

IMPROVING FINANCIAL PERFORMANCE OF ISLAMIC BANK IN INDONESIA THROUGH ISLAMIC CORPORATE GOVERNANCE AND EARNING MANAGEMENT

Asma Munifatussaidah^{1*}, Fauziah Nurrahmaningsih²

¹Universitas Muhammadiyah Yogyakarta

²Universitas Diponegoro

*asma.munifatussaidah@gmail.com¹

Abstrak: Penelitian ini bertujuan menganalisis pengaruh Islamic Corporate Governance dan Manajemen Laba terhadap Kinerja Keuangan Bank Syariah. Metode penelitian menggunakan pendekatan kuantitatif dengan data sekunder. Data penelitian diperoleh dari dua belas Bank Umum Syariah di Indonesia tahun 2018-2022, yang dipilih menggunakan teknik purposive sampling. Kemudian, teknik analisis yang digunakan adalah regresi data panel. Hasil penelitian ini menunjukkan bahwa Islamic corporate governance dan manajemen laba berpengaruh signifikan terhadap Kinerja keuangan bank syariah. Temuan penelitian ini memberikan bukti bahwa variabel Islamic corporate governance dapat membantu bank syariah di Indonesia dalam meningkatkan kinerja keuangan dengan adanya manajemen laba yang terkendali dari pihak bank syariah. Selain itu, temuan ini akan berkontribusi terhadap literatur mengenai variabel penentu kinerja keuangan bank syariah.

Kata Kunci: Kinerja Keuangan, Islamic Corporate Governance, Manajemen Laba, Bank Syariah

Abstract: This study aims to analyze the effect of Islamic Corporate Governance and Earning Management variable toward the Financial Performance of Islamic Banks. The examination technique utilizes a quantitative methodology with optional information. The exploration information were acquired from 12 (twelve) Islamic Business Banks in Indonesia in 2018-2022 period, which were selected using a purposive sampling technique. Then, the analysis technique uses Pooled Least Square of regression analysis technique. The results of this study indicate that Islamic corporate governance and earnings management have a significant effect on the financial performance of Islamic banks. The findings of this study provide evidence that Islamic corporate governance variables can assist Islamic banks in Indonesia, improving financial performance with controlled earnings management on the part of Islamic banks. Furthermore, these discoveries will add to the writing with respect to the determinants of Islamic bank monetary execution.

Keywords: Financial Performance, Islamic Coporate Governance, Earning Management, Islamc bank.

Introduction

Since the advancement of the Islamic financial framework in Indonesia, the improvement of Public Islamic money in the beyond twenty years has encountered critical advancement and improvement, both regarding institutional perspectives, guidelines, supporting foundation, administrative frameworks, as well as open mindfulness and proficiency ¹. This rise may have an impact on problems that Islamic banks need to solve, like problems with public and customer trust in Islamic banks ². Islamic banks will be encouraged to maintain their management and financial performance as a result of this. Islamic banks' high-quality and high-level financial performance is an example of ideal bank business activities and operations ³.

The Financial Services Authority's data indicate that Islamic banks will hold a majority of the market share in 2021 will reach 6,18% and continue to increase to 6,52%. Then followed by Islamic Bank assets in nominal rupiah which experienced yoy growth during 2018-2022 ⁴. Likewise, the Islamic Bank's financial performance, as shown by the ROA (*Return On Assets*) in 2020-2021, has increased, namely the ROA in 2020 was 1,54% while in 2021 it was 1,97% ⁵. Financial performance of Islamic banks can improve under the influence of sharia compliance variables used by all sharia banking ⁶, corporate governance in accordance with the fatwa of the majlis ulama, as well as measurable earnings management so that it is expected able to increase Islamic bank return ⁷.

Banking as a public organization on the off chance that it has a decent and ideal corporate administration system can increment public trust and will fabricate a decent picture for the organization. Islamic corporate governance has a significant impact toward Islamic banks' performance because good governance will raise the quality of financial reports, which in turn will raise Islamic bank's financial performance ⁸. Nonetheless, research by ⁹ on Islamic banking in Saudi Arabia shows that corporate administration with Islamic standards is low, and unfit to work on the monetary execution of Islamic banking.

¹ LPKSI Otoritas Jasa Keuangan, "Laporan Perkembangan Keuangan Syariah Di Indonesia. Sinergi Dalam Membangun Ekosistem Ekonomi Dan Keuangan Syariah" (Jakarta, 2019).

² Céline Meslier, Tastaftiyan Risfandy, and Amine Tarazi, "Islamic Banks' Equity Financing, Shariah Supervisory Board, and Banking Environments," *Pacific Basin Finance Journal* 62, no. October 2019 (2020)

³ Anwar, S., Junaidi, J., Salju, S., Wicaksono, R., & Mispiyanti, M. (2020). Islamic bank contribution to Indonesian economic growth. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(3), 519–532.

⁴ Snapshot Perbankan Syariah Indonesia Juni 2019. (2019). Perkembangan Perbankan syariah

⁵ Statistik Perbankan Syariah. www.ojk.go.id

⁶ Hamsyi, N. F. (2019). The impact of good corporate governance and Sharia compliance on the profitability of Indonesia's Sharia banks. *Problems and Perspectives in Management*, 17(1), 56–66

⁷ Aslam, E., & Haron, R. (2020). Does corporate governance affect the performance of Islamic banks? New insight into Islamic countries. *Corporate Governance (Bingley)*, 20(6), 1073–1090.

⁸ Ibid

⁹ Ajili, H., & Bouri, A. (2018). Corporate governance quality of Islamic banks: measurement and effect on financial performance. *International Journal of Islamic and Middle Eastern Finance and Management*, 11(3), 470–487

Furthermore, the existence of important earnings management practices is applied to Islamic banking. Based on research by ¹⁰ that corporate governance has an impact toward Islamic bank's earnings management practices, particularly the Islamic supervisory board's oversight of managers' discretion in manipulating financial performance reports. However, other results were found in ¹¹ that the role of the sharia administrative board is deficient in restricting profit the executives rehearses, this demonstrates that the utilization of Islamic qualities in the association has not been completely thought of. In addition, according to research by ¹² that income the board overwhelmingly affects banking monetary execution, where income the executives exercises plan to acquire benefits. Meanwhile, the research results of ¹³ neglected to demonstrate that income the board impacts banking monetary execution as estimated by the bank's monetary execution proportion.

