



**Economic Faculty  
Andalas University**

**THESIS**

**Board Governance and Performance of Regional Development Bank  
(BPD) in Indonesia**

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**Submitted in Partial Fulfillment for the Undergraduate Degree in  
Accounting  
Padang  
2009**

## Abstrac

*This study aimed of identifying the effect of board governance on performance of Regional Development Bank (BPD) in Indonesia, measured by return on assets (ROA), return on equity (ROE), ratio of operating expenses to operating revenues (BOPO) and Net Interest Margin (NIM). The units of analysis are 21 BPDs that already change their status become corporation (PT) for the period 2006-2007. The study results are as follow: (1) independent commissioners have positive impact to performance of BPD measured by ROA and BOPO, but insignificant impact to ROE and NIM (2) politician representation on the board increase the performance of BPD, but the study do not found a significant relationship, (3) educational qualifications also have no significant relationship to performance of BPD, and (4) there is a positive sign of a BPD in implementing sound corporate governance in order to fulfill the Ideal Indonesian Banking Architecture.*

**Keywords:** *board governance, independent commissioners, politician, educational qualifications, ROA, ROE, BOPO and NIM.*

# CHAPTER I

## INTRODUCTION

### I.1 BACKGROUND

The existence of Regional Development Bank which also known as Bank Pembangunan Daerah (BPD) in the National Banking Industry cannot be underestimated. They keep straightening up their business and trying market penetration in order to face competition as well as commercial bank. Total asset of all BPD has been increased since 2005 until 2007, as displayed in the following table;

Table 1

Year	Total Assets of all BPD
2005	Rp. 106.4 Trillion
2006	Rp. 159.4 Trillion
2007	Rp. 170 Trillion

Source: Progress, 2008.

We can see from table that in 2006, total assets of all BPD increase 50% from the total assets in 2005, and in 2007 total assets of BPD became Rp. 170 Trillion and if we compare to total assets of commercial banks, BPD is in the fifth rank after Bank Mandiri, Bank Central Asia (BCA), Bank Rakyat Indonesia (BRI) and Bank Negara Indonesia (BNI), as displayed in the following table;

Table 2

## Comparing Total Asset of all BPD with Commercial Banks

No.	Bank	Total Asset- year 2007
1	Bank Mandiri	Rp. 306.5 Trillion
2	Bank Central Asia (BCA)	Rp. 218.6 Trillion
3	Bank Rakyat Indonesia (BRI)	Rp. 204 Trillion
4	Bank Negara Indonesia (BNI)	Rp. 184.4 Trillion
<b>5</b>	<b>Bank Pembangunan Daerah (BPD)</b>	<b>Rp. 170 Trillion</b>
6	Bank Danamon	Rp. 86.6 Trillion
7	Bank Niaga	Rp. 54.7 Trillion

Source: Progress, 2008

In addition, BPD already has 1500 branch office dispersed in all of Indonesia's islands (Progress, April 2008). It means that position of BPD is ought to be count. However, they still run partly in national banking competitive constellation. Consequently, these potential assets cannot utilize optimally yet.

Established by provincially-government based on UU Nomor 13 Tahun 1962, BPD have main objective enhancing the regional economic and financing the regional project. They cover investment credit, consumption credit and working capital credit focusing on UMKM (Usaha Mikro Kecil dan Menengah) sector. For example, during 2008, 13 BPD namely Bank DKI, Bank Bali, Bank Nagari, Bank Jatim, Bank Jateng, Bank Bengkulu, Bank Sumut, Bank Sumsel, Bank Jambi and BPD Yogyakarta allied for deliver syndication credit for infrastructure development in Muko-muko, Bengkulu and 4 BPD (Bank DKI, Bank Jatim, Bank Kalbar and BPD Kaltim) took part in financing PLTU in west Kalimantan. We can see that BPD in their nature have

## CHAPTER V

### CONCLUSIONS AND IMPLICATIONS

The preceding chapter has presented the empirical results and this chapter provides conclusions drawn from the findings and discussions presented in the previous chapter, followed by an assessment of the potential limitations present in this study and possible future directions for research.

#### **5.1 Conclusions**

This research investigates the significant influence of board governance toward performance of regional development bank. The board governance are represented by board composition (independent commissioners and politician) and board characteristics (educational qualification), while financial performances are profitability measured by ROA and ROE and efficiency measured by BOPO and NIM.

The result indicates that the only proportion of independent commissioner is having a significant influence towards ROA and BOPO. In contrast, the research findings show the insignificant influence of independent commissioners toward ROE and NIM. Meanwhile, the results of proportion of politician and member of board with doctorate degree shows insignificant influence toward performance of regional development bank represented by ROA, ROE, BOPO and NIM.

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