

ABSTRACT

Ever since the deregulation in 1983, shortly followed by other regulation policies, the banking sectors in Indonesia had made a great deal of fundamental changes by means of mushrooming a large number of banks. As a result the competition among banking sectors was getting more demanding. On the contrary, economic globalization as a form of opened market required banking to adapt regulation internationally as it is stated in *Bank for International Settlement (BIS)*. Accordingly the banks have to deal not only with strict competition and economic recession but also to comply with the BIS regulation in an attempt to operate business activities internationally.

The banking existence in maintaining its business survival should be functionally supported by operational, innovation and marketing competency. In addition to that precise strategy should be created to obtain sound performance. Its accomplishment is measured by standard assessment administered by monetary authority and bank Indonesia.

The objective of this research was to analyze the influence of functional competency of banking (operational, innovation, marketing) to banking performance, by applying a strategy as intervening variable. The population of this research are foreign exchange banks. The competence assessment used in this study functionally viewed from bank management perspective. The technique of analysis applied in hypothesis is structural equation modeling (SEM) using AMOS 4.10 software program and SPSS for certain testing of variable influences as well Microsoft excel for scoring.

The research indicated that banking functional competence derived from competitive advantages is the competency that should be possessed inevitably by the management in order to survive and to continue its business in the future. Afterwards, the testing which was proceeded at the same instant indicated that operational competence in fact has significant influence to the banking performance to the negative direction, innovation competence significantly influence in positive direction, while marketing competence does not show any influence at the level of $p \leq 0,05$ but it affects extensively in positive direction at the level of $p \leq 0,1$. The results partly accepts and rejects the previous study completed by Vickery (1993,1994) and Cleveland (1989). Another finding in the study based on *confirmatory factor analysis* shows that the criteria for banking performance assessment only affected by *Return on Assets and Net Interest Margin* and both of them are measurement indicators based on financial performance.

Simultaneous Strategies have significant influence to banking performance in the positive direction and specifically of *low differentiation and high performance overall cost leadership* are more frequently used, this result accepts the study of Prahalad and Gary Hamel (1990)

Key-words : *Competence-Functional-Business Strategy-Banking Performance.*