ANALYSIS ON CORPORATE GOVERNANCE INFLUENCES TOWARD BANKING EFFICIENCY WITH BANK CATEGORY AS MODERATOR VARIABLE

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ABSTRACT

Corporate governance system of Sharia financial institution that based on Islamic law may result more variables principles then conventional owns. The restriction of usury are highly speculative transaction, embedded prohibited matter are main features in Sharia business institution. Sharia Supervisory Board, as board that supervises banking practices conforms to Sharia stipulations, hold strong important role within Islamic banking. Both important points above had direct effects on efficiency which attained by Islamic banking compared with conventional banking. This study examines the influence of corporate governance implementation toward efficiency banking sector with bank category as moderator variable. This study hypothesize that corporate governance has significant influences toward bank's efficiencies, the influence of corporate governance toward Islamic bank efficiencies is higher than conventional bank, and level of Islamic bank efficiencies is higher than conventional bank. Measurement of efficiencies is using Stochastic Frontier Approach program, and then using SPSS in procces hypothetical model. The results of the study do not support the hypothesis. Examined result shows that statically corporate governance is not influenced by bank efficiency achievement. Corporate governance influences over Islamic bank has not show higher significance than conventional and Islamic bank efficiencies remain steady. Data limitations, complexity of the efficiency measures and the complexity of the operation of Islamic banks may explain the finding.

Keywords: *islamic bank, corporate governance, efficiencies*

ABSTRAK

Sistem corporate governance lembaga keuangan syariah yang diambil dari ajaran Islam menjadikan prinsip-prinsip corporate governance sebagai sebauh nilai uang lahir jauh mendahului lahirnya mekanisma corporate governance kovensional. Pelarangan riba, transaksi yang bersifat spekulatif dan praktik bisnis yang mengandung unsur haram menjadi ciri utama dalam praktik bisnis dalam lembaga bisnis syariah. Keberadaan Dewan Pengawas Syariah sebagai dewan yang mengawasi tetap terjaganya praktik bisnis yang sesuai dengan ketentuan syariah memberikan peran yang sangat penting di dalam perbankan syariah. Kedua poin penting di atas dipnadangn memiliki efek langsung bagi efisiensi yang dicapaioleh bank syariah dibandingkan dengan bank konvensional. Studi ini menguji pengaruh implementasi corporate governance terhadap efisiensi sektor perbankkan denga kategori bank sebagai vairabel pemoderasi. Hipotesis yang diajukan dalam penelitian ini yaitu corporate governance berpengaruh positif terhadap efisiensi bank. Kedua, pengaruh corporate governance terhadap efisiensi bank syairah lebih besar daripada efisiensi bank konvensional. Ketiga, tingkat efisiensi bank syariah lebih tinggi daripada efisiensi bank konvensional. Hasil studi tidak mendukung hipotesis yang diajukan. Hasil pengujian menunjukkan bahwa secara sistematik implementasi corporate governance tidak berpengaruh terhadap pencapaian efisiensi bank. Pengaruh corporate governance pada bank syariah tidak menunjukkan pengaruh yang lebih signifikan daripada bank konvensional dan efisisnsi bank syariah juga belum menunjukkan tingkat yang lebih tinggi. Keterbatasan data, kompleksitas ukuran efisiensi dan operasi Bank Syariah mungkin dapat menjelaskan hasil temuan.

Kata kunci: *bank syariah, corporate governance, efisiensi*

INTRODUCTION

Islamic finance has been viewed as a practical implementation parallel with "Islamic Economy" since 1970. Ideology which encourage Islamic economy development today is socio-politically (it is not scientifically and ethics) based on religion (El-Gamal, 2006). Islamic law is highly detail and tricky to be screened into simple rule, science has two characteristics, however. First, law implicated based on exception: "everything can be accepted by Islam, except if it clearly prohibited". Second, five principles that could clarify the main differences between Islamic principle and conventional are: prohibition of interest; Islamic law paired risk and reward; Islamic law prohibit generates money by money; transaction not involve uncertainty and speculation; arranged prohibited practices such as alcohol and gambling (Wilson, 2008, Monger and Mufeed, 2008).

Banking crisis happens in Indonesia is convinced as the consequences of inadequate implementation and Corporate Governance (CG) role (Tjager, 2003). Based on CLSA reports, 2003, Indonesia only scored 3.2 for institutional mechanism and CG culture, although in 2004 increased to 4 Indonesia position remain below Asian Countries levels. Akmal (2008) suggested that low commitment to apply CG principles had related with risk level confronted by bank. Bank with good information system, however, remain potential for being failure if arrangement principles is not well managed. Several banks are inaccurately performed business activity, this cause violation on banking rule within adverse decision making. To face the growing of customer demand and improved information technology, an efficient bank management is requirement for continues operated. Bank Indonesia by Surat Edaran No.9/12/DPNP obligates general bank to promote GCG Implementation Report to educate and increase bank's check and balance stakeholder and competition through market mechanism.

