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The role of board of commissioners and transparency in improving bank operational efficiency and profitability

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A B S T R A C T

Good corporate governance is a critical aspect in banking industries because the largest part of the source of funds is from public. Two of the important aspects of good corporate governance are the role of the board of commissioners and transparency. This study aimed to assess the effect of the implementation of good governance, which is proxied by the role of the board of commissioners and transparency of financial and non-financial condition, toward the operational efficiency and profitability of the national commercial banks in Indonesia. This study uses data of thirty six banks for five years, from 2008 to 2012. Random effect panel data technique is used to analyze the data since this technique can increase the power of statistical analysis. The results shows that in terms of efficiency only board that functions well capable of improving the operational efficiency of the banks. As for profitability, both good board of commissioners and public transparency are capable of increasing the bank operational profitability in Indonesia.

A B S T R A K

Tata kelola perusahaan yang baik (good corporate governance) merupakan aspek penting dalam industri perbankan karena bagian terbesar dari sumber dananya dari masyarakat. Dua aspek penting dari tata kelola perusahaan yang baik adalah peranan dewan komisaris dan transparansi. Penelitian ini bertujuan untuk menilai efek dari penerapan tata kelola yang baik, yang ditunjukkan oleh peran dewan komisaris dan transparansi pada kondisi keuangan dan non-keuangan, terhadap efisiensi operasional dan profitabilitas bank umum nasional di Indonesia. Penelitian ini menggunakan data dari tiga puluh enam bank selama lima tahun, dari 2008 sampai 2012. Random effect panel digunakan untuk menganalisis data karena teknik ini dapat meningkatkan daya analisis statistik. Hasil penelitian menunjukkan bahwa dalam hal efisiensi hanya dewan komisaris yang berfungsi dengan baik dan mampu meningkatkan efisiensi operasional bank. Adapun profitabilitas, baik dewan komisaris dan transparansi publik juga mampu meningkatkan profitabilitas operasional perbankan di Indonesia.

1. INTRODUCTION

The economic crisis of 1998 has provided invaluable lessons for Bank Indonesia, as banking regulators, and for banking industries in Indonesia as a whole. This crisis clearly shows that even the condition of the banking that seems healthy is very vulnerable to economic shocks. The impact of the crisis on the banking industries in Indonesia could be seen, among other things, from the drop of bank capital (even some bank capital is negative), the surge in NPLs, and the bank forced closure to mergers between banks.

One of the main programs for revitalizing Indonesian banks after the 1998 crisis was the implementation of the Indonesian Banking Architecture which was launched by Bank Indonesia on January 9, 2004. One of the fundamental factors underlying this Architecture is the weak banking capacity as characterized by a lack of corporate governance and core banking skills in most of the banks so that the necessary remedies are essential. Considering this problem, one of the six pillars of the Indonesian Banking Architecture program is creating good corporate governance in order to strengthen the

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internal condition of the national banking system. Since 2006 until today, Bank Indonesia has issued various regulations with a view to strengthening the governance of banks in Indonesia.

Good Corporate Governance is a set of rules governing the relationship between shareholders, corporate managers, creditors, government, employees, and other stakeholders with regard to the rights and obligations in order to manage and control the enterprise in order to achieve optimal business performance. Good corporate governance can also be interpreted as a way in which the providers of funds for the company ensuring that they get appropriate returns on their investment (Mayer 1997). Thus logically, better implementation of good corporate governance supported by a reliable operational capability is expected to improve the operational performance of banks.

One critical aspect of corporate governance is the duties and responsibilities of boards of directors, or in a two-tier governance system country such as Indonesia known as board of supervisor or board of commissioners. Researches on corporate governance often distinguish between independent and non-independent commissioners. The existence of boards of commissioners who are competent and independent is expected to be able to better monitor and provide more valuable input in solving agency problems between owners and managers (Fama and Jensen 1983; Shleifer and Vishny 1997).

However, the importance of independent commissioners is debatable in finance literature. Empirical evidence regarding the influence of corporate governance on performance show inconsistent results (Dulewicz and Herbert 2004). Some researchers provide evidence that supports the effectiveness of boards of commissioners in improving the performance and value of the firm is influenced by the proportion of independent members (Weisbach 1988; Rosentein and Wyatt 1990; Brickley et al. 1994). Other researchers obtained results that do not support the positive role of independent boards of commissioners in improving firm performance (Agrawal and Knoeber 1996, Coles et al. 2008).

