

**DISTINGUISHING FACTORS TO PREDICT THE SUCCESS OF  
REGIONAL DEVELOPMENT BANK (BPD) TRANSFORMATION IN  
INDONESIA 2024**

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**Abstract**

This study aims to examine several distinguishing factors that are considered to influence the success of Regional Development Bank (BPD) transformation in Indonesia in 2024. This study uses discriminant analysis. The study shows that there are 7 variables that are predictive factors for the success of BPD transformation in Indonesia in 2024, namely learning and growth perspective, nation's culture, organizational culture, public policy, bank health level, regional autonomy and BPD's sustainable competitive advantage. Nation's culture variable is a differentiator that acted as the strongest driver. BPD's sustainable competitive advantage variable is the strongest obstacle to predict the success of BPD transformation in Indonesia in 2024.

**Keywords:** distinguishing factors, transformation, BPD, variables, nation's culture, sustainable competitive advantage.

**INTRODUCTION**

Regional Development Bank (BPD) was established under the Republic of Indonesia Law No.13 of 1962. The purpose of the establishment of BPD was to provide funding for the implementation of regional development efforts in the framework of national development plan and to provide loans for investment, expansion and renewal projects of regional development in the area concerned. The problems that are always faced by BPD are dependence on stakeholders and BPD shareholders as well as the role of BPD as an agent of regional development that has not gone well. In 2015, the President of the Republic of Indonesia, Mr. Ir. Joko Widodo launched Regional Development Bank (BPD) Transformation program as an effort to overcome BPD problems. This study aims to look at the existing BPD conditions until 2024 when the implementation of BPD transformation will begin. Some distinguishing factors that are considered influential are: (1) regional economic growth, (2) learning and growth perspective, (3) nation's culture, (4) organizational culture (5) public policy, (6) bank health level, (7) regional autonomy (Otodana), (8) BPD leadership style, and (9) BPD's sustainable competitive advantage.

## **LITERATURE REVIEW**

### **Organizational Transformation**

Organizational transformation is a gradual process of change so that it reaches an ultimate stage. Changes are made by responding to the influence of external and internal elements that will direct changes from a previously known form through the process of repeating repeatedly or multiplying it.

According to Dibrata & Murahartawaty (2013) in Indartono (2014, pp. 17), state there are 5 (five) elements that drive the success of change process, namely: (1) awareness, (2) desire, (3) knowledge, (4) ability, and (5) reinforcement, known as ADKAR. ADKAR is a model for change in business, government and community, which is built into a framework for achieving change.

### **Regional Economic Growth**

Regional economic growth is a process of improving people's welfare by passing certain stages to achieve expected results. Economic growth is based on the process of increasing production of goods and services in economic activities of society. Economic growth is related to the process of increasing the production of goods and services in the economic activities of society.

The main factors in a country's economic growth, are: (1) increased capital goods through investment, (2) capable workers, (3) application of appropriate technology, (4) efficient financial system, (5) effective management system, (6) entrepreneurship, and (7) perfect and balanced information (perfect and symmetric information) (Rahardja and Manurung, 2008). In this study two factors will influence the economic growth of a region, namely an effective regional financial system and an increase in capital goods. The indicator of increasing capital goods is increasing investment and increasing net exports. While indicators of the regional financial system that are effective, namely increasing GDP and suppressing inflation.

Regional economic growth is measured in several ways, including: (1) Gross Regional Domestic Income (GDP) according to constant prices and market prices, (2) investment, and (3) inflation. GRDP is the net value of goods and services produced by various economic activities in an area for a certain period (Sasana, 2009).

The result of a study - Katarzyna (2016), explains that there is relationship between development of banking business as measured by CAMELS method on economic growth in several Western Balkans and Baltic States. This opinion is supported by other researchers such as Schumpeter (1934); Bauer et al., (1998); Cox & Cox (2006); and Doumpos & Zopounidis (2010). The empirical findings of this study are in line with the opinions of Rahardja and Manurung (2008, pp. 152) that describes optimizing expected economic growth is done by adding capital (capital goods) and credible human resources to increase investment.

While indicators of the dimensions of effective regional financial system, are increasing GDP and suppressing inflation by measuring instruments to determine the existence of economic growth in a region. This is in line with opinion of Sasana (2009) that explains GDP is the net value of goods and services produced by various economic activities in a region for a certain period.