Within last several years, Islamic financial industry grows conspicuously, including bank, Assurance Company and Investment Company that perform business based on Islamic law. International Monetary Fund (IMF) estimated that Islamic institution assets today had reach $250 billion, continuing to 15% every year. If this rate remains steady, the asset amount will leap to be $500 billion in five years and $1 trillion in ten years (Monger and Mufeed, 2008). The development of national Islamic banking is higher than conventional one in last several years. Beyond those great developments, there is a concern that Islamic bank became vulnerable toward unexpected risk and devastated Islamic banking such banking crisis in previous years. Islamic bank needs comprehensive regulation to support GCG realization (Akmal, 2008) such as hazard morality practice that had customized within bank institutions.

Islamic bank confronts more unique risks than conventional. The existence of obedience obligations toward Sharia principle made those risks embedded in management process, perception toward risk and obligation that determined and management instruments (Khan and Ahmed, 2001). Islamic bank is monetary institution that based on Islamic Sharia norms and purposes. Those norms regulate MAGHRIB (*maysir, gharar* and usury/*riba*) prohibition; allow permitted transaction and alms obligation (Sarker, 1999; Lewis and Algoud, 2007). Those norms and principles have implication on arrangement that should be applied by *Islamic bank* and the arrangements objective. While the main purpose of GCG implementation by conventional bank is oriented to maximized company value, increases profit and easiness of achievement, Islamic bank has different one. *Tauhid* (Islam theology) concepts that used has implicate on work behavior, that every economic acts which conducted by individual or groups will be prohibited if it only advantages to one party and not to the other whereas the resource is proposed for public interests (El-Shanker and Wilson, 2006).

Main characteristic that differentiate Islamic bank and conventional bank operational is for Islamic bank, each transaction have life and death consequences such as Islamic law, being responsible to God is the mayor point (Wilson, 2008). Customer and bank will more audacious to break the law if it based on normative law, however this would not be happened if the transaction takes its responsible on doomsday (Afzalurrahman, 1990). A supporting stake of CG system of Islamic bank that differ from conventional bank is the existence of Sharia Supervisory Board (DPS) which assignments to guard performance and operational bank according to Islamic law.

Government roles and interests are needed in developing Islamic banking sector (Akmal 2008, and Agustianto, 2009) since Islamic bank feature is complex. Islamic bank should able to simplify Islamic rules thus it can carry out its function as monetary inter-mediator without breaking Sharia stipulations by offering main profit-and-loss sharing scheme and bases on free from interest/usuary (Lewis and Algoud, 2007:113). According to experimental that conducted by SA Irshad in 1965, some Islamic bank in Pakistan faced failure to develop caused by management error and the absent of supervising and founding from local banking authority (Siregar and Nasirwan in Sharia Life, 2007).

Based on the background research that has been described above, the formulation of the problem in this study are: (1) Does corporate governance positive effect on the efficiency of the bank? (2) Is the influence of corporate governance on greater efficiency in Islamic banks than conventional banks? (3) Is Islamic banks is more efficient than conventional banks?

The primary objective of this study was to test empirically the positive influence provided by religious values as well as one of the normative legal legal foundation in business processes, especially the banking sector. Religious law as a moral approach has consequences and Hereafter able to direct businesses to more unscrupulous business practices. Such practices will affect the level of implementation of good corporate governance leads to a more settled and improve the efficiency of the banking sector.

The research contribution of this research are: (1) Contributions literature. Extending the theory of efficiency and CG related to the management of each business group of Islamic and conventional banks. (2) Contributions practice. Giving consideration to the investors in making investment decisions in the banking sector. (3) Contributions policy. As an evaluation of government and policy makers in formulating policies for Islamic banking in more detail which would become one of the pillars of Islamic banking development in Indonesia.

Bank General Concepts

Commonly, society consider bank as place for store, saving or lending money for needed society. Prof. G.M. Verryn Stuart define bank as: "A institution that purposed to satisfy credit need, whether using self-finances or money that gain from other, or distributed new exchange material such giral money". Bank is one of finance institution which has exclusive professional staff to apprais loan proposal or business plan, for example: give lending to investor with limited market experience (El-Gamal, 2006). Freixas and Rochet (1997) noted that in the modern view point there are 4 basic functions of bank performance within economics. First, alter asset though monetary intermediation from investor to productive user. Second, offering payment system through delivering an ownership among economics agents. Third, risk manages. Fourth, supervises and processes information concerning debtor. These intermediation functions are emphasizing that loans and non-loan financial investment is bank's output, whereas employee savings, physical capital, and loan fund are applied as bank input.

