value of the cash that will ultimately reduce the financial performance.

6. By looking at the average of each of the items described previously, it can be concluded that the financial performance of the District Development Bank Indonesia influenced by macro-economic, capital, asset quality, liquidity risk and market risk. It was found that after the financial performance of regional autonomy better than before the financial performance of regional autonomy.

##### *Recommendation:*

Based on the findings above conclusions, and to further improve the performance of BPD in Indonesia, there are some suggestions as follows:

1. BPD asset quality in Indonesia to get attention and more effective supervision of the Central Bank of Indonesia that has the power or right in the supervision and construction of public banks, including BPD. Banks must maintain the level of performance in accordance with the provisions of the bank's capital adequacy, asset quality, management quality, liquidity, rentabiliti, solvabiliti and other aspects relating to the bank's business activities and must be done in accordance with the principle of caution of care.

2. Recommendations for further researchers concluded that this study be continued, then require review by adding other variables that were not examined in this study such as political factors, external factors, and economic factors, as all three of these factors greatly influence the performance of real-banking finance.

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