THE INFLUENCE OF PROFIT MANAGEMENT FACTORS AND FINANCIAL PERFORMANCE ON CONVENTIONAL BANKS IN ASEAN

Suripto * 1, Supriyanto2, Putri Irmala Sari3

[1]Corresponding author, Department of the Social and Political Sciences Faculty, University of Lampung, Bandar Lampung, Lampung, Indonesia; E-mail:suriptob.1969@fisip.unila.ac.id

[2]Department of the Social and Political Sciences Faculty, University of Lampung, Bandar Lampung, Lampung, Indonesia; E-mail:supriyanto.1989@fisip.unila.ac.id

[3]Department of the Social and Political Sciences Faculty, University of Lampung, Bandar Lampung, Lampung, Indonesia; E-mail: putriirmala.sari@gmail.com

ABSTRACT

This research was conducted to determine the effect of earnings management and financial performance on conventional banks in the ASEAN region which includes Indonesia, Malaysia and Brunei Darussalam. The type of research used is explanatory research using quantitative methods. The sampling technique in this study was using purposive sampling method. The sample used is 100 samples of conventional banks. The data collection technique is in the form of documentation in the form of financial reports. In this study, the hypothesis will be tested using formative. Data analysis used partial regression software Partial Least Square (SmartPLS 3.0). The results of this study found that governance has a not strong and significant effect on earnings management with partial mediation of banking characteristics. The results of this study found that governance has a strong and significant effect on financial performance with partial mediation of earnings management. The results of this study found that Banking Characteristics had a strong and significant effect on Financial Performance with Partial Mediation of Earnings Management.

Keywords: *Independent Commissioner, Audit Committee, Capital Adequancy Ratio, Nonperforming Loans, Change Loans, Size and Earning Management*

ABSTRACT

This study was conducted to determine the effect of earnings management and financial performance on conventional banks in the ASEAN region which includes Indonesia, Malaysia and Brunei Darussalam. The type of research used is explanatory research using quantitative methods. The sampling technique in this study was using purposive sampling method. The sample used is 100 samples of conventional banks. Data collection techniques in the form of documentation in the form of financial reports. In this study, the hypothesis will be tested using formative. Data analysis used partial regression software Partial Least Square (SmartPLS 3.0). (1) Governance has a strong and significant effect on Earnings Management with Partial Mediation of Banking Characteristics; (2) Governance has a strong and significant effect on Banking Characteristics by Financial Performance; (3) Banking characteristics carried out by financial performance have a strong and significant effect on earnings management; (4) Governance has a strong and significant effect on Financial Performance with Partial Mediation of the Characteristics of the Banking Operations and Good Earnings Management from Financial Performance; (5) Banking characteristics carried out by Financial Performance have a strong and significant effect with partial mediation of governance; (6) Earnings management has a strong and significant effect on financial performance. (4) Governance has a strong and significant effect on Financial Performance with Partial Mediation of the Characteristics of the Banking Operations and Good Earnings Management from Financial Performance; (5) Banking characteristics carried out by Financial Performance have a strong and significant effect with partial mediation of governance; (6) Earnings management has a strong and significant effect on financial performance. (4)

Governance has a strong and significant effect on Financial Performance with Partial Mediation of the Characteristics of the Banking Operations and Good Earnings Management from Financial Performance; (5) Banking characteristics carried out by Financial Performance have a strong and significant effect with partial mediation of governance; (6) Earnings management has a strong and significant effect on financial performance.

