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Implementation Corporate Governance And Bank Characteristics Towards Performance Through Management Of Earning In Asean Conventional Banks

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ABSTRACT

The purpose of this study was to determine the effect of implementation of Corporate Governance and Bank Characteristics on Financial Performance through Profit Management of Conventional Banks in ASEAN. The population of this study is conventional banking in the ASEAN region, especially Indonesia, Malaysia, and Brunei Darussalam from 2015-2020. The results show that corporate governance has a significant effect on earnings management, bank characteristics have a significant effect on earnings management, and earnings management has no significant effect on financial performance. The findings of this study are a model that relates corporate governance and company characteristics to the practice of banking earnings management in ASEAN.

Keywords: *Commissaries independent*, audit committee, *NPL*, *earning management*, *ROA*

JEL Classifications: G34, M40, G39

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1. Introduction

The banking industry plays an important role in the growth, stability, and prosperity of the national, regional and global economy (Othman & Mersni, 2014). There are many advantages associated with banking industry research, including earnings management and supervision (Lobo, 2017). According to Garsva et al. (2012), earnings management is a unique subject of discussion because of its incentives and ability to deploy more accurate proxies in the banking environment due to its relatively flat sample. Therefore, the earnings of companies listed on the stock exchange need to be adequately monitored, because investor perception is very important to assess the market for public companies (San Martin Reyna, 2019). This research was conducted based on several previous studies conducted by Alhadab & Al-Own (2019), Dou et al. (2018), Elnahass, et al. (2018), Lassoued, et al. (2018), (Doan et al., 2021), Caporale, et al. (2017), Pinto & Ng Picoto (2017), Abdelsalam, et al. (2016) and Bouvatier, et al. (2014) which examines the factors that influence earnings management in both conventional and Islamic banks. The contribution of this study to the development of the literature is to examine the effect of banking governance and banking characteristics on earnings management and banking financial performance in ASEAN, especially banks in Indonesia, Malaysia and Brunei. To determine the effect of the variables in this study using Partial Least Square data analysis (SmartPLS 3.0) so that the validity and reliability of indicators can be known in developing the construct of a research model.Partial Least Square in testing the accuracy of the research model.

The purpose of this study was to determine the effect of governance and banking characteristics on earnings management and financial performance of conventional banks in Indonesia, Malaysia, and Brunei Darussalam. Thus, it will form a research model that links the variables of governance, banking characteristics, earnings management and financial performance

2. Methodology

The population of this study is conventional banking in the ASEAN region, including Indonesia, Malaysia, and Brunei Darussalam from 2015-2020. The research sample is a commercial bank that runs its business according to conventional principles with holistic data collected and analyzed to present the answers discussed in this study. Least Square program were used to analyze the data. The data analysis technique used is partial regression analysis, where this study aims to obtain empirical evidence and develop a theory (prediction orientation) of influence using the SmartPLS 3.0 application.

Tabel 1. Research variables

Variable	Indicator	Measurement
Corporate Governance	Independent Commissioner	Total board of commissioners/Total members of the board of commissioners x 100
	Audit Committee	Number of audit committee
Company Characteristics	Capital adequacy ratio (CAR)	Capital/ Risk Weighted Asset) x 100
	Non -performance loan (NPL)	Non-performing loans/Total credit x 100
	Company Size	Total Assets
Performance Finance	Returns on Assets (ROA)	Profit before tax/ total assets x 100
Earning management	Discretionary Accrual	$DA = TAC - NDA$

4. Results

4.1 Outer Model Evaluation

Measurement or Outer Model with reflective indicators is evaluated with convergent and discriminant validity of indicators and composite reliability in the initial model of this research, the construct of financial performance is measured by 1 reflective indicator, namely profitability. Followed by the use of 2 reflective indicators to measure Corporate Governance, while Banking Characteristics is measured by 3 reflective indicators and Earnings Management with 2 reflective indicators.