This explanation shows the inconsistency of the existing research results, so further examination is required which intends to dissect whether there is an impact of Islamic corporate administration and income the board on the monetary execution of Islamic banks. In addition, research on the analysis of Islamic corporate governance and earnings management toward financial performance in Islamic banking is still limited, so it motivates researchers to conduct further research and it is hoped that this will close the research gap. In addition, through the findings of this study it is hoped that it can provide benefits and insight regarding the importance of the financial performance of Islamic banks, so that they can contribute to developing previous research.

Literature Review

Agency Theory

Organization hypothesis makes sense of a circumstance that happens in an organization where the administration as the agent, alluded to as the specialist and the proprietor of capital as the head, who constructs a participation contract called the “nexus of contract”, a collaboration contract that contains an understanding that organization the executives should work ideally to give most extreme fulfillment like high benefits to capital proprietors. The agent is considered to have maximum control over the information . and on the other hand the principal has the advantage of power or maximizes power so that both parties have self-interest in every decision taken, one effect that is far from common is the low

¹⁰ Kolsi, M. C., & Grassa, R. (2017). Did corporate governance mechanisms affect earnings management? Further evidence from GCC Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management*, 10(1), 2–23

¹¹ Alam, N., Ramachandran, J., & Nahomy, A. H. (2020). The impact of corporate governance and agency effect on earnings management – A test of the dual banking system. *Research in International Business and Finance*, 54(April), 101242

¹² Umoren, A. (2018). Earnings Management and Financial Performance of Deposit Money Banks in Nigeria. *Research Journal of Finance and Accounting*, 9(22), 94–100

¹³ Saidu, H., Ibrahim, O., & Muktar, J. (2017). The impact of Earnings Management on Financial Performance of Listed Deposit Money Banks in Nigeria. *Journal of Accounting and Financial Management*, 3(2), 52–62

dividend gain that will be received by the principal due to changes in methods carried out by agents ¹⁴, which is called information asymmetry. This information asymmetry arises as a result of the unequal distribution of information between owners and managers ¹⁵.

Financial Performance in Islamic Bank

A bank's financial performance is a picture of all of the economic outcomes it can achieve over a given time period by using business activities to generate profits effectively and efficiently. Monetary execution can be estimated its encouraging by directing an examination of the monetary information reflected in the fiscal reports. Data on organization execution, particularly productivity, is expected to evaluate likely changes in financial assets that might be controlled from here on out ¹⁶. Islamic bank monetary execution depicts the monetary state of the bank, and the progress of Islamic banks in overseeing funds. For many parties, including regulators, the general public, and the bank in question, an evaluation of financial performance serves as a benchmark for determining the true state of banking financial health. ¹⁷.

The estimating instrument utilized in deciding the monetary execution of Islamic banking is bank monetary proportions, where monetary execution can be estimated by the requirements of the people who need it. The main assessment of Islamic banking financial performance looks at the aspect of banking profitability, which aims to assess Islamic banks in generating reasonable income ¹⁸. The benefit viewpoint is utilized to decide the capacity of Islamic banks to produce benefits over a specific period ¹⁹. Then the financial performance indicator of Islamic banks is the profitability ratio, which consists of the ratio of return on assets (ROA), the ratio of return on equity (ROE) ²⁰. Then in this study will use Islamic financial ratios, namely the ratio of the rate of return in accordance with sharia principles (ISIR) and the ratio of Zakat performance (ZPR) as a ratio that calculates the zakat value of Islamic banks.

Islamic Corporate Governance

Islamic Corporate Administration is a type of Good Corporate Governance (GCG) in Islamic hypothesis, which is characterized as an organization's bearing and control framework to satisfy the organization's objectives in safeguarding the freedoms and interests, everything being equal, utilizing

¹⁴ Eugene F Brigham and Joel F Houston, *Dasar-Dasar Manajemen Keuangan. 11th Edition* (Jakarta: Erlangga, 2014).

¹⁵ Irham Fahmi, *Manajemen Investasi: Teori Dan Soal Jawab* (Jakarta: Salemba Empat, 2015).

¹⁶ Ikatan Akuntansi Indonesia, *Standar Akuntansi Keuangan* (Jakarta: Salemba Empat, 2007).

¹⁷ Gita Danupranata, *Manajemen Perbankan Syariah* (Jakarta: Salemba Empat, 2016).

¹⁸ Irham Fahmi, *Manajemen Perbankan: Konvensional Dan Syariah*, Pertama (Jakarta: Mitra Wacana Media, 2015).

¹⁹ IBI. (2018). *Memahami Bisnis Bank Syariah* (Ketiga). PT. Gramedia Pustaka Utama

²⁰ Aslam, E., & Haron, R. (2020). Does corporate governance affect the performance of Islamic banks? New insight into Islamic countries. *Corporate Governance* (Bingley), 20(6)

the fundamental idea of dynamic in light of Islamic standards²¹. The fundamental target of Islamic Corporate Governance is maqasid sharia, with Islamic Corporate Administration thinking about the impacts of sharia regulation, Islamic financial aspects and monetary standards on practices and strategies²². Islamic Corporate Governance or the primary component of sharia governance, the Sharia Supervisory Board (DPS) within the organizational structure referred to ISFB-10 2009. The presence of the Sharia Administrative Board is a part that recognizes corporate administration of Islamic banking from ordinary banking²³.

Guidelines for the execution of Islamic Corporate Governance for Islamic banks in Indonesia as per Bank Indonesia Guideline Number 11/33/2009 concerning GCG of Islamic business banks and Islamic specialty units, clearing up that the execution of Islamic Corporate Administration for the public shows that Islamic banks are very much made due, proficient, reasonable, and diligent, looks to increment investor esteem without disregarding the interests of different investors²⁴. The utilization of Islamic Corporate Governance is acknowledged through the execution of the obligations and obligations of the Sharia Governance Board as a warning and administrative board for the execution of sharia standards in assortment and appropriation as well as banking administrations, an autonomous leading group of magistrates as oversight of banking supervisors, and a review panel whose job is to assess interior review execution during the time spent monetary detailing²⁵.