Keywords: *Independent Commissioner, Audit Committee, Capital Adequacy Ratio, Non Performing Loans, Change Loans, Size and Earning Management*

1. PRELIMINARY

The banking industry is very crucial for the national, regional and global economy. In addition, banks play a crucial role for economic growth, stability and welfare of the State (Othman & Mersni, 2014: 109). The benefits of research in the banking industry have many advantages, namely that the banking industry is the right object for researching profit management and the banking industry is always under supervision (Lobo, 2017: 2). Earnings management is unique to discuss, that is, it can study the incentives for profit management behavior and can spread earnings management proxies that are more accurate in bank settings because of the relatively flat sample (Garsva, et al., 2012: 47-48). The disparity of interests between investors and agents or managers will result in a conflict of interest between investors using managers. To align these interests, good governance is needed, including managers or companies that must be supervised and controlled. This supervision and control can be carried out best if it is carried out by people who have independence. all actions and decisions he makes must be released from the interests of the manager. To create an effective supervision and control system in a company, two parties are needed, namely an audit committee and an independent commissioner. In principle, authority and responsibility have the same goal, namely to create a healthy, clean and responsible business life that ultimately achieves the common interest. is a manager or manager managing profits to create welfare for the owners or shareholders of the company they manage. including the manager or company must be supervised and controlled. This supervision and control can be carried out best if it is carried out by people who have independence. all actions and decisions he makes must be released from the interests of the manager. 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Earnings management is the main tool for managers to influence investor perceptions as measured by the discretion that managers have in financial reporting. Therefore, there must be supervision of earnings management practices in companies listed on the stock exchange, because investor perceptions are very important to assess the market for public companies (San Martin Reyna, 2019: 290). This research was conducted based on several previous studies related to earnings management in conventional and Islamic banks, including research from Alhadab & Al-Own (2019), Dou, et al. (2018); Elnahass, et al. (2018); Mohd Isa, et al. (2018); Lassoued, et al. (2018); Caporale, et al. (2017); Pinto & Ng Picoto (2017); Abdelsalam, et al. (2016); Bouvatier, et al. (2014).

The variable used in this study is a combination of variables from several previous studies, in order to improve the earnings management factors variable in previous researchers. Selection of variables based on the results of previous research is a variable that has a significant effect on earnings management. The variables used include Independent Commissioner, Audi Committee, CAR (Capital Adequency Ratio), NPL (Non Performing Loan), and Size (company size).

The object of this research is banking in ASEAN which includes Indonesia, Malaysia and Brunei Darussalam. Selection of three countries as research objects with various considerations. For one thing, this country has the same characteristics, namely that the majority of the population in that country is Muslim. Thus, the development of conventional banking in these countries is quite rapid. The study was conducted to examine the effect of earnings management on conventional banks in Indonesia, Malaysia and Brunei Darussalam. Researchers make general financial institutions based on conventional principles the object of research. The research was conducted by analyzing the influence of earnings management factors in conventional banks using partial, which can then be used to predict earnings managementusing partial regression software Partial least square (SmartPLS 3.0) onconventional bank. If you know the characteristics of earnings management factors on each variable, it can be concluded that there is an influence on the earning management factors and financial performance in conventional banks in Asean.

1.1 Problem Formulation

Based on the above background, the main problems in this study are as follows:

1. Does governance have a partial influence on earnings management in conventional banks in ASEAN?
2. Does governance have a partial influence on financial performance in conventional banks in ASEAN?
3. Do the Banking Characteristics have a partial influence on Financial Performance in conventional banks in ASEAN?

2. THEORETICAL BASIS

2.1 Signaling Theory

Supriyono (2018: 63) argues that agency theory is a concept that describes the relationship between the owner (principal) and manager (agent). One of the most important things in agency theory is decentralization or the delegation of decision-making authority from the principal to the agent. The agency relationship is expected to create goal alignment between the principal and agent. Agency theory is expected to reduce agent actions that are beyond the control of the principal, replacing zero sum games into solutions plus sum games so as to ensure the prosperity of the principal and agent. However, agency theory has several weaknesses, including the position of top management which acts as an agent for shareholders, but top management is also the principal of the management of organizational units under it.

2.2 Bank

Conventional banks are banks that determine prices using interest as remuneration. Remuneration received by the bank for channeling funds to residents, as well as remuneration paid by the bank to the community for raising funds. In addition, in order to benefit from their services, conventional banks will charge fees to their customers. Islamic banks are banks whose activities refer to Islamic law, and in which they do not charge interest, nor pay interest to customers. Rewards received by Islamic banks, as well as those paid to customers depending on the origin of the contract and agreement between the customer and the bank. The agreement is based on sharia rules, both the agreement made by the bank with the customer for raising funds, as well as for distribution (Ismail, 2010: 20).