4.2 Cross loading

Cross Loading is a constructive correlation with a greater measurement used to indicate that the latent constructs predict their block's size better than others The test result from Cross Loading is shown in figure 1. The individual reflective size is assumed to be high when it correlates with more than 0.70 of the measured construct. However, for the early development of a measurement scale, the loading value of 0.50 to 0.60 is considered sufficient

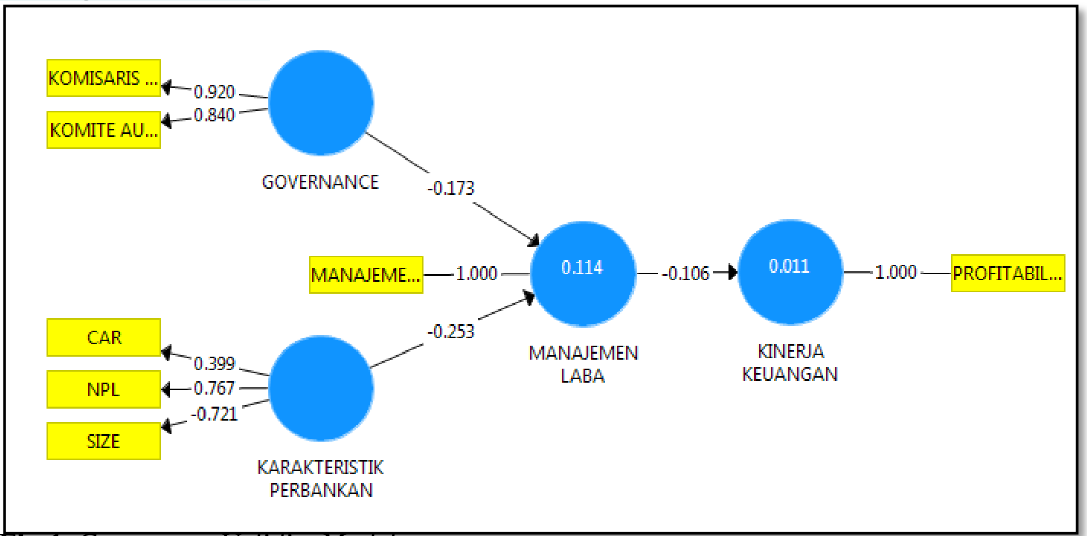

Fig.1. *Convergent Validity Model*

Source: PLS Data Analysis (2021)

Table 2

Cross Loading

	Corporate Governance	Company Characteristics	Performance Finance	Earning management
Capital adequacy ratio (CAR)		0.399		
Independent Commissioner	0.920			
Audit Committee	0.840			
Discretionary Accrual				1.000
Non -performance loan (NPL)		0.767		
Returns on Assets			1.000	

(ROA)				
Company Size		-0.721		

Source: PLS Data Analysis (2021)

The measurement model above shows some reflective indicators, with the analysis of the research variables comprising of a loading factor greater than 0.50. Therefore, it is significant and meets the requirements for convergent validity.

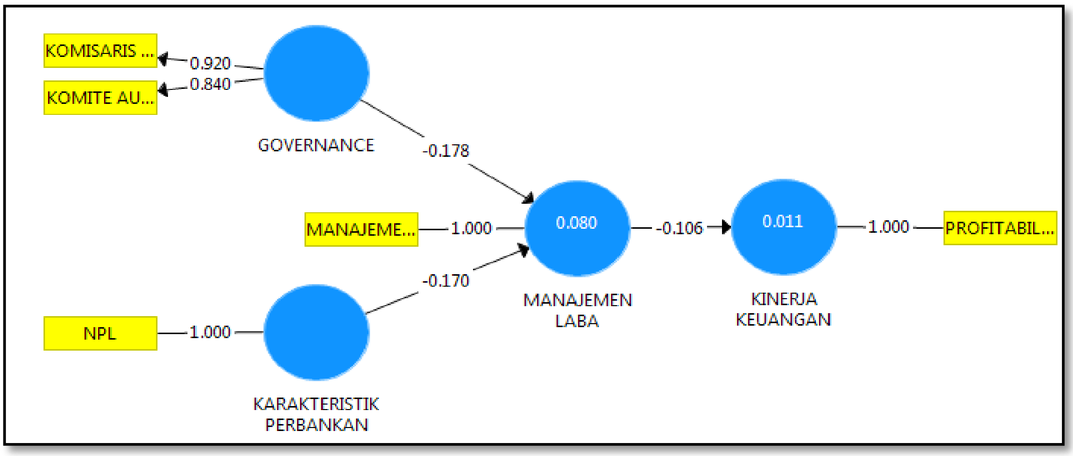

Fig. 2. *Convergent Validity Model*

Source: PLS Data Analysis (2021)

