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ICon-LBG 2013

THE FIRST
INTERNATIONAL CONFERENCE ON
LAW, BUSINESS & GOVERNANCE

23-24
OCTOBER 2013
BANDAR LAMPUNG
UNIVERSITY (UBL),
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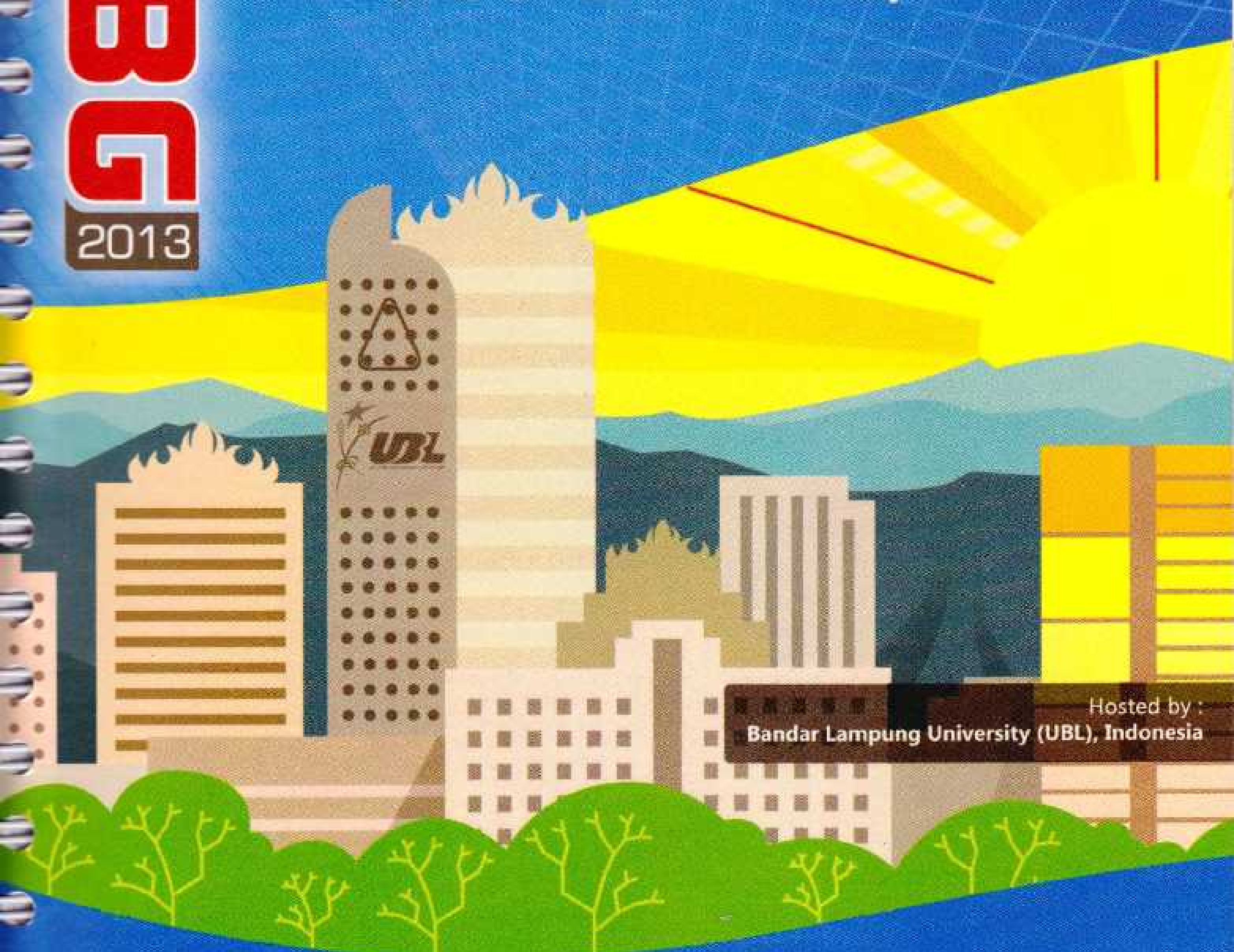

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Icon-LBG 2013

THE FIRST INTERNATIONAL CONFERENCE ON LAW, BUSINESS AND GOVERNANCE 2013

22, 23, 24 October 2013
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PREFACE

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the First International Conference on Law, Business and Governance (Icon-LBG 2013) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participans. It is noteworthy to point out that about 67 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Utrech University, Maastricht University, Unika ATMA JAYA, Universitas Sebelas Maret, Universitas Negeri Surabaya, Universitas Jambi (UNJA), Diponegoro University, Semarang, Universitas 17 Agustus 1945 Jakarta, Universitas Bandar Lampung, Universitas Andalas Padang, University of Dian Nuswantoro, Semarang, Universitas Terbuka, Universitas Airlangga, Bangka Belitung University, President University, Tujuh Belas Agustus University Jakarta, International Business Management Ciputra University, Surabaya, University of Indonesia, Business School Pelita Harapan University, STIE EKUITAS, Bandung, STAN Indonesia Mandiri School of Economics Bandung, Lampung University.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also gratefull to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