2.3 Earnings Management

Sugiri (2009) in Santoso (2018: 366) divides the definition of profit management into 2, namely a narrow definition and a broad definition. The definition of profit management narrowly states that profit management in this case only relates to the choice of accounting method. Earnings management in a narrow sense is defined as the behavior of managers to play using the discretionary accruals component in choosing the amount of profit. Whereas broadly speaking, profit management is the manager's action to increase or decrease the current reported profit of a unit of struggle, the manager is responsible, without causing an increase or decrease in the long-term economic profitability of the unit. There are several factors that can determine profit management between conventional banks and Islamic banks, including Independent Commissioners, Audit Committee, Capital Adequancy Ratio (CAR), Nonperforming Loans (NPL), and Size. Capital is assessed based on the bank's minimum capital adequacy ratio. The evaluation is based on the Capital Adequency Ratio (CAR) set by Bank Indonesia. The ratio used is the ratio of capital to risk weighted assets (RWA) and according to government regulations, the minimum CAR must be 8% (Kasmir, 2014: 44). Swamy (2017: 7) states that the importance of bank profitability can be assessed at the micro and macro economic level. the ratio used is the ratio of capital to risk weighted assets (RWA) and according to government regulations, the minimum CAR must be 8% (Kasmir, 2014: 44). Swamy (2017: 7) states that the importance of bank profitability can be assessed at the micro and macro economic level. the ratio used is the ratio of capital to risk weighted assets (RWA) and according to government regulations, the minimum CAR must be 8% (Kasmir, 2014: 44). Swamy (2017: 7) states that the importance of bank profitability can be assessed at the micro and macro economic levels.

At the micro level, profit means that the crucial prerequisite comes from a competitive banking forum and the source of the cheapest funds. This is not only a consequence but also a necessity for successful banking in a period of growing competition in financial markets. that is, the basic object of bank management, an essential requirement for running a business, means making a profit. At the macro level, a healthy and profitable banking sector is more likely to delay negative shocks and contribute to financial system stability. The importance of bank profitability at both the micro and macro levels has led researchers, academics, bank management and bank regulatory authorities to develop a relatively large interest in the factors that determine bank profitability. Indonesian Bankers Association (2016: 22) is of the opinion that credit risk is a risk due to a customer not being able to fulfill obligations that are due. Credit risk control includes managing credit risk individually and in a portfolio. from Warfield, Wild et al., (1995) to Ali (2016: 47) it is known that company size is related to the internal control system, the size of the company reduces the existence of profit management. Large companies have more effective internal control systems and competent audit teams than small companies. This points to the reliability of financial reports to the public. 47) It is known that the size of the company is related to the internal control system, the size of the company reduces the existence of profit management. Large companies have more effective internal control systems and competent audit teams than small companies. This points to the reliability of financial reports to the public. 47) It is known that the size of the company is related to the internal control system, the size of the company reduces the profit management. Large companies have more effective internal control systems and competent audit teams than small companies. This points to the reliability of financial reports to the public.

3. RESEARCH METHODS

The population in this study is conventional banking in the ASEAN region which includes Indonesia, Malaysia and Brunei Darussalam during the 2014-2018 period. The sample in this study is a lay bank that runs its business according to conventional principles. The holistic data collected is then analyzed in order to provide answers to the dilemmas discussed in this study. In analyzing the data, the researcher used Microsoft Excel and Partial Least Square program. The data analysis technique used in this study is to use partial regression analysis where this study aims to obtain empirical evidence and develop a theory (prediction orientation) of the effect of using the SmartPLS 3.0 application to test the correlation between variables.