Table 3

Cross Loading

	Corporate Governance	Company Characteristics	Performance Finance	Earning management
Independent Commissioner	0.920			
Audit Committee	0.840			
Discretionary Accrual				1.000
Non -performance loan (NPL)		0.767		
Returns on Assets (ROA)			1.000	

Source: PLS Data Analysis (2021)

4.3 VIF and Latent Correlation

The results of the VIF test are shown in table 4.

Table 4 *VIF*

	VIF
Independent Commissioner	1.460
Audit Committee	1.460
Discretionary Accrual	1.000

Non -performance loan (NPL)	1.000
Returns on Assets (ROA)	1.000

Source: PLS Data Analysis (2021)

The AVE value in the table above shows that all variables have a value >0.50. Therefore, it can be said that each measured indicator has the ability to reflect its respective variables validly.

4.4 Test of construct validity and reliability

Another method for assessing discriminant validity is by analyzing the value of construct validity and reliability.

Table 5 *Test of construct validity and reliability*

	Cronbach's Alpha	Rho_A	Coefficient Reliability	Variant Average
Corporate Governance	0.719	0.772	0.874	0.777
Company Characteristics	1.000	1.000	1.000	1.000
Performance Finance	1.000	1.000	1.000	1.000
Earning management	1.000	1.000	1.000	1.000

Source: PLS Data Analysis (2021)

The result of composite reliability is good when the value is above 0.7, as seen from the output. Meanwhile, Cronbach's Alpha value is > 0.60 and stated to be relevant or consistent.

4.5 Inner model and outer loading evaluation

The inner model is a test used to evaluate the latent constructs that have been hypothesized in the study. Bootstrapping is a statistical resampling procedure or technique that is randomly drawn from the replacement in the original sample.

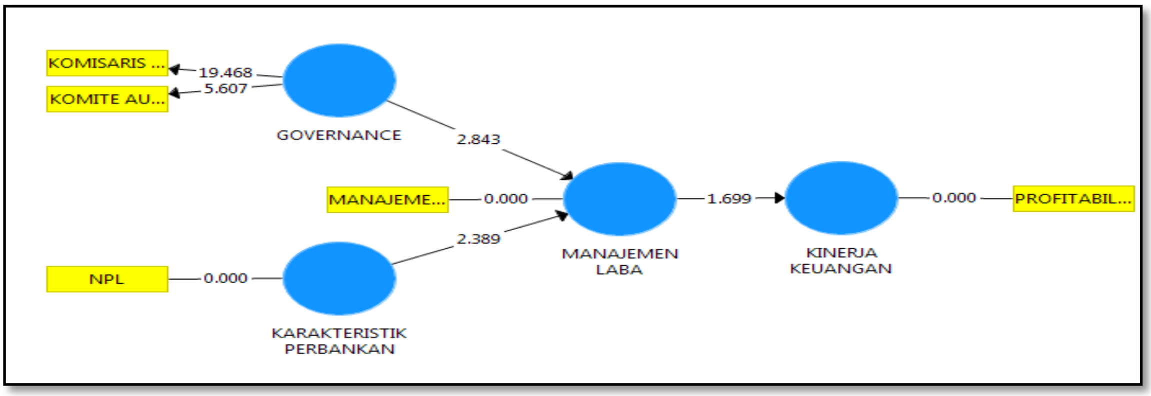

Fig. 3. *Inner Model and Outer Loading*

Source: PLS Data Analysis (2021)

The results above show that all pathways met a significant value at 95% CI> (1.96). This is a requirement for evaluation, with loading factors used to assess latent constructs' significance with their constructs.

