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TARUMANAGARA UNIVERSITY
JAKARTA, INDONESIA

MESSAGE FROM THE GENERAL CHAIRMAN OF ICEBM 2013

Dear Colleagues,

On behalf of the ICEBM2013 organizing committee, I am honored and delighted to welcome you to the International Conference on Entrepreneurship and Business Management (ICEBM 2013). This conference is a continuation of a previously organized conference, ICEBM 2012 at Tarumanagara University, Jakarta.

The annual ICEBM conference aims to provide a high level international forum for researcher, academician, and practitioners to present and discuss recent research findings, ideas and philosophies, and applications in the field of Entrepreneurship and Business Management. I am delighted to learn that for this year's conference, many delegates are in attendance from different countries, including Germany, Finland, China, India, Australia, Philippines, Thailand, Malaysia, and Indonesia. Our technical program consists of 1 keynote speech, 2 plenary sessions with 4 high quality invited speakers, and 55 technical papers split in 3 parallel oral sessions.

The success of this conference is due to the effort of many people especially program chairs and organizing staffs which we gratefully acknowledge. We would like to thank the guest speakers, program chairs, organizing staffs, and conference participants for your sincere support and active participations.

I hope that you will find the conference and your stay in Bali both valuable and enjoyable.

General Chairman of ICEBM 2013

Lina, ST., M.Kom., Ph.D

OPENING SPEECH FROM RECTOR OF TARUMANAGARA UNIVERSITY

Distinguished Guests, Ladies and Gentlemen,

I am delighted to have the opportunity to give a welcoming speech on this International conference where the issues of Entrepreneurship, Business Management, and Sustainability (ICEBM 2013) will be addressed. And I believe these issues are crucial and important not only for our future business development but also for our planet where we live.

I would like to express my appreciation to all parties who have worked hard and organized this event. And I also would like to welcome all participants of this conference and for those who come from abroad, welcome to this beautiful island of Bali. I hope your trip to this conference becomes a pleasant trip.

The rapid development in technology particularly in the 21-st century has brought an impact in many aspects of human life. In broad, the issues can be categorized in four aspects i.e., technical or economic aspects, social, cultural, and political aspects. When these aspects are developed in an integrated fashion, the optimum results may be achieved. But how is the development of these aspects?

In technical aspect, we can witness how the nations in the world are competing to develop a advanced network system and also how the information technology changes. The convergence in many aspects of future network is in front of us. Many people are facing a dilemma if they cannot keep up with the cutting edge of the technology they will be left behind by the technology and the community. On the other hand if they develop the network system by themselves big effort and investment have to be prepared. In order to minimize the cost and energy, the synergy and shared development cannot be avoided.

In recent years, the issues of sustainability of the world have become interesting topic. Many conferences on this issue have been conducted as an independent topic related to energy saving and global warming. Very a few papers discuss this issue along with the entrepreneurial and cultural issues. In reality, we live in this world with the same technology but with different climate and cultures.

And therefore, today we meet in this conference to exchange the knowledge and the information in many aspects of the businesses, technology, entrepreneurship, and also cultures. I hope in this conference, the participants not only can share but also can learn on the issues of entrepreneurship, businesses, and sustainability. Have a great conference.

Thank you

Prof. Ir. Roesdiman Soegiarso, M.Sc., PhD.

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LIST OF PAPERS

ENTREPRENEURIAL FINANCE AND INDONESIAN BANKS' MERGERS

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Abstract

Access to finance will be one of the most significant challenges for the creation, survival and growth of Small Medium Enterprises(SMEs), especially innovative one. However forced banks' merger by central bank regulation, to be performance oriented. Using the financial data of the seven Indonesian banks' merger within 2004 – 2009, three years before and three years after the merger, this study examines whether banks' merger could hurdle financing and SMEs' growth since they tend to be performance oriented. The study conclude that banks' merger in Indonesia decreased the SMEs' credit but increased the performance of the banks, and SMEs' credit is no longer influenced the performance of the banks. Banks' merger hurdle financing and SMEs' growth