Either conventional bank or Islamic bank performs business activity which, within this activities, deliver a service in interchange payments or as public credit bank as it intermediation functions. The main difference between both banks is at agreement stages, transaction type requirements and basic law. Despite it fit with law and banking regulation, Islamic bank should put Al Qur'an and Hadits as foundation law. As long as normative law does not confront with Sharia, then it could be permitted (Sarker, 1999; Lewis, 2001). Contracts that being offered by Islamic banking is profit and loss sharing (PLS) base which vendor will remove risk of merchandising, mean while, conventional bank is interest-based finance base which shift the risk to banker (risk of credit) (Lewis, 2009).

DPS presences differentiate controlling system that possessed by Islamic bank. DPS responsible to guarantee that the contract is transparent and open, and being equitable to all parties (Wilson, 2008). Islamic financial institution must have Sharia Board from muamallat fiqh specialist or had an experience in Islamic banking subject or Sharia financial institution that giving approval to every products that published by institution, include saving and financial facility (KNKCG, 2004, and Wilson, 2008). Bank with single or dual banking Sharia system obligated to have DPS within its management. DPS structurally equal to Commissioner Board as supervising function over bank performance.

Basic principles that prohibited in economics development and Islamic banking involves (1) *Mahsyir* or gamble. It rises from agreement between contract parties as outcome from immoral pressure that deliver by incorrect expectation of one party perception that expect the interest. Sharia law aligned risk and reward, profit and loss shares to customer and debtor. (2) *Gharar* or uncertainty. Transaction not involves uncertainty such as an offer with indefinite results. Sharia prohibit escalated inaccurately which rise under uncertainty or indefinite important stakes in contract, that disregard the importance over appropriateness and agreement between parties. (3) Usury or interest. *Riba* or interest is absolutely prohibited by Islamic law. Lap is the main sources of incorrect benefit, since Sharia does not consider money as commodity thus it usage should be appreciated, money is only transaction intermediate. Interest prohibitions include pay or accept (Sarker, 1999; Lewis and Algoud, 2007; Wilson, 2008; Monger and Mufeed, 2008).

Development of Islamic Banking

Concept and practice of economic transaction by Sharia principle had growing. However, initial history of modern Islamic banking is relatively new, it founded by Mit Ghamir Bank, Egypt by Dr. Ahmad El-Najar in 1963 (Siregar and Nasirwan in Sharia Life, 2007). The practice of Islamic banking in Indonesia begin in early 1980s, as exploration process of banking system which delivering transparency, justify, balance and ethics principles. Islamic banking development begins in 1992. In line with validity of Undang-undang No. 7 Tahun 1992 tentang Perbankan marked by Islamic bank establishment with profit and lost sharing base named Bank Muamalat Indonesia then followed by Islamic Rural Bank (BPRS) and several Islamic Banking Unit that owned by conventional bank by employ dual banking system as regulated in Undang-undang No. 10 Tahun 1998 tentang Perbankan and Undang-undang No. 23 Tahun 1999 tentang Perbankan Sharia has been potential market for investors. Islamic Commercial Bank that use single system through December 2009 is Bank Muamalat Indonesia, Bank Sharia Mandiri, Bank Mega Sharia, Bank BRI Sharia and Bank Bukopin Sharia. Study that established by International Association of Islamic Banking through 1997 states that Islamic bank is strongly applicable and able being operated in any countries.

Corporate Governance

CG system deliver effective protection for share holder and creditor thus they sure that will attain return on right investment, and support to create conducive environment for efficient growth and sustainable in corporate sector. GCG Implementation strongly needed to build society and international trusts as a condition for banking to well develop (KNKCG, 2004). GCG can be defined as a set of rule which determine relation between share holder, manager, creditor, government, employee, and internal stakeholder and other external according to its right and responsibility (FCGI, 2007).

According to Peraturan Bank Indonesia No. 8 Tahun 2006 tentang Penerapan GCG for Common Bank, GCG is: “A banking management which applied principles of transparency, accountability, responsibility, independency and fairness”. GCG definition according to World Bank is set of law, rules, and theorem that coerce to be fulfilled to encourage performance of company resources efficiently, generates long term continual economics value for share holder or entire society.

