

## **The Effects of Macroeconomic Structure and Banking Financial Service toward Banking Operations and Performance of Small and Medium Enterprise Debtors in Bank Rakyat Indonesia – East Java**

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### **Abstract**

*This article discusses about the effects of macroeconomic structure and banking financial service toward banking operations and performance of small and medium enterprise debtors in East Java's Bank Rakyat Indonesia. In order to do so, the problems of the study can be specifically broken down into: (1) whether the macroeconomic structure of East Java significantly affects the banking operations of BRI in East Java? (2) whether the macroeconomic structure of East Java significantly affects the performance of small and medium enterprise debtors in the banking system of East Java's BRI? (3) whether the banking financial service significantly affects the banking operations of BRI in East Java? (4) whether the banking financial service significantly affects the performance of small and medium enterprise debtors in the banking system of East Java's BRI? (5) whether the banking operations of BRI in East Java significantly affects the performance of small and medium enterprise debtors in the banking system of East Java's BRI? In response to the problems mentioned before, the study is aimed to: (1) test and analyze the effects of macro economy toward the banking operations of East Java's BRI. (2) test and analyze the effects of macro economy toward the performance of small and medium enterprise debtors in East Java's BRI. (3) test and analyze the effects of banking financial service toward the banking operations of BRI in East Java. (4) test and analyze the effects of banking financial structure toward the performance of small and medium enterprise debtors in the banking system of East Java's BRI. (5) test and analyze the effects of banking operations toward the performance of small and medium enterprise debtors in the banking system of East Java's BRI. In line with its aims, the significance of the current research is comprised of the following: (1) academic benefit (theoretical), it is expected that the research could provide theoretical contribution on banking management, particularly regarding the loan management system and to find empirical evidences to support the notion that the loan management system needs to be implemented in banks and financial establishment before and after they distribute the loans to the debtors. (2) practical benefit for Bank Rakyat Indonesia in East Java, the existence of the new loan management system is expected to be able to help suppress the rate of bad loan exposure done by the small and medium enterprise debtors. In the mean time, the analysis perspective of the research is decided on macro economy. The research was conducted to the Small and Medium Enterprises (SME) in East Java's Bank Rakyat Indonesia. In addition, the research designs a new loan management system for small and medium enterprise debtors in East Java's BRI. And for that purpose, the current research is categorized into the disciplinary research and subject-matter research types. Furthermore, the result of the research shows that: (1) macroeconomic structure ( $X_1$ ) affects in an insignificant and positive manner towards the banking operations ( $Y_2$ ) of Bank Rakyat Indonesia in East Java. From the result of the test analysis, it can be described that the macroeconomic structure does not directly affect the banking operations. The more stable and better the state of the macroeconomic structure, the easier it is for the managerial team of East Java's BRI to manage their banking daily operations. In a way, the result of the study does not support the theories proposed by Keynes which state that the macroeconomic structure directly affects the banking daily operations. (2) macroeconomic structure ( $X_1$ ) significantly and positively affects the performance of small and medium enterprise debtors in East Java's BRI ( $Y_2$ ). The test analysis result mentioned before shows that the macroeconomic structure has a significant direct effect towards the performance of small and medium enterprise debtors in East Java's BRI.*

The path coefficient is marked positive (0.197), and it indicates that the better state of macroeconomic structure in East Java, the more it gives positive effect towards the business condition of the small and medium debtors in East Java's BRI. Part of the findings of the research is against the theory declared by Schuler and Jackson (1997:325) which emphasizes that a large number of small and medium enterprises will cause a decrease in the unemployment rate. The finding further supports the result of a research conducted by Gillmant, Max, and Michal Kejak (2009) which concluded that the relationship between inflation and business value is negative, in other words, if the inflation rate increases, then there will be a drop in the business value of small and medium enterprises. (3) the financial structure ( $X_2$ ) significantly and positively affects the banking operations ( $Y_1$ ) of Bank Rakyat Indonesia in East Java. The result means that the better state of effectiveness and efficacy of banking financial structure's planning and realization, the more positive effects that the banking operations will receive. This result supports a research conducted by Adams (2009) which concludes that the effect of loan provided and banking operations reflects a positive relation. It means that if there is an increase in efficiency of banking financial service, then there will be an increase in the banking operations as well. This does not support a research by Marwat et. al. (2009) which was conducted to the corporations' executive financial management of nine major industries in Europe, it further declares that the financial structure is the main component of banking operations' efficiency which is required to maximize the return. (4) banking financial structure ( $X_2$ ) significantly and positively affects the performance of small and medium enterprise debtors ( $Z_1$ ) in East Java's Bank Rakyat Indonesia. The result of test analysis suggests that banking financial structure has a significant direct effect to the performance of small and medium enterprise debtors in East Java's BRI. In other words, the better management of banking financial structure, the higher benefit it will give to the business development of small and medium debtors in East Java's BRI. This concludes that if the economy is in a declining position, it will trigger the tradeoff between the demand for loan and the need to save money. (5) banking operations ( $Y_1$ ) significantly and positively affects the performance of small and medium enterprise debtors in Bank Rakyat Indonesia ( $Y_2$ ).