Bandar Lampung, 22 October 2013

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Business

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Governance

THE INFLUENCE OF CORPORATE GOVERNANCE IMPLEMENTATION TOWARD BANK PERFORMANCE (Empirical Study on Banks Listed in Indonesia Stock Exchange)

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Abstract

This study is aimed to investigate the effect of corporate governance indicators such as the board of directors, audit committee and audit quality to the bank performance which is proxied by Camel ratio such as CAR, NPL, LDR, ROA, BOPO and ROE. The samples were 30 listed banks in the Indonesia Stock Exchange. Structural Equation Modelling (SEM) was used to test the influence of corporate governance indicators to the bank performance. The test results proved that the board of commissioners had a significant positive correlation to the bank performance. It means the higher the commissioners' supervision the better the performance of the bank. Similarly, the audit quality also has a significant positive correlation to the bank performanc which means the higher the audit quality, the better the performance of the bank. It has also been revealed that the audit committee, although positively related to bank performance but it is not significantly proved. The results of this study support the previous studies, the research of Nasution and Setiawan (2007), Abeysekera (2008), and Xie et. al. (2003).

Keywords: Corporate Governance, Performance Bank, Camel Ratio, the Board, the Audit Committee, Audit Quality

1. INTRODUCTION

The banking industry has always been an object of interest to be investigated because it has two characteristics that distinguish it from other industries in general . First , as a regulation -intensive industries (highly regulated) . Almost on every side of the bank's activities can not be separated from the scope of regulation and monitoring of the resident agency standards or regulatory agencies , which in Indonesia is conducted by Bank Indonesia (BI) . Many provisions governing banking business aims to protect the interests of the wider community . It is a consequence caused by the characteristics of the two banks , the banking industry is an industry which is based on trust , especially the trust of its customers .

People who become customers of bank put the funds held in the bank without a full guarantee of the bank , even with the rate of return set by the bank . In accordance with its role as an intermediary and drive the economy of the funds collected will be re- routed by the bank in the form of other investments . In carrying out its activities the bank faces a variety of risks such as credit risk , market risk , operational risk and legal risk . To that end , the bank needs to be managed with governance (corporate governance) are both by professional management and high integrity . Without good governance may be the banking industry will experience a collapse (collapse) as it did in 1997 .

It was preceded by a financial crisis in many countries in the 1997-1998 financial crisis that began in Thailand in 1997 and followed the crisis in Japan , Korea , Indonesia , Malaysia , Hong Kong and Singapore which eventually turned into the Asian financial crisis . Once again it is seen as a result of lack of practice Good Corporate Governance (GCG) , among others, the close relationship between government and business , conglomeration and monopoly , protection , and market interventions that make these countries are not ready to enter the era of globalization and free market (Tjager et al , 2003) 1997 crisis in Indonesia was started with the issuance of Banking Deregulation Policy Package 1988 (Pakto 88) in which the government and Bank Indonesia is trying to go a step further in the banking deregulation that became the turning point of the various regulating banking 1971-1972 . Granting new bank license which has been suspended since 1971 reopened by Pakto 88 . Similarly, the opening of a branch office or permit the establishment of rural banks to be made easier with lighter capital requirements . An ease that had not been felt by the banking sector . One of the fundamental provisions in Pakto 88 is a permission for foreign banks that only requires the soundness and minimal bank assets only Rp . 100 million . This resulted in an increase in the number of banks in Indonesia of which only around 111 banks in 1988 to as many as 240 banks in 1995 . An increasing number of banks is to encourage an increase in the release of credit to the real sector to contribute to economic growth moderate in the early 1990s .

However, a fairly mild conditions for the establishment of banks has a negative impact and lead to an increase in the number of banks and banking are fairly aggressive expansion . This bloom was colored with cross-ownership issue (cross- ownership) and management of cross (cross management) in the financial industry in Indonesia. These two things are the cause of the increased concentration of ownership in the banking industry , so the greater the likelihood of violation of the legal lending limit (legal lending limit) to a group of its own company . Condition is what lies behind the economic crisis and the impact is quite severe in the banking sector .

After going through a period of economic crisis , the number of commercial banks in Indonesia has decreased (from as many as 237 banks in 1997 to just as many as 130 banks in 2006 , a drop of 45.2 %) , resulting from the freezing of 67 bank operations and partly merged and acquisitions . The decrease is a result of the strict standards that must be met for the establishment of a bank , such as capital structure , as well as mergers , acquisitions and bank closures due to financial problems .

When observed from the background and the conditions , then one of the main causes of the banking industry collapse experienced during the crisis related to the management of the bank by poor management . Valuable lessons to be learned from the financial crisis faced by Indonesia is due to weak implementation of good corporate governance (GCG) in the banking industry . GCG implementation of the provisions on the bank aims to strengthen the internal condition of the national banking system in the face of increasingly complex risks , working to protect the interests of stakeholders and increase compliance with legislation and regulations, and ethical values generally accepted in the banking industry.