Based on Pedoman Good Corporate Governance Perbankan Indonesia which published by National Committee of Corporate Governance Policy and Peraturan Bank Indonesia No. 8 Tahun 2006 tentang GCG, there are five base principles GCG banking sectors: (1) Transparency**.** Information exposes which prompt, proper, clear, accurate and comparable and easy to be accessed by stakeholder due to its right. Transparency principle which applied by bank does not lessen obligation to fulfill confidentiality of bank according valid regulation, position confidentiality and privates rights. (2) Accountability**.** Unambiguous responsibility assignment from each organization body should consistent with vision, mission, business targets and company strategy. Bank must convinced that every banks organization hold capacity that proper with their responsibility and understand their roles in GCG implementation. (3) Responsibility**.** To uphold its business life, a bank should hold on prudential banking practices principles and ensure the fulfilled of entitled clause. Bank should act as good governance corporate citizen including environment awareness and carry out social responsibility. (4) Independence. It means: took prevent act from uncommon domination by any of stakeholder, not affected by unilateral interest, free from conflict interest, decision making should be objective and free from any pressure from any parties. (5) Fairness. Paid attention over every stakeholder interests based on equality and appropriateness and give opportunity to every stakeholder for giving suggestion and to communicate their view for banks necessity, and have access on information that as openness principle.

GCG as integral mechanism or law league and axiom in organization involved various elements, hence it implementation required various organization function to get involves. Organization which able to implement GCG should not merely paying attention on profit that gained by organizational member, but also parties non-organization. Shareholder theory explained that company is nexus of contract between various constituents. Organization become more efficient when organization gain can be perceived by people non-organization, since this will automatically give advantages such controlling system that will be carry out by those parties (Boatright and Schunk, 1968). Manager urges to have moral responsibility over people non-organization as one way to build broad controlling system (Hendry, 2001). Economic growth also will be unlimited if ownership does not centralized and open for public who want to participate (Holderness, 2006).

Organizational relationship that built in GCG will lead to individual loyalty on that organization. Psychological and sociological approach on every organization member lead to decision that intended to give the best dedication for organization progress. GCG implementation with this stewardship theory bases make individual to act pro-organizational hence extra observation will not need to be conducted (Davis, Schoorman and Donaldson, 1997). Considering employee psychological and sociological aspects is also one of optimum managing risk to suppress agency cost (Sarker, 1999).

Based on discussion above, researcher proposed first hypothesis as:

H1: Corporate Governance has positive influence on bank efficiencies.

Corporate Governance of Islamic Banking

There is critic on CG concepts that implemented in States that implement Anglo Saxon system. Through approach and theories that originated by Chapra & Ahmed (2002), generally many of CG Anglo Saxon sides that should be enriched so such CG implementation not merely worldly dimensioned but also Godly. Fine CG system development in Islamic monetary institution is facing obstacle, this occurred since Islamic banking operates within unfriendly environment, as profit-and-loss concepts that considered not having significant difference with risk concepts at conventional banking (Chapra and Ahmed, 2002). Conversely, during 1997-2003 level of Islamic banking efficiencies had increased than conventional banking that show steady efficiency (Mochtar, Abdullah and Al-Hasbi, 2006).

CG value cannot be realized merely through self program, however it is a bound in daily activities that determined by moral value from company culture (Wieland, 2005). Moral factor is convinced as indispensability within today business. Moral hazard and adverse selection frequently being growths obstacle within a business had proved has fine domino effect both in micro and macro economics. Banking crisis in Indonesia started in 1997 was not the only caused by economic crisis, but also by GCG has not implemented and its ethic values bases (KNKCG, 2004).

Muhammad SAW., a prophet, is father of moral defender in every live aspect within Islam world. He is a model or sample for well behave and attitude at level of God related (*habluminallah*) and to other people (*habluminannas*). Business moral principles and values that He teaches and practiced strongly identified with CG spirit that being develop today (Agustianto, 2009). Since religion, basically, has embodied role in formed and implicated ethical attitude such truthiness, honesty and justice (Lewis, 2001).

Islam had teaches CG elements to be implicated intensively, such principles: *adalah* (justice), *tawazun* (balance), *mas'uliyah* (accountability), *akhlaq* (moral), *shiddiq* (honesty), *amanah* (trust fulfillment), *fathanah* (intelligence), *tabligh* (transparency, openness), *hurriyah* (independency and responsible freedom), *ihsan* (professional), *wasathan* (appropriateness), *ghirah* (Sharia militancy), *idarah* (management), *khilafah* (leadership), *aqidah* (faith), *ijabiyah* (positive thingking), *raqabah* (monitoring) *qira'ah islah* (organization that continued to learn and corrective) (Agustianto, 2009). These values is requirement that should be implicated in Islamic bank within behavior, start form internal relation, serving the customers and other banks, policy and procedure, business practice, to clothes, decoration and image (Lewis and Algoud, 2007). Value implementation emphasizes stakeholder-based approach and oriented on *Tauhid* principle implementation and *shura'* board/consultant (Hasan, 2009).