**Keywords:** macro economy, banking financial structure, banking, debtor, small and medium enterprise

### **Introduction**

The primary function of a bank is to accumulate people's fund and re-distribute it in the form of loans which can be used to finance investments or consumption. In a way, bank serves as an intermediary which connects a party with a surplus of liquidity to another with a shortage of liquidity. Banking system is basically created to support the economy, so it could develop and bring the society into prosperity. This prosperity is indicated by the existence of indicators for good economy development, the creation of more job opportunities, and the existence of indicators for good human resource development. As a province with a vision to create a prosper society, the government of East Java attempts to create a stable and positive economic condition.

Regarding the efforts mentioned previously, banking institutions as one of the factors in the national financial system, possess functions and purposes which support the efforts on the improvement of national development. Those functions and purposes are to serve as the agent of development and financial intermediary. The first function is carried out by state-owned banks and is particularly aimed to maintain the monetary stability in Indonesia. Meanwhile, the second function as the financial intermediary is done because essentially, banking system is obliged to connect those who need fund (borrowers) to those who have a surplus of fund (savers).

In line with the explanation above, the problems discussed in the present research are as follow: (1) whether the macroeconomic structure of East Java significantly affects the banking operations of BRI in East Java? (2) whether the macroeconomic structure of East Java significantly affects the performance of small and medium enterprise debtors in the banking system of East Java's BRI? (3) whether the banking financial service significantly affects the banking operations of BRI in East Java? (4) whether the banking financial service significantly affects the performance of small and medium enterprise debtors in the banking system of East Java's BRI? (5) whether the banking operations of BRI in East Java significantly affects the performance of small and medium enterprise debtors in the banking system of East Java's BRI?

### **Review of Related Literature**

Macro economy is a study of economy as a whole, where the growth of income, changes in price, interaction in stock market and capital market is discussed (Mankiw, 2007:14).

In understanding macro economy, experts in economy generally emphasize their observation and analysis into economic growth which is measured through national income. According to the views belong to classical economy experts (Adam Smith, David Ricardo, Thomas Robert Malthus and John Stuart Mill) as well as neoclassical economy experts (Robert Solow and Trevor Swan), basically, there are four factors which affect the economic development, they are: (1) the number of population, (2) the amount of capital goods, (3) the width of land and natural resources, and (4) the level of technology being used (Sukirno, 2006).

Keynes (1936) as quoted by Mishkin (2008) develop a theory on money demands by proposing a hypotheses on three motives of the demands for the money, they are: transactional motive, berjaga jaga motive, and speculative motive. Transactional motive assumes that a person memegang money as a form of currency in a transaction of goods and services. Berjaga jaga motive assumes that a person berjaga jaga and keep money because that person is affected by the prospect of making transactions in the future. In the meantime, speculative motive assumes that a person keeps money to obtain profit from the difference of the profit level or offered price at a particular time. In combining those three motives, Keynes points out between the real income ( $Y$ ) and the interest rate ( $i$ ). Therefore, the equation can be formulated as follow:

$$\frac{Md}{P} = f(i, Y) \dots \dots \dots (2.14)$$

$$\frac{Md}{P} = \frac{1}{f(i, Y)} \dots \dots \dots (2.15)$$

$$V = \frac{PY}{M} = \frac{Y}{f(i, Y)} \dots \dots \dots (2.16)$$

Keynes' model on demand for money declares that the velocity of money is not a constant matter, but is positively related to the interest rate and negatively related to the income rate. The changes in society's estimation on interest rate will cause a shift in the demand for money so that the velocity of money will be shifted as well. Therefore, Keynes' preferences theory breaks the classic argument which believes that the demand for money is affected by the money distribution.