One of the rational reasons of the latter finding is the independent commissioners include politicians, environmental activists, and representatives of consumer board. Similar results are also found for the number of independent commissioners. The empirical evidence shows that a high percentage of independent commissioners is related to worse corporate performance (Yermack 1996; Klein 1998).

Another aspect of good corporate governance attracting the attention of researchers is transparency. Basel Committee on Banking Supervision (2006) requires banks to disclose the financial and non-financial conditions to the market participants and the public to enable them to assess bank asset quality. Disclosure is also intended to increase public confidence, both customers and investors, in the banking, which can further improve operational and stock performance of the bank. Most of the empirical evidence shows a positive relationship between the overcast disclosure and firm performance (Lang and Lundholm 1993; Healy et al. 1999; Kothari 2001). Disclosure of financial information are also able to reduce the informational asymmetry between managers and investors by lowering cost of capital (Leuz and Verrecchia 2000; Verrecchia 2001). On the other hand, other researchers obtain evidence of a negative relationship between the size of annual reports and stock performance (Thompson et al. 2001and the size of annual report and operating performance (Jensen et al. 2006).

The description above shows that the influence of the board commissioners and transparency toward firm performance is mixed. Research in this topic is mostly done in developed countries in which the governance structure has been well-established and in non-banking industry. In addition, most of the researches done in countries that adopt the one-tier governance system that has only one board, namely the board of directors which is comprised of the executive directors and non-executive directors.

A research on the combining effect of board of commissioners and transparency toward bank performance in a country that adopts a two-tier system of corporate governance can be of a different outcome and will enrich the literature on corporate governance. Basing on this argument, the purpose of this study is to examine the role of the board of commissioners and transparency in improving bank operating performance, both in terms of efficiency and profitability. This study uses a sample of thirty-six national banks during 2008-2012.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

System and Regulation

Corporate governance varies between countries, especially regarding the board system. There are countries that have a one-tier board system, like the USA and UK, and there are others that have a two-tier board system, like Germany, Netherlands, and Indonesia. In a one-tier board, all the directors, both executive directors as well as non-executive direc-

tors form one board, called the board of directors. In a two-tier board there is an executive board or management board (all executive directors) and a separate supervisory board or board of commissioners (all non-executive directors).A management board oversees the company and provides general direction, while a supervisory board must approve of major business decisions.

According to Bank Indonesia Regulation No.8/4/PBI/2006, subsequently amended by Bank Indonesia Regulation No. 8/14/PBI/2006, the duties and responsibilities of board of commissioners are (1) to ensure the implementation of Good Corporate Governance in each of the Bank business activities on all organizational levels, (2) to perform supervisory function on the implementation of the duties and responsibilities of the Board of Directors and provide advice to the Board of Directors, and (3) to direct, monitor, and evaluate the implementation of Bank strategic policies.

The board of commissioners must also ensure whether the board of directors' had taken follows up actions on audit findings and recommendations from the bank's internal audit work unit, external auditor, Bank Indonesia supervision result and/or other authorities' supervision result. In order to support the effectiveness of the implementation of its duties and responsibilities, the board of commissioners must at least form an audit committee, a risk policy committee, and remuneration and nomination committee.

The assessment of the Good Corporate Governance implementation with respect to board commissioners covers governance structure, governance process, and governance outcome (Bank Indonesia Circular Letter No. 15/15/DPNP/2013). The board governance structure includes the board size, composition (independent and non-independent), double post, financial relationships, and family relationship. The board governance process consist of the board appointment, duties and responsibilities, meeting frequency, establishment of committees, and involvement in bank operational activities. While the governance outcome mainly relates to the quality of board of commissioners recommendation as indicated internally by increasing the bank performance, the solution to the problems facing the bank, and the achievement of stakeholders' expectations.

In terms of transparency, Bank Indonesia requires banks to disclose financial and non-financial services to stakeholders including quarterly financial statement announcement, bank product information, and procedures for customer complaints and dispute settlement to customers (Bank Indonesia Circular Letter No. 15/15/DPNP/2013). In addition, banks are also required to prepare the implementation of good corporate governance report and distribute it to the shareholders as well as to some selected independent agency, such as consumer protection agencies and research institutes in the field of finance, and post the report on the bank own website. The bank disclosure covers duties and responsibilities of the Board of Commissioners and Board of Directors, completion and execution of committees', implementation of compliance, internal audit and external audit, implementation of risk management including the internal control system, provision of funds to related parties and large exposures, and bank's strategic plan.