Earning Management

Earnings management completed by directors during the time spent planning monetary reports for outer gatherings, so supervisors can even out, increment and lessening benefit detailing. The board can involve the tolerance in the utilization of bookkeeping techniques, create approaches that can speed up or postpone expenses and incomes, which creates the organization's gains more modest or bigger true to form²⁶. Banking managers have special compensation for income smoothing through allowance for credit losses, known as Loan Loss Provision (CKPN) according to PSAK 50/55 of 2006, where it is important to make this allowance. to see the actual state of the bank's financial statements²⁷. Loan Loss

²¹ Bambang Rianto Rustam, *Manajemen Risiko Perbankan Syariah Di Era Digital: Konsep Dan Penerapan Di Indonesia* (Jakarta: Salemba Empat, 2018).

²² Rodrigo Magalhães and Shereen Al-Saad, "Corporate Governance in Islamic Financial Institutions: The Issues Surrounding Unrestricted Investment Account Holders," *Corporate Governance (Bingley)* 13, no. 1 (2013): 39–57, <https://doi.org/10.1108/14720701311302404>.

²³ Nomran, N. M., Haron, R., & Hassan, R. (2018). Shari'ah supervisory board characteristics effects on Islamic banks' performance: Evidence from Malaysia. *International Journal of Bank Marketing*, 36(2), 290–304

²⁴ PBI, "Peraturan Bank Indonesia Nomor 11/33/PBI Tahun 2009 Tentang Pelaksanaan GCG Bagi Bank Umum Syariah (BUS) Dan Unit Usaha Syariah (UUS)," 2009, www.bi.go.id.

²⁵ Muhamad, *Manajemen Keuangan Syariah. Analisis Fiqh Dan Keuangan* (Jakarta: UPP STIM YKPN, 2016).

²⁶ Majdi Anwar Quttainah, Liang Song, and Qiang Wu, "Do Islamic Banks Employ Less Earnings Management?," *SSRN Electronic Journal*, no. September 2018 (2013), <https://doi.org/10.2139/ssrn.2283968>.

²⁷ Zulfikar et al., "Dampak Kebijakan Cadangan Kerugian Penurunan Nilai Pembiayaan Musyarakah Pada Kinerja Keuangan Bank Unit Usaha Syariah Di Indonesia," *Riset Akuntansi Dan Keuangan Indonesia* 4, no. 2 (2019): 43–52, <http://journals.ums.ac.id/index.php/reaksi/index>.

Provision (CKPN) is considered as an appropriate proxy in detecting profit management in Islamic banking²⁸. Islamic banks will be banks that work with Islamic standards, so profit the board rehearses are exercises that need management, since they are one of the elements that can decrease the validity of Islamic bank monetary reports and will disturb finance report clients²⁹.

Relations Between Variables

Islamic Corporate Governance toward Sharia Bank Financial Performance

Islamic Corporate Governance (ICG) assumes a significant part in tending to organization, straightforwardness and transparency issues. The job of sharia administrative sheets, free chiefs, and review panels in a compelling Islamic corporate administration structure in working on the nature of monetary detailing and straightforwardness as a type of keeping up with the standing of Islamic banks, which can eventually work on the monetary execution of Islamic banks³⁰. This is evidenced that Islamic corporate governance influences the financial performance of Islamic banks³¹. Because it is believed that Islamic banks with prudent governance structures allocate resources effectively to generate profits. Then Islamic Corporate Governance has a significant impact on Islamic Bank's Financial Performance. This is due to the fact that the application of corporate governance in Islamic banks is crucial to the continued existence of Islamic banks and the upkeep of their image in society³². Based on this explanation, the hypothesis proposed is;

H₁. Islamic corporate governance influences the financial performance of Islamic banks

Earning Management toward Financial Performance of Islamic Banks

The goal of earning management, which managers use to manage company profits, is to improve the financial performance of the business³³. This is evidenced by research by³⁴ that earnings management has an effect on banking financial performance. Banking performance will decrease if companies carry out earnings management in the form of inappropriate financial reporting. Then

²⁸ Chang, R.-D., Shen, W.-H., & Fang, C.-J. (2011). Discretionary Loan Loss Provisions And Earnings Management For The Banking Industry. *International Business & Economics Research Journal (IBER)*, 7(3), 9–20.

²⁹ Umoren, A. (2018). Earnings Management and Financial Performance of Deposit Money Banks in Nigeria. *Research Journal of Finance and Accounting*, 9(22), 94–100

³⁰ Hakimi et al., (2018) "Do Board Characteristics Affect Bank Performance? Evidence from the Bahrain Islamic Banks."

³¹ Aslam and Haron, "Does Corporate Governance Affect the Performance of Islamic Banks? New Insight into Islamic Countries."

³² Indra Siswanti et al., "The Impact of Islamic Corporate Governance, Islamic Intellectual Capital and Islamic Financial Performance on Sustainable Business Islamic Banks," *Journal of Finance and Banking Review* 7, no. 4 (2017): 316–23, <http://www.econjournals.com>.

³³ Mayang Mahrani and Noorlailie Soewarno, "The Effect of Good Corporate Governance Mechanism and Corporate Social Responsibility on Financial Performance with Earnings Management as Mediating Variable," *Asian Journal of Accounting Research* 3, no. 1 (2018): 41–60, <https://doi.org/10.1108/ajar-06-2018-0008>.

³⁴ Rachma Bhakti Utami, Nila Firdausi Nuzula, and Cacik Rut Damayanti, "The Effect of Earnings Quality on Financial Performance in Indonesia: Is the State-Owned Bank Better than Private Bank?," *Asia Pacific Management and Business Application* 008, no. 02 (2019): 105–16

according to ³⁵ in his research also states that earnings management has an influence on banking financial performance. Likewise, according to ³⁶, that earnings management affects financial performance. Since profit the executives activities can affect the nature of income related data introduced in monetary reports. The bad quality of data contained in monetary reports will adversely affect the organization's monetary presentation. Based on this explanation, the hypothesis proposed is;

H₂. earnings management influences the financial performance of Islamic banks

Research Methods

This examination technique utilizes a quantitative methodology with optional information. Optional information is gotten from the yearly monetary reports of Islamic Commercial Banks in Indonesia for 2018 until 2022. Panel data, which are a combination of cross sectional and time series data, are used in this study. The exploration information scale is proportion information on Islamic bank monetary execution factors, and ostensible information on sham Islamic corporate administration and profit the executives factors. The number of inhabitants in this study is Islamic Commercial Banks enrolled with the Monetary Administrations Authority (OJK) in 2018 until 2022. Then, at that point, taking examples utilizing purposive testing strategy. A method for selecting samples that is selective, based on predetermined criteria, and in accordance with the researcher's objectives ³⁷.