4. RESULTS AND DISCUSSION

Evaluate the Outer Model

The measurement model or Outer Model with reflective indicators is evaluated with convergent and discriminant validity of the indicators and composite reliability for indicator blocks (Chin in Ghozali, 2011). The initial model of this study is as follows: Financial performance construct is measured by 1 reflective indicator, namely Profitability. Governance is measured by 2 reflective indicators, Banking Characteristics is measured by 3 reflective indicators, Earnings Management is measured by 2 reflective indicators.

Croos Loading

Cross Loading is a correlation construct with a measurement item that is greater than the size of other constructs, so it shows that latent constructs predict the size of their block better than other block sizes (Fornell and Larcker, in Ghozali, 2011). The test results from Cross Loading can be seen in the image below:

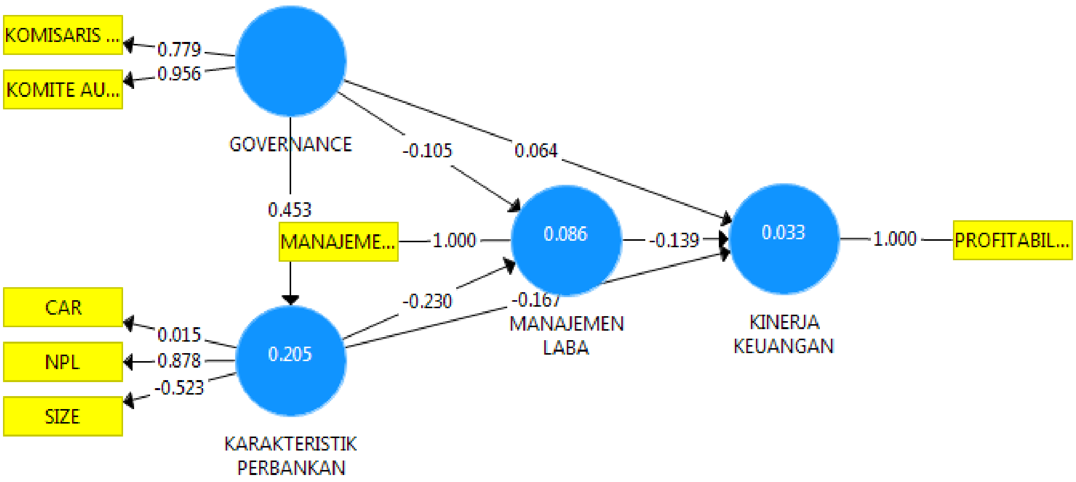
Table. 1 Cross Loading

	GOVERNANCE	KARAKTERISTIK PERBANKAN	KINERJA KEUANGAN	MANAJEMEN LABA
CAR		0.015		
KOMISARIS INDEPENDEN	0.779			
KOMITE AUDIT	0.956			
MANAJEMEN LABA				1.000
NPL		0.878		
PROFITABILITAS			1.000	
SIZE		-0.523		

Source: PLS Data Analysis (2020)

The individual reflective measure is said to be high if it correlates more than 0.70 with the construct to be measured. However, for research in the early stages of developing a measurement scale the loading value of 0.50 to 0.60 is considered sufficient (Chin, in Ghozali, 2011).

Picture. 1 Convergent Validity Model



Source: PLS Data Analysis (2020)

Based on the measurement model above, some indicators are analysis on research variables with a loading factor greater than 0.50 so that it is declared significant or meets the requirements for convergent validity.

VIF and Latent Corelation

Another method to assess discriminat validity is to compare the square root of VIF value of each construct with the correlation between constructs and the other constructs in the model. If the VIF value is greater than 0.50, it is said to have good discriminat validity (Forwell and Lacker, in Ghazali, 2011). The VIF test results can be seen in the table below.

Table.2 VIF

	VIF
CAR	1.096
KOMISARIS INDEPENDEN	1.460
KOMITE AUDIT	1.460
MANAJEMEN LABA	1.000
NPL	1.115
PROFITABILITAS	1.000
SIZE	1.021

Source: PLS Data Analysis (2020)

Judging from the AVE value in the table above, all variables have a value> 0.50 so that it can be said that each indicator that has been measured has been able to reflect its respective variables validly.