Review of Previous Studies

This section will discuss previous studies related to the role of board commissioners and transparency in enhancing bank operating performance. The effectiveness of board functions is affected by four attributes (Zahra and Pearce 1989), namely composition and size (independent and dependent), characteristics (background and personality), structure (committee and flow of information), and process (meeting, evaluation, and formality).

Board of Commissioner and Firm Performance

Independent commissioners are expected to be the provider of important input in the search for effective solutions to the agency problems between managers and shareholders and to be better monitor management actions (Barnhart et al. 1994). Independent commissioners, those who do not have direct financial relationships, family ties or interlock with management, are considered more effective monitors of management because theoretically they are less tied to the management (Hermalin and Weisbach 2003) and have to compete in the labor market and therefore have to build a good reputation as experts in monitoring management (Fama and Jensen 1983). Independent commissioners also tend to evaluate the executive performance based on financial performance, not the subjective one as done by dependent commissioner, so as to encourage the improvement of the company performance. Hence, improvement in corporate board functioning should results in improvement of the corporate financial performance (Bayesinger and Butler 1985).

The importance of independent commissioners, however, is widely debated in the literature of finance. Researches on the independent commissioner ratio and firm performance have yielded

correlation ranging from positive to negative, although most of them support the positive relationship. Empirical studies show that there are positive and significant relationship between firm performance and the percentage of independent boards (Garcia and Sanchez 2006; Krivogorsky 2006; Huang 2010; O'Connel and Cramer 2010; Othman 2012) and a small rise in stock prices is correlated with the announcement of independent directors, which reflects the effect of signal (Rosenstein and Wyatt 1990). In the case of a tender offer, the findings indicate that the bidding companies dominated by independent boards have less negative abnormal return than those dominated by non-independent boards (Byrd and Hickman 1992) and the shareholders of target firms gain larger when the majority of boards are independent (Cotter et al. 1997).

Such evidence implies that independent boards play their monitoring roles well. Evidence from banking industry shows that internal monitoring supplied by independent board is generally effective in enhancing CEO pay for performance (Mishra and Nielsen 1999). On the other hand, several studies have identified a negative relationship between firm performance and the dominance of independent boards (Agrawal and Knoeber 1996; Yermarck 1996). Other studies find no significant relationship between the proportion of independent boards and firm performance (Hermalin and Weisbach 1991; Dalton et al. 1998; Bhagat and Black2002).

The size of board is considered to be important to effectiveness of the board. As the board of commissionersis a pool of expertise and human resources to the organization, a large board should benefits to the organization (Dalton et al. 1999). Large size of board, however, may become less effective at monitoring management because of free-riding problems amongst members and increased decision-making time (Jensen 1993). With respect to the size of independent boards, the results of previous studies are also mixed. There is some evidence that board size is positively correlated with performance of S&P firms (Upadhyay 2008) and bank performance in one-tier system (Grove et al. 2011; Adam and Mehran 2012) and in two-tier system (Huang 2010).

The above evidence is in line with the argument that large boards are valuable for the information they bring and for their advisory services (Chaganti et al. 1985). On the other hand, some studies show a negative relationship between board size and firm performance as measured by Tobin Q (Yermack 1996; O'Connel and Cramer 2010) and ROA (Eisenberg et al. 1998). This suggests that smaller boards are more cohesive and are better for decision making.

Board activity, measured by board meeting frequency, is often considered as a significant aspect of corporate governance. More often meetings are required to enhance cohesiveness between members in making decision. Board commissioners contribute better to the improvement of firm performance (Brick and Chidambaran 2010; Grove et al. 2011). However, there is also evidence that document an inverse relation between board meeting frequency and firm performance in the meeting year (Vafeas 1999).

Based on the finding of the most previous studies on relationship between board of commissioner function and firm performance discussed above, this study hypothesizes that:

H1: Better implementation of board of commissioner functions leads to better bank operating efficiency and profitability.

Transparency and Firm Performance

Another crucial aspect of the good corporate governance practice is transparency or disclosure. Public disclosure is a complement to the disciplinary mechanism through oversight by bank supervisory authorities. For market discipline to be effective, the public must obtain sufficient information about the current condition of the bank and its prospects in the future. Increasing the amount of public disclosure is likely to reduce information asymmetries that lead to lower firm cost of capital and increase firm value (Leuz and Verrechio 2000; Verrechio). From the view point of banks, adequate disclosure may builds public trust about the banks which in turn increases the customer base and ultimately the operating performance of the bank.

