Examining Internal Mechanism Corporate Governance on Indonesian Islamic Banking Performance

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Abstract
The aim of this study has been to provide conceptually the corporate governance mechanism on Indonesian Islamic banking performance. The intention has been to provide a critical explanation of the specific model on corporate governance in Islamic banking. Existing literature on corporate governance in Islamic banking appears to be rather limited in general. This may be due to both researches and practice in corporate governance in Islamic banking its early stages in development. The present evidence also suggests that internal mechanism corporate governance lies in understanding Indonesian Islamic banking performance. This study adds to present literature in Islamic Banking research area by explaining conceptually the linkages between Board of Commissioners Characteristics namely number of independent board of commissioners, number of inside board of commissioners, board of commissioner's size, board independence, board tenure, board age in order to increase the performance of Indonesian Islamic banking performance
Keywords - Internal Mechanism, Corporate Governance, Islamic Banking Performance

I. Background

Implementation of corporate governance in shariah banking become uncomplain certainty (Grassa & Mataussi, 2015). Moreover, shariah banks must be step forward as a leader to implement the corporate governance conceptual framework. Study by Islamic Financial Service Board (IFSB) launch Exposure draft of good corporate governance for Shariah Financing Institution. The difference of corporate governance between shariah and conventional stated at shariah compliance, obedience to shariah itself (Wijethunga & Ekanayake, 2015). Whereas Corporate Governance Principle as we know as fairness, transparency, accountability, responsibility, morality, commitment, and independent, become important principle at activity and existence of a Moslem (Taoufik, 2015).

Corporate governance supposed to be implemented in institutions and corporations from whole sectors. Although corporate governance is essential to the success of firms in many industries, the banking sector deserves special attention (UFJI & FCGI, 2005). The banking sector is mainly responsible for the allocation of financial resources to all other sectors of an economy, whose efficiency very much determines the performance of the economy. The importance of banks to national economies is underscored by the fact that banking is virtually universally a regulated industry and that banks have access to government safety nets. It is of crucial importance therefore that banks have strong corporate governance (Basel Committee on Banking Supervision, 1999).

Corporate governance of banks is an important fundamental for those who are concerned with or have the responsibility for financial regulation and for developing markets and economics. Its proper implementation will minimize the incidence of systematic risks and the likelihood of banking crises of the nature (Yunis, 2007). Moreover Chapra and Ahmed (2002) stated that effective corporate governance in banks as well as the firms that bank funds is one of the most important pillars of the new environment that needs to be created to re-place the old socio-economics that no longer exists. Unfortunately, however, corporate governance is considered to be generally weak in the corporations of most developing countries.

Actually, corporate governance is defined as a relationship between the stakeholders that is used to set a direction and performance control in a company. Corporate governance deals with the ways of finance suppliers to corporations ensure a fair and safe return on their investments (Shleifer & Vishny, 1997), 'by managing the mechanisms with which a corporation conducts its basic operation' (Tressa, 2007 pp. 2). Mechanisms to achieve corporate governance's goal are both internal and external influence to the firm. The external mechanisms which called market for corporate control rely on the effectiveness of the market in providing discipline over a company and the legal regulatory system (Lukviarman,2004) while the internal mechanisms include managerial incentives schemes, board of directors monitoring role and accountability reinforced by credible external auditing procedures (Patrick,2001).

The central feature of internal governance mechanism lies in the organizational and personal division of control and management, which is the primary function of Board of Directors (Hopt and Leyens, 2004). In other words, 'the core of internal governance mechanisms is the Board of Directors' (Ningsih, 2006 pp. 3). Coles, Daniel, and Naveen (2006, p.1) stated that 'the board of directors of a corporation is meant to perform the critical functions of monitoring and advising top management.'