According to Boediono (2001) in Puspita (2016, pp. 3) says that regions that are able to control inflation fluctuations in accordance with expected expectations are regions that are categorized as successful in their regional development.

### **Learning and Growth Perspective**

Kaplan and Norton (2004, pp. 3) divides the main principles in learning and growth perspective into 3 (three) strategy mappings. They are: (1) human capital, (2) information capital, and (3) organization capital

According to Midhio (2016, pp. 9), the role of human capital in the creation of intellectual assets is very strategic, as individual competence, as well as managing the intellectual assets of organization. Therefore, the role of human capital is a key factor in improving the performance of organizations (business and non-business) that provides competitiveness for competitors in the future. The human capital dimension in this study has 6 (six) indicators, namely: increasing knowledge, developing ideas, building creativity, developing abilities, increasing work productivity and developing sustainable training.

According to Kaplan and Norton (1990), information capital (information capital) in organizations should have 3 (three) criteria, namely: (1) accurate information system, (2) complete database, and (3) integrated networking. The dimensions of information capital in this study are data accuracy, network integration, and realtime systems. While the organization capital dimension has 3 (three) indicators, namely specific culture, alignment with structure, and teamwork.

The result of the study conducted by Mozammel and Haan (2016) concluded that transformational leadership in banks in Bangladesh did not significantly influence employee engagement. This research received support from previous research Judge & Piccolo (2004) and Sonnentag et al.(2010), that the influence of transformational leadership depended on the behavior of its employees, which fluctuated while carrying out their activities. But there are differences of opinion with other researchers Kahn (1990) and May et al., (2004) that the involvement of employees who expressed emotions, physical and cognitive would provide success for the organization. Similarly Markos & Sridevi (2010), Susi & Jawaharrani, (2010); and Gruman & Saks(2011), that employee involvement would increase profitability and productivity in the financial sector of the industry. Walumbwa et al., (2005) stated that self-efficacy mediated the influence of the professional approach of transformational leadership through a linear hierarchical model.

### **Nation's Culture**

The nation's culture variable is a novelty in this study. Culture comes from the word "latoncolere" (working or processing). It can also be interpreted as cultivating land or farming. Culture is a way of life that develops, and is shared by groups of people, and inherited from generation to generation. This culture is formed from various complex elements, including political and religious systems, customs, tools, languages, buildings, clothing, and artwork.

The operational definition of the nation's culture variable is cultural perception inherent in an area by upholding ethnocentrism and local cultural symbols. Ethnocentrism is the perception or assumption of individuals and groups, which states that the culture is the best among other regional cultures. The indicator of ethnocentrism in this study is the degree or level of ethnicity and ethnic attachment.

Cultural symbols are identity, ethics, art, certain symbols that distinguish one culture from one region to another. Cultural symbol indicators in this study are works of art, customs and dialects.

### **Organizational culture**

Organizational culture is the basic pattern accepted by organization to act and solve problems, forming employees who are able to adapt to the environment and unite members of the organization. For this reason, it must be taught to members including new members as a correct way of studying, thinking and feeling the problems faced (Schein, 2004).

Organizational culture has functions including 1) conveying a sense of identity for members of the organization, 2) facilitating a commitment to something greater than oneself, 3) increasing social stability, and 4) providing premises that are accepted and admitted for decision-making.

There are 7 (seven) indicators that as a whole, are the nature of organizational culture: 1) innovation and risk taking, 2) attention to details, 3) orientation of results (outcome orientation) 4) people orientation, 5) team orientation, 6) aggressiveness, and 7) stability (Robbins & Judge, 2015).

In this study organizational culture will use two indicators, namely innovation and risk taking and stability. Indicators (points) on the dimensions of innovation and risk taking, namely the development model of business and decision making. While the indicators (items) on the dimensions of stability, namely organizational identity, commitment, and team orientation.

### **Public Policy**

Public policy is whatever government chooses to do or not do. There are 4 types of public policies, namely: substantive and procedural policy; distributive, redistributive, and regulatory policy; material policy; and public goods and private goods policy (Wijayanti, 2013).

This research will use the substantive and procedural policy dimensions. Substantive policy is a policy seen from the substance of the problems faced by the government, for example: education policy, economic policy. Indicators (points) in the substantive policy dimension are action of regime and the strategy of actors involved.