The exploration test measures remember Islamic Business Banks for Indonesia which persistently distribute yearly monetary reports for 2018 until 2022, the selection of the period from 2018 to 2022 is to determine the financial performance of Islamic banks before and after the pandemic and Islamic Business Banks which give total data in regards to the information required in this review.

Accordingly, 12 Islamic Commercial Banks (BUS) with five annual financial reports. This study utilizes the Pooled Least Square examination procedure. This method can be used to explain the relationship between variables without making assumptions about the measurement scale of the variables, the distribution of the data, or the size of the sample ³⁸.

³⁵ Adebimpe Umoren, "Earnings Management and Financial Performance of Deposit Money Banks in Nigeria," *Research Journal of Finance and Accounting* 9, no. 22 (2018): 94–100.

³⁶ Mahrani and Soewarno, "The Effect of Good Corporate Governance Mechanism and Corporate Social Responsibility on Financial Performance with Earnings Management as Mediating Variable."

³⁷ Augusty Ferdinand, *Metode Penelitian Manajemen: Pedoman Penelitian Untuk Penulisan Skripsi Tesis Dan Disertasi Ilmu Manajemen* (Semarang: Badan Penerbit Universitas Diponegoro, 2014).

³⁸ Imam Ghazali, *Structural Equation Modeling Metode Alternatif Dengan Partial Least Squares (PLS). Dilengkapi Software Smartpls 3.0. Xlstat 2014 Dan WarpPLS 4.0*, 4th ed. (Semarang: Badan Penerbit Universitas Diponegoro, 2014).

Operational Definition and Variable Measurement

Islamic Bank Financial Performance

Financial performance reflects the ability of Islamic banks to manage and control their resources³⁹. Islamic Bank financial performance is measured by two indicators of profitability ratios based on⁴⁰ and the assessment of the Islamic finance index put forward by⁴¹, namely;

- 1) Return on Asset (ROA) is the ratio between profit before tax and total assets of Islamic banks. With the following formula;

$$ROA = \frac{\text{Earning Before Tax}}{\text{Total Asset}}$$

- 2) Return on Equity (ROE) is the ratio between profit after tax and the total equity of Islamic banks. With the following formula;

$$ROE = \frac{\text{Earning After Tax}}{\text{Total Equity}}$$

- 3) Islamic Income Ratio (ISIR), is a correlation proportion of Islamic pay to pay acquired by Islamic banks from halal and non-halal exchanges. With the following formula;

$$\text{Islamic Income Ratio (ISIR)} = \frac{\text{Islamic Income}}{\text{Total of Islamic Income} + \text{Non Halal Income}}$$

- 4) Zakat Performing Ratio (ZPR), is the proportion of the absolute appropriation of Islamic bank zakat assets to benefit before charge. With the following formula;

$$\text{Zakat Performing Ratio (ZPR)} = \frac{\text{distribution of Zakat Funds}}{\text{Earning Before Tax}}$$

Islamic Corporate Governance

Islamic corporate governance reflects administration systems with Islamic standards carried out in Islamic banks through the execution of the obligations and obligations of the Sharia Supervisory Board, Independent Board of Commissioners, and Audit Committee⁴². The ICG measurements use indicators, as follows;

- 1) The Sharia Supervisory Board (DPS) is an advisory and supervisory board for the implementation of banking sharia principles that have an educational background in muamalah sharia and banking and finance. With the following formula;

³⁹ Danupranata, *Manajemen Perbankan Syariah*.

⁴⁰ Amina Buallay, Richard Cummings, and Allam Hamdan, "Intellectual Capital Efficiency and Bank's Performance," *Pacific Accounting Review* 31, no. 4 (2019): 672–94, <https://doi.org/10.1108/PAR-04-2019-0039>.

⁴¹ Shahul Hameed et al., "Alternative Disclosure and Performance Measures for Islamic Banks," *Second Conference on Administrative Sciences: Meeting the Challenges of the Globalization Age*, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia, 2004, 19–21

⁴² Muhamad, *Manajemen Keuangan Syariah. Analisis Fiqh Dan Keuangan*.

$$UDPS = \sum DPS \text{ member in one year}$$

Measurement: 1 for BS with 2 or more DPS Members and 0 if not, based on AAOIFI Governance Standard; PBI Number 6/24/PBI/2004 article 26 (1) that the number of DPS members is at least 2 people and a maximum of 5 people.

- 2) The Independent Board of Commissioners (IC) is an individual from the leading group of chiefs who is't subsidiary with the executives, the leading group of magistrates and investors and is liberated from business connections. With the following formula;

$$UKI = \frac{\text{number of independent commissioners}}{\text{number of commissioners}}$$

Measurement: 1 for CBs with 2-3 independent commissioners, 0 otherwise ⁴³.

- 3) The Audit Committee (KA), is a member of the board whose responsibility it is to evaluate the implementation of internal audits to determine the appropriateness of internal controls, including the procedure for financial reporting. With the following formula;

$$UKA = \sum \text{Member of the Audit Committee in one year}$$

Measurement: 1 for BS with 3 or more audit committee members, 0 if not, according to PBI Number 11/33/PBI/2009 that the membership of the Audit Committee is at least 3 people.

