

ABSTRACT

This study aims to examine the causality relationships between competition and efficiency in Indonesian banking industry. Under Structure-Conduct-Performance (SCP) paradigm, competition represents structure and efficiency represents performance. The influence of competition on efficiency is based on Quiet Life Hypothesis (QLH) that was developed by Leibenstein (1966), while the influence of efficiency on competition is based on Efficiency-Structure Hypothesis that was developed by Demsetz (1973) and Peltzman (1977).

This study used panel data. The cross sections data consist of 76 banks under Indonesian conventional bank cluster and the time series data consist of six periods from 2012 to 2017, resulting 456 observations. Data source was obtained from Statistik Perbankan Indonesia (SPI) that was published by Otoritas Jasa Keuangan. Competition was measured with market share and efficiency was measured with Data Envelopment Analysis (DEA) method. The causality relationships between competition and efficiency were estimated, through Panel Vector Autoregressive model, with Generalized Method of Moments (GMM) estimator.

The result of this study shows that efficiency has negative and significant influence on competition. This result indicates that there is one-ways causality relationship from efficiency to competition in Indonesian banking industry, in line with Efficient-Structure Hypothesis (ESH).

Keywords: *SCP, competition, efficiency, banking industry, Efficient-Structure Hypothesis, Panel Vector Autoregressive*