

**DOES INTELLECTUAL CAPITAL AND ISLAMIC CORPORATE
GOVERNANCE AFFECT FINANCIAL PERFORMANCE AND EARNING
MANAGEMENT ON SHARIA BANKING IN INDONESIA?**

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INDONESIA?**

Abdurrahman^{1)*}, Amilin²⁾, Indo Yama Nasaruddin³⁾

¹Student of Doctoral Program in Islamic Banking, UIN Syarif Hidayatullah, Indonesia

^{2,3} Economic and Bisnis Faculty, UIN Syarif Hidayatullah, Indonesia

Abstract

This study aims to analyze the relationship between intellectual capital and Islamic corporate governance on financial performance and its impact on earning management behavior. This study uses the analysis method Generalize Least Square and Path Analysis in Islamic banking. The sampling technique used purposive sampling. The data obtained is secondary data based on financial reports for a period of 9 years in the period 2011-2019. The results showed that the role of intellectual capital and Islamic corporate governance can directly affect financial performance, and the role of intellectual capital and Islamic corporate governance cannot directly affect Earnings Management however must go through Financial Performance.

Keywords: *Earning Management, Financial Performance, Islamic Corporate Governance, Intellectual Capital.*

1. INTRODUCTION

Banking is a business of trust, where banks have a large number of human resources, who have a role as intermediaries between those who have excess funds and those who are short of funds and institutions that function to facilitate the flow of payment traffic, such as Islamic banking must be able to gain public trust in carrying out its activities. Islamic banking stands as part of the development of the concept of sharia economics, especially in the financial sector which was developed in response to Muslim economists and banking practitioners who try to accommodate the pressure of various parties who want the existence of financial transaction services to be carried out in accordance with the moral values and principles of Islamic sharia. According to Maghrebi & Abbas (2015), Rules The principles of sharia are determined in the Koran and are operationally described in the Hadith, these rules consist of various kinds of institutions in running the economy, including the rules that regulate the behavior of market participants. Whereas in market capitalism, the market is considered a system, in Islamic economics it is only one mechanism, the most important thing in Islamic economics is to achieve the economic goals of society or to achieve the benefit of the Ummah.

*Corresponding author. *Email address:* abdurrahman@esaunggul.ac.id

Regarding the conditions of Islamic banking above, there needs to be a strategy handling in an effort to increase both volume and financial transactions through Islamic banking, the strategy in question is a strategy in using policies to run a company that needs to be carried out in an effort to improve financial performance and is expected to increase company value (Morrow, et al, 2007; Murtini, 2008)

Companies need to choose a policy strategy in the form of appropriate Management and Accounting policies to achieve the company's goals, namely increasing company value. The role of the financial manager must have a strategy in managing financial activities, there are three strategies that a manager must carry out in the company, namely: 1). Planning strategy, guided by the linkage between internal pressures and external needs that come from outside, depends on the elements of needs analysis, projection, forecasting, economics and finance. 2). Management strategy, an effort to manage the change process, such as: strategic planning, organizational structure, strategic control and primary needs. 3). Thinking strategy, as a basic framework for formulating goals and results on an ongoing basis (Mustari, 2014; Sujianto, et al, 2020).

There are three main weaknesses of the Islamic banking industry, namely: a). Competitiveness; b). position and c). Synergy with other Islamic financial institutions. In particular, there are problems related to the lack of comprehensive and appropriate frameworks and instruments, limited market coverage, lack of public knowledge and understanding, lack of efficient organizational structures to support banking operations, operational inefficiencies, domination of basic debt financing, and inability to support banking operations. comply with international Islamic finance standards (Ismal, 2011).

The use of management and accounting strategies is a key that cannot be underestimated in creating the sustainability of a sharia banking business (going concern). Business competition between Islamic banks is clearly a risk factor for an Islamic bank to survive, not to mention the added competition with conventional banks that have sharia units and conventional banks in general. The ability to determine strategies in determining management and accounting policies is a determining factor in winning a competition in the financial market, especially banking. One of the success of a bank is by looking at the bank's ability to create corporate profits.

The use of these strategies is of course in the hope of being able to meet the expectations of the company owner, namely business continuity and increase in company value, however, every business activity does not escape fraud / fraud, both individuals and company management, including in this case Islamic banking, a real case example is a Mega Syariah was dragged into the money game case packaged in gold investment products GTIS (Golden Traders Indonesia Syariah) and GBI (Gold Bullion Indonesia) (Sadikin, 2014). Furthermore, a fictitious credit scandal committed by bank officials at Bank Syariah Mandiri (BSM) (Agustiyanti, 2018). The fictitious credit case at Bank BJB Syariah in 2019 (AL-Ayyubi, 2019), The fraud cases that appeared in the media at this Islamic bank are proof that the element of sharia does not guarantee that Islamic banking is free from the threat of fraud. and These cases indicate weak corporate governance practices, weak internal controls, and bank performance that causes fraud and losses for owners and the government.