Research findings show that increased disclosure is associated with an increase instock return (Healy et al. 1999) and disclosure quality is positively correlated with firm market value and future operating performance (Jiao 2011). Evidence from banking industry shows that banks disclosing more information have lower stock volatility (Baumann and Neir 2004) and remuneration disclosure brought about by regulatory change has positive impact on executive pay-performance relation (Clarkson et al. 2011). These findings suggest that the disclosure benefits investors and the bank. There is also contrary evidence regarding the relationship of the degree of disclosure and firm performance. Firms with smaller size of annual report

have tended to have better subsequent performance relative to their industries (Jensen et al. 2006). However, the findings suggest that the performance explanation may notlie in the size of the annual itself, rather than they perform better because they are smaller in terms of total assets and more focused, with fewer business segments.

Based on results previous studies, mainly in banking industry, on relationship between disclosure and firm performance, this study hypothesizes that:
H2: Better disclosure practice leads to better bank operating efficiency and profitability.

3. RESEARCH METHOD

Currently, there are 123 commercial banks in Indonesia. This study uses a sample Indonesian National Banks from 2007 to 2012. Therefore, the study excludes joint venture banks and foreign banks. This study also excludes Islamic bank and regional development bank because they have specific characteristics that may affect their financial performance (Lutfi 2010). Last, this study includes only banks that publish their good corporate governance report on their website. The final sample consists of thirty six banks, consisting of four government owned banks and thirty two private banks.

Variables in this study consist of independent variables, dependent variables and control variables. The independent variable is the individual scores of duty and responsibility of board of commissioners and transparency. Bank Indonesia Circular Letter No. 9/12/DPNP/2007 requires banks to publish the results of their self-assessment on good corporate governance implementation; both individual and composite scores. The dependent variable is bank operating efficiency and profitability as measured by operating efficiency ratio and operating profit ratio. This study uses the bank size, measured by its total asset, as the control variable. The detail description and measurement of the variables is given below.

1. Individual score

Individual score of the implementation of good corporate governance is the reciprocal of the scores for the duty and responsibility of board commissioners and transparency based on the self-assessment made by each bank.

$$GCG_i = \frac{1}{\text{Score } GCG_i}. \quad (1)$$

GCG_i is the Good Corporate Governance score of duty and responsibility of board commissioners and transparency.

2. Operating Efficiency and Profitability

Bank operating efficiency and profitability is measured using two indicators, namely bank operating efficiency ratio (OER) and bank operating profit ratio OPR. OER is the ratio operating cost to operating income.

$$OER = \frac{\text{Operating Cost}}{\text{Operating Income}} \text{ x } 100\%, \quad (2)$$

while OPRis the ratio between operating profit to total assets.

$$OPR = \frac{\text{Operating Profit}}{\text{Total Asset}} \text{ x } 100\% \quad (3)$$

3. Size

This study use bank size as a control variable. It is measured as the log normal of the total assets.

$$Size = Ln(Total\ Asset) \quad (3)$$

To test the hypothesis, this study uses panel data, both fixed effect (FE) and random effect (RE). Panel data techniques can improve the statistical analysis (Altunbas et al. 2000). It controls the heterogeneity so that to minimize bias in the results. It useful in analyzing financial data involving balance sheet and income statement in which the data tend to be closely correlated. Panel data give more information about variability, reduce co-linearity, and enlarge degree of freedom and as a whole can produce better statistical results. Panel data is also often able to explain the changes better than the dynamic time series data analysis and cross-sectional. Panel data provides an opportunity to observe the difference in behavior with cross-sectional and from time to time at a company.

4. DATA ANALYSIS AND DISCUSSION

Descriptive Analysis

As mention above, the sample of this study covers thirty six banks, consisting of four government owned banks and thirty two private national banks. Table 1 exhibits the descriptive statistics of the sample. There is a remarkable difference between the average assets of banks owned by the government and by the private sector, approximately Rp.387, 341,701 million for government-owned banks and only Rp.47, 246,257 million for private banks. This is not surprising given the state-owned banks not only have the support of capital but also have access to a low cost source of funds, for example in the form of the government budget. The biggest asset is owned by one of the state banks, namely Bank Mandiri which is the result of a merger of four government-owned banks as well. Being the greatest assets of private banks is owned by Bank Central Asia.