There are three important things in banking management concept. Those things include: first, the managerial function is strictly bound to the performance contract between the bank managerial and owner. Second, the managerial function is strictly bound by the customer relationship management. Third, banking managerial function is also strictly related to the mitigation strategies on threats and risks which will be confronted by the banking system.

The performance of a bank is very closely related to the role and function of the bank's management. The success of a bank in obtaining profit is an achievement of the managerial team for properly running the bank. Therefore, the progress of a bank's operations is very much dependent of its managerial team's capability at running the bank. Aside from the influential role of bank's managerial team in running the bank's business so that it could attain the peak of its performance, the bank owner's role is quite influential as well in contributing to the selection process performed to determine the efficient members of the managerial team. The owner of a bank, as any other business owners or investors, always wish to gain the biggest profit possible by just as minimum business risk as possible (risk – averse).

### **Data and Method of the Study**

The study aims to design a new loan management system for small and medium enterprise debtors at East Java's BRI. For that purpose, then this study can be categorized under the disciplinary research and subject-matter research domain. According to Johnson (1986) disciplinary research is a type of research designed to improve the discipline of a science (improving theories). Meanwhile, subject-matter research is a multidisciplinary research on a selected subject for the purpose of decision making on a practical problem (Johnson, 1986). Once the purpose and the type of the study have been decided, the following step would be to decide the kind of approach to be used in the study. Generally, this study employs the qualitative-quantitative-qualitative approach in their respectful order. For the first stage, the study employs the qualitative approach to gather the preliminary data through the interviews done to several key respondents from East Java's BRI on the topic highlighted by the study.

Obtaining the preliminary data is carried out as the first step to discover the factual problems dealt by the managerial team of East Java's BRI regarding the loan's financing for debtors who own business establishment which can be categorized into SME.

Once the factual problems are found by means of qualitative approach, the next stage in this study is employing the quantitative approach by designing an econometric model and deciding the study's hypothesis. In order to obtain a quantitative data, the survey method is employed at this stage.

The study was carried out at Bank Rakyat Indonesia (BRI)-East Java Region, with service areas including 38 regent/cities in East Java. The data gathered in the study is divided into two parts; 1. The qualitative data for the descriptive analysis; and 2. Quantitative data for the model analysis. In addition, the model analysis is further separated into two types of data, the panel data – which is gathered from each branch under the authority of East Java's BRI, and the cross section data which is gained from the result of the survey conducted to the SME debtors of BRI.

## Result

*PT. Bank Rakyat Indonesia (Persero) Tbk* (Bank Rakyat Indonesia Ltd.) or widely known as “BRI”, “Bank”, or “*Perseroan*” is one of the biggest and oldest banks in Indonesia, which was established at December 16<sup>th</sup> 1895. Bank Rakyat Indonesia or nowadays commonly known as the BRI bank, was established by a minister named Raden Bei Aria Wirjaatmadja in Purwokerto, Central Java, at December 16<sup>th</sup> 1895 (BRI, 2007). Initially, the bank was called *De Poerwokertosche Hulp en Spaarbank der Inlandsche Hoofdeen'*, it was then changed into “*Halp Spaarbank der inlandsche Bestuurs Ambtenaren'* (Pangreh Praja's Native Employees' Credit Union). The bank is the first People's Credit Union in Indonesia. Since its establishment day, the focus of BRI's service is on the banking service for small and medium enterprises (SME) segment. This aspect is the one that inspires various parties to empower the performance of SME sector. East Java's BRI prioritizes and is committed to the financial distribution for the SMEs which have financial shortage.

East Java Province possesses a wide area with 38 regencies and cities in it. After the implementation of regional autonomy which is legitimated by the Government's Decree No. 25, year 2000, then the authority to govern is carried out independently and autonomously in order to encourage the region's economic sector by urging the establishment and development of small and medium enterprises (SME).