The performance of Islamic banks must always be considered, especially in terms of various aspects, namely financial and non-financial, especially the quality of human

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resources related to their skills and knowledge of sharia. With the hope that if the quality of human resources is good, a variety of sharia products will emerge that can be chosen by the community. However, the problem is not only the internal factor of Islamic banking but external factors including market players and the public who need to be educated about the Islamic products offered by Islamic banking. The development of Islamic banks which is towards improvement needs to be further guarded to prevent the emergence of various kinds of risks, both financial loss and reputation risk. Islamic bank observers must be extra hard to protect Islamic banks from bad possibilities in the future. If the Islamic bank makes a mistake, it can cause a bad image of the Islamic bank. To restore public trust, it will take a lot of money and time. The existence of Islamic banks is not free from external problems such as economic and monetary conditions in Indonesia. In line with these conditions, one thing that needs to be observed is the aspect of Good Corporate Governance (GCG) because it is related to various kinds of risks which if not considered will damage the image of Islamic banks in the future.

Corporate Governance for Islamic banking, emphasizing the importance of implementing effective GCG in Islamic financial institutions. GCG is an important pillar that must be created to create a superior and resilient Islamic bank. The application of CG is very important, because the concept of Islamic banking uses risk sharing. Chapra further explained that among the most important ways to support corporate governance are internal control, risk management, transparency, accounting and financing disclosures, sharia refining and auditing, prudent regulation and supervision. Compliance with sharia regulations is a key player in the implementation of CG in the Islamic banking industry(Chapra & Ahmed , 2002).

2. LITERATURE STUDY

This research involves several basic theories including: Positive Accounting Theory (PAT), Agency Theory, Signaling Theory,). Resource Based Theory (RBT) Resources-Based View of the firm, Pecking Order Theory (POT), and Shariah Enterprice Theory. Positive Accounting Theory (PAT) deals with the prediction of actions such as the choice of accounting policies by companies and how the company will respond to new accounting standards that are being proposed. PAT emphasizes whether the accounting theory put forward in the accounting literature can explain accounting practices and predict the causes of current phenomena and their effects in the future. (Scott, 2015).

Agency theory is a relationship or contract between the principal and the agent, in which the principal is the party who employs the agent to perform tasks for the interests of the principal, while the agent is the party that carries out the interests of the principal (Scott, 2015).

Signaling Theory is an action taken by company management that provides instructions to investors about how management views the company's prospects. Signal theory explains that signaling is done by managers to reduce information asymmetry. Managers provide information through financial reports that they are implementing conservatism accounting policies that generate higher quality earnings because this principle prevents companies from exaggerating profits and helps users of financial statements by presenting income and assets that are not excessive (Brigham & Houston

2006). Resource Based Theory (RBT) The Resources-Based View of the firm states that companies achieve sustainable comparative advantage and gain more benefits by owning or controlling strategic tangible and intangible assets. The RBT perspective includes all assets, capabilities, organizational processes, company attributes, information, knowledge, etc. Controlled by the company which allows the company to understand and implement strategies to increase the efficiency and effectiveness of the company (Ulum, 2013).

Pecking Order Theory (POT) states that companies like internal financing (funding from the company's operations in the form of retained earnings), if external funding is required, the company will issue the safest securities first, starting with the issuance of bonds, then followed by securities. With the characteristic option, only when in the end not enough new shares are issued, this theory was introduced by (Donaldson, 1961) and developed by (Myers, 1984). Internal funds are preferred over external funds because internal funds allow companies to no longer need to seek loans from outside parties. External funds are preferred in the form of debt to equity capital for two reasons. First, considering the issuance cost, the cost of issuing bonds is cheaper than the cost of issuing new shares (Husnan, 2000).

Shariah Enterprise Theory, a theory that explains the values of justice, truth and honesty as well as accountability that has been done to Allah SWT. According to Triuwono (2000), it explains that Islamic accounting does not necessarily take the form of management accountability to company owners (stakeholders), but also as accountability to stakeholders and God. Shariah Enterprise Theory where the highest stakeholder is Allah SWT, humans as caliphs or as representatives of Allah SWT on this earth have a mandate to share welfare with all stakeholders, humans are prohibited from hoarding assets for themselves, because in essence part of the property is owned by humans belong to another human being in need.

Based on the basic theory above, the variables used in this study are formed, including Earning Management, Financial Performance, Islamic Corporate Governance, and Intellectual Capital.