Procedural policy, is a policy seen from the parties involved in its formulation (policy stakeholders), for example: in making a public policy, even though there are government agencies / organizations that are functionally authorized to make it, for example, Law on Education, which is authorized to make it is the Ministry of National Education. The indicator in the procedural policy dimension is the contribution of stakeholders and compliance of the implement or.

### **Bank Health Level**

Bank health level is the result of qualitative assessment of various aspects that affect the condition or performance of a bank through quantitative assessment and / or qualitative assessment of capital factors, asset quality, management, profitability, liquidity, and sensitivity to market risk. Quantitative assessment is an assessment of the position, development, and projections of bank's financial ratios and an assessment of factors that support the results of quantitative assessment, implementation of risk management, and bank compliance.

The dimensions of bank health level variables are a healthy banking structure and a strong banking industry. The dimensions of a healthy banking structure have indicators (points) to fulfill core capital (Tier1) and the implementation of Good Corporate Governance (GCG) while indicators (points) on the banking industry dimension are strong, namely high competitiveness and resilience to risk profiles.

### **Regional autonomy**

Regional autonomy is the right, authority, and obligation of autonomous region to regulate and manage government affairs and the interests of the local community in accordance with the laws and regulations. There are two principles of regional autonomy used in this study, namely the principles of decentralization and deconcentration.

Decentralization is the submission of government authority by government to autonomous regions to regulate and manage government affairs in the system of the Unitary State of the Republic of Indonesia. In this study, the decentralization dimension uses 4 (four) indicators, namely regional asset management, increasing regional welfare, learning democracy, and local wisdom.

The definition of deconcentration is the delegation of governmental authority by the Government to the Governor as the representative of the government and / or to vertical agencies in certain regions. The deconcentration dimension in this study is the harmony of national development and strengthening state sovereignty.

### **BPD Leadership Style**

Understanding leadership as an attribute or completeness of a position, among others are as stated by Yukl (1989). Leadership is a special type of power relationship that is determined by the assumption of group members that a member of the group has the power to determine behavior patterns related to his activities as a group member.

The leadership style variables in this study have 2 (two) dimensions, namely bureaucratic leadership style and Fielder's contingency theory. This bureaucratic leadership style is illustrated by the statement "leading based on the rules". Lead behavior is characterized by tight implementation of a procedure that has been applied from the leader to his subordinates. Indicators on the dimensions of bureaucratic leadership, namely straight on rules and risk overversion

According to Fiedler(1967) in Michaelsen (1973) states that a contingency theory or model is often called situational theory because it suggests leadership that depends on the situation. Fiedler's model or contingency theory sees that effective groups depend on the compatibility between the styles of leaders who interact with their subordinates so that the situation is controlling and influencing leaders. Indicators in the dimensions of Fielder's contingency are situational decisions and are vulnerable controlled.

### **BPD's Sustainable Competitive Advantage**

Competitive advantage is needed to satisfy customer, so that the customer will receive a higher value from the products produced. At the same time it can also provide a large income, such as what is requested by the business owner on company management, where the need to achieve this can be met with company productivity, high-quality applications and also the lowest possible production costs.

In its development, all companies are badly required to have competitive advantage in a short period, so that a new theory is born, namely sustainability competitive advantage. Barney(1991) states that sustainability competitive advantage can be obtained by carrying out a continuous discovery process that will continue towards innovation. This process will run well if it first builds the organization's core competencies, namely resources and capabilities. The dimensions of the Sustainable Competitive Advantage variable are internal analysis-Resource-Based View (RBV) and external analysis-Porter's six Forces Model.

Several indicators that have been determined by researchers in the internal analysis-Resource-Based View (RBV) dimensions are valuable, rare, inimitable, and no substitutable. While the six forces model external analysis-Porter's dimension consists of 6 (six) indicators, namely competition in banking industry, new competitors, loyal customers, substitute products and services, regulated banking, and complementary of banking industry.

**METHODOLOGY**

This research started in November 2017 until October 2018, aims to see the condition of the existing Regional Development Banks (BPD) throughout Indonesia until 2024, when the BPD transformation program in Indonesia will be implemented. The object of research is 9 (nine) BPDs, namely: (1) PT BPD East JavaTbk, (2) PT BPD West Java Tbk, (3) PT BPD DKI Jakarta, (4) PT BPD Cenral Java (5) PT BPD DIY (6) PT BPD West Sumatra, (7) PT BPD Banten Tbk, (8) PT BPD Bengkulu, and (9) PT BPD North Sulawesi Gorontalo.