Keywords: SMEs credit / financing, banks' merger, banks performance

1. Introduction

Since small and medium-sized enterprises (SMEs) and entrepreneurs are widely recognized be important engines of growth, jobs and social cohesion in countries around the world, access to finance will be one of the most significant challenges for the creation, survival and growth of these firms, especially innovative ones. G20, G8, Leaders (at the Pittsburgh Summit (2009), and at the 2011 Deauville Summit) confirm that access to finance is a need to break the financing hurdles to SME growth. They believe that access to finance provides stability and progress to families and businesses, and the economy as a whole. The financial Inclusion then be a pillar of the G20 Multi-Year Action Plan on Development, moreover the G20 Global Platform for Financial Inclusion (GPFI) was launched in Korea in December 2010, establishing financial inclusion as a permanent priority within the G20. They recognized the importance of the access to finance to the SME growth, including the issue of private funding.

Governments including Indonesian continue to face a major and longstanding obstacle to the design of effective policies in the issue of SME finance. The global crisis has exacerbated the financing constraints on SMEs. In 2008-2009, they suffered a double shock: a drastic drop in the demand for the goods and services they provide and a credit crunch. These events have had a severe effect on SMEs' cash flows and liquidity, forcing many into bankruptcy and contributing to record levels of unemployment in many OECD countries. The crisis continues in many parts of the world, with the risk of a double dip a reality in many countries. In order for SMEs and entrepreneurs to fulfill their potential to contribute to an inclusive and sustainable recovery, governments and private actors need to ensure that finance continues to flow to the businesses which can create growth and jobs (OECD / G20 GPFI Special Event on SME Finance, 2012).

The demand for external finance in the UK changed as the economy entered recession and whether external finance became more difficult for entrepreneurs to access as the recession progressed, larger firms increase their demand for external finance so that the smaller firms were denied credit. (Crowling et.al.2012) The SMEs' credit distributed by Banks in Indonesia are increasing, 11.55% per annum for the year 2008 - 2010 and 2.30% per month in 2011; from Rp. 633,945 billion in 2008 to be Rp.1,131,467 billion in September 2011. Distributed 58 % by regional development and commercial banks, 6% by joint ventures and foreign own banks, and 36% by state own banks (Monthly Indonesian Banking Statistics, November 2011). But since the regulation of the Bank of Indonesia (BI) to the single ownership bank, the joint ventures and foreign own banks merger with the commercial banks. This might influence the financing hurdles to the SMEs growth, since the joint ventures and foreign own banks have different policy compare to the commercial banks, concerning their credit policy on the SMEs' financing.

In order to make the Indonesian banking structure stronger and healthier to be in the global market, The governor of Indonesian Central Bank (Bank of Indonesia , BI) decided to issue the banking regulation concerning the single ownership (the control shareholder of only in one bank) with the Bank of Indonesia's degree No. 8/16/PBI/2006 in the year 2006. Moreover this might support the effectiveness of banking supervision in Indonesia. The regulation forces the institutions and individuals which are the control owners of more than one bank should sell the shares of the other banks to other people, merger and acquisition or consolidate or build the bank holding company.

In fact mergers and Acquisitions can improve banks' performance (Altunbas and Ibanez, 2004), it is not in the long-run concern, in terms of profitability, productivity, and efficiency (Egger and Hahn, 2006). They are frequently justified in terms of value creation or efficiency improvements, but the evidence is not consistent with the existence of benefits in terms of the costs, productivity, profitability or market value of the firms involved (Bernard et.al., 2010). By mid-2008, in Indonesia, Bank of Century which is a merger of three banks, the CIC Bank, Pikko Bank and Danpac Bank, in 2002, is declared by Bank of Indonesia (BI) as failed and potentially has contagion effects to other financial sectors. Bank of Century was then bailed out through a rescue mechanism through LPS (Deposit Insurance Agency). In order to meet the minimum capital adequacy ratio (CAR) of 8%, BI had (several times) injected capital to the Bank of Century, but the Bank of Century failed to maintain the minimum CAR, instead (continued) to decline afterward and eventually owned a -2.5% of CAR. The bank has failed to pay U.S. $ 127 million of debt, and specified as a failed bank (bi.go.id). This reflects the poor performance of the bank after the merger..