Earning management is as "the choice by a manager of accounting policies so as to achieve some specific objectives" or the choice made by managers in determining accounting policies to achieve certain objectives. The practice of earnings management in the company is very logical. If accounting flexibility allows managers to influence a decision, and it is legally (to some extent) a legal practice, surely managers will. The amount of opportunities and incentives for managers to carry out earnings management encourages researchers to evaluate earnings management practices. What is difficult for researchers to explore earnings management practices is the limitation of the methodology to prove earnings management practices, because basically earnings management is difficult to detect (Scott, 2003). Meanwhile, if you look at the Islamic perspective framework related to Earning Management, it begins that Islam is present to bring peace by always obeying the will of Allah SWT, by holding two principles, namely the Qur'an as the holy book sent down by Allah and Hadiths which contain actions inspired by Allah: the words of the Prophet Muhammad SAW and description of his behavior. These two principles build the source of Islamic law (Abdul Rahman, 2003). There is no separation between the worldly and the spiritual dimensions in Islam, and

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Islam views ethics as part of faith that emerges from aqidah (Ahmad, 1997). By having a good Aqidah, a Muslim will obey the rules that have been determined. Compliance with the rules determines the level of a person's faith so that he will refrain from things that are prohibited by Allah SWT (Abdul Rahman, 2003).

Financial performance is a function of the worker's ability to accept job goals, the level of achievement of goals and the interaction between the goals and abilities of workers. Financial performance is a complete display of the state of a company for a certain period of time, which is the result or achievement that is influenced by the company's operational activities in utilizing its resources. Performance is used for part or all of the actions or activities of an organization in a period with reference to standard amounts such as past or projected costs, on the basis of efficiency, accountability or management accountability and the like (Srimindarti, 2004).

Intellectual Capital is defined as a set of intangible resources and capabilities owned or controlled by a company such as knowledge, culture, brand, reputation, relational networks, processes that create value in the form of competitive advantage. It is an important part of the Resources Base Theory (RBT) and contributes to the performance from this theoretical perspective (Barney, 1991); (Bollen, et al, 2005). The value of intellectual capital also lies in its intangibility, which makes it rare and difficult to imitate, in contrast to tangible assets that are easier to buy or copy (Martín-de-Castro et al., 2011; Ray et al, 2004).

Islamic Corporate Governance, Islam as a Way of Life which always voices the importance of business ethics, values of integrity and true honesty. Islamic entities have their own perspective on Corporate Governance which is a reflection of an Islamic perspective, which has a different point of view from conventional Corporate Governance, especially the placement of the ideology of monotheism in the perspective of sharia, while the ideology of rationalism in the conventional perspective that distinguishes the other is that its business objectives in conventional perspectives will generally maximize profit, while in the perspective of sharia it focuses more on the welfare of the ummah. The principles of Islamic Corporate Governance refer to the Al Quran and Al Hadists. The principles of corporate governance in Islam to convey the revelations of Allah SWT to the people, where the messengers are equipped with four mandatory characteristics, namely shiddiq, amanah, tabligh and Fathanah, these four characteristics are translated into the Islamic Corporate Governance application which is based on the law of the Qur'an and Hadith. (Nugroho, 2015).

3. RESEARCH METHODOLOGY

The design of this research is quantitative research with the type of causality research, which means that this research tries to find or find the cause of one or more problems (Sekaran & Bouqie, 2017). The scope of this research is limited to the study of firm value. The population in this study is limited to Islamic banking, especially Islamic Commercial Banks (BUS), which are registered with the Financial Services Authority (OJK). The period is limited to 9 years starting from 2011 to 2019. The selection of a Sharia Commercial Bank (BUS) is based on the independence of policies in carrying out its business activities. The population consists of 14 Islamic Commercial Banks registered

with the Financial Services Authority (OJK) and as samples there are 12 Islamic Commercial Banks with the criteria of having complete financial and non-financial reports from 2011-2019.

The data analysis method used is by using descriptive statistics, namely describing the data by looking at the mean (mean), highest (maximum) value, lowest (minimum) value, and standard deviation of a variable in the form of an explanation regarding each variable in the study either. On average, the Islamic banking industry and each individual Islamic banking are the object of research and the Panel Data Estimation model where this model combines time series with cross-sector observations so that the number of observations made will increase. Panel data estimation will increase the degrees of freedom and also reduce the collinearity between the explanatory variables and increase the estimation efficiency. In estimating the panel data regression model, there are three categories of models that can be used, namely the common effect, fixed effect, and random effect. After obtaining an effective model, it is continued with the Panel Data Regression Assumption Test, if it passes, it will use OLS (Ordinary Least Square) if it does not pass it will use GLS (General Least Square) then proceed using Path Analysis.

Earning Management is an accountant's action by increasing or decreasing earnings on financial statements based on certain motivations. The measurement of Earning Management is proxied by using discretionary accruals. Discretionary accruals use the accrual component in managing earnings because the accrual component does not require physical evidence of cash so that playing with the accrual component is not accompanied by cash received / disbursed. The value of Discretionary Accruals can be zero, positive, or negative. The zero value indicates that earnings management is carried out using an income smoothing pattern. Meanwhile, positive values indicate earnings management with an income increasing pattern and negative values indicate earnings management with income decreasing patterns (Sulistyanto, 2008).

Financial performance in this study is measured using the Return On Asset proxy, calculated by using the Profit Value before tax divided by Total Assets multiplied by 100%. Which means the company's ability to obtain profits (profits) and overall efficiency. The greater the value of the Return On Assets (ROA) ratio illustrates the high level of profit the company gets based on the use of assets owned and the more productive the company maximizes the use of assets to be converted into profit.