The sampling technique uses quota sampling. The design of this study uses discriminant analysis, which is part of a multivariate statistical analysis which aims to separate different objects (respondents) and allocate them to defined groups (Johnson & Wichern, 2007).

**RESULT**

**Descriptive Analysis of Research Variables**

Table 1 provides information about the mean and standard deviation of the responses of each sub-variable (dimension) involved in the study. It can be seen that sub-variables (dimensions) that have the highest response are cultural symbols followed by ethnocentrism. The sub-variables (dimension) with the lowest response are innovation and risk taking and a strong banking industry.

The sub-variable (dimension) with the highest standard deviation is strong banking industry and the lowest is a symbol of culture, bureaucratic leadership and external analysis-Porter's six forces model. A high standard deviation shows the respondent's answers are vary and a low standard deviation indicates that answers between respondents tend to be the same or not too varied.

Table 1. The result of descriptive analysis of research variables

Variables	Sub Variables (Dimension)	Mean	Standard Deviation
Regional economic growth	X11 Effective regional financial system	3.6	0.5
	X12 Increased in capital goods	3.7	0.5
Learning and growth perspective	X21 Human capital	3.3	0.7
	X22 Information capital	3.3	0.5
	X23 Organization capital	3.1	0.5
Nation's culture	X31 Etnocentrism	3.9	0.5
	X32 Cultural Symbol	4.0	0.3
Organisational culture	X41 Innovation and risk taking	2.4	0.7
	X42 Stability	3.2	0.6
Public policy	X51 Substantive policy	3.8	0.4
	X52 Procedural policy	3.8	0.4
Bank health level	X61 Healthy banking structure	3.2	0.6

Variables	Sub Variables (Dimension)		Mean		Standard Deviation	
	X62	Strong banking industry	2.7		0.8	
Regional autonomy (Otodo)	X71	Decentralisation	3.7	3.55	0.4	0.4
	X72	Deconcentration	3.4		0.6	
BPD leadership style	X81	Bureaucratic leadership	3.1	3.45	0.3	0.3
	X82	Fielder's contingency	3.8		0.5	
BPD's Sustainable competitive advantage	X91	Internal analysis- Resource Based View(RBV)	3.2	3.35	0.4	0.2
	X92	External analysis- Porter's six forces model	3.5		0.3	
	Y	Success prediction of BPD tranformasi in 2024	0.5		0.5	

### Linear Discriminant Model

Linear discriminant model equation as follows is obtained by test using a stepwise estimation analysis method:

$$Y = -3.647 - 0.929X_2 + 0.816X_3 + 0.986X_4 + 1.656X_5 + 1.224X_6 - 1.084X_7 - 1.628X_9$$

This discriminant function shows that the independent variable (predictor) that significantly determines the prediction of BPD success is: learning and growth perspective (X2), nation's culture (X3), organizational culture (X4), public policy (X5), bank health level (X6), regional autonomy (Otodo) (X7) and BPD's sustainable competitive advantage (X9).

### Hypothesis Testing Result

#### Distinguishing Variables Predicting the Success of BPD Transformation

Tests were carried out using the Wilk's Lambda test. The results of the analysis show that there were 7 (seven) predictor variables of successful transformation of BPD in 2024. The seven variables were learning and growth perspective, nation's culture, organizational culture, public policy, bank health level, regional autonomy and BPD's sustainable competitive advantage.

#### Distinguishing Variables that Play Roles as Drivers in the Success of BPD transformation in Indonesia in 2024

Testing is done by looking at the value of coefficients standardized discriminant. The results of the complete test are presented in Table 2. Variables of nation's culture, public policy, and the level of health of Bank are differentiators that play roles in driving the success of BPD transformation in Indonesia in 2024. Until now there has been no theory and results of previous research on the nation's culture. This variable is novelty, including its implications for the success of transformation in an organization, especially the success of BPD transformation in Indonesia in 2024.