Literatures provided that the bank's performance is influenced by several factors within and outside the company: macro-economic situation, the practice of good corporate governance, bank ownership, small medium enterprises financing, intellectual capital, market structure, bank size, tier-1 capital, number of assets, geographic deregulation, the effect of macroeconomic, capital adequacy ratio, the size of the bank, outside director, equity, efficiency ratio, credit ratios, number of assets, Return On Assets (ROA) , Net Interest Margin (NIM), the board structure (size and composition), the bank spending on advertising and promotion (Scholtens, 2000; Zou, Miller, and Malamud, 2008; Lin and Zhang, 2009; Baidan Nam 2009; Anwar,2010; Mullineaux and Pyles,2010; Lupu and Nichitean, 2011;. Peitsch and Iryna, 2011; Yildis, 2011;, Hamada and Konishi, 2010; Adams and Mehran,2008). Consolidation affect bank performance as measured by the risk-adjusted return and bank insolvency risk (Basu, et al., 2004). Further more the literature mention that the bank's performance is affected by the bank's capitalization, capital levels, bank governance, bank to population ratios, operating costs, asset quality, and religious belief (Mbizi ,2012). Beltratti and Stulz (2009) found that bank performance is affected by bank-level governance, country-level governance, country-level regulation, and bank balance sheet and profitability characteristics before the crisis. Meanwhile, Arif and Anees (2012) found that liquidity affect bank performance.

Globalization and liberalization of the world-economy policy reforms, affected emerging economies including Indonesia. A number of sectors are being developed and restructured via mergers and acquisitions (M&As) particularly the banking sector. A quest for broader functional competency and improved competitive position by integrating a smaller, more successful bank into a bigger bank, and its predicted effects were improvements in the profitability and market position. In fact it was founded a neutral effect of mergers on profitability and cost efficiency, some bank mergers successful in improving cost efficiency but some were not. It is not possible to isolate specific factors from these mergers that are most likely to yield efficiency gains, but the most frequent and serious problem was unexpected difficulty in integrating data processing systems and operations. In terms of Shareholders of the targets earn, in all cases have gain positive abnormal returns. (Rhoades, 1998; Behr and Held, 2011; Asimakopoulos ,Ioannis, and Athanasoglou Panayiotis P. , 2012). Forced bank mergers, which are the result of direct government intervention in the consolidation of the banking industry, are generally rare, moreover the SMEs' financing then were affected. Consistent with the discussion earlier, the central research objective is therefore to examine the extent to which the effect of mergers and acquisitions on banks' performance, the effect of Profitability (Net Interest Margin/NIM and Operational expense to operational income / BOPO), Asset Quality (Non Performing Loan/NPL), Capital (Capital Adequacy Ratio /CAR), Liquidity (Loan to Deposit Ratio/LDR), and the Small Medium Enterprises(SMEs) Financing (Kredit Usaha Kecil /KUK) simultaneously and partially on bank performance in mergers and acquisitions. In order to assess the effects in a merger, the effects during pre-mergers, post-mergers , and pre-and-post mergers as well also need to be examined.

The remainder of this paper is organized in the following manner. Section 2 provides the materials and method. Section 3 Result and Discussion of the data analysis including implication and limitations.

2. Materials and Method

Mergers and Acquisitions and Banks' Performance

Profitability, as bank's performance, is reflection of how the bank is run by considering the environment in which the bank is run, it reflected the quality of bank management and shareholders' behavior, banks competitive strategy, efficiency, capacity of risk management, and it reflected the company's ability to become more or less efficient and profitable.(Garcia-Herrero, Gavila, and Santabarbara, 2007; Caruntu,2008).

Greater relatedness, large enough firm size (the effectiveness of the integration process) of target firms to an acquiring firm, should produce higher performance in M&As (Palich, Cardinal, and Miller, 2000; King, Slotegraaf, & Kesner, 2008). Acquisitions increase the size of a firm and the relatedness between target and acquiring firm then can create synergy. Synergy is created largely by complementary capabilities, which are different abilities that fit or work well together (Hitt et.al.,2009). The more valuable capabilities in the acquired firm are fully integrated into and absorbed by the acquiring firm, the bigger the synergy, and the higher the performance will be in M&As

H_1: Mergers and Acquisitions increase banks' performance

Profitability And Performance In Banks' Mergers And Acquisitions.

