

What is earning management in sharia bank lower than conventional bank?

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Abstract

Purpose - This study is to examine the effect of sharia status on the level of earning management in Banking Companies in Indonesia.

Method - This study use pooled data regression analysis and independent sample t-test to test the level of earning management between Islamic banks and non-Islamic banks. We use sample of Islamic banks and non-Islamic banks in Indonesia in the year 2009-2013.

Result - We find the Islamic banks employ less earning management than non-Islamic banks. The results show that, as hypothesised, Islamic banks status has a significant negative association with earning management in regression model. This Suggest that Islamic banks have lower discredionary accrual than non-Islamic banks ans Islamic ethics paly monitoring role in reducing managerial opportunistic behaviors to manage earnings by discretionary accruals.

Implication - At least the sample in this study was due to the limited number of Islamic banks and conventional banks in Indonesia. The discretionary accrual model used in this study may not be able to detect earnings management properly, so that there is a need to readjust other models related to earnings management.

Originality - Earnings management has become a global issue, but for Islamic banking based on religious principles, the practice of earnings management can be minimized or eliminated. Then provide information about the high and low earnings management in banks, especially Islamic and conventional banking in Indonesia.

Keywords: earnings management; sharia status; islamic banks; conventional banks; discretionary accrual beaver and engel model



Introduction

The development of the banking sector in Indonesia is quite interesting to be explored. It cannot be separated from the ups and downs experienced by the banking industry in Indonesia. It began in 1983 when the Indonesian government began issuing deregulation policies. The banking business began to develop again in 1988-1996. In 1992, law number 7 was replaced which replaced law number 14 of 1967 concerning banking principles which explained that banking was everything related to banks, including institutions, business activities and ways and processes in carrying out their business activities. In 1998, law number 10 of 1998 was issued which explained that commercial banks were given the opportunity to serve sharia transactions (dual banking system). So many conventional banks started establishing sharia units or acquiring other banks to become banks with the sharia principle system.

Shen and Chih (2005) explained that the banking industry is a very important industry for the nation, the region and the world economy. Of course in the earnings reporting the banking industry uses financial statements as a medium to provide information about the state of the company. In preparing financial statements, the accrual basis was chosen because it is more rational and fair in reflecting the company's financial condition in real terms (Kieso et al., 2007). But on the other hand the use of accrual basis can provide flexibility to management in choosing the accounting method as long as it does not deviate from the applicable financial accounting standards. The choice of an accounting method deliberately chosen by management for a particular purpose is known as earnings management. Watts and Zimmerman (1986) also state that managers perform earnings management based on motivations such as bonus plans, debt covenants, and political costs. Earnings management still has pros and cons in terms of ethics.

Earnings management practices in both types of banking (sharia and conventional) are interesting to know more about. Considering Islamic

banking is a work-based bank based on sharia principles based on the Koran and Hadith which do not justify the existence of engineering actions. Whereas conventional banks are work-based banks using the principle of interest. Quttainah et al. (2011) in his research stated that Islamic banks have less earnings management compared to non-Islamic banks. In this research it can be seen that religious factors have an important influence on the actions taken by managers in making policies and decisions. In addition, there is also a sharia supervisory board (DPS) which oversees every activity of sharia banking. This is similar to the results of research conducted by Febriani (2014) which shows that the average value of earnings management at Islamic commercial banks in Indonesia is close to zero, so that the earnings management behavior of sample companies can be said to be relatively low. In contrast to the results of previous studies, Santoso et al. (2014) and Rahman (2012), found that Islamic banks and non-Islamic banks do not have different levels of profit management. So that this raises contradictions about Islamic banks in carrying out earnings management practices whether lower or not lower.