Intellectual Capital is an intangible asset but can provide added value in a company. Where it is divided into 3 parts, the first is VACA is the company's capital ability to create added value for the company; the second is VAHU, which is the ability of human capital to create added value for the company and the third is STVA, which is the ability of structural capital to create added value for the company. The three components add up to produce IB-VAIC.

Islamic Corporate Governance in this study is proxied by using 11 GCG assessment factors to become a Total Composite Value with the criteria 1 = Very Good; 2 = Good; 3 = Good Enough; 4 = Not Good and 5 = Not Good. The details of the assessment factors are as follows: 1). Implementation of Duties and Responsibilities of the Board of Commissioners with a Weight of 12.5%; 2). Implementation of duties and responsibilities of the Board of Directors with a Weight of 17.5%; 3). Completeness and implementation of committee duties with a Weight of 10%; 4). Implementation of duties and

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responsibilities of the Sharia Supervisory Board with a Weight of 10%; 5). Implementation of Sharia Principles in the activities of raising funds and channeling funds as well as services with a Weight of 5%; 6). Handling of conflicts of interest with a weight of 10%; 7). Implementation of the Bank's compliance function with a Weight of 5%; 8). Implementation of the internal audit function with a Weight of 5%; 9). Implementation of external audit function with a Weight of 5%; 10). Maximum Fund Distribution Limit with a Weight of 5%; 11). Transparency of financial and non-financial conditions, GCG implementation reports and internal reporting with a Weight of 15%.

4. RESULT AND DISCUSSION

4.1 Descriptive Analysis Results

Descriptive analysis is used to analyze data by describing and describing the data used to describe the data used in this study with the aim of making a conclusion. This study aims to examine Intellectual Capital and Islamic Corporate Governance on Islamic Banking Financial Performance and its impact on Earning Management actions. This description of each research variable is obtained as follows:

Table 1
Descriptive statistics

	EM	ROA	ICG	IBVAIC
Mean	-0.000350	0.004963	1.827037	0.634431
Median	-0.000015	0.008255	1.715000	2.027445
Max	0.937406	0.107523	2.830000	6.309517
Min	-1.723771	-0.235935	1.150000	-134.1635
Std Dev	0.200668	0.035153	0.450674	13.24238

Source: Output from Eview 11 (Student Version)

Based on table 1 above, it can be seen that from 108 observations of Earning Management data, it has an average value of -0.000350 with a deviation (standard deviation) of 0.200668. Earning Management with the lowest score of -1.723771 owned by Bank Bukopin Syariah in 2012 and the highest value of 0.937406 owned by Bank Panin Dubai Syariah in 2011. It can be concluded that the trend of Earning Management in Islamic banking in Indonesia tends to be by "Reducing Profits".

Based on table 1 above, it can be seen that from 108 data observations, the level of profitability as measured by using Return on Assets (ROA) has an average value of 0.004963 or 0.4963% with a deviation (standard deviation) of 0.035153. Return on Asset with the lowest value of -0.235935 or -23.5935% owned by Bank Net Indonesia Syariah (Bank Maybank Indonesia Syariah) in 2015 and the highest value of 0.107523 or 10.7523% owned by Bank Net Indonesia Syariah (Bank Maybank Indonesia Syariah) in the year 2019. This can explain that on average Islamic banking has a level of profitability that is "less healthy".

Based on table 1 above, it can be seen that from 108 observations of IB-VAIC data, it has an average value of 0.634431 with a deviation (standard deviation) of 13.24238. IB-VAIC with the lowest score of -134.1635 owned by Bank Victoria Syariah in 2016

and the highest score of 6.309517 owned by Bank Net Indonesia Syariah (Bank Maybank Indonesia Syariah) in 2019. It can be concluded that on average the condition of intellectual capital Islamic banking is still relatively “not good”.

Based on table 1 above, it can be seen that from 108 observations of ICG data, it has an average value of 1.827037 with a deviation (standard deviation) of 0.450674. ICG with the lowest score of 1.150000 owned by Bank Muamalat Indonesia in 2012-2013 and Bank BCA Syariah in 2014 and the highest score of 2.830000 owned by Bank Muamalat Indonesia in 2015. This can explain that on average the conditions for the application of ICG in banking sharia is in the "Good" category.

Before going to the hypothesis testing stage, the panel data is first tested using a model that is in accordance with the characteristics of the data using the common effect, fixed effect and random effect models.