**Table 1: Performance Data of SME in East Java during 2007 – 2010**

No	Description	2007	2008	2009	2010
1	Number (Unit)	17.918	18.656	19.396	23.159
2	Employees (individual)	5.002.532	5.057.750	5.107.846	5.209.364
3	Business Volume (Million Rupiahs)	14.022.084,02	18.297.965,35	21.497.790,08	22.458.626,36
4	Capital (Million Rupiahs)	9.356.951,19	10.850.877,87	13.144.022,59	14.566.009,95
5	Profit (Million Rupiahs)	297.883,64	340.392,77	1.038.011,45	1.137.739,35

**Source of Data:** State Ministry of Cooperatives and SMEs. East Java, year 2011

Table 1 clearly states that the small and medium enterprises (SME) hold a major role in East Java Economy. The number of micro, small, and medium enterprises reaches up to 4,221,562 (BPS, 2006) and the number of SME per December 2009 reaches up to 19,396 units with a total of assets up to Rp.13,144 trillion. Whereas the business volume of those enterprises reaches up to Rp.21,497 trillion with the business' profit up to Rp.1,038 trillion. This number apparently still goes up until the end of 2010 along with the increasing number of SME in each region, to the point where it reaches a number of 23,159 units of SME by the end of 2010.

Small and Medium Enterprises (SME) with large assets and business volume generally entrust their financial monitoring not only to internal auditor (in this case, inspectors) but also to external auditor service (public accountant). This independent external auditor service is required to openly check the SME's financial health in order to guarantee the reliability of its managerial team's performance as well as to gain the bank's trust easily in partnership which is needed to support the SME with the required capital.

Macroeconomic structure can be defined as a general economy condition which is influenced by several main indicators. Indicators for macroeconomic structure in this research are derived from Keynes' theory which was developed by Keynes (1947:54-57) to identify the four components in the estimation of macroeconomic structure. For common people, macroeconomic structure is closely related to the stability of prices.

The latter is a very important thing, especially for the member of society with constant income. The high inflation rate is frequently categorized as people's enemy no. 1 since it decreases the purchasing power of people's income. Based on the test result of the first hypothesis, as elicited by table 5.7, there is an insignificant relationship between the macroeconomic structure variable and the banking operations. This result is proven by noting the score for t-statistics which is marked 1.128 ( $1.128 < 1.96$ ) or from the score of p-value which is marked 0.2629 ( $0.2629 > 0.05$ ). In the meantime, the score for path coefficient is positive and marked 0.293. From the result, it can be concluded that the macroeconomic structure has a positive direct effect (in line) towards the banking operations. This means that when the condition of macroeconomic structure gets better and more stable, then it will ease the banking managerial team of East Java's BRI in managing the bank's daily operations. The insignificant effect of macroeconomic structure towards the banking operations illustrates that the improvement on macroeconomic structure has an indirect effect towards the banking operations' improvement of East Java's BRI.

The result of this research, when connected to the reality or the actual condition of Bank Rakyat Indonesia Ltd. in East Java, reflects that the macroeconomic structure, per capita income indicator, unemployment rate, government expenditure, and inflation have an indirect effect toward the operational performance of Bank Rakyat Indonesia Ltd. in East Java. This finding means that the conducive macroeconomic structure of East Java has already given its indirect advantages. The latter can be observed from the planning and management of banking operations which are decided by Bank Rakyat Indonesia Ltd. in East Java. Also, the purpose of the banking operational management of East Java's Bank Rakyat Indonesia is the attainment of efficiency, effectiveness, and quality of business activities performed by East Java's BRI. In other words, the effectiveness of planning and management carried out by the managerial team of East Java's Bank Rakyat Indonesia have fulfilled and implemented the principles of economic scale and at the same time fulfilled the expectations of stake holders in East Java's BRI.

The analysis' result reveals that the management of East Java's BRI puts a high expectation towards the macroeconomic structure information which has been accepted and experienced by the East Java's BRI. Regarding the reaction, the managerial team of East Java's BRI gives a positive response towards the improvement trend occurred in the indicators of East Java's macro economy. This not to mention the easily obtained information which is supported by the facility's advancement of information technology, the per capita income of East Java's citizens, as well as the members of organization in East Java's BRI who definitely experience the effects of the improving indicator. The latter is also counted in since the average number of employees in East Java's BRI is also categorized as the members of upper-middle class society in East Java by their income. Meanwhile, for the unemployment rate's indicators, the managerial team of East Java's BRI considers that it gets a very positive advantage from the decrease in unemployment rate in East Java, and in line with this development, the managerial team has already designed several business programs to meet the demand in the state where the number of unemployment is low. The positive reaction also appears for the indicators of government expenditure, the managerial team of East Java's BRI is convinced that the increase in government expenditure both in terms of the frequent ones and the ones which are not carried out, gives a positive effect and is advantageous for the bank's daily operations. The existence of moderate government expenditure, for the managerial team of East Java's BRI, provide the sense of security for the operations of East Java's BRI which follows after the improvement of banking operations which is managed by the managerial team.