Based on several previous studies on earnings management in the sharia and non-sharia banking industry, the authors are interested in conducting research on the same thing. The difference between this study and previous research is that in this study the sample used is both Islamic and conventional banking in Indonesia. The detection model of earnings management in this study uses the special discretionary accrual model of Beaver and Engel (1996). This research is important for several reasons. First, earnings management has become a global issue. However, for Islamic banking which is based on religious principles, earnings management practices should be minimized or eliminated. Second, it provides information on the level of earnings management in banks, especially Islamic and conventional banking in Indonesia. Third, the importance of adequate information, information that is relevant and reliable and helps stakeholders make economic, religious and appropriate decisions.

Literature Review

Agency Theory

According to Droege et al. (2009) explained that the agency theory is a theory that has more contribution in explaining the relationship between the principal in this case represented by the shareholders and the agent represented by the management. Ujijanto and Pramuka (2007) state that an agent has more information about a company that he manages, while a principal does not have more information than an agent. As a result, when not all circumstances are known by the principal and a decision must be made, then this situation can lead to an imbalance of information (asymmetry information) for making decisions

Agency problems that arise as a result of information asymmetry that occur can provide opportunities for managers to conduct earnings management, this is done by managers with the aim to mislead the owner about the actual condition of the company's performance.

The implication of agency theory to this research is that it can explain how Islamic banks and conventional banks are inseparable from the practice of profit management.

Earning Management

Schipper (1989) explains that earnings management is an intervention with a specific purpose towards a certain process in financial reporting. Fischer and Rosenzweig (1995) explain earnings management is the manager's actions that increase or decrease reported earnings from the unit under his responsibility that has no relationship with the increase or decrease in corporate profitability in the long run. So it can be concluded that earnings management (earnings management) is a deliberate action where managers can use their power in determining the policies used to set the level of corporate profits within the limits of generally accepted accounting principles (GAAP) and can be accepted by accounting principles in domestic and foreign countries.

Earnings management can be one factor that reduces the credibility of financial statements. In addition, earnings management will add to the uncertainty in the financial statements and can interfere with the users of financial statements who believe that the profit figures presented from the modified results are numbers without modification.

Earning Management Form

Explanation of earnings management has been stated above and it can be said that earnings management is an action taken by the manager (agent) of the company's profits to make it look better. Most earnings management practices that managers do are by decreasing earnings (income-decreasing) or raising profits (income-increasing) (Fischer and Rosenzweig, 1995).

According to Scott (2003) there are several forms of earnings management including: taking a bath, income minimization, income maximization and income smoothing.

Taking a Bath

Taking a bath is due to a period of stress or reorganization in the company such as the appointment of a new CEO. If the company must report high profits, then managers feel compelled to report high profits, resulting in managers will take action to write off assets in the hope that future earnings can increase.

Income Minimization

This form is almost the same as "taking a bath", but less free, because it is done as a political reason when the period of the company's profits are in good condition (high enough) by accelerating the elimination of fixed assets and intangible assets and recognizing expenditure as expenses. For example, on expenses for research and development.

Income Maximization

The form of income maximization has the goal of reporting high net income to get a bigger bonus. So companies that violate debt agreements might maximize revenue. So income maximization is done when profit decreases.4. Income SmoothingIncome smoothing is profit normalization done intentionally to reach a certain trend or level.

Earning Management Factors

Scott (2003) argues that there are several factors that can motivate managers in making earnings management actions. Among them:

Bonus Plan (Bonus Scheme)

Managers who work for companies that implement bonus plans will try to manage reported profits with the aim of maximizing the amount of bonuses they will receive.

Long-term Debt Contracts (Debt Covenant)

Stating that long-term debt contracts will make managers tend to choose accounting methods that can move future period earnings to the current period in the hope of reducing the possibility of companies experiencing violations of debt contracts.

Political Motivation (Political Motivations)

States that a large-scale company and strategic industry tends to reduce profits, especially during periods of high prosperity. This effort was carried out in the hope of obtaining facilities and facilities from the government.

Taxation Motivation

States that taxation is one of the motivations why companies reduce reported profits. In order to minimize the amount of tax that must be paid.