Organization of Economic Cooperation and Development (OECD) developed a set of corporate governance principles , or better known as The OECD Principles Of Corporate Governance . The basic principles of good corporate governance principles include transparency , accountability , responsibility , independence , and equality or fairness , which aims to ensure the survival and growth of sustainable enterprises . These basic principles are certainly indispensable in the management of banks where public confidence into its main components

One of the factors needed to create an effective corporate governance , especially after the financial crisis in Asia is the role of the board of commissioners . Macey and O'Hara (2003) states that the board is very important role in a bank that one reason is because governance at different banks with non- bank firms . The main reason for the difference is due to the importance of other stakeholders such as creditors banks and regulators . Bank directors should be responsible not only to shareholders , but also to depositors , customers , and regulators .

Skully (2002) also stated that the role of the board is very important in the application of corporate governance since the passage of oversight by the board of commissioners will reduce the risk of taxpayer funds that can be used as a mitigation or to resolve a crisis . Implementation of good corporate governance can also play a role in controlling the lending practices on the part that still has a relationship with the bank .

In the studies that have been done previously on the effect of the application of corporate governance are mixed results on the relationship between the composition of the board of management of the company with the company's performance . Most studies find no effect or a significant relationship between the presence of the management board of the company with the company's performance , such as in research Bhagat and Black (1999) and research Hermalin and Weisbach (1991) . Even research Eisenberg , Sundgren , and Wells (1998) found a negative relationship between board size and corporate performance or the bank .

However Rosentein research and Wyatt (1990) showed a significant positive relationship between stock prices and the proportion of responses independent board . It is also supported by research conducted by Abeysekera (2008) against the company in Kenya , the number of commissioners who considered effective in the range of more than five and less than 14 people . Large board size is more effective when compared to a small board size (Dalton et al , 1999; Nasution and Setiawan , 2007; and Abeysekera , 2008) . And according to Andres , Azofra and Lopez (2005) the number of board members greatly influence the control and supervision activities . The larger the board size is expected to supervise the management better , so as to improve the performance of the bank or company .

While the previous studies that examined the effect of the audit committee of the bank's performance is a study by Xie et . al . (2003) found that the audit committee is an important factor in the control of management . In that study, the average audit committee which is owned by the sample companies are 5 members in the range of 2 to 12 members . Number of audit committee members influence the level of influence that can be given to the company , the size of the larger audit committees are expected to keep the bank with better performance .

While the study examined the effect of audit committee members are independent of the performance of the company or bank by Nasution and Setiawan (2007) and Li et al (2008) . From the results of their study revealed that audit committee members are independent positive effect on firm performance . With the independent audit committee is expected to improve the company's performance

On the other hand , Alijoyo (2003) states that the audit committee must be transparent , must begin with an audit charter and annual work programs written agenda of the audit committee are then supported with regularity audit committee meeting . In carrying out the obligations and responsibilities regarding financial reporting system , the audit committee should hold meetings three to four times a year (FCGI , 2001) . The more audit committee meetings were conducted to improve the performance of the audit committee . With the holding of regular meetings of the audit committee that is expected to improve the performance of the bank .

According Dezoort and Salterio (2001) audit committee members who have knowledge of auditing and financial reporting support to the external auditor in disputes with management . Dezoort (1998) also found that the knowledge and expertise in the field of accounting / audit is required by the audit committee members in resolving disagreements between management and the external auditors . The existence of a dispute between the parties manajemn with external auditors may affect the performance of the company , so that with the audit committee to resolve the dispute then the company expected to perform well .

While the previous studies that examined the effect of audit quality on the performance of banks conducted by Kell (2001) , which proves that the audit is a systematic process to obtain and evaluate the evidence objectively , related to assertions of economic measures to measure the level of concordance between assertions with established criteria and then communicating the results to the parties concerned (Kell , 2001) . Results of the audit process is the auditor's report (audit opinion) , which is a report on the fairness of financial statements in accordance with accounting principles generally accepted .

In terms of agency theory is the role of the external auditor as a control tool that can be used to eliminate or at least provide a signal on oportunistic practices or fraud committed by management as earnings management (Jensen and Meckling , 1976; Watts and Zimmerman , 1986) . Audit will reduce the information asymmetry between company management and stakeholders by allowing outsiders to verify the validity of the financial statements . Kinney and Martin (1994) examined nine studies and found that the audit reduces the positive bias of the earnings and net assets before audited .

Good audit quality should be able to detect fraud committed by management example like earnings management and reporting actual performance of companies that do not lie to investors . Firm size could be expected to affect the quality of the audit because of the size of a large accounting firm usually will not take the risk in the financial performance of the audit client , and tend to report the actual performance of the company , so as to encourage companies to actually improve the performance of its operations .