Test of construct validity and reliability

Another method for assessing discriminat validity is by looking at the value of construct validity and reliability.

Table 3 Test Validity and Reliability of Constructs

	Cronbach's Al...	rho_A	Reliabilitas Komposit	Rata-rata Varians Diekstrak (AVE)
GOVERNANCE	0.719	1.027	0.863	0.760
KARAKTERISTIK PERBANKAN	0.091	-0.138	0.065	0.348
KINERJA KEUANGAN	1.000	1.000	1.000	1.000
MANAJEMEN LABA	1.000	1.000	1.000	1.000

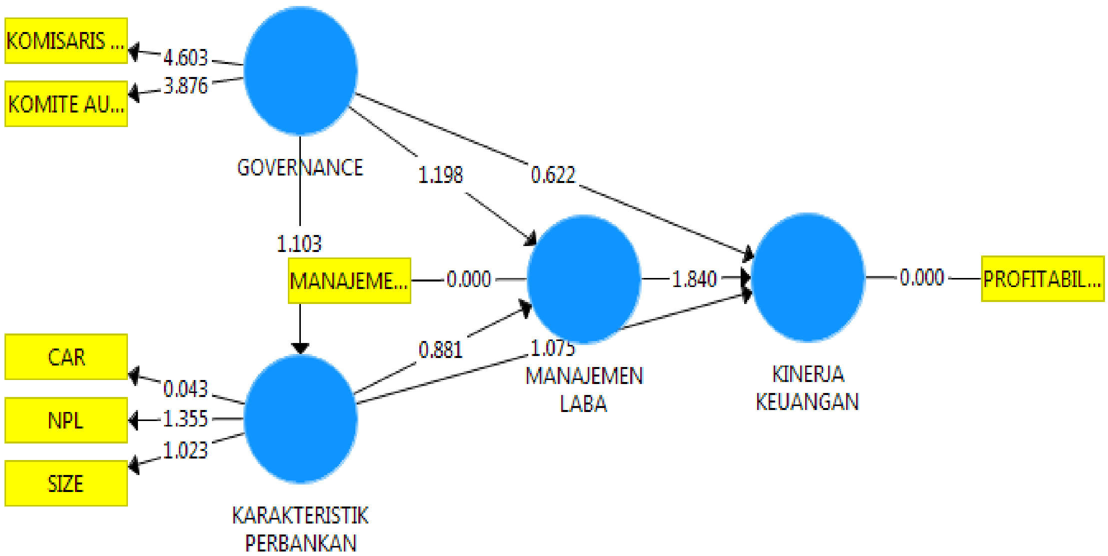
Source: PLS Data Analysis (2020)

Judging from the AVE value in the table above, all variables have a value> 0.50 so that it can be said that each indicator that has been measured has been able to reflect its respective variables validly.

Evaluate Inner Model and Outer Loading

The inner model is a test by evaluating the latent constructs that have been hypothesized in the study. Bootstrapping is a statistical resampling procedure or technique. Resampling means that respondents are drawn randomly with replacement, from the original sample many times until observations are obtained (Diaconis and Efron in Hengki Latan (2012).

Picture. 2 Inner Model and Outer Loading



Source: PLS Data Analysis (2020)

Based on the above results, it can also be seen that all pathways have met the significant value at 95% CI> (1.96). This is a requirement for evaluation with loading factors, which is done to assess the significance of latent constructs with their constructs.