Banking

Kasmir (2002) explains that initially banks were known as tables for exchanging money. Over time, the definition of a bank changed to a place to store money and so on. Until now the understanding of banks can be simplified into financial institutions whose business activities raise funds from the public and channel these funds back to the community and provide other bank services. In this study, the banking used as a sample is conventional banking and Islamic banking.

According to the big Indonesian dictionary the word "conventional" has a meaning that is according to what has become a habit. Based on this, it can be concluded that conventional banks are banks whose operational activities apply the interest method, because the interest method already exists and has become a habit. According to law number 10 of 1998 conventional banks or can be called commercial banks are the most widely circulated form of banking in the territory of Indonesia.

According to law number 21 of 2008 concerning Islamic banking, Islamic banks are banks that carry out their business activities based on sharia principles. Islamic banks that have obtained business licenses as referred to in paragraph 1 of law number 21 of 2008 must clearly state the word "sharia" in writing the name of their bank. With the name of sharia, it is clear that banks that use the name use sharia principles in their operations.

The activities of Islamic banks in determining the price of their products are completely different from conventional banks. Pricing for Islamic banks is based on an agreement between the bank and the depositors in accordance with the type of deposit and the time period, which will determine the size of the profit-sharing portion that the depositors will receive. The following principles apply to Islamic banks, namely: 1) Financing based on profit sharing principle (*mudharabah*). 2) Financing based on the principle of equity participation (*musyarakah*). 3) The principle of buying and selling goods by obtaining profits (*murabahah*). 4) Financing capital goods based on pure rent

without choice (*ijarah*). 5) The choice of transfer of ownership of goods leased from the bank by another party (*ijarah wa iqtina*).

Earning Management in Banking

Earnings management is an action that is often done by company managers. The practice is carried out with the aim of the manager's personal interests and for the benefit of the company. In addition, the company managed by the manager looks good. Many studies of earnings management that occur in several companies. Among them are companies engaged in manufacturing, trading, and services.

Several studies that have detected earnings management are Ningsaptiti (2010) in the title analysis of the effect of company size and corporate governance mechanisms on earnings management, stating that large companies tend to perform earnings management actions smaller than small companies, using a sample of registered manufacturing companies on the Indonesia Stock Exchange in 2006-2008. Indriani et al. (2014) in a study entitled earnings management analysis of the value of companies listed on the Indonesia Stock Exchange, explains that there is a tendency of earnings management practices that affect firm value but with a weak category, using a sample of automotive trading companies. So from this explanation it can be seen that the practice of earnings management has occurred a lot both in manufacturing and trading companies, no exception in companies in the field of services, especially banking.

Nasution and Setiawan (2007) explained that the banking industry in Indonesia was positive in taking earnings management actions. In a study that used a sample of all banking companies listed on the Jakarta Stock Exchange in 2000-2004. Zahara and Veronica (2009) also stated that there was an indication of earnings management practices in several Islamic commercial banks rather than sharia business units, using a sample of Islamic banking in Indonesia in the 2004-2006 period. Padmantyo (2010) also shows that in the Islamic banking financial statements there are earnings

management practices. This is evidenced by the results of calculations of the average total accrual over five years.

Some of the above research on earnings management in banks can be seen that the earnings management of banking service companies has done a lot. The results of all of the aforementioned studies can be seen that in the banking industry which should uphold the value of trust but in practice continue to take earnings management actions in its activities.

Hypothesis Development

Hypothesis testing is used to answer the problem formulation. Many previous studies have conducted research on earnings management in Islamic banks and conventional bank earnings management. Based on the results of Zahara and Veronica's research (2009) that used a sample of Islamic banking in Indonesia for the period 2004-2006, there was a tendency for indications of earnings management practices in several Islamic commercial banks.

Nasution and Setiawan (2007) in a study using samples of all banking companies listed on the Jakarta Stock Exchange in the period 2000-2004 can also be seen that the average discretionary accruals for banking companies are positive. This indicates that during the year the banking industry in Indonesia took earnings management actions by maximizing profit.