Varying results of previous literature is caused by the endogenous relationship , ie the things resulting from the company itself (Hermalin and Weisbach , 1991) , and causality (Kole , 1997) between board composition and corporate performance management .

The results are not conclusive is what makes it quite interesting to study in Indonesia and should also researched important factors that supported the GCG practices in the banking sector , especially affecting the performance of the bank . More specifically this study will use three important components in the characteristics of the GCG board , audit committee , and audit quality will be linked to the level of the banking firm performance is measured by using five financial ratios included in the ratio of camel .

With reference to the results of previous studies that have not produced conclusive conclusions about the influence of corporate governance indicators such as the Board of Commissioners , the Audit Committee , and Audit Quality on the performance of banks , the problems to be examined in this research is how to influence the performance of the bank's board of commissioners , hereinafter also want to consider how the influence of the audit committee of the bank's performance , how to influence the quality of the performance audit of the bank , and how the influence of the corporate governance indicators with other indicators of the performance of the bank . It is also to be examined how the influence of board , audit committee and audit quality jointly on the performance of banks .

2. THEOROTICAL FRAMEWORK AND HYPOTHESES

Corporate Governance (GCG)

One theory moved from the Corporate Governance Agency theory (Syakhroza , 2003) . Agency theory assumes that managers will act opportunistically by taking personal gain before the interest of shareholders . The agency theory arises because of the development of modern management science which shifts the classical theory , namely the rule that separates the owner of the company (principal) and the managers of the company (agent) . As the company expanded into big , especially the more dispersed shareholders , the more agency cost incurred and the owner can not exercise effective control of the managers who manage the company .

According to Jensen and Meckling (1976) potential conflicts of interest can occur between related parties such as between the shareholders of the company manager (agency costs of equity) or between shareholders and creditors (the agency costs of debt) . According to their agency cost includes three things , namely, monitoring costs , bonding costs and residual loss . Monitoring costs are expenses that are paid by the principal to measure , observe and control the behavior of agents in order not to deviate . These costs arise because of the imbalance of information between principal and agent . In certain situations , allowing agents to spend company resources (bonding costs) to guarantee that the agency will not act that could harm the principal or to ensure that the principal will provide compensation if he actually did the act. But still there is a discrepancy between the agency decision ¬ making decisions that maximize welfare agency . Value of money is equivalent to reduction in welfare experienced by the principal called residual loss .

The agency theory is difficult to apply and many obstacles and still is not enough , so we need a clearer concept of the protection of the stakeholders , the issues relating to conflicts of interest and cost - ¬ agency costs that will arise , so it develops a new concept who pay attention and regulate the interests of the parties associated with the ownership and the operation of stakeholders of a company , which is known as the concept of corporate governance .

Good Corporate Governance

According to FCGI (2001) notion of good corporate governance is a set of rules governing the relationship between shareholders, management (management) companies , creditors , government, employees and internal stakeholders and other esktern relating to the rights and obligations or the other words, a system that regulates and controls the company . While the Cadbury Committee is a set of rules that define the relationship between shareholders, managers , creditors , government , employees , and those other stakeholders both internally and externally in relation to their rights and their responsibilities.

According Rahmawati et al (2006) , Good Corporate Governance is defined as a set of rules and principles such as fairness , transparency, accountability , and responsibility , which governs the relationship between the shareholders , the management , the company (directors and commissioners) , creditors , employees and stakeholders other relating to the rights and obligations of each party . Based on the definition or understanding of good corporate governance in the above it can be concluded that , in essence good corporate governance is the system , processes , and a set of rules governing the relationship between the various interested parties (stakeholders) , especially in the narrow sense , namely the relationship between the shareholders , the board of commissioners , and the board of directors for the achievement of corporate objectives .

The purpose of good corporate governance is to create added value for all interested parties (stakeholders) . Theoretically, the implementation of good corporate governance to enhance corporate value , by improving their financial performance , which may reduce the risk undertaken by the board of commissioners with decisions that benefit themselves and generally good corporate governance can increase investor confidence (Tjager et al . , 2003) .

Darmawanti , Rahayu , and Khomsiyah (2004) , Corporate Governance states issue arises because there is a separation between the ownership of the management company , or often times the term agency problems . The relationship between agency problems and owners of capital in the manager is the owner of the difficulty in ensuring that the funds invested are not invested in profitable projects that bring no return. Moeljono (2002), explains that corporate governance is needed to reduce the agency problem between owners and managers .

Corporate Governance Principles

Organization of Economic Cooperation and Development (OECD) develops the corporate governance principles, which is known as The OECD Principles Of Corporate Governance, that are:

1. Transparency (disclosure of information), namely transparency in the decision making process and openness in expressing material and relevant information about the company.
2. Accountability (accountability), the clarity of function, structure, systems, and corporate accountability so that organs are effective enterprise management.
3. Responsibility (accountability), ie conformity (compliance) in the management of the firm to the principles of healthy corporate and applicable legislation.
4. Independency (autonomy), which is a state where a professionally managed company with no conflict of interest and influence or pressure from management that is not in accordance with regulations and legislation in force and the principles of healthy corporate.
5. Fairness (equality and fairness), the fair and equal treatment in meeting stakeholder rights arising under the agreement and applicable legislation. (Kaihatu, 2006).