The finding of this research rejects the theories elaborated by Keynes (1943:253) which state that the macroeconomic structure directly affects the bank's daily operations. The finding of this research also disregards the result of previous research which insists that the macroeconomic structure can be used as a means to improve the banking operations. A good macroeconomic structure can better help improve the condition of bank's business cycle (Bank Indonesia Jawa Timur, 2002). This statement does not support the belief of Tsai *et al.* as quoted by Sahinidis and Bouris (2008), in which they found that the good condition of macroeconomic structure will make the banks work in a good economic scale's condition as well.

According to the result of the second hypotheses' test (as elaborated on table 5.26), the effect of Macroeconomic Structure ( $X_1$ ) towards the Debtors Performance ( $Y_2$ ) show that the score of t-statistic is 4.647 ( $4.647 > 1.96$ ). Meanwhile, the score of p-value is 0.024 ( $0.024 < 0.05$ ). The path coefficient's score obtained is positive 0.197. From these results, it can be concluded that the macroeconomic structure has a direct significant effect towards the SME business.

The coefficient score got is positive for 0.197. Based on the result, it can be concluded that macroeconomics structures directly affect significantly the SME BRI East Java debtors' performance. The positive coefficient value (0.197) indicates that the better macroeconomics structures in East Java, the better effect for the SME BRI East Java debtors' business.

The significant relation between macroeconomics structure in East Java and SME BRI East Java debtors performance indicates that macroeconomics structure, per capita income, jobless level, government outcome, and inflation level contribute to the better SME BRI East java debtors' performance or on the other word, the better Macroeconomics in East Java make SME BRI East Java debtors be able to do their business well and get the appropriate profit.

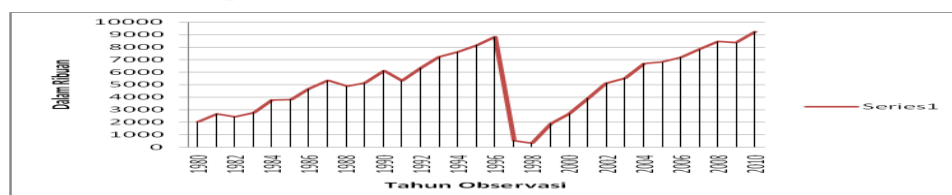
The real condition in the field shows that SME BRI East Java debtors realize that in the last ten years, the better macroeconomics in East Java make their business grow well. Further, some debtors whom we met state that their market has achieved out of East Java and international export. The result of the analysis shows that the growth of the SME BRI East Java debtors is based on the stable macroeconomics condition.

It is because the SME BRI East Java debtors do not have strong basic to survive if the macroeconomics get worse. The per capita income indicator shows that SME BRI East java debtors in the central growth area have higher per capita income than those who live far away from the central growth area. In case of jobless level, area which have a lot of SME also has high level of jobless. It means that the capacity of SME in East Java cannot be relied on to decrease the number of jobless.

It also happens in the government outcome indicator. The higher government outcome, the higher effect of trickledown effect and multiplier effect for the SME BRI East Java debtors' business. In case of inflation, the result shows that inflation will cause the investment budget, raw materials consumption budget, and machine budget are increased. Therefore, it will disturb the SME busines' performance. It means that the inflation is one of various factors which affect the SME BRI debtors; business growth.

Based on the interview with manager of credit system in BRI East Java, there are some constrains for the job opportunities in SME. One of them is the lack of capital owned by SME businessman. The capital is the economic sources made by people in the form of money or goods. The capital in the form of money can be used by productive sector to buy new capital in the form of new goods (Cahyono, 1983). One of the business capital is in the form of credit.