There are two types of Board of Directors systems which apply by many countries in the world; Anglo-

Saxon system and Continental system. Anglo-Saxon system also known as unitary board or one-tier board model, the companies are having only one board, which is board of directors. This type of board condenses executive and supervisory responsibilities of the board in one legal entity (Gay 2002, cited in Lukviarman 2004). On the other side, the two-tier board which usually called two-board system, is found mostly in Continental European countries, there is a separation of executive and supervisory roles under different boards. There are the Supervisory Board and Management Board. The responsibility of the management board is running the business, while the Supervisory Board controls the management in run that business (not the corporation) (Ningsih, 2006).

Indonesia as one of Continental Europe country, which influence much by Dutch's Era, adopted same system of board. Companies under the Indonesian Company Law No. 40 year 2007 have two boards; Supervisory Board that performs supervisory roles, and the Management Board that performs the executive role. The Board of Commissioners (Supervisory Board) is clearly separated from and independent of the executive or management board, consistent with the characteristic of Continental Europe model. Two-tier board system makes a clear separation between Board of Management and Board of Commissioners. Board of Management charged with the management of the company and Board of Commissioners is responsible to supervise the Board of Directors as company's organizer. This system enhances the check and balances required for corporate governance (Tumbuan 2005).

There are board characteristics and board task in measuring Board Governance generally. Research that are measuring board characteristics did by Toufik (2015), Mollah & Zaman (2015), Beiner et al (2003), Dulewitcz and Herbert (2004). Other countries generally board independence, board size, ownership, education and expertise, age, remuneration, tenure, and gender diversity.

Researches about board director as a primary element to decide company performance have been done in many countries, but most of them were conduct to US perspective (Beiner et al, 2003,), characteristically *one tier board system.* Toufik (2015), on the same perspective, said that there was a general consensus that different mechanism and aspect play a very important role in increasing board monitoring efficiency (such as board size, board composition, board independence and board dynamic). Researches about the effect of board of director to company performance have done by John and Senbet (1998) that argued "It is often alleged that boards of directors are more independent as the proportion of their outsider directors increases." However, Fosberg (1989) finds no relation between the proportion of outside directors and various performance measures (i.e., SG&A expenses, sales, number of employees, and return on equity); Hermalin and Weisbach (1991), Mollah and Zaman (2015) find no association between the proportion of outside directors and Tobin's Q; and Bhagat and Lack (2002) find no linkage between the proportion of outside directors and Tobin's Q, return on assets, asset turnover and stock returns.

Pearce and Zahra note that "CEOs have an incentive to strengthen their boards" as powerful boards contribute to superior organizational financial performance (1991, p. 150). Executives comment that "having to convince a strong, `show me' board to go along with management plans forces management to think through those plans and do the necessary homework to justify them" (cited in Bacon, 1993).

Fama and Jensen (1983) argue that the board of directors performs the important function of monitoring the actions of top management. The effectiveness of the monitoring function is increased by the inclusion of outside directors (independent commissioners). Independent commissioners, limit opportunities for the board to be become an instrument of top management by serving to limit top management's discretionary decisions. Independent commissioners serve on the board to ratify decisions that involve serious agency problems. The value of their human capital directly linked to their reputations for high quality decisions making. One way to enhance such a reputation is demonstrate expertise in decision control by their behaviors as outside board members (Ghaffar, 2014).

Performance is one of the more traditional measures in company related studies. Ittner and Larcker (1998) examined many different performance measures and their implications for innovation. Yet, others have focused on market share (Rehman & Mangla, 2010), profit share of sales (Audia, Locke and Smith, 2000), assets (Miller and Chen, 2004) and investments (Amba & Muni, 2014). In corporate governance many have focused on market value, Qvalue (Archer, Karim & Sundararajan, 2010) value indexes (Nurhayah & Islam, 2011) or return on assets (Mollah & Zaman, 2015)

Various studies have used separate measures of efficiency or performance. Among different performance measures, accounting return and stock return are commonly used (Grassa, 2013). In corporate governance and banking literature both these measures have been widely used (Mollah & Zaman, 2015; Toufik, 2015)). Tobin's Q is a popular technique for those using the stock market returns (Lukviarman 2004). Among the profitability indicators which evaluate bank performance, return on assets (ROA) and return on equity (ROE) are widely used. Ginena (2014) and Ghaffar (2014) argued that these ratios are very valuable when comparing performance among different banks operating in the same market.

