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Bank Management from Leadership and Management Perspective – Examining the Linkage between Financial Performance of Private Equity Owned Banks in Indonesia and their Operational Executions
從領導及管理角度看銀行管理 – 探討印度尼西亞私募股權銀行的財務表現與其在營運執行上的關連性

Submitted to
College of Business
商學院
in Partial Fulfillment of the Requirements
for the Degree of Doctor of Business Administration
工商管理學博士學位

by

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January 2017
二零一七年一月

Abstract

When the catastrophic failure of financial institutions became the culprit of the 2008 global financial crisis, it cast a spotlight on the actual management of these institutions. Numerous regulations were introduced and countless discussions and suggestions were conducted, both in academic and industry circles. However, many topics have been dominated by discussions and new rules have been imposed for managing banks with a very strong quantitative emphasis in areas such as risk, capital and liquidity. Additionally, stronger and better bank governance has been debated spotlighting regulatory compliance and alignment of stakeholders, with the ultimate focus on how the bank can achieve better financial performance. The bias towards this quantitative base of reference is understood because banks and other financial institutions deal with money as their main ingredients of the business. To emphasize this point, even in academic circles, to learn banking as knowledge, it is necessary to apply to a department of Finance (and not Management) within the University.

However, managing banks is no different than managing other types of businesses in that it deals with the art and science of managing a team of people within the bank. Moreover, in addition to managing quantitative assets, banks are a service business. People are at the core of its operations. Success and failure within banks begin with how people conduct their tasks as bankers. Extensive empirical research indicates that there has been minimal work done on how to manage a bank from a leadership and management perspective. This research study has therefore sought to reexamine the problem from the new angle and viewpoint.

This study began with the focus on banking industry in Indonesia concentrating on those banks acquired by private equity or quasi- private equity firms. The rationale behind the choice to observe private equity/quasi-private equity owned banks (PEOBs) stemmed from the well-documented success of private equity firms in managing their portfolio companies. The PEOBs submitted superior investment results, yielding an internal rate of returns (IRR) ranging from 30% to 70% during the observed period of this study.

The study has applied mixed methodology research approach to understand the phenomenon described above. Given the quantitative nature of bank operations, the study commenced with a quantitative strand to examine the bank's performance quantitatively. The inquiry on the quantitative area sought to establish proof on whether the bank's quantitative results are indeed a true reflection of its banking operation. Two key quantitative measures

were conducted. The first gage was taken from an investor perspective. All banks observed under this study showed excellent investment returns. The least performing bank from an IRR perspective submitted an IRR return of 29.83% while the best performing bank yielded 72.53% which are higher than selected investment benchmark. The second measurement utilized a combination of bank performance gage set up by both the regulator as well as academic work which focuses on bank results that can be linked to value creation. Using these quantitative findings, further research was initiated to examine both leadership and management angle of the phenomenon.

Qualitative strands using both qualitative and inductive approaches by drawing on a series of in-depth, semi structured interviews including the deployment of convergent interviewing rigors of experienced senior bankers (SBs) from banks in Indonesia during the period of 2002 to 2012 were conducted. Consistent with the mixed method research approach, the study then combines the findings from both strands to offer explanations to the topic examined. The findings suggest that human capital angle of bank management that focuses on certain key areas indeed played exceedingly important role in the favorable outcome of a bank venture. These include proper compensation structure, clear strategic imperatives understood by the whole organization, disciplined execution rigors and high regards to the culture of organization. In addition, clear linkages to quantitative objectives offer key ingredients to a successful banking operation. Additionally, the study examined how the bank place the importance of strategy in their operations, not just the formulation but the implementation process as well as the monitoring discipline. The best operating bank not only formulated the strategy well but implemented and monitor the results. Strong operational rigors which was the trademark of excellent PE Firms were also observed. Finally, the study learned strong governance that include both supervisory as well as strategic governance are superior than mere focus on regulatory compliance.

To conclude, results of this study offer thorough and detailed observations of the need to combine both quantitative and qualitative approaches in managing a bank. It is not enough to solely rely on either of these; a much deeper regard has to be given to the management and leadership of a team. This is especially relevant since banking plays such an important role in society both as a conduit to the monetary system as well as a catalyst to economic growth. These findings have helped fill a void in prior research and indicate that a holistic leadership approach to banking coupled with clear relationships with its quantitative mission may offer a path to better management of this important institution.

Keywords: Bank Management, Leadership Management in Banking, Relationship between Bank Governance and Bank Performance, Private Equity Management in Banking