Bank rate lower performance on banks as measured by ROA and ROE due to the level of net profit margin is lower, due to the low level of net interest margin (profitability) generated by the banks. The higher the net interest margin (NIM), the higher the performance of the banks. Another dimension of profitability factor is operational expense to Operational Income (in Indonesia called Beban Operasional terhadap Pendapatan Operasional / BOPO). BOPO significantly negatively affected the performance of banks.(Hamada and Konishi, 2010; Li, et al., 2001).

H_2 : Profitability (NIM, and BOPO) influence performance in Banks' mergers and acquisitions

The Bank's Asset Quality And Performance In Banks' Mergers And Acquisitions

Bank's asset quality refer to the unique factor that can affect all aspects of performance, and though there is a substantial reduction of bank asset quality will not erode profitability, but at the end can lead to bank failures. According to the Federal Deposit Insurance Corporation, asset quality is one of the areas most critical in determining the condition of a bank. The primary factors that affect the overall quality of the asset is the quality of the loan portfolio and credit administration program. According to the Federal Reserve, asset quality reflects the quantity of credit risk of existing and potential risks associated with the loan and investment portfolios owned by the bank. The quality of the bank loans, measured by bank's Non Performing Loan (NPL) significantly affected performance of the bank (ROA) (Marius Vasile and Maria, 2011; Mirza and Alexandre, 2011). Non-performing loans, lower the asset quality of a bank and produce higher premium. The more premium paid for the NPL or the non quality assets, the higher the explanatory power to the return due to the CAPM method.

H_3 : Asset's Quality (NPL) influence performance in Banks' mergers and acquisitions.

Capital (CAR) And Performance In Banks' Mergers And Acquisitions.

Capital of a bank, according to the Basel III, consists of two kinds, known as Tier-1 capital and Tier-2 capital. Tier-1 capital consists of two kinds of capital, namely the Common Equity Tier-1 Capital and Additional Tier-1. The structure of Common Equity Tier-1 minimum 4% of total risk weighted assets, and the structure of Tier-1 capital minimum 6.5% of risk weighted assets, while the amount of total capital (tier-1 plus tier-2) shall not be less than 8% compared to the risk-weighted assets. The capital of a bank is useful as a capital buffer to absorb / hold unexpected losses, and it also serves as the funding for the activities being run by The bank (Association for Financial Markets in Europe). According to Bank of Indonesia (BI), capital (equity) is the amount of money invested in a company that brought by the owner or owners; funds invested not only initial funding, but also includes the retained profits and reserves (Proprietary's stake). Onaolapo and Olufemi (2012), in his research in Nigeria, found that there was no significant effect of CAR on bank performance through granger causality test. Based on the results, it can be concluded that the CAR had nothing to do with the bank's performance but rather to maintain stability. The bigger the CAR of a bank, the more stable and secure the bank performance.

H_3 : Capital of a bank (CAR) influence performance in Banks' mergers and acquisitions.

Liquidity(Loan To Deposit / LDR) And Performance In Banks' Mergers And Acquisitions.

Liquidity refer to the ability to settle the overdue immediately or the ease with which an asset can be converted into a means of payment, sometimes means the average time it takes to make money. One of the ways how these assets can be converted is through the sale of these assets. The bank declared illiquid if it can not pay all of the overdue on time. The bank which failed to pay the overdue or the due to its shareholders and customers, is likely to experience losses (Drehmann and Nikolaou, 2009:5; Domanski, Fender, and McGuire, 2011:58; Geanakoplos, 2002:34). The effect of liquidity on bank performance as measured by ROA and ROE found that banks with higher liquidity risk will have lower performance, since the higher liquidity risk must obtain sources of liquid funds with higher cost of funds incurred by the bank. Banks' mergers and acquisitions lower liquidity risk, then mergers and acquisitions can lower borrowing rate, and increase performance. (Lewellen, 1971; Shen et al. 2009) . Creditors may also be more willing to provide a higher volume of financing to banks (Berger and Humphrey, 1992; Rhoades, 1993; Al-Sharkas, Hassan and Lawrence, 2008) Mergers and acquisitions diversify the effect of systematic risk and reduce the influence of the transition on the business environment, so that it is increase performance

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H_4 : Liquidity(LDR) influence performance in Banks' mergers and acquisitions.