Corporate Governance Mechanism

The principles of corporate governance as described above is realized in the management of the company attempted to implement the following matters:

1. General Meeting of Shareholders
2. Openness and Transparency
3. Existence Independent Commissioner
4. The size of the Board of Commissioners
5. Audit Committee
6. Ownership structure

Previous Studies

1. The Impact of Board of Commissioners on Bank Performance

Surveillance system in the company is divided into two types , namely the system of " two-tier " system and the " one-tier " . In the limited company that embraces organ systems company with "two - tier " system board as well as in Indonesia, the company's general oversight role performed by the board of commissioners , while the firm adherents of a "one - tier " system board , the supervisory functions performed by organs known as boards of directors .

The studies that have been done previously on the importance of the implementation of corporate governance , especially in the case studies conducted by other countries , used the term to describe the board of directors oversight function . Such as one of the studies referenced in this research is research conducted by Pathan (2007) , which examines the size and independence of the board of directors and its influence on the performance of companies on a bank in Thailand . Thailand can be an area of research which is quite good considering like Indonesia , in 1997 the country was also experiencing severe financial crisis . In a study using a fixed effect panel models , it is known that there is a significant negative relationship between board size with the performance of banks in Thailand . This is consistent with the hypothesis that was made and showed that the size of the smaller board would be more effective in monitoring bank managers , while the board with a larger size are more prone to agency problems (agency problems) between the owner and the company that runs the operational company (manager)

.The second result obtained from the study was the discovery tesebut positive relationship between board independence on the banks in Thailand with the bank's performance . This suggests that independent directors perform better in a monitor on the bank (especially in Thailand) , as independent directors also have a market reputation that needs to be maintained . Findings in these studies suggest banks can improve their performance by reducing the number or size of the board and add a few more independent board .

Research Eisenberg , Sundgren , and Wells (1998) also found a negative relationship between board size with the performance of the company or bank . Similarly, the research Hermalin and Weisbach (2003) which shows that the board smaller size would be more effective and can provide added value because it is easier to coordinate in it .

However, research Abeysekera (2008) found a significant positive relationship anta corporate board size and firm performance in Kenya , the number of commissioners who considered effective in the range of more than five and less than 14 people . Large board size is more effective when compared to a small board size (Dalton et al , 1999; Nasution and Setiawan , 2007; and Abeysekera , 2008) . And according to Andres , Azofra and Lopez (2005) the number of board members influence and control activities pengawasan.Semakin large board size is expected to supervise the management better , so as to improve the performance of the bank or company .

In line with this, Adams and Mehran (2003) and Belkhir (2005) states that, for the U.S. Bank Holding Companies , found that the size of the board and its performance has a positive relationship . This study suggests that surveillance conducted by the board with a large number of members or more will have an advantage that will exceed the costs incurred thereby . Positive relationship between board size and performance of the companies in the U.S. can be further explained due to mergers and acquisitions in the banking industry in America .

2. The Impact of Audit Committee on Bank Performance

Another important component that supports the implementation of good corporate governance , the audit committee (FCGI , 2001) . In accordance with the Decision of the Chairman of Bapepam Number : kep . 29/PM/2004 , the audit committee is a committee established by the board of commissioners to carry out the task of supervision and management of the company .

Research conducted by Xie et . al . (2003) found that the audit committee is an important factor in the control of management . In that study, the average audit committee which is owned by the sample companies are 5 members in the range of 2 to 12 members . Number of audit committee members influence the level of influence that can be given to the company , the size of the larger audit committees are expected to keep the bank with better performance .

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Research Hypothesis

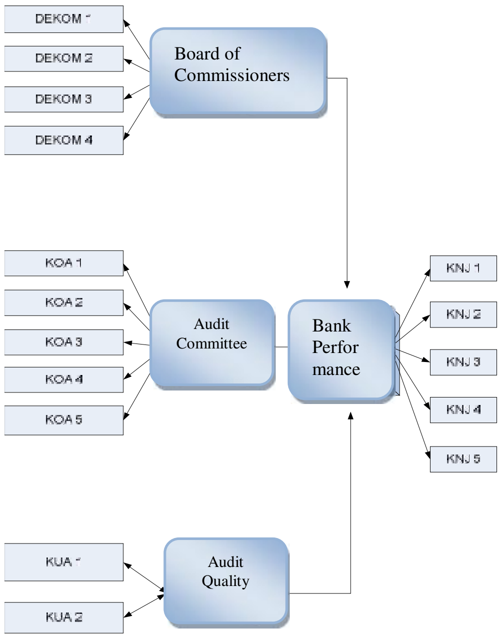
Based on the analysis of previous studies and the hypothesis in this study is expressed as follows :

H1 : The Board of Commissioners has an influence on the performance of the bank .
H2 : The audit committee has an influence on the performance of the bank .
H3 : Audit quality has an influence on the performance of the bank .