Table 2
Summary Results of the Output Chow Test, Hausman Test and Lagrange Multiplier Test

TESTING		DEPENDEN VARIABEL			
		ROA		EM	
		Prob	Concusion	Prob	Concusion
Uji Chow	Cross-Section Chi-square	0.7008 > 0.05	Common Effect	0.1160 > 0.05	Common Effect
Uji Hausman	Cross-section random Prob	0.9778 > 0.05	Random Effect	0.9287 > 0.05	Random Effect
Uji Lagrange Multiplier	Breusch-pagan	0.3602 > 0.05	Common Effect	0.2540 > 0.05	Common Effect
Conclusion			Common Effect		Common Effect

Source: Output from Eview 11 (Student Version)

From the test results in Table 2, it was found that the most appropriate model for equations with the dependent variable ROA is "Common Effect" and for equations with dependent variables EM is "Common Effect", after getting the right model then the test is continued using the classical assumption test, as follows:

Table 3
Results Summary Multicollinearity Test output

Variable	Prob	Conclusion
ICG <----> IBVAIC	-0.069010 < 0.8	No Multicollinearity
ROA <----> ICG	-0.280218 < 0.8	No Multicollinearity
ROA <----> IBVAIC	0.191692 < 0.8	No Multicollinearity

Source: Output from Eview 11 (Student Version)

At the results of the summary of the output of the Multicollinearity Test in table 3 the dependent part of the ROA variable has no correlation value that exceeds the value of 0.8 so it is said that the regression equation with the dependent variable ROA is multicollinearity free, then for the dependent variable EM there is no correlation value that exceeds the value of 0.8 so it is said that the regression equation with the dependent EM variable is multicollinear free, then the next test is the Autocorrelation test:

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Table 4
Results Summary of Autocorrelation Test output

Breusch-Godfrey Serial Correlation LM Test		
Dependen Variabel	Prob Chi-Square(2)	
	Prob	Conclusion
ROA	0.7899 > 0.05	No Autocorrelation
EM	0.0983 > 0.05	No Autocorrelation

Source: Output from Eview 11 (Student Version)

At the results of the autocorrelation test output in Table 4 the dependent part of the ROA variable, the Breusch-Godfrey Serial Correlation LM Test on Prob.Chi-square (2) is $0.7899 > \alpha (0.05)$ means that the regression equation with the dependent variable ROA does not exist autocorrelation. then the dependent part of the EM variable the value of the Breusch-Godfrey Serial Correlation LM Test on Prob.Chi-square (2) worth $0.0983 > \alpha (0.05)$ means that the regression equation with the EM dependent variable does not exist autocorrelation, then the next test is the Heteroscedasticity Test:

Table 5
Results of the summary of the Heteroscedasticity Test output

White Heterokedasticity test		
Dependen Variabel	Prob Chi-Square	
	Prob	Conclusion
ROA	0.0000 < 0.05	There is heteroscedasticity
EM	0.0043 < 0.05	There is heteroscedasticity

Source: Output from Eview 11 (Student Version)

When viewed from the summary results of the heteroscedasticity test output in table 4:16 using the white heterokedasticity test of the Chi-square Prob value in the dependent part of the ROA variable worth $0.0000 < \alpha (0.05)$ it means that the regression equation with the dependent variable ROA has heterocedasticity, then the value The Chi-square probability in the dependent part of the EM variable is $0.0043 < \alpha (0.05)$, which means that the regression equation with the EM dependent variable has heteroscedasticity.

4.2 Panel Data Regression Analysis

Based on the results of the postestimation test, the panel data estimation model selected both Equations 1 and 2 is Common Effect, but all models 1 and 2 have not passed the postetimation test so they must be treated using the Robust Standard Error or Generalized Least Squate. Such regression eliminates problems of multicollinearity, heteroscedasticity or autocorrelation. In this study, the treatment model used is Generalize Least Square, here are the results of the summary of the output from the Generalize Least Square:

Table 6
Results Summary of GLS Treatment Model outputs

General Least Square				
	ROA		EM	
	Coefficient	Prob	Coefficient	Prob
C	0.0184	0.0000	-0.003428	0.5739
ICG	-0.0058	0.0261	0.000993	0.7603
IBVAIC	0.00028	0.0310	0.0000520	0.2920
ROA	-	-	0.247980	0.0013
EM	-	-	-	-
AP	-	-	-	-
R-	0.092261		0.330589	
Adjusted	0.074971		0.229818	
Prob (F-	0.006208		0.000292	

Source: Output from Eview 11 (Student Version)

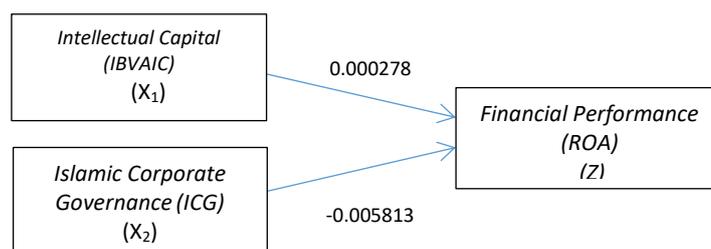
At the results of the GLS treatment model output in table 6, it can be seen that the test results with the GLS treatment method on the dependent part of the ROA variable show that the ICG variable has a significant effect on ROA because it has a Prob <0.05 and the IBVAIC variable has a significant effect. ROA because it has a Prob <0.05 value, then the test results with the GLS treatment method on the dependent part of the EM variable, the test results with the GLS treatment method show that the ROA variable affects Earning Management (EM) because it has a Prob = 0.0013 <0 value. 05, while IBVAIC and ICG have no effect on EM because they have a Prob value > 0.05.