Table 6

Path Coefficient

	Original Sample	Sample Average	Standar Deviasi	T Statistik(0/T)	P Values
Corporate Governance -> Earning management	-0.178	-0.200	0.071	2.522	0.012
Company Characteristics -> Earning management	-0.170	-0.168	0.071	2.385	0.017
Earning management -> Financial performance	-0.106	-0.106	0.063	1.672	0.095

Source: PLS Data Analysis (2021)

Table 7

16 R-Square

	R Square	Adjusted R Square
Financial Performance	0.011	0.001
Earnings Management	0.080	0.061

Source: PLS Data Analysis (2021)

R-Square table with Earnings Management variable value of 0.061 or 61%. This means that 39% are influenced by other factors outside this study.

4.6 Hypothesis Testing Research

The value of the relationship between variables or the path coefficient (rho) is determined by analyzing the original sample and the t-statistic value as a statement of the significance level of the relationship between variables (the significance level is taken at an error level of 5% or at T above 1.96).

Table 8

Research Hypothesis Testing

Variable Testing	T Statistic (Stad.Deviation)	Significance
Good Corporate Governance → Earnings Management	2,522	There is a Significant and Positive Value Effect
Bank Characteristics →Earnings Management	2,385	There is a Significant and Positive Value Effect
Earnings Management →Financial Performance	1,672	There is no significant effect

Source: PLS Data Analysis (2021)

5. DISCUSSIONS

The hypothesis test above shows that the parameter coefficient test between CAR and Banking Characteristics is reliable as a construct indicator and is in line with research conducted by Kusumastuti & Alam (2019) Furthermore, Othman & Mersni (2014) stated that the Independent Commissioner is part of Corporate Governance. This is in line with research conducted by Arifin (2017). The parameter coefficient test results show that the Audit Committee is part of Corporate Governance. Based on the results of the study indicate that banking governance has a significant effect on Earnings Management. These results are supported by research results(Man & Wong, 2013)(El Diri et al., 2020)(Hatane, 2015) (Hatane, 2015)(Xie et al., 2003)(Dwiati & Ambarwati, 2017). These results indicate that good banking governance is able to control banking profit management practices. This means that independent commissioners and audit committees play a role in determining whether managers practice earnings management.

Furthermore, the results of the study found that banking characteristics had a significant effect on earnings management. This research is in line with the research of Emylia & Nadia (2017) Alexandri & Santoso (2015) Elnahass et al. (2018), Beck et al. (2013) Othman & Mersni (2014), Elnahass et al. (2018). This shows that the condition of banking fundamentals will determine the practice of earnings management. When banking fundamentals are not good, managers tend to practice earnings management.

Meanwhile, earnings management has no significant effect on financial performance. The results of this study are in line with the results of the research (Jara-Bertin & Sepulveda, 2016), (Sayidah et al., 2020) but not in line with (Mangala & Dhanda, 2019), (Chakroun & Ben Amar, 2021), (Ben Amar & Chakroun, 2019). This means that earnings management practices are not always related to financial performance depending on the situation and condition of the company. Banking financial performance is not determined by management behavior in determining accounting methods but is determined by banking fundamental factors (Dwiati & Ambarwati, 2017), (Gabriel et al., 2019).

6. CONCLUSION

Based on 100 banking samples collected and analyzed using Partial Least Square software (SmartPLS 3.0), it is concluded that banking governance as measured by Independent commissioners and audit committees has a significant effect on earnings management. This means that good governance can control banks to practice earnings management. Likewise, banking characteristics, which are proxied by non-performance loans, profitability and bank size have a significant effect on earnings management. This means that the banking practice of earnings management is largely determined by the extent to which non-performance loans, profitability and size of the bank, the larger it is, the more likely it is to manage earnings. Meanwhile, earnings management has no effect on banking financial performance. This research is limited to the indicators used. Therefore, a construct needs to be built by valid and reliable indicators to reflect the latent variables being measured with an increase in the number of samples and study period therefore, the results can be generalized.

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