**Distinguishing Variables that Play Roles as Inhibitors in the Success of BPD Transformation in Indonesia in 2024**

Based on the results of testing in Table 2, it can be concluded that the BPD's sustainable competitive advantage variable, learning and growth perspective, regional autonomy, and organizational culture are distinguishing roles that act as obstacles to the success of BPD transformation in Indonesia in 2024. Novelty is found among the four variables. Statistically, from the results of previous studies there are differences between learning and growth perspective theories and previous empirical findings that are relevant to transformation within organization.

**The Strongest Distinguishing Variables that can be Used to Predict the Success of BPD Transformation in Indonesia in 2024**

The value of discriminated standardized coefficients shown in Table 2 shows that thenation’s culture variable is the strongest driver and BPD's sustainable competitive advantage variable is the strongest obstacle in predicting the success of BPD transformation in Indonesia in 2024.

**Table 2.**Distinguishing Variables as Drivers and Inhibitors ofBPD Transformationin 2024

No.	Driver Variables	Coefficients standardized discriminant	Rangking	No.	Inhibitor Variables	Coefficients standardized discriminant	Rangking
1	Nation’s culture (X3)	0.397	1	1	BPD’s Sustainable competitive advantage (X9)	-0.376	1
2	Public policy (X5)	0.367	2	2	Learning and growth perspective (X2)	-0.308	2
3	Bank health level (X6)	0.159	3	3	Regional autonomy (X7)	-0.192	3
				4	Organisational culture (X4)	-0.035	4

**CONCLUSION**

This study aims to look at the condition of the existing Regional Development Banks (BPD) throughout Indonesia until 2024, when BPD transformation program in Indonesia will be implemented. The distinguishing factors that are considered to influence the success of the transformation of regional development banks are 1) regional economic growth, (2) learning and

growth perspective, (3) Nation's culture, (4) organizational culture (5) public policy, (6) bank health level, (7) regional autonomy (Otoda), (8) BPD leadership style, and (9) BPD's Sustainable competitive advantage.

The result shows that there are 7 (seven) variables which are predictive factors of success in the transformation of BPD in Indonesia in 2024 including learning and growth perspective, nation's culture, organizational culture, public policy, bank health level, regional autonomy and BPD's sustainable competitive advantage.

From the seven variables, nation's culture variable, public policy, and bank health level are the differentiators that play roles in driving the success of BPD transformation in Indonesia in 2024. While BPD's sustainable competitive advantage, learning and growth perspective, regional autonomy and organizational culture are distinguishing variables which act as barriers to the success of BPD transformation in Indonesia in 2024.

The nation's culture variable is a differentiator which role is the strongest driver and BPD's sustainable competitive advantage variable as the strongest barrier to predict the success of BPD transformation in Indonesia in 2024. Variable nation's culture is novelty in this study.

### **RESEARCH CONTRIBUTION**

Based on the results of the research on the Distinguishing Factors to Predict the Successful Transformation of Regional Development Banks in Indonesia in 2024, several things need to be considered:

Policy makers should provide recommendations to the central government, Financial Services Authority (OJK), Bank of Indonesia and Regional Development Bank Association (Asbanda) to review (work frame), implementation stages (timeline) and implementation guidelines (blueprint) of BPD transformation program in 2024 taking into account all distinguishing factors that can encourage and hinder the BPD transformation program. Policy makers should also clarify business strategy in BPD business plan and corporate plan after BPD transformation program in 2024 is implemented, so that BPD's going concern and sustainable competitive advantage are maintained.

The need to involve the role of academics and teams from each BPD in the rearrangement of work frames and blueprints for BPD transformation program in 2024 also needs to be considered by policy makers, because the achievements in the first phase are foundation building in 2015-2017, and progress in the second phase, namely growth acceleration in 2018-2020 has not shown the expected performance.

For further research, some things that need to be considered include data collection. Researchers should make a question that lists the length of service and other identities of respondents in the research questionnaire. Researchers can also choose other BPDs as research samples and different sampling techniques. Another aspect that needs to be added is another predictor variable in this study so that the value of canonical correlation is high, because the canonical correlation value in this study is still less than 50%. This means that variations between groups that do not want to transform BPD and those that want to transform BPD is less than 50%.

Another suggestion for the next researcher is in determining different classifications of BPD that will be chosen as research sample and the use of multivariate statistical analysis in addition to discriminant analysis or other statistical methods in examining the topic of organizational transformation.

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