II. Theory and Proposition Development

The agency theory, as has been addressed by Jensen and Meckling (1976) was based on the proposition of the separation between ownership and control. Such a separation will give the agents (managers) incentives to pursue activities which will benefit themselves, at the cost of their principals (owners). The basic premise is that 'if both parties to the relationship are utility maximizes there is good reason to believe that the agent will not always act in the best interests of the principal' (p. 308). They believe that the owner-manager's divergence of interests causes agents to fail to maximize the welfare of the principal. This failure is the most important cost resulting from the principal and agent conflict, which is known as the agency problem. Through their convergence-of-interest hypothesis, Jensen and Meckling (1976) argue that corporate performance will increase with the level of management or insider ownership in a company. Agency theorists believe that managers as an agent may pursue opportunistic behaviors which may be in conflict with the goals of the owners (principals) and destroy shareholder wealth. Advocates of the agency approach see the board of directors as "an economic institution that helps to solve the agency problems inherent in managing any organization" (Hermalin and Weisbach 2000:1).

A moral hazard situation defined as a situation where the agent undertakes self-interested actions at cause harmed of the principal's own interests (Padilla, 2003). Such kinds of situations arise for two main reasons: first, there is a positive cost for the principal of monitoring agent's actions; last, the principal does not necessarily have the expertise to know whether or not agent's actions are in his best interests and consequently monitoring is also imperfect. Control of the agency problems achieved by separating the ratification and monitoring of decisions (decision control) from initiation and implementation (decision management). The efficiency of such decision systems is buttressed by incentive structures that reward agents both initiate and implement decisions and ratify and monitor the decision management of other agents (Fama and Jensen, 1983).

Despite their conflicting result, both views recognize the need for control mechanisms to align the interest of the principals and agents in order to resolve the agency problem. However, exercising control through monitoring mechanism is arise costs. Monitoring or agency costs will be borne by the principals as the capital owners in this relationship (Lukviarman, 2004). The owners have incentive to ensure that managers do not diverge from the goal to maximize the shareholder value. However, as entrepreneurs, owners have to consider the cost and benefit of monitoring mechanism that they choose to oversee management (Lukviarman, 2004).

Corporate Governance in Islamic Banking

Applications of corporate governance in Islamic banking have become significant issues since last two decades. Moreover, sharia banks must be step forward as a leader to implement the corporate governance conceptual framework. Sturdy by Islamic Financial Service Board (IFSB) launch Exposure draft of good corporate governance for Sharia Financing Institution. The difference of corporate governance between sharia and conventional stated at sharia compliance, obedience to sharia itself. Whereas Corporate Governance Principle as we know as fairness, transparency, accountability, responsibility, morality, commitment, and independent, become important principle at activity and existence of a Moslem.

Islam teach important principle at activity and existence of a Moslem intensively, such as: *'adalah* (justice), *tawazun* (balance), *mas'uliyah* (accountability), *akhlaq* (morality), *shiddiq* (honesty), *amanah* (faithfulness), *fathanah* (intelligent), *tabligh* (transparency), *hurriyah* (independent), *ihsan* (professional), *wasathan* (fittingness), *idarah* (managerial), *khilafah* (leadership), *aqidah* (believe), *ijabiyah* (positive thinking), *rabaqah* (controlling), *qira'ah* (organizational full of learning), and *ishlah* (improvement). Based on reduction, prove that Islam knows about good corporate governance by far of that principle use as a reference to manage good company in the world (Hasan & Harahap, 2010).