Table 4 P Values

	Sampel Asli (O)	Rata-rata Sam...	Standar Devias...	T Statistik (| O/...	P Values
CAR <- KARAKTERISTIK PERBANKAN	0.015	0.172	0.341	0.043	0.966
KOMISARIS INDEPENDEN <- GOVERNANCE	0.779	0.788	0.169	4.603	0.000
KOMITE AUDIT <- GOVERNANCE	0.956	0.894	0.247	3.876	0.000
MANAJEMEN LABA <- MANAJEMEN LABA	1.000	1.000	0.000		
NPL <- KARAKTERISTIK PERBANKAN	0.878	0.483	0.648	1.355	0.176
PROFITABILITAS <- KINERJA KEUANGAN	1.000	1.000	0.000		
SIZE <- KARAKTERISTIK PERBANKAN	-0.523	-0.182	0.511	1.023	0.307

Source: PLS Data Analysis (2020)

Based on the initial model, it can be said that the relationship between latent variables and others if they show a number above 1.96 with an estimated parameter of 95% is declared valid. Then look at how much strength the exogenous variables and endogenous variables that are dependent on this initial model by looking at the magnitude of the value of R Square in each of the endogenous variables in table 5 below:

Table 5 R-Square

	R Square	Adjusted R Sq...
KARAKTERISTIK PERBANKAN	0.205	0.197
KINERJA KEUANGAN	0.033	0.002
MANAJEMEN LABA	0.086	0.067

Source: PLS Data Analysis (2020)

The table above explains the contribution of the variables that affect the variables in the R-Square table, the R-Square value of the Earnings Management variable is 0.086 or 86%. This means that 14% is influenced by other factors outside of this study. Before testing the research hypothesis, one of the tests that also needs to be done is the Predictive Relevance (Q Square Value) which functions to assess the magnitude of the diversity or variation of research data on the phenomenon being studied and also its parameter estimation. A model is considered to have a relevant predictive value if the value of Q2 is greater than 0 (zero). The quantity of Q2 has a value ranging from 0 <Q2 <1.

Research Hypothesis Testing

To determine the consistency of the proposed model in a population, the value of the relationship between one variable and another variable is seen or the value of the path coefficient (rho) by looking at the value of the O (original sample) value and the statistical T value as a statement of the significance level of the relationship between one variable. with other variables (the level of significance is taken at an error level of 5% or is at T above 1.96).

Table 6 Research Hypothesis Testing

Variable Test	Original Sample (O)	T Statistic (Stad. Deviation)	Significance
Car ← Banking Characteristics	0.015	0.341	There is a Significant and Positive Value Influence
Independent Commissioner ← Governance	0.779	0.169	There is a Significant and Positive Value Influence
Audit Committee ← Governance	0.956	0.247	There is a Significant and Positive Value Influence
Earnings Management ← Earnings Management	1,000	0,000	There is a Significant and Positive Value Influence
NPL ← Banking Characteristics	0.878	0.648	There is a Significant and Positive Value Influence
Profitability ← Financial Performance	1,000	0,000	There is a Significant and Positive Value Influence
Size ← Banking Characteristics	-0,523	0.511	There is no significant and positive value

Source: PLS Data Analysis (2020)

From the hypothesis testing table above, it is stated that the result of the parameter coefficient test between CAR and Banking Characteristics shows a significant and positive effect. This is in line with research(Kusumastuti & Alam, 2019)which states that there is an effect of CAR on the characteristics of Islamic banking and the findings of Othman & Mersni (2014) conclude that there will be research that CAR is significantly higher in Islamic banks compared to conventional banks. The results of the parameter coefficient test between the Independent Commissioner on Governance show a significant and positive effect. This is in line with research(Arifin, 2017)which explains the influence of governance on independent commissioners in the banking sector. The result of the parameter coefficient test between the Audit Committee on Banking Governance shows a significant and positive effect. This is in line with research by Kantudu and Samaila (2015) where the independent audit committee has a significant effect on the quality of financial statements. The results of the parameter coefficient test between Earnings Management and Earnings Management indicate a significant and positive effect. This is in line with research(Emylia & Nadia, 2017)which explains that there is a significant influence between earnings management and good corporate governance. The result of the parameter coefficient test between NPL and Banking Characteristics shows a significant and positive effect. This is in line with research(Alexandri & Santoso, 2015)which states the influence of NPL on the characteristics of banking and research Elnahass, et al. (2018), Beck, et al. (2013), Othman & Mersni (2014) found the results of the study that NPLs were less significant in Islamic banks. Islamic banks have a relatively lower risk of bad credit than conventional banks. Othman & Mersni (2014) concluded the results of the study that changes in total credit were significantly higher in Islamic banks compared to using conventional banks. Elnahass, et al. (2018) show what will happen that earnings management in conventional banks is more prevalent in large-sized banks, but bank size has no impact on earnings management attitudes. The results of the parameter coefficient test between Profitability on Financial Performance indicate a significant and positive effect.(Gicharu, Zablon, & Ariemba, nd)which explains that there is an influence between profitability on financial performance at this bank in kenya. The result of the parameter coefficient test between Size and