Earnings Management

Earnings management in this study is proxied by Islamic bank discretionary loan loss provisions (CKPN), based on research by ^{44 45 46}. The stages of CKPN discretionary measurement are as follows;

- 1) Calculating the Allowance for Impairment Losses (CKPN) of Islamic banks, using the formula;

$$CKPN = CKPN \text{ Non diskresioner} - CKPN \text{ Diskresioner}$$

The composition of reserves for losses in the value of financing, including qordul hasan, murabahah, mudharabah, and musyarakah, is used in the calculation of CKPN for Islamic banking to predict the total allowance for losses for Islamic banks. Then, at that point, the Non-optional CKPN part is assessed utilizing educational factors including the underlying equilibrium of year t NPF, changes in NPF, and

⁴³ Hana Ajili and Abdelfettah Bouri, "Corporate Governance Quality of Islamic Banks: Measurement and Effect on Financial Performance," *International Journal of Islamic and Middle Eastern Finance and Management* 11, no. 3 (2018): 470–87, <https://doi.org/10.1108/IMEFM-05-2017-0131>; Aslam and Haron, "Does Corporate Governance Affect the Performance of Islamic Banks? New Insight into Islamic Countries."

⁴⁴ Hakim Ben Othman and Hounaida Mersni, "The Use of Discretionary Loan Loss Provisions by Islamic Banks and Conventional Banks in the Middle East Region: A Comparative Study," *Studies in Economics and Finance* 31, no. 1 (2014): 106–28, <https://doi.org/10.1108/SEF-02-2013-0017>.

⁴⁵ Hounaida Mersni and Hakim Ben Othman, "The Impact of Corporate Governance Mechanisms on Earnings Management in Islamic Banks in the Middle East Region," *Journal of Islamic Accounting and Business Research* 7, no. 4 (2016): 318–48, <https://doi.org/10.1108/JIABR-11-2014-0039>.

⁴⁶ Mahrani and Soewarno, "The Effect of Good Corporate Governance Mechanism and Corporate Social Responsibility on Financial Performance with Earnings Management as Mediating Variable."

changes in total financing of Islamic banks in year t. With the estimation of the panel regression technique model as follows;

$$CKPN_{it} = b_0 + b_1NPF_{it} + b_2\Delta NPF_{it} + b_3\Delta TF_{it}$$

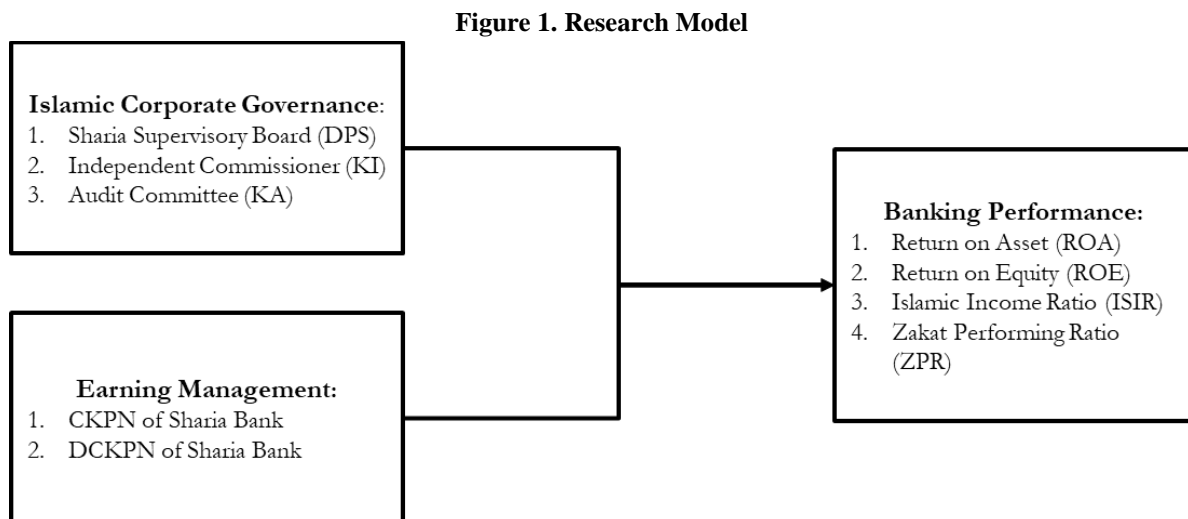
Specifications of Research Model

This study uses annual data from 2018 until 2022 to analyze Islamic Corporate Governance and earnings management on the endogenous variable, namely the financial performance of Islamic banks in Indonesia. The mathematical equation model is shown as follows:

Model Equation, Financial Performance of Islamic Banks

$$KKBS_{it} = \beta_0 + \beta_1MLBS_{it} + \beta_2IGC_{it} + \mu_{it}$$

Figure 1. explains the illustration of the research model, which demonstrates the influence of the endogenous variable, namely the financial performance of Islamic banks, on the exogenous variables, Islamic Corporate Governance and earnings management.



Source: Author's illustration (2023)

Results And Discussion

Model Analysis

Regression model examination is finished by taking a gander at the R-square (R^2), coefficient (β), t-test, and significance value ⁴⁷. As for the results of model testing, R-square (R^2) is an integrity fit model test, which is to quantify the capacity of exogenous factors to make sense of endogenous factors.

⁴⁷ Imam Ghozali, *Desain Penelitian Kuantitatif & Kualitatif Untuk Akuntansi, Bisnis, Dan Ilmu Sosial Lainnya* (Semarang: Yoga Pratama, 2013).

Statistical test results show the results of the R-square value (R^2) variable financial performance of Islamic banks is 0,67 and earnings management variable is 0.32. This can be interpreted that the financial performance variable can be explained by 67% by Islamic corporate governance and earnings management variables. While 33% can be explained by factors outside the model. The earnings management variable then provides a 32% explanation by Islamic corporate governance. While 68% is explained by variables outside the model.

Hypothesis Test of Research

In light of Table 1, makes sense of the consequences of testing the speculation of the connection between research factors, by taking a gander at the worth of the coefficient (β), t-test, and significance value (p).

H_1 . The coefficient (β) of Islamic corporate toward the monetary execution of Islamic banks is 0.419. The positive coefficient shows that the higher the Islamic corporate administration, the higher the performance of Islamic banks. It is also possible to assert that an improvement in financial performance will result from any increase in the value of Islamic corporate governance. In view of the t-measurement of 3,966, an importance worth of 0,000 ($p < 0.05$) shows that there is a huge impact between Islamic corporate and Islamic banks.