Many Islamic corporations adopt the Anglo-Saxon model of corporate governance (Lim, 2007: 737-738). The proponents of the Anglo-Saxon continuously attempt to defense their model and the opponents strongly criticize them especially in the aspect of principle-agent relationship or the agency problems. In the of Islamic corporate governance context, there are a few studies have been carried out particularly IFIs to come up with alternative models of corporate governance. The former refers to the corporate governance model based on the principle of consultation where all stakeholders share the same goal of *Tawhid* or the oneness of Allah (Choudury and Hoque, 2004) and the latter concerns on adopting the stakeholders' value system with some modifications (Iqbal, and Mirakhor, 2004) and (Chapra and Ahmed, 2002, cited in Hasan, 2009).

Internal Mechanism Corporate Governance

Internal mechanism corporate governance criticizes the relationship between managers and stakeholders or between company's internal parties (managers and shareholders) and minority shareholders. The important elements involve the rights of shareholders and the way protecting it, the roles and responsibility of board of directors, beside that included also disclosure aspect and rules for stock accounting (Ginena, 2014).

The aim of the internal control mechanism is to provide an early warning system to put the organization back on path before difficulties reach a crisis stage (Jensen, 2000 c.f. Lukviarman 2004). Therefore, the board of director at the apex of the internal control system has the final responsibility for the functioning of the firm.

Corporations in most countries of the world have board of directors, although they have some different in practices. The active role of board of directors in performing their tasks is believed to be an efficient and a less expensive governance mechanism than other external mechanism (Lukviarman, 2004). The board of directors can act to restrict potential conflicts on interests between managers and shareholders. This can possibly be achieved if directors are independent of management and have appropriate knowledge of the firm (Van den Berghe and De Ridder, 1999, c.f. Lukviarman 2004)

The central feature of internal governance mechanism lies in the organizational and personal division of control and management, which is the primary function of Board of Directors (Hopt and Leyens, 2004). In other words, 'the core of internal governance mechanisms is the Board of Directors' (Ningsih, 2006 pp. 3). Coles, Daniel, and Naveen (2006, p.1) stated that 'the board of directors of a corporation is meant to perform the critical functions of monitoring and advising top management.'

Indonesia's Board System

Indonesia as one of Continental Europe country, which influences much by Dutch's Era, adopted same system of board. Companies under the Indonesian Company Law No. 40 year 2007 have two boards; Supervisory Board that performs supervisory roles, and the Management Board that performs the executive role. The Board of Commissioners (Supervisory Board) is clearly separated from and independent of the executive or management board, consistent with the characteristic of Continental Europe model. It makes a clear separation between Board of Management and Board of Commissioners. Board of Management charged with the management of the company and Board of Commissioners is responsible to supervise the Board of Directors as company's organizer. This system enhances the check and balances required for corporate governance (Tumbuan 2005).

In Indonesia, under Indonesian Company Law, 'companies incorporated must have both supervisory and management board (both at least consist of two members) which are appointed and dismissed at any time at shareholders' meeting. The company law describes that supervisory board (board of commissioners) is headed by a president commissioner and composed entirely of non-executive directors which cannot be a member of management board and vice versa within the same corporation. Whereas, management board (board of directors) consists of entirely executive and headed by a president director. Furthermore, the law stated that board of commissioners is responsible for supervising and advising the board of director whereas board of directors is responsible for manage and represent the company in its daily operations and perform all of the executive roles (Lukviarman, 2004).

Inside Board of Commissioners

Board of Commissioner consists of outside director and inside director. Directors employed by the firm, retired from the firm, or immediate family members are insiders. Inside directors represent the number of insiders on the board of directors (Anderson et all, 2004).

Board Independence

One of the key elements of an agency view of the board is that outside board members will not collude with directors to subvert shareholder interests because directors have incentives to build reputations as expert monitors. Board independence is critical for boards to function in the best interests of shareholders. Boards with little independence, as characterized by chairs that are also the CEO, older directors, and more insiders, will likely be more resistant to women and minority directors, who are more likely to be outsiders (Carter et all, 2002).