Small Scale Loan (KUK) And Performance In Banks Mergers And Acquisitions

KUK refer to loans given to small medium enterprises for various purposes.. This type of loan may have softer requirements and allow SMEs to secure their funds. According to Bank Indonesia, micro, small, and medium financing are funds or bills or equivalent provided in rupiah and / or foreign currency based on agreements between the lending bank and the bank or non-bank businesses third party that meet the appropriate criteria legislation on SMEs. According to the U.S. Small Business Administration, small business is a business that is not dominant in its field and are qualified in accordance with applicable government regulations. According to the Small Business Loans Act of Canada, small business is the work done in Canada to generate profits with less than 5 million dollars earnings which governed by the applicable provisions.

Small Scale Loan affect Bank Performance. Small Scale Loan has a negative effect on CAR, but has a positive effect on NPL and ROA (Anwar, 2010). According Ergungor (2002), the proportion of loans given to the small business, result in decreased in performance. The small business lending has greater risk, without providing higher returns

H_5 : Small Scale Loan (KUK) influence performance in Banks' mergers and acquisitions.

Data Collection and Analysis

Using the Bank Indonesia's report on banks mergers occurred within the years 2004 – 2009, three years before and after the time of the mergers, data were collected and analyzed by multiple regression.

$$\mathbf{RORWA} = \alpha + \beta_1 \mathbf{NIM} + \beta_2 \mathbf{BOPO} + \beta_3 \mathbf{NPL} + \beta_4 \mathbf{CAR} + \beta_5 \mathbf{LDR} + \beta_6 \mathbf{KUK} + e$$

RORWA= Return on Risk-Weighted Asset (performance of banks)
NIM = Net Interest Margin (profitability)
BOPO = Operasional expenses to Operasional Income (profitability)
NPL = Non-Performing Loan (assets quality)
CAR = Capital Adequacy Ratio (capital)
LDR = Loan to Deposit Ratio (liquidity)
KUK = Small Medium Enterprise Loan (Kredit Usaha Kecil / KUK).

3. Result and Discussion.

After banks' merger in Indonesia, the banks' performance (RORWA) be better than before, RORWA increased and more uniformly among the banks (merger), and so with the banks' BOPO, NPL, and LDR; they have better and more uniformly. They have better and more uniformly among the banks (merger) profitability, assets quality, and liquidity than before. But merger increased the banks' NIM, or they have received more interest margin than before, this implied that after merger the banks prefer interest income than fee based income. They prefer lending among banks than KUK (SMEs credit); since after merger banks' KUK decreased. After merger the banks' CAR (capital) decreased, but with more uniformly among the banks (merger).(Table 4.1) Hamada and Konishi (2010) also found that in Indonesia the bank's efficiency, and performance of the banks merger increased, either in the second study period (1997-2000), third (2001-2003), or the fourth period (2004-2007).

Tabel 4.1
RORWA, NIM, BOPO, NPL, CAR, LDR, and KUK
Before / After Merger and the total period

Variabel	Total Period		Before Merger		After Merger	
	Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev
RORWA?	0.002519	0.037838	-0.00042	0.05304	0.005455	0.008214
NIM?	0.044404	0.01708	0.042398	0.018342	0.04641	0.015681
BOPO?	0.934407	0.215446	0.952023	0.290562	0.91679	0.094363
NPL?	0.028444	0.03959	0.033762	0.053016	0.023126	0.017445
CAR?	0.154933	0.049353	0.166448	0.05895	0.143417	0.034409
LDR?	0.774541	0.428338	0.803425	0.542521	0.745654	0.274563

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KUK?	0.043539	0.037423	0.044107	0.04152	0.042971	0.033324

Source: Eviews 6 data processing.

Tabel 4.2.
Regression Analysis (Total Period)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.151003	0.016255	9.289654	0
NIM?	-0.007644	0.12618	-0.06058	0.9519
BOPO?	-0.153019	0.012022	-12.7282	0
NPL?	-0.13485	0.064939	-2.07657	0.0412
CAR?	-0.014616	0.039361	-0.37133	0.7114
LDR?	-0.005242	0.005084	-1.0311	0.3057
KUK?	0.114797	0.049075	2.339203	0.0219

Source: Eviews 6 data processing.