H_2 . The coefficient (β) of income the board on the performance of Islamic banks is - 0.256. Islamic banks' financial performance is correlated with earnings management, as evidenced by the negative coefficient. It can likewise be said that a reduction in the degree of profit the executives will affect expanding the performance of Islamic banks. According to the t-statistic of 3.198, a significance value of 0.006 ($p < 0.05$) indicates that earnings management has a significant impact toward Islamic banks' financial performance.

Table 1
Hypothesis Testing

Hypothesis	t-Statistics	P -value	Decision
H ₁ . Islamic Corporate Governance → Financial Performance	3,966	0.000	Accepted
H ₂ . Earning Management → Financial Performance	3,198	0.006	Accepted

Source: output data, processed by the author (2023).

Table 2
Variable Coefficient Values and Indicators

Variable	Indicator	ROA		ROE		ISIR		ZPR	
		β - value	t-Statistics	β - value	t-Statistics	β - value	t-Statistics	β - value	t-Statistics
Islamic Corporate Governance	UDPS	0.171	6,455	0.100	5556	0.105	2,676	0.395	3,559
	UKI	0.233	4.125	0.145	8056	0.734	2,632	0.025	3.125
	UKA	0.484	2,629	0.139	8.176	0.168	2.154	0.569	5,471
Profit management	DCKPN	- 0.540	0.185	- 0.710	0.578	- 0.137	4,694	- 0.798	3,988

Source: output data, processed by the author (2023).

Analysis and Discussion

The Influence of Islamic Corporate Governance on Islamic Banks Financial Performance

The results of the study show that Islamic corporate governance has a positive and significant impact toward Islamic banks' financial performance. The pointers utilized incorporate the quantity of individuals and the quantity of yearly gatherings of the sharia administrative board, the free chief board, and the review council, as well as the sharia monetary and banking foundation of the sharia board, (Table 2) each showing a positive and tremendous impact toward execution finance. Because of this, the ability of the sharia supervisory board, independent commissioners, and audit committees at sharia banks to provide strong management oversight in enhancing their financial performance increases with the number of members and annual meetings, namely ROA, ROE, ISIR, and ZPR.

Islamic idea of corporate administration is the job of the sharia administrative board, which separates it from regular banking. So the more noteworthy the quantity of individuals from the sharia administrative board, the more successful the management and consistency of the corporate administration component as per sharia standards. The standing of the sharia administrative board is getting better with the information and experience of the sharia administrative board, which is shown by the instructive foundation in money, banking and sharia, this will support an expansion in the observing capability in administration and monetary arrangements⁴⁸. The job of a free leading group of chiefs can limit interior interest issues that emerge between the chiefs and investors. The board of independent commissioners can carry out its responsibility to monitor the directors' performance to ensure that it is in line with shareholder's interests⁴⁹. Furthermore, the public bookkeeper's standing as an autonomous outer examiner can help the board's exhibition by giving the right assessment on the state of the organization. With the goal that the suppositions gave by trustworthy public bookkeepers can be a rule for working on the presentation of Islamic bank organizations⁵⁰. So one might say that the corporate administration system with Islamic standards executed in Islamic banks through the execution of the obligations and obligations of the Islamic administrative board, free leading body of magistrates, and review council shows a positive effect on working toward the monetary execution of Islamic banks.

⁴⁸ Naji Mansour Nomran, Razali Haron, and Rusni Hassan, "Shari'ah Supervisory Board Characteristics Effects on Islamic Banks' Performance: Evidence from Malaysia," *International Journal of Bank Marketing* 36, no. 2 (2018): 290–304, <https://doi.org/10.1108/IJBM-12-2016-0197>.

⁴⁹ Siswanti et al., "The Impact of Islamic Corporate Governance, Islamic Intellectual Capital and Islamic Financial Performance on Sustainable Business Islamic Banks."

⁵⁰ Buallay, (2019) "Corporate Governance, Sharia'ah Governance and Performance: A Cross-Country Comparison in MENA Region."

The results of this study are in line with the research of ⁵¹, ⁵², and ⁵³ which asserts that it has a significant and positive impact toward financial performance. While the results of this study are not in line with the research of ⁵⁴ and ⁵⁵ which states that it has no significant effect toward financial performance in banking.

The Effect of Earning Management toward the Financial Performance of Islamic Banks

The consequences of the review show that there is a negative and huge impact between income the management toward the performance of Islamic banks. Allowance for Impairment Losses (DKPN), which examines Islamic bank manager's discretion in evaluating earnings management activities, is used to measure earnings management actions in Islamic banks. This indicates that earnings management actions in Islamic banks have an impact toward financial performance in the form of ROA, ROE, ISIR, and ZPR.

The lower the degree of profit the board movement or activity in Islamic banks, the higher the monetary exhibition of Islamic banks ⁵⁶. This condition is applicable to the consequences of testing the speculation of the connection between Islamic corporate administration factors on profit the executives, where the system of Islamic corporate administration in Islamic banks through the Islamic administrative board, autonomous magistrate board, and review panel plays had an ideal impact in decreasing administration activities. unreasonable benefits, with the goal that profit the executives activities influence the bank's monetary exhibition yet in a negative or inverse bearing.

Based on the results of testing the direct effect, which profit the executives to expand the worth of income on monetary reports. The results of this study are in line with the research of ⁵⁷ which express that profit the executives factors can be variable interceding corporate administration toward performance. Earnings management is negatively impact toward Islamic bank performance, and the

⁵¹ Aslam and Haron, (2020) "Does Corporate Governance Affect the Performance of Islamic Banks? New Insight into Islamic Countries."

⁵² Buallay, Cummings, and Hamdan, (2020) "Intellectual Capital Efficiency and Bank's Performance."

⁵³ Darwanto and Chariri, (2019) "Corporate Governance and Financial Performance in Islamic Banks: The Role of the Sharia Supervisory Board in Multiple-Layer Management."

⁵⁴ Ajili, H., & Bouri, A. (2018). Corporate governance quality of Islamic banks: measurement and effect on financial performance. *International Journal of Islamic and Middle Eastern Finance and Management*, 11(3), 470–487

⁵⁵ Muhammad Asif Khan, Asima Siddique, and Zahid Sarwar, "Determinants of Non-Performing Loans in the Banking Sector in Developing State," *Asian Journal of Accounting Research* ahead-of-p, no. ahead-of-print (2020): 135–45

⁵⁶ Hauwa Saidu, Ocheni Ibrahim, and Jamila Muktar, "The Impact of Earnings Management on Financial Performance of Listed Deposit Money Banks in Nigeria," *Journal of Accounting and Financial Management* 3, no. 2 (2017): 52–62, <http://www.ssrn.com/abstract=1929550%0Awww.iiardpub.org>.