Conventional economic science concept is human analogy as the only consideration to operate in applicative term. Thus it turned to be desire satisfy and need that tend to human greedy and materialism (Maslow in Akmal, 2008). Islamic banking not only offers profit sharing but also economic system that based on religion principle, ethics, put moral as integral part in economic activity. Economic activities required to have boundary and foundation not only to arrange economic need. Religion bring guide on selfish development and human materialized (Prawiranegara, 1988).

Important components that differs Islamic bank CGC from conventional is DPS. Independent agent assigned for directing, consulting, evaluating and supervising over Islamic bank activity, it ensure that Islamic bank is compliance on Sharia principle as determined through *fatwa* and Islam law (KNKCG, 2004). DPS existence is as guarantee that bank will operates according to Islam law and explicitly implement Islam principles (Lewis and Algoud, 2007). Islam concept as *khalifah* (leader), should be responsible on resource management in front of Allah SWT (Wilson, 2008), those responsible initially proposed to human being before to Allah SWT (Chapra, 2002). Human as center of life represents Allah on earth must oriented on rule that assigned on earth (El-Ashker and Wilson, 2006: 38).

According to description above, I proposed second hypothesis as:

H2: CG influence toward Islamic bank efficiencies significantly higher than conventional bank.

Banking Efficiency

Basic concepts of efficiency

According to Indonesian dictionary, efficiency is: “efficiencies, capability to perform task better and accurately (timeless, effortless, costless)”. Efficiency is production activity that defined as comparison between output and input or total that generates from one input that being used. Efficiency took place when consumer and producer attain surplus from transaction cost within economic activity. Well being that attained by each economic actors are consequences of efficiency (Nicholson, 2005) in market equilibrium.

Efficiency in economic definition is resource usages to maximized good and service productions. A system considered economically efficient if: (1) No one be made better off without making someone else worse off. (2) More output cannot be obtained without increasing the amount of input. (3) Production proceeds at the lowest possible per-unit cost.

Islamic Bank Efficiency

Efficiency in banking is one of popular performance parameter, frequently used since it answers the difficulty to estimates banking performance parameter (Suswadi, 2007). Bank efficiency is one of essential indicator to analyze bank performance and as tool to improve monetary policy affectivity (Suseno, 2007). Banking crises that occurred in 2007 was assumed caused by worst C. G. However, as most bank had experienced financial failure and liquidation during the immersed of national banking system, this had not influenced Indonesian banking Sharia. Islamic banking system had become one of solution to support national economic from economic and monetary crises. Sharia Banking system had proven able to support national monetary system stability during crisis shock (Republika, 2008). Keasey and Wright (1997) suggest that CG has five main objectives. First, protect rights and interest of shareholder. Second, protect rights and interests of stakeholder. Third, improve share and company value. Fourth, improve company management performance efficiencies. Fifth, improve the relation quality among Board of Director. Through better CG, company performance efficiency will also higher. CG is needed to encourage efficient market, transparent and consistent with the regulation. This condition supported by State role, business and society. CGC is integration from economic, moral, law and politics dimensions (Wieland, 2005). Berger and Humphrey *et. al.*, (1992) mentioned that bank failure directly related with debt problems in huge number, low capital position, low or negative cash flow, and law management quality. One that may be estimated before monetary institution fail is law efficiencies.

CG able to reduce agency cost, decrease capital cost, improve share value and company value and gather stakeholder support (Daniri, 2002). The advantage of CG concept that Islamic bank implemented than conventional lead it to stronger guarantee monetary status. Agency problem may be prevented since principles that embodied lead to life-and-death responsibility (Lewis and Algoud, 2007). Management principle highlighted trust, justice and openness and responsibility (Chapra and Ahmed, 2002). Normative law as conventional business transaction bases considered delivering less deter effect for business actor (Akmal, 2008).

Advantages that owned by Islamic bank bring outcome at the low cost of contract and system reinforcing to efficiently performed (Chapra and Ahmed, 2002). Agency value arrangements as management quality standard has positive relation with cost efficiency (DeYoung, 1997). Gerrard and Cunningham (1997) (in Lewis and Algoud (2007) reveal that one main motives of depositor or customer candidate use Islamic bank is not merely lap or interest prohibition but also efficiency that being offered.

Based with description above, I proposed third hypothesis as:

H3: Level of Islamic bank efficiencies significantly higher than conventional.