4.3 Path Analysis Results

a. First Sub Structure

This stage explains the role of Intellectual Capital (IBVAIC) and Islamic Corporate Governance (ICG) on Return on Assets (ROA), where the results can be seen in Figure 1 below:

Figure 1
First Model Results



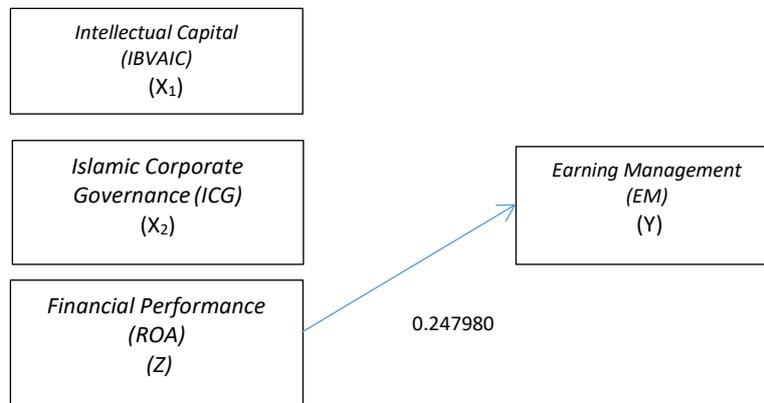
The results in Figure 1 show that Intellectual Capital (IBVAIC) has a positive effect on Return on Assets (ROA) and Islamic Corporate Governance (ICG) has a negative effect on Return on Assets (ROA).

b. Second Sub Structure

This stage explains the role of Intellectual Capital (IBVAIC), Islamic Corporate Governance (ICG) and Return on Asset (ROA) on Earning Management (EM), where the results can be seen in Figure 2 below:

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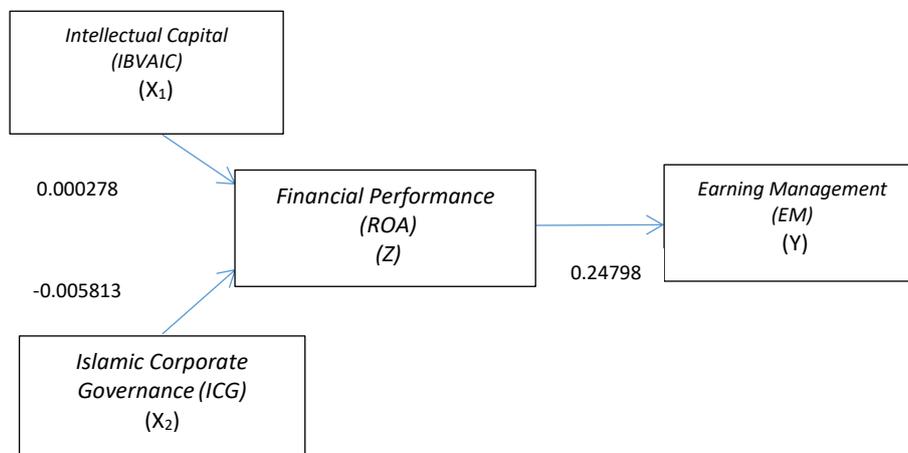
Figure 2
Second Model Results



The results in Figure 2 show that only Return on Asset (ROA) has a positive effect on Earning Management (EM), while Intellectual Capital (IBVAIC) and Islamic Corporate Governance (ICG) have no effect on Earning Management (EM).

So as to form a combined model model below, here are the results of the combined model in this study:

Figure 3
Combined Model Results



The results in Figure 3 shows that Intellectual Capital (IBVAIC) has a direct effect on Return On Asset (ROA) and Islamic Corporate Governance (ICG) has a direct effect on Return On Asset (ROA), Return On Asset (ROA) has a direct effect on Earning Management (EM), Intellectual Capital (IBVAIC) has a direct effect on Tax Aggressiveness (AP), Return on Assets (ROA) has a direct effect on Firm Value (BV) while the indirect effect is on Intellectual Capital (IBVAIC) has an indirect effect on Earning Management (EM) through Return On Assets. (ROA), Islamic Corporate Governance (ICG) has an indirect effect on Earning Management (EM) through Return On Assets (ROA).