Government-owned banks also excel in the av-

Table 1
Descriptive Statistics of Research Sample

	Asset (million IDR)	Commissioner	Transparency	OER	OPTA
Mean	85,034,640	0.70	0.67	83.10	1.88
- Gov. Owned Bank	387,341,701	0.93	0.72	75.07	2.51
- Private Bank	47,246,257	0.66	0.66	84.27	1.79
Median	10,593,593	0.50	0.50	85.22	1.68
Maximum	563,105,056	1.00	1.00	119.13	5.08
Minimum	896,126	0.33	0.25	60.87	-1.33
Standard Deviation	145,102,153	0.26	0.26	8.84	1.09

erage score of good corporate governance implementation with respect to the duties and responsibilities of commissioners and transparency compared to private banks. Bank with the worst score of duties and responsibilities of board is Bank Yudha Bhakti and Bank Mega. Bank Yudha Bhakti submitted annual financial statements audited by public accountant office that is not registered in Bank Indonesia, and therefore it is considered not submitted the report yet. For Bank Mega, a case that stands out is a conspiracy of deposits amounting of Rp.111million involving Bank Mega Branch Manager and Finance Director of Elnusa.

Another case that struck Bank Mega is disappearance of funds owned by local government in Sumatera totaling Rp.80 billion that involves former head of Bank Mega Jababeka Branch. Both cases demonstrate the weakness in monitoring of bank conducted by board of commissioners. In terms of transparency, implementation of government-owned banks in general is better than that of private banks. This is most likely because all the government-owned banks already listed in the Indonesia Stock Exchange and has bigger asset so that they become public spotlight.

In terms of operational performance, the government-owned banks have also better operating efficiency than those private banks, which is 75.07 percent compared to 84.27 percent, and better operating profitability, which is 2.51 percent compared to 1.79 percent. The most efficient bank during the research period is Bank BRI, one of the government owned bank, and this is may be due its largest funding sources comes from saving account with low interest rate. Similar to the operating efficiency, the operating profits of government owned banks is also, on average, better than that of private bank. Better operating performance of government-owned banks may be due to they have better access to low cost funds especially related to government budget, a wider operating range so that creating economics of scale, and more diverse variety of products offered primarily associated with fee-based income product.

Results and Discussion

The purposes of this study to examine are (1) the impact of duty and responsibility of board commissioners toward bank operating efficiency and profitability, and (2) the impact of transparency toward bank operating efficiency and profitability. Table 2 exhibits the results for the duty and responsibility of board commissioners and transparency on bank efficiency and profitability, as measured by OER and OPR.

The results show that the implementation of the duties and responsibilities of board commissioners has significantly negative effects on bank operating efficiency (OER) and positive impact on bank profitability, both in fixed effect and random effects model. It means that a better board function cause banks more efficient and more profitable. As for transparency, it does not significantly affect the level of operating efficiency, but significantly affect the operating profitability. Overall, the ability of the independent variables in explaining the variation of the dependent variable is quite good. On the average, ability of the independent variables in explaining the variation in the operating efficiency of banks is about 77 percent, while their ability to explain the operating profitability is above 80 percent. Hausman test results (not included in this article) show that Random Effect model is better than Fixed Effect models in explaining the operating efficiency, but not for operating profit.

According to Bank Indonesia regulation (Bank Indonesia Circular Letter No. 15/15/DPNP/2013), the assessment of the duty and responsibility of board of commissioners consists of board governance structure (size, composition, and financial and family relationship), board governance process

Table 2
The Impact of Duty and Responsibility of Board Commissioner and Transparency on Bank Efficiency and Profitability

Variable	Fixed Effect		Random Effect	
	OER	OPR	OER	OPR
Constant	324.9801	-8.02744	178.8388	-4.1481
Boards	-4.6566	0.6176	-4.7775	0.6604
	(-1.9017)**	(2.3746)*	(-2.037)*	(2.6154)*
Transparency	-1.3304	0.4889	-2.1064	0.5116
	(-0.5267)	(1.8228)**	(-0.8847)	(1.9863)*
LnTA	-7.3135	0.2815	-2.7949	0.1598
	(-5.8016)*	(2.1024)*	(-4.8188)*	(2.2535)*
Adj-R Square	0.7768	0.8146	0.7616	0.8200

* Sig. at 5 percent; ** Sig. at 10 percent

(duties and responsibility, meeting frequency, board committee), and governance outcome (quality of recommendation). The results show that boards of commissioners dominated by the independents are able to effectively deliver the best solution to the agency problem between management and owners and better able to monitor the decisions and actions of the executive (Barnhart et al. 1994), and this is in line with agency theory as suggested by Fama and Jensen (1983).