**Picture 2: Capital Work of SME BRI East Java in 1980-2010**



**Source:** BRI East Java report

Based on the picture 5.2, it can be seen that in PELITA III period, between 1980 and 1990, the growth of capital credit for SME BRI East Java tends to be increased. It is because the Indonesian economic development is in the fast growing phase as the result of the increasing of per capita income. The Indonesian economic in 1990-1996 archived its best level where the economics is makes itself ready to grow fast. Unfortunately, Indonesia got economic crisis in 1997. All of the Indonesian economic sector are decreased significantly, but this fact did not give significant effect for SME. On the other hand, it gives significant effect for banking, BRI is also included in it.

Other findings of this result state that the training affectivity directly affect significantly for the organizational commitment. On the other hand, job satisfaction gives positive effect significantly for the organizational commitment. Job satisfaction is intervening variable among training affectivity for organizational commitment variable. Therefore, it can be assumed that training affectivity got by the employee of SME BRI East Java debtors give job satisfaction to the employee. It can increase the high organizational commitment. It can be concluded that the second hypothesis can be accepted. That is the macroeconomics structures affects significantly to the SME BRI East Java debtors' performance.

The effect of financial structures ( $X_2$ ) for the banking operational ( $Y_1$ ). Based on the research on the third hypothesis, as stated in table 5.7, t statistic is 3.825 ( $3.82 > 19.6$ ) or p value is 0.041 ( $0.041 < 0.05$ ). The coefficient get is positive for 0.259. Based on this fact it can be concluded that banking financial structures gives direct effect significantly for the banking operational. The coefficient score is positive (0.259). It means that the better affectivity and efficiency of planning and banking financial structures realization, the better banking operational.

The significant effect of banking financial structures for the banking operational indicates that banking financial structures includes investment credit, consumption credit, capital credit, third party finance and the number of non performing loan, give contribution to the banking operational. On the other words, a good financial structures management will support the banking operational in BRI East Java. The positive perspective of managerial in BRI East Java for the banking financial structures which are stable directly affect the planning and operational of BRI East Java, to maintain this condition, the effective monitoring and evaluation are needed to achieve the optimal operational performance. If managerial thinks that financial structures which has been conducted meets the expectation the real fact in the field, the banking operational can be arrange as what have been planned.

### Conclusion

This research concludes as follows : (1) macroeconomic structure ( $X_1$ ) affects in an insignificant and positive manner towards the banking operations ( $Y_2$ ) of Bank Rakyat Indonesia in East Java. From the result of the test analysis, it can be described that the macroeconomic structure does not directly affect the banking operations. The more stable and better the state of the macroeconomic structure, the easier it is for the managerial team of East Java's BRI to manage their banking daily operations. In a way, the result of the study does not support the theories proposed by Keynes (1943: 253) which state that the macroeconomic structure directly affects the banking daily operations.(2) macroeconomic structure ( $X_1$ ) significantly and positively affects the performance of small and medium enterprise debtors in East Java's BRI ( $Y_2$ ). The test analysis result mentioned before shows that the macroeconomic structure has a significant direct effect towards the performance of small and medium enterprise debtors in East Java's BRI. The path coefficient is marked positive (0.197), and it indicates that the better state of macroeconomic structure in East Java, the more it gives positive effect towards the business condition of the small and medium debtors in East Java's BRI. Part of the findings of the research is against the theory declared by Schuler and Jackson (1997:325) which emphasizes that a large number of small and medium enterprises will cause a decrease in the unemployment rate. The finding further supports the result of a research conducted by Gillmant, Max, and Michal Kejak (2009) which concluded that the relationship between inflation and business value is negative, in other words, if the inflation rate increases, then there will be a drop in the business value of small and medium enterprises.(3) the financial structure ( $X_2$ ) significantly and positively affects the banking operations ( $Y_1$ ) of Bank Rakyat Indonesia in East Java. The result means that the better state of effectiveness and efficacy of banking financial structure's planning and realization, the more positive effects that the banking operations will receive. This result supports a research conducted by Adams (2009) which concludes that the effect of loan provided and banking operations reflects a positive relation. It means that if there is an increase in efficiency of banking financial service, then there will be an increase in the banking operations as well. This does not support a research by Marwat *et. al.* (2009) which was conducted to the corporations' executive financial management of nine major industries in Europe, it further declares that the financial structure is the main component of banking operations' efficiency which is required to maximize the return.(4 ) banking financial structure ( $X_2$ ) significantly and positively affects the performance of small and medium enterprise debtors ( $Z_1$ ) in East Java's Bank Rakyat Indonesia. The result of test analysis suggests that banking financial structure has a significant direct effect to the performance of small and medium enterprise debtors in East Java's BRI. In other words, the better management of banking financial structure, the higher benefit it will give to the business development of small and medium debtors in East Java's BRI. The result of this study support the resreach conducted by Amromin and Chakravortu (2007) related to the effect of banking credit for the SME debtors' profit by using microeconomics method. The result of the study shows that the improvement of the credit cased the decreasing of the small enterprise's profit. On the other hand, middle enterprise business does not really get trouble. This study does not support the resreach conducted by Pramono, et.a; (2006) which finds that the increasing of the third party finance will increase the profit and decrease the demand of the credit. This concludes that if the economy is in a declining position, it will trigger the tradeoff between the demand for loan and the need to save money.