Byrd and Hickman (1992) for instance, suggest that independent directors contribute expertise and objectivity that minimizes managerial entrenchment and expropriation of firm resources. Beasley (1996) and Dechow et al. (1996) find that the proportion of independent directors on the board (board independence) is inversely related to the likelihood of financial statement fraud. Klein (2002) documents a negative relation between abnormal accruals and director independence from senior management. Anderson et all (2004) stated that primary measure of board independence is the number of independent directors divided by board size (fraction of independent directors).

An early study by Choudhury and Alam (2013) tests the relationship between the percentage of independent directors and a relative measure of return on equity. They find that boards with more outsiders outperformed other firms but that a majority of independent directors was not necessary to insure above average value. Baysinger and Butler conclude that boards with both insiders and outsiders produce the best financial value. Kamarudin and Haron (2011) compare the percentage of outsiders on boards to a relative measure of Tobin's q. They conclude that there is no relationship between the percentage of outsiders on the board and firm value.

Board Tenure

Effective monitoring is potentially an acquired skill, suggesting boards with greater tenure provide greater monitoring. However, as board tenure increases, managers may be better able to influence director opinion, indicating director tenure exhibits an inverse relation to oversight of the financial accounting process (Anderson et all, 2004).

Anderson et all (2004) stated 'Board tenure is the sum of the number of years that the directors serve on the

board divided by the number of directors'. This measure the ability of managers to influence directors; longer tenure potentially allows managers greater influence over directors' decisions of the company.

The incidence of family control over listed company represents strength for the market. Many commentators of the US and UK financial markets criticize the short term view taken both by investors and management. The fixation of market in short-term result and relatively short period of tenure for management provide a significant hurdle provide to long-term growth plans (OECD, 2001).

Board Age

Based on Anderson et all (2004), board age is the sum of director ages divided by the number of directors and proxies for director business experience, or the average age of the board of directors.

TIAA-CREF adopted a policy statement on corporate governance that states the board should be composed of "qualified individuals who reflect diversity of experience, gender, race and age" (TIAA-CREF, 1997). Additionally, the National Association of Corporate Directors Blue Ribbon Commission recommended that gender, racial, age, and nationality diversity should be considered in the selection of directors (National Association of Corporate Directors, 1994). According to this view, "attitudes, cognitive functioning, and beliefs are not randomly distributed in the population, but tend to vary systematically with demographic variables such as age, race, and gender" (Robinson and Deschant,1997 cited in Carter et all, 2004).

Financial Performance

Several financial performance measurement models have been developed that could be considered as improvements on the traditional models. These models are very much finance related and take the position that business processes' ultimate success can be viewed through focusing on financial performance measurement. Among these models are Balanced Scorecard, the Economic Value Added and the Strategic Performance Measurements (Lukvirman, 2004). Although new performance measurement models have been introduced, all of them retain financial performance measures, these improved performance measures use additional indicators that are non-financial, or else they utilize operational performance measures as complementary (Lukviarman, 2004). Return on Assets focuses overall performance of the firm and reflects the annual measured return to the historical value of investment a firm has made (Lukviarman, 2004). For this reason, ROA is measured as net income divided by total book value of assets. Another reasons of choosing ROA as financial performance measurement in this study is total assets as the denominator described all the resources needed by company to run the business activity (Novia, 2006).

There is no unique definition of firm performance (Pattanayak, 2008). However, Investordwords (2009) define performance as 'the results of activities of an organization or investments over a given period of time', and define enterprise value as 'a measure of what the market believes a company's ongoing operations are worth'. Most of experts use both 'value' and 'performance' terms refer to firm performance. The term 'performance' tends to be associated with accounting performance measures which take account to the current status of the firm as the result of past performance e.g. return on asset (ROA), return on equity (ROE) and return on sales (ROS).