Bank Indonesia Regulation requires that the majority of board members must not have any financial relationship and family relationship with fellow board members and/or board of directors. Consequently, independent commissioners don not hesitate to question management actions deemed inconsistent with the interests of the company because basically they do not have any link with executives (Hermalin and Weisbach 2003). Another duty of the board of commissioners is to direct, monitor, and evaluates the implementation of the Bank's strategic policy. According to stewardship theory of corporate governance (Donaldson 1990), the board must be structured in such a way so that it facilitates the achievement of corporate goals by providing clear, consistent role expectation and authorizes and empower senior management. The results suggest that independent commissioners tend to use measurable indicators to assess executive performance, such as earnings performance (Bayesinger and Butler 1985), thus providing clear guidance as to what is achieved by the executives.

The size of commissioners also plays an important role in improving bank operating performance. Bank Indonesia regulation also requires that bank commissioners should have adequate knowledge of the operating, risk management and good corporate governance of banks. Since board is a collection of expertise and human resources, larger board will provide companies with diverse educational and industrial backgrounds and skills and with multiple perspectives that improved the quality of actions taken by the firm (Chaganti et al. 1985; Dalton et al. 1999). In additions, as the board size increase it become more difficult for the directors to exercise their power in taking actions that deviate from the interest of shareholders. In sum, larger board size improves the bank performance, both in term efficiency and profitability.

Another important aspect of board commissioners is board committee. Bank Indonesia regulation requires banks to establish at least three committees, namely audit committee, risk policy committee and remuneration and nomination committee. The main function of audit committee is to make recommendation to board of commissioners regarding the implementation of the Internal Audit Unit task, appropriateness of the audit by the public accounting firm with auditing standards applicability, appropriateness of financial statements and accounting standards applicability follow-up by the executives on the findings of the Internal Audit Unit, public accountants, and the results of Bank Indonesia's supervision and designation of Certified Public Accountants and Public Accounting Firm.

Since the audit committee must consist of people who are experts in finance then its presence can increase the integrity of financial report and enhance public trust (Collier 1997), as well as improve the bank efficiency and performance. (Defond et al. 2005). As to risk policy police committee, it is responsible for evaluating bank risk management policy and evaluating the implementation of Risk Management Unit. This committee, therefore, helps board of commissioners in disciplining executives from taking action that harm or hurt the banks. Finally, remuneration and nomination committee is responsible for designing and evaluating bank executive remuneration system and policy as well as appointment of the bank executive. The existence of

this committee is able to make executive remuneration better linked to performance and reduce perquisite consumption, and therefore improve the efficiency and profitability of banks (Wallace and Craven 1993)

The test results also reveal that transparency has a positive effect on the bank performance and the result is more pronounced in the Random Effect model. Regulation on public disclosure (transparency) is expected to be the complement of regulatory supervision. The study shows that transparency of financial and non-financial bank condition is proved to be effective. Disclosure of information proved to be effective in providing information to the public so that increase public confidence in the bank. This indicates that more transparent banks are more trusted by the public and hence raise the customer-base of those banks. Public is willing to put their money in the bank, although wit lower yields than those offered by other banks, leading them to have a lower cost of capital (Leuzand Verrechio 2000; Verrechio). This ultimately improves the operational performance of banks.

5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATIONS

This study aims to examine the effect of board of commissioner and transparency practice on bank operating efficiency and profitability in Indonesia banking industry. Using panel data techniques of Fixed Error (FE) and Random Error (RE) modal this study conclude that better board of commissioners lead to better operating efficiency and profitability. With respect to transparency, the results are not that clear. Transparency appears to positively affect bank profitability, but not bank efficiency. In general, banks with better implementation of good corporate governance in term bank board of commissioners and transparency have better operating performance

There are some implications of the findings to future research. First, this study examine on two aspects of eleven good corporate governance aspects. Future study may examine the individual impact of each aspect as well the collective impact of good corporate governance practices on bank performance. Second, this study mainly uses quantitative data on corporate assessment based the bank self-assessment. This self-assessment may not reflect the actual governance practices, and therefore must be supported by deep interview with bank officers. Third, this study covers only government owned banks and private banks. Future study may consider include regional development banks in order to obtain an overall picture of the practice of good corporate governanceof banks in Indonesia. Last, future study may consider extending the research period as good corporate governance impact long-term firm performance rather than short-term one.

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