(5) banking operations ( $Y_1$ ) significantly and positively affects the performance of small and medium enterprise debtors in Bank Rakyat Indonesia ( $Y_2$ ). The test of that analysis indicates that banking operational has direct effect to the SNE debtors in east Java's BRI significantly. This study support the theory proposed by Djojosoedarsono (1999: 10-16) which states that the success of banking in improving its debtors; business us caused by various factors. One of them is a good banking operational. The result of this study also is in line with the theory proposed by Handoko (1999: 155) which states that banking operational is something positive which is accepted by the debtors to run their banking intermediation function and it is also one of the ways to improve banking performance, return on asset, and return on investment. The result of this study states that the better management level in BRI branch in municipality/city will improve the MSE debtors' performance. The result of this study also support the research conducted by Fathrozi (2004) which states that the better banking management quality and manager performance will affect the success of debtors' productivity. This result shows that generally, the operational performance in each branches of East Java's BRI, either in consumption or productivity have gain the target.:

Based on the conclusion of this study, the following suggestion are proposed : (1) For East Java's BRi : Maintaining the East Java's BRI employee's job satisfaction, organizational commitment, and performance. The job satisfaction and organizational of employee at PT Bank Kalbar has strategic role as the variable which can improve employee's performance. Second, to maintain the employee's job satisfaction, organizational commitment, and performance at PT Bank Rakyat Indonesia, the following are expected to conduct: (1) The banking operational techniques skill training. It aims to give knowled and skill based on their main job and their position for the employee (runner/non leader) which is operational techniques. (2) General banking training. It aims to give the employee banking knowledge, either relevant techniques or theory as the knowledge which led into concept and managerial needed. The training materials used are in sequence. It starts form the first supervisor of the main leader. It is as one of the requirements and qualification which must be owned by the leader to gain certain position. (3) Intensification training/course, seminar, workshop, benchmarking. Which aim to give the new knowledge/skill to the employee to increase their knowledge as a media to enlarge their external relation or information changing and the experience among participant.

(4) Maintaining the system of compensation delivering which can be done by giving the financial compensation (salary, bonus, allowance) which met the fairness either internal or external. It can improve the non financial compensation in the form of position promotion objectively and continuously by giving award to the employee which has achievement periodically. Achieving debtors' performance target is an important thing either for the employee or PT. Bank Rakyat Indonesia in East Java. High employee's performance will give the best service to the debtors of Bank Rakyat Indonesia. The employee's performance will be able to gain if there are job satisfaction and organizational commitment. Therefore, each individual as the runner in gaining the purpose and objective of East Java's PT. Bank Rakyat Indonesia which must develop themselves in each education program and training. Therefore, the affectivity of the training program has been conducted. (6) Government is expected to maintain the macroeconomics in East Java especially in the inflation and government outcome. The result of the study shows that at least the government outcome is directed to the market access distribution by creating the government's business which is managed to access the products form SME which are far from economics' growth area in East Java. (7) For further researcher, re-examination is needed to change the macroeconomics structures variable, microeconomics structures variable, and its indicators. Besides that, this model need to be examined for all of bank is East java. For similar resreachers and other variables, this research is suggested to do the approach from the internal human resources in banking and SME debtors.

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