⁵⁷ Mahrani and Soewarno, "The Effect of Good Corporate Governance Mechanism and Corporate Social Responsibility on Financial Performance with Earnings Management as Mediating Variable."

results of this study are in line with the research of ⁵⁸ and ⁵⁹ which states that Earnings management has a negative and significant effect.

Conclusions And Recommendations

The consequences of the review show that Islamic corporate has a positive and huge impact toward the monetary presentation of Islamic banks. Then the consequences of profit the management research have a huge adverse consequence toward performance of Islamic banks. This suggests that Islamic corporate governance can be optimized and implemented by measuring ROA, ROE, ISIR, and ZPR in order to enhance Islamic banks' financial performance. Because aspects of Islamic corporate governance are criteria for good health and protection for Islamic banks with the active role of the Islamic supervisory board, independent board of commissioners, and audit committee, the findings of this study have policy implications for Indonesian financial authorities, particularly Islamic banking.

This exploration centers around the examination object of Islamic business banks in Indonesia, so it is trusted that further examination can apply the determinants of Islamic bank monetary execution to other financial substances, for example, Islamic money banks and Islamic specialty units, or it can likewise be in non-bank Islamic monetary establishments. Another recommendation is that additional research should include the Islamic investment ratio as one of the measuring indicators of Islamic corporate governance variables. This will allow for more in-depth research into halal transactions and will maximize financial performance. Furthermore, this exploration can be extended by adding meetings to Islamic money and banking specialists, or Islamic monetary elements to survey the viability of Islamic corporate administration in Islamic banks as a variable impacting monetary execution.

⁵⁸ Mohamed Chakib Kolsi and Rihab Grassa, "Did Corporate Governance Mechanisms Affect Earnings Management? Further Evidence from GCC Islamic Banks," *International Journal of Islamic and Middle Eastern Finance and Management* 10, no. 1 (2017): 2–23, <https://doi.org/10.1108/IMEFM-07-2015-0076>.

⁵⁹ Umoren, "Earnings Management and Financial Performance of Deposit Money Banks in Nigeria."

REFERENCE

- Ajili, Hana, and Abdelfettah Bouri. "Corporate Governance Quality of Islamic Banks: Measurement and Effect on Financial Performance." *International Journal of Islamic and Middle Eastern Finance and Management* 11, no. 3 (2018): 470–87. <https://doi.org/10.1108/IMEFM-05-2017-0131>.
- Aslam, Ejaz, and Razali Haron. "Does Corporate Governance Affect the Performance of Islamic Banks? New Insight into Islamic Countries." *Corporate Governance (Bingley)* 20, no. 6 (2020): 1073–90. <https://doi.org/10.1108/CG-11-2019-0350>.
- Brigham, Eugene F, and Joel F Houston. *Dasar-Dasar Manajemen Keuangan. 11th Edition*. Jakarta: Erlangga, 2014.
- Buallay, Amina. "Corporate Governance, Sharia'ah Governance and Performance: A Cross-Country Comparison in MENA Region." *International Journal of Islamic and Middle Eastern Finance and Management* 12, no. 2 (2019): 216–35. <https://doi.org/10.1108/IMEFM-07-2017-0172>.
- Buallay, Amina, Richard Cummings, and Allam Hamdan. "Intellectual Capital Efficiency and Bank's Performance." *Pacific Accounting Review* 31, no. 4 (2019): 672–94. <https://doi.org/10.1108/PAR-04-2019-0039>.
- Danupranata, Gita. *Manajemen Perbankan Syariah*. Jakarta: Salemba Empat, 2016.
- Darwanto, and Anis Chariri. "Corporate Governance and Financial Performance in Islamic Banks: The Role of the Sharia Supervisory Board in Multiple-Layer Management." *Banks and Bank Systems* 14, no. 4 (2019): 183–91. [https://doi.org/10.21511/bbs.14\(4\).2019.17](https://doi.org/10.21511/bbs.14(4).2019.17).
- Fahmi, Irham. *Manajemen Investasi: Teori Dan Soal Jawab*. Jakarta: Salemba Empat, 2015.
- Fahmi, Irham. *Manajemen Perbankan: Konvensional Dan Syariah*. Pertama. Jakarta: Mitra Wacana Media, 2015.
- Ferdinand, Augusty. *Metode Penelitian Manajemen: Pedoman Penelitian Untuk Penulisan Skripsi Tesis Dan Disertasi Ilmu Manajemen*. Semarang: Badan Penerbit Universitas Diponegoro, 2014.
- Ghozali, Imam. *Desain Penelitian Kuantitatif & Kualitatif Untuk Akuntansi, Bisnis, Dan Ilmu Sosial Lainnya*. Semarang: Yoga Pratama, 2013.
- Ghozali, Imam. *Structural Equation Modeling Metode Alternatif Dengan Partial Least Squares (PLS). Dilengkapi Software Smartpls 3.0. Xlstat 2014 Dan WarpPLS 4.0*. 4th ed. Semarang: Badan Penerbit Universitas Diponegoro, 2014.
- Hakimi, Abdelaziz, Houssein Rachdi, Rim Ben Selma Mokni, and Houda Hssini. "Do Board Characteristics Affect Bank Performance? Evidence from the Bahrain Islamic Banks." *Journal of Islamic Accounting and Business Research* 9, no. 2 (2018): 251–72. <https://doi.org/10.1108/JIABR-06-2015-0029>.
- Hameed, Shahul, Ade Wirman, Bakhtiar Alrazi, Mohd Nazli, and Sigit. Pramono. "Alternative Disclosure and Performance Measures for Islamic Banks." *Second Conference on Administrative Sciences: Meeting the Challenges of the Globalization Age, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia*, 2004, 19–21. <https://doi.org/10.1017/CBO9781107415324.004>.
- Ikatan Akuntansi Indonesia. *Standar Akuntansi Keuangan*. Jakarta: Salemba Empat, 2007.
- Khan, Muhammad Asif, Asima Siddique, and Zahid Sarwar. "Determinants of Non-Performing Loans in the Banking Sector in Developing State." *Asian Journal of Accounting Research* ahead-of-p, no. ahead-of-print (2020): 135–45. <https://doi.org/10.1108/ajar-10-2019-0080>.
- Kolsi, Mohamed Chakib, and Rihab Grassa. "Did Corporate Governance Mechanisms Affect Earnings Management? Further Evidence from GCC Islamic Banks." *International Journal of Islamic and Middle Eastern Finance and Management* 10, no. 1 (2017): 2–23. <https://doi.org/10.1108/IMEFM-07-2015-0076>.
- Lassoued, Naima, Mouna Ben Rejeb Attia, and Houda Sassi. "Earnings Management in Islamic and Conventional Banks: Does Ownership Structure Matter? Evidence from the MENA Region." *Journal of International Accounting, Auditing and Taxation* 30, no. December 2017 (2018): 85–105. <https://doi.org/10.1016/j.intaccudtax.2017.12.003>.
- Magalhães, Rodrigo, and Shereen Al-Saad. "Corporate Governance in Islamic Financial Institutions: The Issues Surrounding Unrestricted Investment Account Holders." *Corporate Governance (Bingley)* 13, no. 1 (2013): 39–57. <https://doi.org/10.1108/14720701311302404>.
- Mahrani, Mayang, and Noorlailie Soewarno. "The Effect of Good Corporate Governance Mechanism and Corporate Social Responsibility on Financial Performance with Earnings Management as Mediating Variable." *Asian Journal of Accounting Research* 3, no. 1 (2018): 41–60. <https://doi.org/10.1108/ajar-06-2018-0008>.
- Mersni, Hounaida, and Hakim Ben Othman. "The Impact of Corporate Governance Mechanisms on Earnings Management in Islamic Banks in the Middle East Region." *Journal of Islamic Accounting and Business Research* 7, no. 4 (2016): 318–48. <https://doi.org/10.1108/JIABR-11-2014-0039>.
- Meslier, Céline, Tastaftiyah Risfandy, and Amine Tarazi. "Islamic Banks' Equity Financing, Shariah Supervisory Board, and Banking Environments." *Pacific Basin Finance Journal* 62, no. October 2019 (2020): 101354. <https://doi.org/10.1016/j.pacfin.2020.101354>.