The market performances are directly measure attached to the confidence of the investors in a firm and can be interpreted as the capital market assessment of the firm. The accounting measure do not take account the future prospects of firm performance but they do take into account the current status of the firm performance (Kumar, 2003).

There seems to be a trade – off between the advantage and disadvantage of accounting versus market – based measures. For example, prior research has found both accounting and market – based performance measures to be related to the corporate governance decisions as in the case of CEO compensation (e.g. Engel, Gordon & Hayes 2002). The use of accounting measures might be not accurate in this case because the measure subject to manipulation by management (Wiwattanakantang 2001). Other side, the use of a market – based measure may not be 'an efficient contracting parameter because it is driven by many factors beyond the control of the firm's executives' (Bacidore et al. 1997). Despite this problem, the choice of performance measures should consider the appropriateness of measurement in relation to specified research objectives.

Various studies have used separate measures of efficiency or performance. Among different performance measures, accounting return and stock return are commonly used (Reaz 2004). In corporate governance and banking literature both these measures have been widely used (Caprio, Leaven, & Levine 2006; Mitton 2002). Tobin's Q is a popular technique for using the stock market returns. For this study, however, use of market return is not possible since information needed for calculating the replacement cost for assets was not available (Lukviarman 2004). Moreover, accounting profitability is considered a superior performance measure than stock return, as stock market prices do not always necessarily reflect available information when the market is inefficient (Joh 2003). Joh (2003) also argued that profitability is more directly related to the financial survivability of firms than their stock market value. And in this particular case, the accounting profitability measures present the opportunity to assess the performance of publicly traded firms.

Among the profitability indicators which evaluate bank performance, return on assets (ROA) and return on

equity (ROE) are widely used. McNaughton and Barltrop (1992) argued that these ratios are very valuable when comparing performance among different banks operating in the same market. Based on these arguments, this study will utilized ability ratio which are return on asset (ROA), return on equity (ROE), and operational efficiency ratio (BOPO) as a proxy of accounting return to measure the firm performance.

Independent Board of Commissioners, Inside Board of Commissioners, Board of Commissioners Size, Board Independence and Financial Performance

Fama and Jensen (1983) argue that the board of directors performs the important function of monitoring the actions of top management. The effectiveness of the monitoring function is increased by the inclusion of outside directors (independent commissioners). Independent commisioners, who are presumably independent of management, limit opportunities for the board to be become an instrument of top management by serving to limit top management's discretionary decisions. Independent commisioners serve on the board to ratify decisions that involve serious agency problems. The value of their human capital is directly linked to their reputations for high quality decisions making. One way to enhance such a reputation is demonstrate expertise in decision control by their behaviors as outside board members (Beasley and Petroni, 2001, c.f. Helwina, 2007).

Empirical evidence on the value of NEDs on corporate performance is mixed. Ginena (2014) found that US corporations with higher proportion of active and independent boards appear to have performed much better than those with passive, non-independent boards. In contrast, Grassa (2013) found significant negative relationship between board outsider and firm performance based on Tobin's Q. Hopt and Lavens (2004) found that firms with majority outside directors perform worse than other firms. Sanada, Makailu and Garba (2012), found a weak link in performance when there are either relatively more insiders or outsiders on the board.

According to Pfeffer & Salancik (1978) and Lipton & Lorsch (1992), there is a significant relationship between capital structure and board size. Lipton & Lorsch (1992), Jensen (1993), and Garas and Pierce (2010) argue that larger boards are less effective in group decision-making and strategy formulation, which suggest that equity holders would have divergent interests from debtors on board size. Garas and Pierce (2010) find a negative relationship between leverage and the size of the board. Amba and Muni (2014) find that firms with larger board membership have low leverage or debt ratio. They assume that larger board size translates into strong pressure from the corporate board to make managers pursue lower leverage to increase firm performance. Ginena (2014) also find board size is significantly negative relationship to debt financing. Jensen (1986) argues that firms with high leverage or debt ratio rather have larger boards. The results of Alves (2012) also show a positive relationship between board size and financial leverage (capital structure) (Kamardin and Haron, 2011).