Stochastic Frontier Approach (SFA)

There are three basic methods to estimate efficiency, Data Envelopment Analysis (DEA), Stochastic Frontier Approach (SFA) and Distribution Free Approach (DFA). Each approach can be used with considered sample characteristics and base assumption. Therefore, DFA and SFA frequently mentioned as parametric approach while DEA in nonparametric. DEA and SFA have two main differences. First, during constructing frontier "best practice", DEA is unlike SFA, assuming that no error founded within raw material. Mean while DEA is specification free nonparametric method. These both approach is mutually complete (Styrin *et. al*., 2005). DFA is based on assumption that company efficiency is steady in long period and random error when averaged close to zero (Berger and Humphrey, 1997).

This research use SFA method since it has advantages involved disturbance term that represents disturbance, incorrect measure and exogenous shock beyond control. Economic stated in Indonesia also has not yet provide certainty of efficiency level as DEA and DFA methods, type of bank market in Indonesia cannot be classified in complete competition market (Suswadi, 2007).

Efficiency has two base concepts as follow (Coelli, 1996; Mokhtar, Abdullah and Al-Habshi, 2006): (1) Technical efficiency (TE). Technical efficiency has two kinds of measurements. First, output-oriented TE measure, TE is bank capability to attain maximum output on several inputs. Second, input-oriented TE measure, that TE is level illustration that bank can minimized input which being used to generate output. (2) Cost efficiency (CE). Standard of bank cost compared with well bank cost practice if both are used to generate equal output under similar market condition.

Model function standard of SFA to estimates bank efficiency according to equations (1) and (2) as developed by Aiger (1977) is presented in translog functional form. This function model is in form flexible function able to approximated effect from unknown functions that deliver advantages for bank efficiency discussion which hard to accurately identify function if parameter model heterogeneous. Based on equations 91) and (2) efficiency function can be drawn as:

Function production:

$$\ln y = \alpha_0 + \sum_{i=1}^{n} \alpha \ln x_i + \mathrm{E}_t$$

Which Y is output variable for production function, α is coefficient that will estimated, *xi* is quantitative vector from input variable, E_t is stochastic error term, U_t-V_t

Cost Function:

$$\ln TC = \alpha_0 + \sum_{i=1}^{n} \alpha_I \ln Y_i + \sum_{i=1}^{n} \alpha_I \ln W_j + \mathrm{E}_c$$

T

C is cost variable for cost function, Y_i is quantitative vector from variable output, W_j is price vector from input variable, E_c is stochastic error term, U_c-V_c.

Several approaches that determines input and output variable from bank are intermediary approach, user-cost approach and value added approach. Intermediary approach is determination of input and output variables with considered bank function as intermediation institution (Suswadi, 2007). Intermediation approach is the best approach to entirely evaluate bank, since this approach include bank interests (income that paid to depositor), frequently reach two third from total cost. Islam monetary principles rely on equities participation based profit and loss sharing. Intermediation function becomes essential activities within fund utilization bases on profit and loss sharing that performed by Islamic bank (Mokhtar, Abdullah and Al-Habshi et. al., 2006).

Earlier Study

Research concerning GCG roles toward risk in banking sector had been established formerly by Akmal (2008). Researched that he conducted attain a conclusion that GCG mechanism in banking sector, Islamic bank for specific, should bring larger effects on risk possibility that will bear by bank. This risk likely to decrease if GCG is implemented in Islamic bank since it regulated according to Islam law despite normative regulation or valid banking regulation. Mokhtar, Abdullah and Al-Habshi (2006) carried out a researched toward 20 bank of Islamic window/dual banking system, 2 full-fledged Islamic bank/single Islamic bank system, and 20 conventional bank during 1997-2003. In whole, researches that had been established reveal that single system of Islamic bank efficiency lower than conventional bank, technique efficiency and conventional cost efficiency was higher than Islamic bank, however its average efficiency had increased during observation period while conventional bank was steady along the time.

Research that compared Islamic bank efficiency and conventional is also had been carried out by Bachrudin (2006) in period sample 2003-2004. Bank efficiency within this research was calculated by David Cole's ROE For Bank, it reveal that there is significant difference of ROE between Islamic bank and conventional. Efficiency analysis had established by Suseno (2007) using DEA method also reveals that average efficiency estimation exceed 95% during observation period 1999-2004. Suswadi (2007) also examined Islamic banking efficiencies, however he employ SFA method and the result show that during 2003-2006 the average of Islamic banking efficiency was 94.37%.

