Good Corporate Governance, Earnings Management and Profit Optimization to increase the Competitiveness of Sharia Commercial Banks Industry

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Keywords: Good Corporate Governance, Earnings Management, Profit.

Abstract: This study was conducted to determine the effect of Good Corporate Governance (GCG) on earnings management and profit as an effort to improve the competitiveness of Islamic banks in Indonesia. The study was conducted on 11 Islamic public banks registered with Financial Services Authority using data from the period 2013-2017. Methods of data analysis are using PLS-SEM with WrapPLS 6.0 statistical tools. The results of the study showed that the GCG elements of the sharia supervisory board and the board of commissioners did not affect earnings management, while the audit committee element affected earnings management. This condition shows that the shariah supervisory board and board of commissioners have not optimally influenced the practice of earnings management and supported the increase in the competitiveness of Islamic banks in Indonesia, but the audit committee contributed to controlling the practice of earnings management. GCG elements of the sharia supervisory board and audit committee have no effect on the increase in company profits while the board of commissioners has an influence on increasing corporate profits. This condition shows that the shariah supervisory board and audit committee have not optimally influenced corporate profits to support the increase in the competitiveness of Islamic banks in Indonesia while the board of commissioners contributes to optimizing corporate profits. The test results also show that earnings management has a positive effect on increasing corporate profits. The GCG element of the audit committee is able to play a role in encouraging the implementation of earnings management so that it influences the increase in corporate profits. Profit optimization through increasing the role of GCG can increase the competitiveness of Sharia Commercial Banks in Indonesia.

1 INTRODUCTION

Today, the business world is increasingly dynamic. The development of the company's ability is very important in order to survive in the global market. So it is not surprising that now companies are competing to increase their competitiveness in various fields. One of the company's efforts to improve the quality of the company is by implementing good corporate governance (Wicaksono and Raharja, 2014). The essence of increasing the competitiveness of banking institutions as reviewed by (Priyanto, 2006) is a decrease in costs with indicators of increasing company profits. Banking will also see it through market share indicators because it is a reflection of customer confidence in using banking services.

Earnings management and banking industry operational systems have been widely studied by various parties. The study (Amertha, 2013) shows that profit is an indicator of company management in managing company assets. Profit functions as a tool to measure the operational effectiveness and performance of business entities. According to (Fatimah et al., 2019) profit is used by management to assess the company's operational and financial performance. Profit is used as a reference for the use of resources and consideration in financing assets. In practice, managers often take action on 'earnings management' which is related to the level of sales, assets, and share capital. According to (Healy and Wahlen, 1999) earnings management occurs when managers manipulate company performance. Manipulation is done by changing contracts and accounting reports with the aim of changing stakeholder perceptions of company performance.

Earnings management seems to be something that is usually practiced by several world companies in the past decade (Agustina et al., 2018). Earnings manage-

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ment is a phenomenon that is difficult to avoid as an impact of the use of accrual basis in preparing financial statements. According to (Setiawati and Naim, 2001) deviations in the allocation of funds are a result of the manipulation of financial statements by management. Earnings information is a major concern for assessing management performance or performance. Earnings management actions are known to have raised several cases of accounting reporting scandals widely, including Enron, Merck, WorldCom, and the majority of other companies in the United States (Tehranian et al., 2006). Some cases also occur in Indonesia, such as PT. Kimia Farma Tbk and PT. Lippo Tbk also involve financial reporting starting from the detection of engineering (Boediono, 2005).

In Islamic banking, the application of earnings management is considered to be contrary to moral and ethical values. Earnings management is the practice of accounting information manipulation and Islamic banks must avoid it (Bukhari et al., 2013). Study of (Taktak, 2011) revealed that the practice of earnings management in Islamic banks is done by manipulating the use of reserve funds to regulate the value of their desired income. (Mujib, 2018) revealed that in the 2013-2017 period there were earnings management practices in several Islamic banks in Indonesia. Fraud conducted through earnings management practices on Islamic banks has an impact on declining profits and the competitiveness of companies. There needs to be intervention from the government to improve company performance, one of which is through increasing the supervision and control processes both externally and internally.

Financial reporting quality of Islamic banks is expected to be able to be achieved properly if implemented internal control over effective financial reporting. The implementation of internal control over effective financial reporting requires the application of the role of the Sharia Supervisory Board, the Board of Commissioners, and the Audit Committee. This research was conducted to discuss Good Corporate Governance, Earnings Management and Profit Optimization to increase the competitiveness of Sharia Commercial Banks in Indonesia. Based on the problems faced by Islamic banks in Indonesia, the formulation of the questions in this study is 1) How does the role of the shariah supervisory board, board of commissioners and audit committee influence earnings management 2) How does the role of the shariah supervisory board, board of commissioners and audit committee affect profit 3) What is the effect of earnings management on profits at Sharia Commercial Banks in Indonesia.