Banking Characteristics shows a significant and positive effect. This is contrary to research(Kassem, Transport, Sakr, & Transport, 2018) which explains that there is a significant influence between Size and banking characteristics.

Table 7Total Efects Testing

Total Effect Test	Direct Influence	Indirect Influence	Total Effect
Governance → Banking Characteristics	0.270		0.270
Governance → Financial Performance	0.501	0.345	0.846
Governance → Earnings Management	-0.084	0.089	0.005
Banking Characteristics → Financial Performance	-0.251	0.520	0.269
Banking Characteristics → Earnings Management	0.379		0.379
Earnings Management → Financial Performance	0.066		0.066

Source: PLS Data Analysis (2020)

The table above states that the result of the parameter coefficient test between Governance and Banking Characteristics shows that there is a direct effect of 0.270. The result of parameter coefficient test between Governance and Financial Performance shows that there is a direct effect of 0.501 and an indirect effect of 0.345 with a total effect of 0.846. The result of the parameter coefficient test between Governance and Earnings Management shows that there is a direct effect of -0.084 and an indirect effect of 0.089 with a total effect of 0.005. This is in line with Habbash, et al. (2014) who examined the impact of corporate governance on earnings management in China through the monitoring role of the independent board of directors in limiting earnings management which will occur.The research shares that the structure of the board of directors is very decisive in reducing earnings manipulation, where one in three independent boards of directors fail at reduce earnings management. The result of the parameter coefficient test between Banking Characteristics on Financial Performance shows that there is a direct effect of -0.251 and an indirect effect of 0.520 with a total effect of 0.269. The result of the parameter coefficient test between Banking Characteristics on Earnings Management shows that there is a direct effect of 0.379.

Mediation Effect Test

Testing the mediating variable can also be seen from the VAF value of each mediating variable. If the VAF value is above 80%, then it shows the role of the mediating variable as full mediation. If the VAF value ranges from 20% - 80% it is categorized as partial mediator and if the VAF value is less than 20% it can be concluded that there is almost no mediating effect (Baron and Kenny, 1986; Hair et al., 2011; Kock, 2011, 2013).

Table 8 Mediation Effect Test

Construct	Mediation Variables	Direct Influence	Indirect Influence	Total Influence	VAF%	Interpretation of Mediation
Government> Earnings Management	Banking Characteristics	1,198	1,103	2,301	-0.043	Not Partial
Government> Financial Performance	Profit management	0.622	1,840	2,462	0.612	Partial
Banking Characteristics> Financial Performance	Profit management	1,075	1,840	2,915	0.157	Partial

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on the data that has been collected and testing of the variables used in 100 banking samples using Data analysis using partial regression software Partial Least Square (SmartPLS 3.0), it can be concluded that:

1. The results of this study found that governance has a insignificant and significant effect on earnings management with partial mediation of banking characteristics.

2. The results of this study found that governance has a strong and significant effect on Kinerja Keuangan with Partial Mediation of Earnings Management.

3. The results of this study find that Banking Characteristics has a strong and significant effect on Financial performance with Partial Mediation of Earnings Management.

6.2 Advice

Based on the conclusions and overall research of this, the researchers suggest:

1. DIt is hoped that further research will reconsider other financial ratios as a tool for earnings management which can be used as research variables.
2. It is necessary for further research to be able to increase the number of research samples so that the results are more accurate.

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