METHOD

Research Sample and Data

Research population is Local bank that listed in Bank Indonesia (BI) Directory since 2007. Observation period was carried out within period 2007-2008. Islamic bank category is Islamic bank (with single structure or dual banking system), while conventional bank is common bank that not had Islamic unit. Research utilized finance reports and GCG reports of each bank during periode 2007-2008. These data had collected from publication of each bank through website and information that gathered from Bank Indonesia and Lembaga Pengembangan Perbankan Indonesia (LPPI) if GCG repost has not provided yet.

Variable Measurement

Variable corporate governance

According to good corporate governance reports published by each bank, the estimation of CG implementation level perform by 57 point CG that determined by CLSA (Credit Lyonnais Securities Asia). This index had been used in Chen, Chen and Wei research (2008). To ensure the accurateness of CG scoring this research had randomly reviewed to be reobservation.

Efficiency variable

To estimates efficiency using SFA method, research formerly defined operational for variables in efficiency equation (3) and (4), as follow:

Production function

Input variable (X1)	:	total saving, include from customer and other bank
Input variable (X2)	:	total overhead cost, include personal cost and other operational cost.
Variable output (Y)	:	total gained assets, include finance, dealing securities, investment securities and placement at other bank.

Cost function

Variable input (W1)	:	employee wage, physical capital. Calculated using personal cost and other overhead divided with total asset
Input variable (W2)	:	saving value. Defined as income that being paid to costumer divided with total saving
Variable TC	:	total cost. Include income that being paid to depositor/interests cost, personal cost and other operational

Moderation Variable/Bank Category

Using score "1" and "0", Islamic bank scored "1", and conventional scored "0".

RESULT AND DISCUSSION

Research Sample

Bank population that subjected by this research were 102 bank that listed in BI Directory per December 2007. It determined since GCG Implementation Reports by BI started in 2007, then the sample in period 2007 and 2008 is used. After data were collected, 64 banks were used as subjects. Bank with no finance data and its GCG reports was not attached in next examination. Research also exclude bank that bankrupt, merger and shifted their system (single or dual system) during 2007-2008.

Table 1 Population and Sample

	Population and sample	
	Conventional	Sharia
Total bank population	74	28
No data	18	8
Merger/bankrupt	6	2
System shifted	4	0
Total bank sample	46	18

Hypothesis Examination

Hypothesis examination was carried out using simultaneous regression analysis (*F* test) and individual parameter (t test) and independent t-test. *F* and *t* tests used to test model 1 and 2 that represent hypothesis 1 and 2, while t-test used to examine model 3 and 4 in hypothesis 3.

Table 2 Determination and Coefficient Correlation Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	F	Sig.
1	.591[a]	.350	.339	33.6 19	.000
2	.049[a]	.002	-.014	.150	.861[a]

a. Predictors: (Constant), MODERASI, CG

b. Dependent Variable: EY (model 1) & ETC (model 2)

Hypothesis 1

First hypothesis (H1) proposes mention that corporate governance is positively affected bank efficiency. Since hypothesis that proposed is one-way, then significant value initially should be divided in two. This hypothesis will be supported if significance probabilities had value <0.05, and conversely was not reached or negative. It is explained that the efficiency was influence by CG, the better CG the higher banking efficiency. The relation between efficiency and CG had defined by several experts from the theories that related with CG, agency theory, stakeholder theory, stewardship theory, diffuse stockownership, and contractual theory (Boatright and Schuck, 1968; Davis, Schoorman and Donaldson, 1997; Sarker, 1999; Hendry, 2001; and Holderness, 2006). Implementation of CG principles can encourage and increase efficiency on an organization.

Hypothesis 1 that has been submitted cannot completely support because one of the regression model didn't show the significance at <0.05, with each of significant production function and cost function were 0.018 and 0.370. It means that the weak influence was given by CG to bank cost efficiency. Argumentation that can be brought by researcher to CG concerning CG report that been delivered to each of the bank to Bank Indonesia still have internal judgment characteristic. Company managerial report that used as a base estimation by researcher, follow the strict format and criteria, which set by BI without any straight estimation. It means that need some evaluation from independent side concerning banking GCG report in order to the existence information content really describing CG on that bank, until the relationship between GCG and efficiency can be explained accurately. Researcher faced difficulties on estimating the CG because it only grounded to the published report, it need the more valid CG estimation base and deeper involve with the estimation of this GCG.

Hypothesis 2

Second hypothesis (H2) proposed mention that corporate governance at Islamic bank affected bank efficiency higher than conventional bank. Since hypothesis that proposed is one-way, then significant value initially should be divided in two. This hypothesis will supported if significance probabilities had value <0.05, and conversely if not or negative.