2 LITERATUR REVIEW

In order to improve the performance and competitiveness of national banks, the government needs to intervene. It is necessary to supervise banks with high concentration to be able to control operational activities. Banks are expected to be more efficient towards high competitiveness and avoid potential moral hazard practices (Tobing et al., 2013). Good corporate governance is a reference for companies to improve the competitiveness of companies (national and international). Improving competitiveness increases market confidence, encourages continuous investment flows and national economic growth (Wicaksono and Raharja, 2014).

Indonesia has experienced a financial crisis. According to (Solla et al., 2010), one of the factors that triggered the financial crisis in Indonesia was due to the weak factor of Good Corporate Governance (GCG). Financial reports fail to convey real facts about the economic condition of the company so that users of financial statements do not obtain real information from company profits. According to (Sun et al., 2010) Good Corporate Governance deals with compensation received by the directors and managers. The purpose of GCG is to provide motivation to managers in determining the best attitude for shareholders and management monitoring to reduce agency conflict.

The study from (Mujib, 2018) revealed that in the 2013-2017 period fraud occurred which was the practice of earnings management in Islamic banking.

No.	Case	Doer	Year	Source
1	The case of fiction credit, 3 Mandiri Syariah bank officials received 9 Billion Rupiah.	Employee	2013	Liputan6.com
2	Collapse of 75 billion, red plate syariah bank employees were jailed 8,5 years.	Employee	2014	Detik.com
3	Embezzlement of 2.263 billion rupiah in Mandiri Syariah bank, the employees detained by the police.	Employee	2016	Teraslampung.com
4	BJB Syariah corruption case, police seized assets of 2 contractor companies.	Director	2017	Detik.com

Figure 1: Fraud in Sharia Banking year 2013-2017(Mujib, 2018).

Earnings management can make financial presentations less transparent. In the Sharia Banking system, the concept of earnings management is different from the moral and ethical values on which this institution is run based on Islamic sharia based on honesty and transparency, therefore accounting manipulation and other discretionary behaviors are considered unethical practices in Islam banks.

Earnings management is thought to appear or be carried out by managers or financial statement makers in the financial reporting process of an organization because they expect a benefit from the actions they take (Gumanti, 2000). In addition, earnings information is also used by investors or interested parties as an indicator of the ability to use funds that are embedded in the company and manifested in the rate of return as well as indicators for increasing welfare (Chariri and Ghozali, 2007). With good Good Corporate Governance, it is expected that the quality of financial statements will be properly assessed by investors. Therefore, the relationship that arises from the existence of strong Good Corporate Governance in a company is thought to affect the relationship of earnings management and earnings quality (Rifani, 2013).

Corporate governance is an attraction that has always been questioned by regulators, financial institutions, investors, and the media. governance problems arise from different incentives and asymmetric information between shareholders and managers (Niu, 2006), because the relationship between management, the board of directors, shareholders and corporate stakeholders can be seen and realized through the achievement of systematic corporate governance. This is the scope of the rules and procedures that must be followed through the stated company goals (Ahmed, 2017).

In Islamic banking, the sharia supervisory board (SSB), board of commissioners (BOC) and audit committee (AC) play an important role to limit earnings management practices. The Shariah Supervisory Board is an entity that has the authority to provide oversight of products or any form of implementation of National Sharia Board – Indonesia Ulema Council decisions in Islamic financial institutions. SSB can carry out its duties after being appointed / appointed through the SSGM (Sharia Supervisory General Meeting) after obtaining a recommendation from the National Sharia Board, and can be dismissed in carrying out its duties and authorities through the SSGM after obtaining recommendations from the National Sharia Board. This Sharia Supervisory Board is located under the Sharia Supervisory General Meeting or parallel to the Board of Commissioners in the structure of a Sharia Bank or Islamic financial institution (Wisnumurti and YUYETTA, 2010).

The board of commissioners has a certain influence on the performance of the company. In a literature, it is explained that the increasing number of personnel who become board of commissioners can result in the worse performance of the company. This can be explained by the existence of agency problems, which states that the more members of the board of commissioners, the institution will experience difficulties in carrying out its role, while the difficulties that are intended include difficulties in communicating and coordinating the work of each member of the board itself, difficulties in monitoring and controlling the actions of management, as well as difficulties in making decisions that are useful for the company (Nasution and Setiawan, 2007).