3. RESEARCH METHOD

Research Model

To determine the effect of the independent variables Board of Commissioners, the Audit Committee and Audit Quality Performance Bank on the dependent variable (CAR, NPL, LDR, ROA, and ROE) then set up a model of the Structural Equation Model (SEM) to test the hypothesis 1 to hypothesis 3. Meanwhile, for the measurement model in this study using Confirmatory Factor Analysis (CFA) which indicates a latent variable measured by one or more observed variables. Research model using CFA are as follows:



Operationalization of Variables

Laten Variable

Latent variable in this study is Board of Commissioners, the Audit Committee, Audit Quality, and Bank Performance.
Board of commissioners, in the path diagram shortened to Dekom research. This variable is measured using four indicators, namely: Dekom 1, Dekom 2, Dekom 3, and 4 Dekom. Audit Committee, the research path diagram shortened to KOA. This variable was measured using the 5 indicators, namely: 1 KOA, KOA 2, 3 KOA, KOA 4, and 5 KOA. Audit quality, in this research path diagram shortened to KUA. This variable is measured using two indicators, namely: KUA KUA 1 and 2. Performance of the Bank, in the path diagram shortened to KKJ research. This variable was measured using the 5 indicators, namely: KKJ 1, KKJ 2, 3 KKJ, KKJ 4, and 5 KKJ.

Observed Variable

Variables observed in this study consisted of 16 indicators consisting of:

1. Dekom four observed variables. Dekom 1 measured using board size, Dekom 2 measured using the proportion of independent directors, Dekom 3 was measured by using a number of meetings of the board of commissioners, and Dekom 4 measured using educational background commissioner.
2. KOA five observed variables. KOA 1 was measured by using the number of audit committee, KOA 2 measured using the proportion of independent audit committee, KOA 3 measured using the number of audit committee meetings, KOA 4 measured using audit committee members' experience working as an auditor, and KOA 5 was measured by using a background education audit committee.
3. KUA two observed variables. KUA 1 was measured by using a dummy the size of the Public Accounting Firm (KAP) conduct an audit of the banks that the sample in this study. If companies or

banks audited by Big 4 accounting firm (KAP large) then the high audit quality, but if the bank is audited by non Big 4 accounting firm (KAP small) then the lower the audit quantity. KUA 2 was measured by using a dummy of the audit opinion provided by the external auditor. Value of 1 if the audit opinion is unqualified obtained (WTP), whereas if the audit opinion obtained WTP has a value other than 0.

Data Collection Method

The data used in this study is secondary data, such as annual reports and financial statements of the banks listed on the Indonesia Stock Exchange (BEI) in the year 2009-2010. Data are sourced from the official website of BEI (www. Idx.co.id), and the official website of each company. Data on board and audit committee sourced from annual reports (annual report) that the sample banks in 2009-2010. While the ratio of data to measure the performance of the banking CAMEL sourced from financial statements (financial report) banks that were visited in the year 2009-2010.

Sampling Method

The population was banks. The sample was all banks listed in Indonesia Stock Exchange (JDX) from 2009 to 2010.

Hypothesis testing

Testing following the steps in the research are applicable in the SEM by using the method of maximum likelihood estimation (MLE). According to Hair et. Al. (1998), an evaluation of the level of fit of the data with SEM models through several stages, namely:

- *overall model fit*
- *measurement model fit*
- *structural model fit*

4. DISCUSSION

Based on the data in Table 1 (attached), the descriptive statistics for each variable in this study are as follows:

1. Average Dekom 1 as measured by board size is 4 persons . While as many as 3 people minimum and maximum of 8 people .
2. Average Dekom 2 as measured by the proportion of independent directors is of 0.5 means the number of independent directors compared to the number of commissioners have the same proportions . While the minimum Dekom 2 of 0.667 , while the maximum value of 0.75 .
3. Average Dekom 3 as measured by the number of meetings of the board of commissioners meeting is at 10 times in one year and it is equal to the number of meetings required by the government , while meeting the minimum of 4:00 means that banks only conduct meetings 4 times in a year while the to a maximum value of 43.00 means that there is a bank that held a meeting in a year 43 times . This is more than is required by the government .
4. Average Dekom 4 is measured using educational background is the main commissioner of 0:33 means that the average member of the commissioners who have the educational background of accounting is one third of the total number of commissioners . While minimum commissioners who have an educational background in a bank accounting is 00:00 meaning no member of the board of commissioners in the bank that has the educational background or economic accounting . While the maximum value of Dekom 4 were 1.00 means that each member of the board of commissioners in a bank which is a sample of accounting educational backgrounds .
5. Average KOA 1 as measured using the number of audit committee is at 4:00 means that on average most of the banks into the sample audit committee has a number of (external and internal) for 4 people , while the minimum value of sizedit at 3:00 means that there is a bank which has 3 members of the audit committee . While the maximum number of bank sizedit a sample of 6:00 means that there is a bank that has a number of audit committee members as much as 6 people .
6. Average KOA 2 as measured using the proportion of independent audit committee is of 0.5 means the number of independent audits compared to the number of members of the audit committee as a whole has the same proportions . While the minimum value is equal to 0.667 means the sum of independent audit committee members compared to the number of members of the audit committee as a whole has a smaller proportion or fewer . While the maximum value of 0.75 means the number of independent

audit committee members as compared to the number of members of the audit committee as a whole has almost the same proportion .