Tabel 4.3.
Regression Analysis (Before Merger)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.14703	0.021411	6.86696	0.0000
NIM?	0.289646	0.177524	1.631591	0.1117
BOPO?	-0.171245	0.014683	-11.66303	0.0000
NPL?	-0.033254	0.078928	-0.421322	0.6761
CAR?	0.008575	0.052271	0.164042	0.8706
LDR?	-0.008045	0.006029	-1.334516	0.1907
KUK?	0.214485	0.069086	3.10461	0.0038

Source: Eviews 6 data processing.

Research Model :

Before Merger: RORWA = 0.14703 + 0.289646 NIM – 0.171245 BOPO - 0.033254 NPL + 0.008575 CAR – 0.008045 LDR + 0.214485 KUK + 0.021411........................(Tabel 4. 2)

After Merger : RORWA = 0.053627 - 0.023515 NIM – 0.029696 BOPO + 0.160686 NPL - 0.056622 CAR – 0.020808 LDR + 0.001523 KUK + 0.019203........................(Tabel 4. 3)

Before the banks merger in Indonesia, the SMEs' credit from the banks and the BOPO have a big influence on the banks performance, but they do not, after the merger. The banks' SMEs' credit have positive impact but the banks BOPO have negative impact on the banks' performance. The banks' merger changed the banks' policy, to be performance oriented; they do not bring about the government mission in stabilizing and progressing families and businesses, and the economy as a whole. After merger the banks use another variables than SMEs credit that might increasing the performance faster (adjusted R-Square = 0.461919; decreased from 0.888733; Tabel 4.4). They use their networking, business relation, bigger size, etc.

Tabel 4.4.
Adjusted R – Square

Periode	Adjusted R-Square
Sebelum Merger	0.888733
Sesudah Merger	0.461919

Keseluruhan	0.828363

Source: Eviews 6 data processing.

In addition, it was found that the NIMs, NPLs, CARs, LDRs, of the banks do not affect the bank's overall performance, before and after the banks' merger (Tabel 4.2., and Tabel 4.3.), but in fact in China the bank performance is low due to low levels of net interest margin in the banks (Li et al., 2001). The banks (merger) are now no longer just rely on interest income as their source of income, but the fee-based income, to contribute to the profit and performance.

The banks not only rely on the ability to generate profits but also consider the risk taken in order to generate profits.. Marius Vasile and Maria (2011) found that asset quality has a significant effect on the performance, asset quality have long-term impact on bank performance, but had no effect on short-term performance. The decrease in asset quality will lead to cause loss of reputation and confidence in the bank which might have a possibility to a bank failure. Conversely, an increase in the quality of assets will enhance the reputation and trust in the bank that the bank can increase the long-term performance.

Onaolapo and Olufemi (2012) in Nigeria also found that there is no influence CAR on the bank performance. The capital is not directly related to bank performance. Capital is a resilience of the banking crisis, it impacts the level of capital of a bank. It has no direct effect on the performance but it something to do with the government's purpose in order to strengthen the structure of the economy, global financial situation, public trust, and competition with other banks.

Shen, et al (2009) found that liquidity significantly influence on the banks performance. They found that the lack of liquidity led to decrease the earnings of the banks, so that the performance of the bank declined. Anwar (2010) stated that there is a significant relationship between small business financing and bank performance. Ergungor (2002) found tha small business financing did not influence the performance of the banks.

Implication and limitation of the research

Though the performance of the banks in Indonesia significantly influenced positively by the SMEs' credit and negatively by operational expenses , forced merger by the regulation than create the financing hurdles to SMEs' growth. Banks' merger to be performance oriented, they do not bring about government mission in stabilizing and progressing families, businesses, and the economy as a whole.

Only seven banks studied as the research subjects which merger between year 2004 – 2009, since there are only seven banks merger during the time. Hamada and Konishi (2010) analyzed the nine years data after merger; they analyzed every three years period for the three three-years period. Bigger samples and broader time horizon of the banks merger, may have been better analysis.

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