Table 9
Value of Direct Effect, Indirect Effect and Total Effect

Correlation	Direct Effect	Indirect Effect	Total Effect
$X_1 \rightarrow Z$	0.000278	-	-
$X_2 \rightarrow Z$	-0.005813	-	-
$Z \rightarrow Y$	0.247980	-	-
$X_1 \rightarrow Z \rightarrow Y$	-	0.00006893844	0.248258
$X_2 \rightarrow Z \rightarrow Y$	-	-0.0014457234	0.242167

Source: Output from Eview 11 (Student Version)

4.4 Discussion

a. Intellectual Capital (IBVAIC) on Financial Performance (ROA)

The results of this study indicate that intellectual capital (IBVAIC) has a positive effect on financial performance (ROA). This means that intellectual material in the form of knowledge, information, intellectual property and experience from halal sources and in accordance with Islamic law in an effort to create prosperity for Islamic Commercial Banks can improve the Financial Performance of Islamic Commercial Banks, the better the Intellectual Capital Value (IBVAIC) the better the financial performance. Sharia Commercial Bank. This means that Islamic Commercial Banks (BUS) need to consider strengthening Intellectual Capital (IBVAIC) in each Islamic Commercial Bank in order to improve better financial performance. Strengthening Intellectual Capital (IBVAIC) by paying more attention to improving the quality of employees by increasing training costs, R&D costs, employee costs, productive asset expenditures, and capital expenditures at low capital costs in order to increase the company's rate of return even better. The results of this study support several theories, namely Stakeholder Theory, Legitimacy Theory, Resource Based View Theory and Signaling Theory and are strengthened by the results of research conducted by Chen, et al. (2005); Hamdan (2018); Naushad (2019); Alabass (2019); Doumpou et al. (2017) and Alazzawi et al. (2018) which state that intellectual capital has an effect on financial performance.

b. Islamic Corporate Governance (ICG) on Financial Performance (ROA)

The results of this study indicate that Islamic Corporate Governance (ICG) has a negative effect on financial performance (ROA). This means that the implementation of the Duties and Responsibilities of the Board of Commissioners, Board of Directors and Sharia Supervisory Board is good, the completeness and implementation of committee duties is adequate, Implementation of Sharia Principles in fundraising and fund distribution activities as well as good services, Good handling of conflicts of interest, The implementation of good bank compliance, internal audit and external audit functions, compliance with the maximum limit of fund distribution and transparency of financial and non-financial conditions, GCG implementation reports and internal reporting, which is represented by a composite value can affect financial performance (ROA) for the better. This means that the more Islamic commercial banks have a commitment and obedience to Bank Management in accordance with Sharia rules and Regulator rules, resulting in a

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small composite value, it will improve the financial performance of Islamic Commercial Banks. If you look at the direction of the influence, it can be explained that the smaller the ICG Composite Value (meaning the better the management of the Islamic Commercial Bank), the better the resulting financial performance will be, and vice versa if the greater the ICG Composite Value (meaning that the better management of Islamic Commercial Banks) it will reduce its financial performance. A more specific meaning is that the compliance and commitment to the disclosure of Islamic Corporate Governance (ICG) by Islamic Commercial Banks consists of 11 assessment factors, namely the Implementation of Duties and Responsibilities of the Board of Commissioners, Directors, Committees and Sharia Supervisory Board, Implementation of Sharia Principles in gathering activities, funds and distribution of funds as well as services, handling conflicts of interest, implementing the bank compliance function, implementing the internal audit function, implementing the external audit function, the maximum limit for fund distribution, as well as transparency of financial and non-financial conditions, GCG implementation reports and Internal Reporting are able to influence financial performance Sharia Commercial Bank in general. The results of this study support several theories, namely Agency Theory, Shariah Enterprise Theory and Signaling Theory which are strengthened by the results of research conducted by Riana & Stanly (2014); Mujtati, et al (2016); and Mardiani et al., (2019) which states that Islamic / Corporate Governance affects profitability.

c. Intellectual Capital (IBVAIC) on Earning Management (EM)

The results of this study indicate that Intellectual Capital (IBVAIC) has no effect on Earning Management (EM). This means that intellectual material in the form of knowledge, information, intellectual property and experience from halal sources and in accordance with Islamic law in an effort to create prosperity for Islamic Commercial Banks is not able to directly influence the behavior or actions of Islamic Commercial Bank Earning Management. This means that no matter how good the implementation of Intellectual Capital (IBVAIC), Islamic Commercial Banks will not affect the behavior or actions of Earning Management (EM) at Islamic Commercial Banks. The results of this study do not support the theory of Stakeholder Theory, Legitimacy Theory, Resource Based View Theory, Positive Accounting Theory and Agency Theory and are not in line with the research of Nuryaman (2019); Wato (2017); Galdipour, et al (2014); Mojtahedi (2013); Darabi, et al (2012) which states that intellectual capital has an effect on Earning Management

d. Islamic Corporate Governance (ICG) on Earning Management (EM)

The results of this study indicate that Islamic Corporate Governance (ICG) has no effect on Earning Management (EM). This means that the implementation of the Duties and Responsibilities of the Board of Commissioners, Board of Directors and Sharia Supervisory Board is good, the completeness and implementation of committee duties is adequate, Implementation of Sharia Principles in fundraising and fund distribution activities as well as good services, Good handling of conflicts of interest, The implementation of good bank compliance, internal audit and external audit functions,

compliance with the maximum limit of fund distribution and transparency of financial and non-financial conditions, GCG implementation reports and internal reporting that are carried out represented by a composite value have not been able to directly influence the behavior of Islamic Commercial Bank Earning Management . This is sufficient to explain that in Islamic commercial banks the application of Islamic Corporate Governance will not affect Islamic Commercial Banks in implementing their Earning Management policies. The results of this study do not support the theory of Agency Theory, Shariah Enterprice Theory, Positive Accounting Theory and Agency Theory and are not in line with the research of Fadhilah (2019); Man & Wong (2013); Amertha (2013); Karuniasih (2013); Murhadi (2010) states that Islamic Corporate Governance (ICG) has a negative effect on Earning Management (EM).