7. Average KOA 3 as measured by using the number of audit committee meetings are as many as 13 meetings in a year , while meeting minimum is 2 times in a year while the maximum value is for as much as 16 times more than is required by the government .
8. Average KOA 4 as measured using the experience of audit committee members worked as an auditor is by 12:33 it means that the average member of the audit committee have accounting education background is 1/3 of the total number of members of the audit committee as a whole . The minimum value is 0:00 means that no member of the audit committee of the bank that has the educational background of accounting . While the maximum value is 0.667 means that the number of audit committee members who have educational backgrounds accounting 70 % of the total number of members of the audit committee as a whole .
9. KOA average 5 are measured using the educational background of the audit committee is at 0:33 meaning that the average member of the audit committee who has experience as an auditor is one third of the total number of members of the audit committee as a whole . While the minimum value is 0:00 means that no member of the audit committee of the bank who has experience as an auditor . The maximum value is 0.667 means that the number of audit committee members who have experience as an auditor 70 % of the total number of members of the audit committee as a whole .
10. Average KUA 1 is measured using a dummy the size of the Public Accounting Firm (KAP) conduct an audit of the banks into the sample amounted to 0.70 means that most of the banks are being sampled in this study in audits by the Big Four accounting firm and part smaller audited by non Big Four accounting firm .
11. The average KUA 2 as measured using the audit opinion dummy is equal 0.60 meaning that most of the banks are to be sampled in this study obtain audit opinion " unqualified (WTP) " of the external auditor .

Stages and Testing Results

1 . Overall Suitability Model

Structural model in SEM analysis begins with testing the overall model fit is seen by the indicators of Goodness -of -fit index (GFI) statistics from LISREL output (Hair et al . , 1995) . Overall summary of the critical value of the test match the overall model can be seen from the summary in Table 2 (attached).

By looking at the overall results of estimation based on existing criteria , the overall values obtained are marginal . So from the above analysis to test the reliability of the overall model output is at marginal fit .

2 . Compatibility of Measurement Model

To test the measurement model fit performed on each construct separately through the evaluation of the construct validity and reliability (Wijanto , 2006) . The aim of this testing phase to ensure that the constructs used in this study met the criteria valid and reliable . The validity and reliability of each construct of the observed variables are shown in Table 3 (attached) .

Based on the data in the table it can be concluded that the standard factor loading of each observed variable is greater than 0.70 then the validity of each variable is good . Meanwhile, if viewed from all variables observed variance extracted greater than 12:50 then it can be said that each variable has a good level of reliability .

3 . Compatibility of Structural Model

This analysis was conducted on the structural equation coefficients by specifying a certain level of significance . Analysis of the structural models to test the hypotheses proposed in this study . For a significance level of 0.05 , the value t of structural equation must be greater or equal to 1.96 or greater for a practical equal to 2 (Wijanto , 2008) .

Structural Equation Models :

Structural equation model to prove H1 , H2 , and H3 are as follows

KNJ = 0.56*DEKOM + 0.033*KOA + 0.44*KUA, Errorvar.= 0.066 , R^2 = 0.93

(0.13)	(0.100)	(0.10)	(0.057)
4.40	0.33	4.26	1.17

Structural equation models of the above can be seen in the figure below, all coefficients have significant t values, except for the Audit Committee of the latent variables (KOA). This equation is an equation for the first hypothesis, the second and third. It can be concluded that the hypothesis of this research is to H1, and H3 results proved significant. As for the H2 results proved insignificant.