The empirical evidence shows a different relationship between board characteristic, which are represent by Independent Board of Commissioners, Inside Board of Commissioners, Board of Commissioners Size, Board Independence and Financial Performance. Applying in Indonesian Islamic Banking which are full-fledge sharia, the research proposes proposition:

P1 : There is a significant relationship of the number of independent board of commissioners toward Islamic Banking financial performance

P2 : There is a significant relationship of the number of inside board of commissioners toward Islamic Banking financial performance

P3 : There is a significant relationship of board of commissioner's size toward Islamic Banking financial performance

P4 : There is a significant relationship of board independence toward Islamic Banking financial performance

Board Tenure and Board Age toward Financial Performance

Brickley et al. (1994) report that retired executives from other companies are also effective monitors. Similarly, Monks and Minow (2011) suggest that academics are less effective directors relative to those with business experience. As monitoring expertise increases, managerial opportunism becomes less prevalent, causing the value of investor claims to increase. Furthermore, effective monitoring is potentially an acquired skill, suggesting boards with greater tenure provide greater monitoring. However, as board tenure increases, managers may be better able to influence director opinion, indicating director tenure exhibits an inverse relation to oversight of the financial accounting process. If director experience, tenure, or equity ownership creates incentives for independent directors to more closely monitor firm management, then we expect bondholders to benefit through credible and transparent financial statements.

Based on Monk and Minow (2011), board age is the sum of director ages divided by the number of directors and proxies for director business experience, or the average age of the board of directors.

TIAA-CREF adopted a policy statement on corporate governance that states the board should be composed of "qualified individuals who reflect diversity of experience, gender, race and age" (TIAA-CREF, 1997). Additionally, the National Association of Corporate Directors Blue Ribbon Commission recommended that gender, racial, age, and nationality diversity should be considered in the selection of directors (National Association of Corporate Directors 1994). According to this view, "attitudes, cognitive functioning, and beliefs are not randomly distributed in the population, but tend to vary systematically with demographic variables such

as age, race, and gender" (Robinson and Deschant, 1997 cited in Carter et all, 2004)
This leads to my fifth testable proposition:
P5 : There is a significant relationship of board tenure toward Islamic Banking financial performance
P6 : There is a significant relationship of board age toward Islamic Banking financial performance
To address the above issues, the conceptual framework that will be used in this study is illustrated in Figure 1. The six factors namely number of independent board of commissioners, number of inside board of commissioners, board of commissioner's size, board independence, board tenure, board age and financial performance:

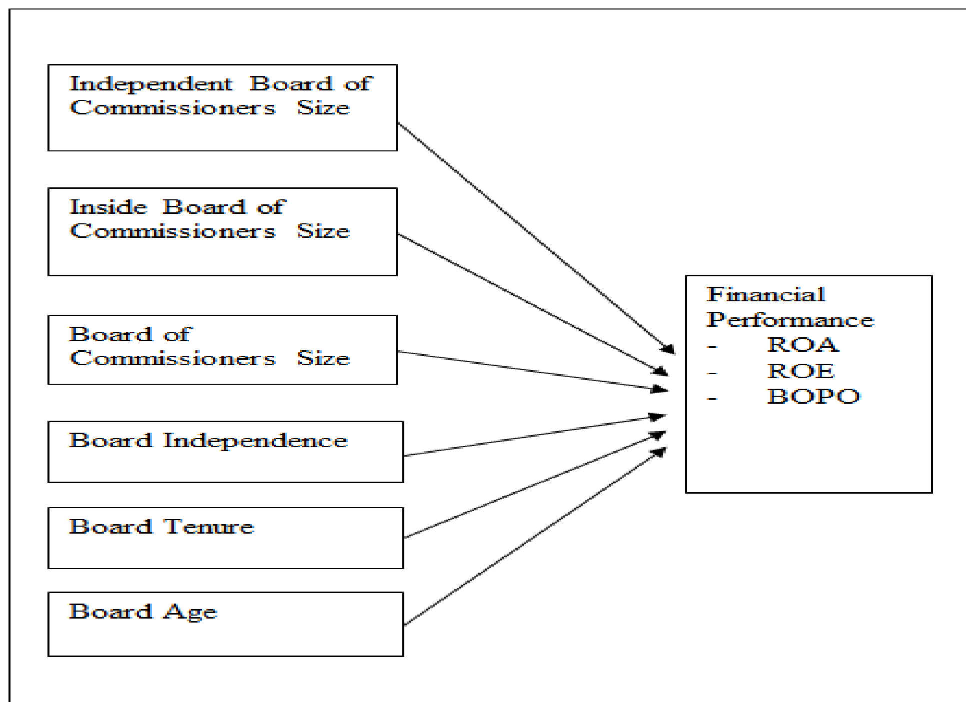

Figure 1. Conceptual framework

III. Research Methodology

This research will use secondary data, which refer to information gathered from sources already existing (Sekaran, 2009). All data are gathered from annual report that published by company's website, Indonesian Capital Market Directory (ICMD), Indonesian Stock Exchange (IDX) publications.

This research covers all full-fledged Indonesia Islamic Bank which are fulfilling this criteria:

1. The Indonesian Islamic Banks are recommending by Dewan Syariah Nasional – Majelis Ulama Indonesia.
2. Listed in Indonesia Stock Exchange (IDX) from January 1, 2011 to December 31, 2015.
3. Audited Financial Statement data end in December, 31st.
4. Issuing the Financial Statements for explained years.
5. Only Islamic banks that existed for the entire period of this research are included in the observation (the research excludes banks that are either de-listed or newly listed during the period).
6. The Islamic banks that change their names during the research period (one bank) are included in the observation.

Analyses method that used to examine the research hypothesis is simple regression model by using SPSS (Statistical Package for Social Sciences) software program. The data will be tested with ANOVA Test to know about the data that can be continued or not for advance analyzing. The methods of analysis will be used the regression model. The regression analysis will propose the answer on how much the influence of one variable to another variable. Regression analysis is used to measure association between board characteristics and financial performance of Indonesian Islamic banking. In examining hypothesis, independent variable effect to dependent variable is analyzed

IV. Discussion

The aim of this study has been to provide conceptually the corporate governance mechanism on Indonesian Islamic banking performance. The intention has been to provide a critical explanation of the specific model on corporate governance in Islamic banking. Existing literature on corporate governance in Islamic banking appears to be rather limited in general. This may be due to both researches and practice in corporate governance in

Islamic banking its early stages in development. The present evidence also suggests that internal mechanism corporate governance lies in understanding Indonesian Islamic banking performance. The Board of Commissioners has very important roles in the company especially in the implement sound of corporate governance.

The Board of Commissioner lies at the core of corporate governance-charged with ensuring strategic guidance mechanism. Since management is responsible for the firm's efficiency and competitiveness and Board of Commissioners is the proper focal point of the corporation's perpetuation and success (Grassa & Mataussi, 2015). Due to fragmented and inconclusive evidence various aspect of Islamic banking performance, it is difficult to draw any clear conclusions on the role of Board of Commissioners in Islamic banking performance. It is possible; however, to identify, the role of Board of Commissioners Characteristics namely number of independent board of commissioners, number of inside board of commissioners, board of commissioner's size, board independence, board tenure, board age in order to increase the performance of Islamic banking performance. Therefore, as internal mechanism corporate governance in Islamic banking is an issue that would benefit considerably from academic-led empirical research, it is significant to developed comprehensive model of Board of Commissioners Characteristics of Islamic banking performance.

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