In carrying out its duties and responsibilities the audit committee works independently. The audit committee involved has at least three members from independent commissioners and parties outside the company. The audit committee is required to make a report to the board of commissioners for the tasks assigned and make an annual report on the implementation of the activities of the audit committee's activity committee which are disclosed in the company's annual report. The existence of formal communication between the audit committee, internal audit and external audit will ensure that the internal and external audit processes are carried out properly. A good internal and external audit process will improve the accuracy of financial statements and then increase confidence in financial statements (Anderson et al., 2003).

Based on the literature review above and the problems that have been presented, the researcher presents a framework that is poured into the model in Figure 2 below:

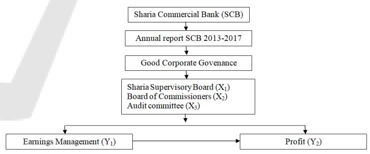

Figure 2: Thinking Framework

3 METHOD

The object of research used is the Sharia Commercial Bank in Indonesia during the period 2013-2017. Where in 2013 the number of Islamic public banks was only 11 and had complete report data in 2017. The sample is part of the number and characteristics possessed by the population (Sugiyono, 2008). The sampling technique was carried out by purposive sampling with the aim of getting a representative sample according to the specified criteria (Sugiyono, 2008). Among others are as follows: Available data is complete (overall data is available in the publication of Sharia Commercial Bank financial statements for 2013-2017), both data on corporate governance (Sharia Supervisory Board, Board of Commissioners, and Audit Committee) banking and data needed for detect earnings management and profit optimization. Data measurement is calculated based on surveys or observations used to collect primary data, but calculations are also obtained from secondary databases(Hair Jr et al., 2016).

The data analysis technique used in this study is path analysis (analysis path) using the PLS-SEM (Partial Least Square Structural Equation Modeling) method with the WarpPLS 6.0 program. According to (Santoso, 2011) that SEM is used to explain certain phenomena involving two or more variables, either latent or not. This method is applied because it is considered quite relevant and has been tested as a strong method for predicting relationships between variables with small samples when the data is not normally distributed (Hair Jr et al., 2016).

4 RESULT

Based on the results of testing with WarpPLS 6.0, the calculation of the fit model can be obtained which is to evaluate whether the model fit is appropriate or supported by the following data:

Criteria	Value	Term	Sig.	Summary
Average path coefficient (APC)	0,203	<0,05	0,028	Significant
Average R-squared (ARS)	0,224	<0,05	0,019	Significant
Average block VIF (AVIF)	1,057	<5	-	No Multicollinearity

Figure 3: Fit Model Analysis.

The output results show APC of 0.203 and ARS of 0.224 and the criteria for the goodness of model fit have been fulfilled which is significant (p value meets the requirements <0.05). The AVIF value of 1.057 also fulfills the criteria of less than 5 which indicate that there is no multicollinearity in the model.

Complete results of testing the hypothesis of direct influence can be seen in Figure 4, below.

Independent Variable	Dependent Variable	Path Coef.	P-Value	Result
SSB (X1)	EM (Y1)	-0,045	0,368	No Significant
SSB (X1)	Profit (Y2)	0,030	0,410	No Significant
BOC (X2)	EM (Y1)	0,055	0,341	No Significant
BOC (X2)	Profit (Y2)	-0,347	0,002	Significant
AC (X3)	EM (Y1)	-0,377	0,001	Significant
AC (X3)	Profit (Y2)	0,151	0,121	No Significant
EM (Y1)	Profit (Y2)	0,413	<0,001	Significant

Figure 4: The Resume of the Direct Effect Hypothesis Test.

Furthermore, the results of the complete path analysis are also presented in the form of images as shown in the following Figure 5,

In accordance with Figure 4 and Figure 5, we can explain the results of testing the hypothesis of a direct influence between variables as follows:

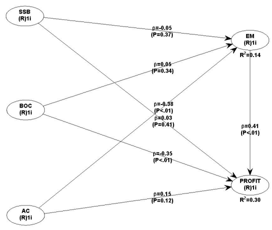

Figure 5: The Result of PLS-Path Analysis

1. Hypothesis 1 (H1) states that the shariah supervisory board (SSB) (X1) has an effect on earnings management (EM) (Y1). The test results show path coefficients or path coefficients of -0.045 (p = 0.368). This means that H1 is rejected or SSB (X1) has no effect on EM (Y1).
2. Hypothesis 2 (H2) states that the shariah supervisory board (SSB) (X1) has an effect on profit (Y2). The test results show path coefficients or path coefficients of 0.030 (p = 0.410). This means that H2 is rejected or SSB (X1) does not affect profit (Y2).
3. Hypothesis 3 (H3) states that the board of commissioners (BOC) (X2) influences earnings management (EM) (Y1). The test results show path coefficients or path coefficients of 0.055 (p = 0.341). This means that H3 is rejected or BOC (X2) has no effect on EM (Y1).
4. Hypothesis 4 (H4) states that the board of commissioners (BOC) (X2) has an effect on profit (Y2). The test results show path coefficients or path coefficients of -0,347 (p = 0,002). This means that H4 is accepted or BOC (X2) has an effect on profit (Y2). The path coefficient value of -0,347 indicates that BOC (X2) has a significant negative effect on profit (Y2).
5. Hypothesis 5 (H5) states that the audit committee (AC) (X3) affects earnings management (EM) (Y1). The test results show path coefficients or path coefficients of -0,377 (p = 0.001). This means that H5 is accepted or AC (X3) has an effect on EM (Y1). The path coefficient value of -0,377 indicates that AC (X3) has a significant negative effect on EM (Y1).
6. Hypothesis 6 (H6) states that the audit committee (AC) (X3) has an effect on profit (Y2). The test results show path coefficients or path coefficients of 0.151 (p = 0.121). This means that H6 is rejected or AC (X3) has no effect on profit (Y2).
7. Hypothesis 7 (H7) states that earnings management (EM) (Y1) affects profit (Y2). The test re-

sults show path coefficients or path coefficients of 0.413 (p = ¡0.001). This means that H4 is accepted or EM (Y1) has an effect on profit (Y2). The path coefficient value of 0.413 indicates that EM (Y1) has a significant positive effect on Profit (Y2).

The results of the study showed that the GCG elements of the sharia supervisory board and the board of commissioners had no effect on earnings management. This is not in accordance with the research(Mersni and Othman, 2016). Based on this study, the shariah supervisory board and board of commissioners have not optimally influenced the practice of earnings management and support the improvement of the competitiveness of Islamic banks in Indonesia. Audit committee GCG influences earnings management. These results are consistent with the research(Agustina et al., 2018) which shows that audit committees contribute to controlling earnings management practices that have an impact on corporate profits. GCG elements of the sharia supervisory board and audit committee have no effect on increasing company profits. The shariah supervisory board and audit committee have not optimally influenced corporate profits to support the increase in the competitiveness of Islamic banks in Indonesia. This is not in line with research (Sunarwan, 2015). However, in his research it was revealed that the sharia supervisory board had an effect when measured by the number of sharia supervisory board meetings. Board of Commissioners' GCG influences the increase in company profits. This condition shows that the board of commissioners contributes to optimizing company profits. The test results also show that earnings management has a positive effect on increasing corporate profits. This result is in accordance with the study (Salim, 2015) that the higher the practice of earnings management is carried out, the higher the value of corporate profits. The GCG element of the audit committee is able to play a role in encouraging the implementation of earnings management so that it influences the increase in corporate profits. Profit optimization through increasing the role of GCG can increase the competitiveness of Sharia Commercial Banks in Indonesia.

5 CONCLUSION, IMPLICATION, FUTURE RESEARCH

This study aims to determine the effect of good corporate governance on earnings management and its impact on profit optimization by using SEM-PLS. Determinants of good corporate governance include variable sharia supervisory boards, board of commissioners, and audit committees. The specialty of using accrual accounting is to give management space to inform their private information through earnings management. However, if the application of earnings management is too opportunistic, it will disrupt the quality of financial statements. To achieve this goal, the company is required to manage various resources properly to grow the value added for the company itself. So that the better the company in managing resources, the better the output will be. In addition to financial aspects, the performance of a business entity or business management is also seen based on the success of a company implementing GCG and increasing company profits to be able to compete with other companies.

The results of this study have implications for Sharia Commercial Banks. They are good at threatening dismissals, threats of expropriation, and structuring manager incentives. This is to prevent the contract between Corporate Governance and agency theory and earnings management. Because if there are managers using valuation in financial reporting by manipulating several stakeholders about the underlying economic performance of the company or changing the outcome of the contract based on reported accounting figures. Accountants are the most important parties to overcome practices in the business world. While earnings management is the most important moral problem for the accounting profession.

Although this paper reveals several important findings, this paper has limitations. First, due to limited access to data, the data used in this study were only from 11 Islamic banks from 13 Islamic public banks available in 2017. Second, it can be seen from the factors that influence earnings management only audit committees that influence earnings management are therefore advised to enter or add new variables that are identified as variables of good corporate governance.

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