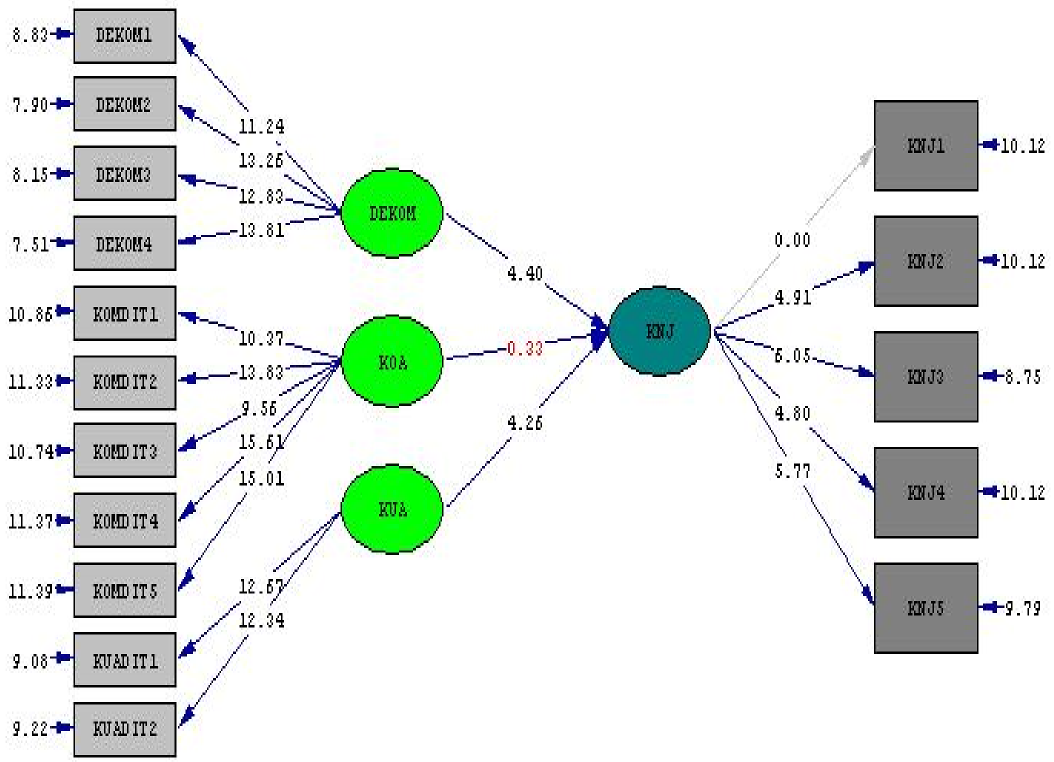
No hypothesis to prove the significance of 2, can be proved from the descriptive statistics on the variables of audit committee meetings or meetings that consist of a maximum value of 16 sessions and more than is set by the government. And of the results of this research shows that accounting education background and experience as an auditor does not have a significant impact on the performance of the audit committee on banking performance.

To assess how well the coefficient of determination of the structural equation, will be seen from the magnitude of R2 (Wijanto, 2006). Lisrel test results that can be seen in the Reduced Form Equation R2 values obtained for structural equation in this study. R2 values in our model is equal to 0.93 which means that the model is able to explain 93% of the change in the latent variable Bank Performance. Overall value t of the three hypotheses proposed in this study results can be summarized in the following Table 4:

Table 4. T-value for each hypothesis

Hyp	Path	Estimation	t-value	Conclusion
1	**Dekom → KNJ**	**0.56**	**4.40**	**Significant**
2	**KOA→ KNJ**	**0.033**	**0.33**	**Not Significant**
3	**KUA ⟶ KNJ**	**0.44**	**4.26**	**Significant**

The following path diagram shows the structural model of Lisrel



Analysis of Testing Results

Based on the structural equation model, confirming that the commissioners proved significantly positive effect on bank performance. What it means is the greater control by the board of commissioners on banking operations, the higher performance produced by banks. Results of this study reinforce the results of previous studies that Rosentein and Wyatt (1990), Dalton et al (1999), Nasution and Setiawan (2007), and Abeysekera (2008).

The second hypothesis examined the effect of audit committee on banking performance results are not proven. These results are not in accordance with the results of previous studies that Herwidayatmo

(2000), Xie et. al. (2003), and Abeysekera (2008), although the direction (sign) is generated to support the results of these studies. This can be explained from the bank that has a number of audit committee members very much and exceed the requirements stipulated by Bank Indonesia and Bapepam. There are also banks that conduct the audit committee meetings or gatherings up to 16 times in one year and it exceeded the meetings required by the government.

The third hypothesis tested the effect of audit quality on bank performance results also proved positive and significant influence. Means is greater than a bank audit quality, the better the performance generated by the bank. These results reinforce the results of previous studies such as the study Jensen and Meckling (1976), and Watts and Zimmerman (1986).

5. CONCLUSION

This research is motivated by numerous previous studies conducted related to the effect of the application of corporate governance on bank performance. The purpose of this study is to see how far the application of corporate governance can be good or bad effect on bank performance. This model uses the data 30 banking companies. The results prove:

1. Commissioners significant positive effect on bank performance. The better performance of the board of commissioners of the better performance of the bank.
2. The audit committee did not affect the performance of the bank. This can be explained from the bank that has a number of audit committee members very much and exceed the requirements stipulated by Bank Indonesia and Bapepam. There are also banks that conduct the audit committee meetings or gatherings up to 16 times in one year and it exceeded the meetings required by the government.
3. Quality audit significant positive effect on bank performance. The better performance of the board of commissioners, the better the performance of banks.

Suggestion

Based on these results it is expected to further research to modify the research model in order to have a model that is more fit.

Limitations of Research

This study used limited respondents , so it can not be tested by the method of weighted least squares (WLS) which is likely to give different results.

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