This result showed that statistically the CG effect to efficiency Islamic bank was not as high as conventional bank. Two of the regression model tests were consistent, thus the hypothesis 2 was not supported. The result of hypothesis 2 test that been delivered by researcher showed the result didn't support H2 statistically. Production efficiency showed that smaller significance than α=0.05 that was 0.000 but on the contrary side that was -0,005 and cost efficiency showing significance value as 0.309 (>0.005). It can be concluded that there wasn't moderator effect that brought by bank category to CG. This was contrary with research result that be done by Akmal (2008), which stated that Islamic bank should can anticipate the risk that may in care by bank with owned mechanism GCG. The development of conventional bank in Indonesia that run away the existence Islamic bank viewed can bring the significant influence to efficiency growth conventional bank. Nowadays, Islamic bank in

Indonesia only capable sells Sharia value from the transaction mechanism side, but incapable to compete from efficiency side.

Hypothesis 3

Third hypothesis (H3) explained that the efficiency level of Islamic bank higher than conventional bank. On this hypothesis 3, the comparison (independent sample t-test) is used. Third hypothesis could be tested by 3 steps, first with seeing the mean value from each variable, then seeing the significant F Levene's Test that must show the significant value <0.05. Afterward, the t-test that is done by comparing the t value was counted by t table. If the t quantity smaller than t table, the hypothesis 3 could not be supported, but if the t quantity bigger than t table, so the hypothesis 3 can't be supported.

Hypothesis 3 that has been delivered by researcher cannot be supported. Statistically, efficiency of Islamic bank for efficiency product could not be higher than conventional bank, and the differential was significant. If it has been seen from the statistic group test, mean value of Islamic bank production function showed the lower mean value from conventional banks about 0.4766 and 0.7168. After it was tested using different analysis test obtained, efficiency production result that significant at F Leaven's test value 22.265 with probability 0.000. So the cost of efficiency model, significant probability showed the value as 0.900, which means that statistically cost efficiency to Islamic bank could not be higher than bank cost efficiency in conventional.

Efficiency production of Islamic bank is lower, it is caused by the fund management of Islamic bank have not optimal. Until 2008, there only five general Islamic banks that have been operated, the rest were the Sharia units that still using dual banking system. Islamic bank that operated with single system used higher efficiency than conventional bank compared to Islamic bank that still on the effort unit (Mokhtar, Abdulah, and Al-Habshi, 2006). Long term and number of sample research period of Islamic bank that bigger than conventional bank perhaps could explain that the growth of Islamic banks efficiencies is higher than conventional banks.

Some of customer applicant clarified that they wanted that credit margin which Islamic bank offer was still higher compared with cost distribution apportionment, on economy condition with lower inflation of Islamic bank wasn't able to show cost efficiency because the interest that must have charged was still on the inconsistence level.

CONCLUSION

The development of Islamic bank was started since the existence of Bank Muamalat Indonesia on 1992 as Islamic bank pioneer with singular system. This phenomenon was more and more seen after economy crisis period in Indonesia 1998. Economy crisis that gave effect to the closing and also liquidation several bank eventually didn't effect to Islamic bank. Even the Islamic bank funding ratio growth showed the annually increase. CG mechanism with religion base and positive law that been offered by Islamic bank also free interest transaction/lab placed become an important factor that can explained this phenomenon. Because of this believe that happen economy crisis and attack the conventional banks in Indonesia caused by worst of company managerial principal application.

This research had three main objectives which is to test CG influence with the efficient bank, whether the CG influence to efficiency was bigger than Islamic bank to conventional bank or Islamic bank efficient was bigger than conventional bank. Motivation of this research was rising because the existence of influence that was given by religion to GCG application beside the normative law. Two base law and different transaction mechanism had by Islamic bank is hoped to be able to have big impact to efficiency that may be able to reach comparison with conventional bank. Business management motivation not only purposing for getting global benefit but also the faith beyond consequences pushed the performance better and consider the interest together.

The statistic test result that has been done showed the various result. Hypothesis 1 cannott be supported consistently, while the hypothesis 2 and 3 cannot be fully supported. Some of the last research said that principal of Islamic bank is able to give guarantee to risk that may be in charge, efficiency that can be reached by the bank is even higher, it is caused by many problems in management, if it can be solved well and the problems between agent and principal won't appear (Akmal, 2008; Algoud, 2007; Mokhtar, Abdulah, and Al-Habshi, 2006; Chapra and Ahmad, 2002; and Daniri, 2002).

It is expected the development of CG principles specific to Islamic banking due to the points that have not been defined in the current CG as the presence of DPS and compliance with the prohibition of usury and transactions are forbidden. Deeper study related banking CG assessment is expected to provide information that is more accurate and useful as consideration for selecting investment alternatives. More comprehensive study of the relationship between the efficiency of the organization and implementation of GCG.

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