e. Financial Performance (ROA) on Earning Management (EM)

The results of this study indicate that Financial Performance (ROA) has a positive effect on Earning Management (EM). This means that when the Bank earns a profit and is able to make efficient use of assets as a whole, it can increase the behavior or actions of Earning Management (EM) at the bank. It cannot be denied that Financial Performance (ROA) has a role in the actions of Earning Management (EM) in Islamic Commercial Banks, the higher the Financial Performance (ROA) will also increase the Earning Management (EM) actions in Islamic Commercial Banks and vice versa. ROA) will also reduce Earning Management (EM) actions in Islamic Commercial Banks. The better the financial performance, the more Islamic commercial banks will carry out Earning Management behavior or actions by increasing their profits and vice versa. If financial performance conditions are decreasing, Islamic commercial banks will carry out Earning Management behavior or actions by reducing their profits. This condition confirms that in general, it is clear that bonus motivation is a realistic reason if it is linked to the relationship between Financial Performance (ROA) and Earning Management (EM). The results of this study support the theory of Signaling Theory, Agency Theory and Positive Accounting Theory which are strengthened by the results of research conducted by Sudarmadji, et al, 2007; Widyastuti, 2009; Wijaya & Budiasih, 2018; Dewi, 2012; dan Satya & Amertha, 2013 which explained that Financial Performance (ROA) has an effect on Earning Management (EM).

f. Intellectual Capital (IBVAIC) on Earning Management (EM) through Financial Performance (ROA)

The results of this study indicate that Intellectual Capital (IBVAIC) has an indirect effect on Earning Management (EM) through Financial Performance (ROA), which means that the higher the Financial Performance (ROA) of Islamic Commercial Banks is caused by the increasing role of Intellectual Capital (IBVAIC). increasing Earning Management (EM) actions in Islamic Commercial Banks. A more detailed explanation that the role of intellectual capital (IBVAIC) is able to increase financial performance (ROA), so that if the financial performance (ROA) is adequate or high, it will increase Earning Management (EM) actions that will be carried out by Islamic commercial banks, as well as conversely, if the role of intellectual capital (IBVAIC) reduces financial performance (ROA), so that if the financial performance (ROA) decreases, it will reduce

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the behavior or actions of Earning Management (EM) that will be carried out by Islamic Commercial Banks. The results of this study strengthen the theory of Stakeholder Theory, Legitimacy Theory, Resource Based View Theory, Positive Accounting Theory, Agency Theory and Signaling Theory.

g. Islamic Corporate Governance (ICG) on Earning Management (EM) through Financial Performance (ROA)

The results of this study indicate that Islamic Corporate Governance (ICG) has an indirect effect on Earning Management (EM) through Financial Performance (ROA). This means that the higher the Financial Performance (ROA) of Sharia Commercial Banks which is caused by the better management / governance of Islamic Commercial Banks (marked by a decrease in the composite value), it can increase Earning Management (EM) actions in Islamic Commercial Banks. This means that better management / corporate governance (meaning that the composite value decreases) is able to increase Financial Performance (ROA), so that if the Financial Performance (ROA) is adequate or high, it will increase Earning Management (EM) actions that will be carried out by Commercial Banks. Sharia, and vice versa, if the role of Islamic Corporate Governance (ICG) decreases (marked by increasing its composite value) Financial Performance (ROA), so that if the Financial Performance (ROA) decreases, it will reduce Earning Management (EM) actions that will be carried out by the Bank. Sharia General. The results of this study strengthen the theory of Agency Theory, Shariah Enterprice Theory, Positive Accounting Theory, Agency Theory and Signaling Theory.

5. CONCLUSION

This study aims to determine the role of Intellectual Capital and Islamic Corporate Governance on financial performance, as well as its impact on earnings management actions, in Islamic banking, especially Islamic commercial banks for the period 2011-2019. Based on the results of the discussion, the following conclusions can be drawn:

- a. There is a direct effect of Intellectual capital (IB-VAICTM) and Islamic Corporate Governance (ICG) partially on Financial Performance (ROA).
- b. There is a direct effect of Financial Performance (ROA) on Earning Management (EM), but Intellectual Capital (IB-VAICTM) and Islamic Corporate Governance (ICG) do not directly affect Earning Management (EM).
- c. There is an indirect effect of Intellectual Capital (IB-VAICTM) and Islamic Corporate Governance (ICG) on Earning Management (EM) through Financial Performance (ROA).

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