- Muhamad. *Manajemen Keuangan Syariah. Analisis Fiqh Dan Keuangan*. Jakarta: UPP STIM YKPN, 2016.
- Nomran, Naji Mansour, Razali Haron, and Rusni Hassan. "Shari'ah Supervisory Board Characteristics Effects on Islamic Banks' Performance: Evidence from Malaysia." *International Journal of Bank Marketing* 36, no. 2 (2018): 290–304. <https://doi.org/10.1108/IJBM-12-2016-0197>.
- Othman, Hakim Ben, and Hounaida Mersni. "The Use of Discretionary Loan Loss Provisions by Islamic Banks and Conventional Banks in the Middle East Region: A Comparative Study." *Studies in Economics and Finance* 31, no. 1 (2014): 106–28. <https://doi.org/10.1108/SEF-02-2013-0017>.
- Otoritas Jasa Keuangan, LPKSI. "Laporan Perkembangan Keuangan Syariah Di Indonesia. Sinergi Dalam Membangun Ekosistem Ekonomi Dan Keuangan Syariah." Jakarta, 2019.
- PBI. "Peraturan Bank Indonesia Nomor 11/33/PBI Tahun 2009 Tentang Pelaksanaan GCG Bagi Bank Umum Syariah (BUS) Dan Unit Usaha Syariah (UUS)," 2009. www.bi.go.id.
- Quttainah, Majdi Anwar, Liang Song, and Qiang Wu. "Do Islamic Banks Employ Less Earnings Management?" *SSRN Electronic Journal*, no. September 2018 (2013). <https://doi.org/10.2139/ssrn.2283968>.
- Rustam, Bambang Rianto. *Manajemen Risiko Perbankan Syariah Di Era Digital: Konsep Dan Penerapan Di Indonesia*. Jakarta: Salemba Empat, 2018.
- Saidu, Hauwa, Ocheni Ibrahim, and Jamila Muktar. "The Impact of Earnings Management on Financial Performance of Listed Deposit Money Banks in Nigeria." *Journal of Accounting and Financial Management* 3, no. 2 (2017): 52–62. <http://www.ssrn.com/abstract=1929550> 0Awww.iiardpub.org.
- Silviany, R., & Habib, M. A. F. (2023). Strategi Bank Syariah Indonesia KCP Tulungagung Trade Center dalam Menghadapi Persaingan di Industri Perbankan. *Journal on Education*, 5(3), 10250-10264.
- Siswanti, Indra, Ubud Salim, Eko Ganis Sukoharsono, and Siti Aisjah. "The Impact of Islamic Corporate Governance, Islamic Intellectual Capital and Islamic Financial Performance on Sustainable Business Islamic Banks." *Journal of Finance and Banking Review* 7, no. 4 (2017): 316–23. <http://www.econjournals.com>.
- Umoren, Adebimpe. "Earnings Management and Financial Performance of Deposit Money Banks in Nigeria." *Research Journal of Finance and Accounting* 9, no. 22 (2018): 94–100.
- Utami, Rachma Bhakti, Nila Firdausi Nuzula, and Cacik Rut Damayanti. "The Effect of Earnings Quality on Financial Performance in Indonesia : Is the State-Owned Bank Better than Private Bank?" *Asia Pacific Management and Business Application* 008, no. 02 (2019): 105–16. <https://doi.org/10.21776/ub.apmba.2019.008.02.3>.
- Zulfikar, Z, Mujiyati, Andi Dwi Bayu Bawono, and Sri Wahyuni. "Dampak Kebijakan Cadangan Kerugian Penurunan Nilai Pembiayaan Musyarakah Pada Kinerja Keuangan Bank Unit Usaha Syariah Di Indonesia." *Riset Akuntansi Dan Keuangan Indonesia* 4, no. 2 (2019): 43–52. <http://journals.ums.ac.id/index.php/reaksi/index>.