Quttainah et al. (2011) in his study of banks that merged between Islamic banks and non-Islamic banks stated that Islamic banks had less earnings management compared to non-Islamic banks. This result is also consistent with the results of research from Febriani (2014) which states that earnings management in Islamic banks is lower than conventional banks.

Based on previous research on earnings management practices in Islamic and non-Islamic banks. Then the hypothesis will be formulated as follows:

H₁: Earnings management at Islamic banks is lower than conventional banking using a sample of banks in Indonesia.

Research Methods

The population used in this study are all Islamic banking companies registered in the statistical data of Islamic banking and conventional banking registered at Bank Indonesia in 2009-2013. Sampling in this study uses a purposive sampling method, which is a sampling method that suits certain criteria (Sekaran and Bougie, 2010).

The criteria used for Islamic banking in this study are: 1) Sharia Commercial Banks (BUS) registered at Bank Indonesia for the period 2009-2013. 2) Banking companies that have published annual reports for the period of 31 December 2009-2013 and stated in rupiah. 3) Audited financial statements.

Whereas for Conventional Banks (commercial banks) the criteria used are: 1) Commercial Banks registered at Bank Indonesia in 2009-2013. 2) Banking companies that have published annual reports for the period of 31 December 2009-2013 and stated in rupiah. 3) Audited financial statements.

Table 1. List of Sharia Commercial Banks

No	Code	Company Name
1	BJBS	PT Bank Jabar dan Banten Syariah
2	PBS	PT Panin Bank Syariah
3	BNIS	PT Bank Negara Indonesia Syariah
4	BRIS	PT Bank Rakyat Indonesia Syariah
5	BSB	PT Bank Syariah Bukopin
6	BSM	PT Bank Syariah Mandiri
7	BSMI	PT Bank Syariah Mega Indonesia
8	BMI	PT Bank Muamalat Indonesia
9	BVS	PT Bank Victoria Syariah
10	BCAS	PT Bank BCA Syariah
11	MIS	PT Maybank Indonesia Syariah

Table 2. List of Conventional Banks

No	Code	Company Name
1	AGRO	PT Bank Rakyat Indonesia Agro Niaga Tbk.
2	BABP	PT Bank ICB Bumi Putra Tbk.
3	BACA	PT Bank Capital Indonesia Tbk.
4	BAEK	PT Bank Ekonomi Raharja Tbk.
5	BBCA	PT Bank Central Asia Tbk.
6	BBKP	PT Bank Bukopin Tbk.
7	BBMD	PT Bank Mestika Dharma Tbk.
8	BBNI	PT Bank Negara Indonesia Tbk.
9	BBNP	PT Bank Nusantara Parahyangan Tbk.
10	BBRI	PT Bank Rakyat Indonesia Tbk.
11	BBTN	PT Bank Tabungan Negara Tbk.
12	BCIC	PT Bank Mutiara Tbk.
13	BDMN	PT Bank Danamon Indonesia Tbk.
14	BEKS	PT Bank Pundi Indonesia Tbk.
15	BJBR	PT Bank Jabar Banten Tbk.
16	BJTM	PT Bank Pembangunan Daerah Jawa Timur Tbk.
17	BKSW	PT Bank Kesawan Tbk.
18	BMAS	PT Bank Maspion Indonesia Tbk.
19	BMRI	PT Bank Mandiri Tbk.
20	BNBA	PT Bank Bumi Arta Tbk.
21	BNGA	PT Bank CIMB Niaga Tbk.
22	BNII	PT Bank Internasional Indonesia Tbk.
23	BNLI	PT Bank Permata Tbk.
24	BSIM	PT Bank Sinar Mas Tbk.
25	BSWD	PT Bank Swadesi Tbk.
26	BTPN	PT Bank Tabungan Pensiunan Nasional Tbk.
27	BVIC	PT Bank Victoria Internasional Tbk.
28	INPC	PT Bank Artha Graha Internasional Tbk.
29	MAYA	PT Bank Mayapada Internasional Tbk.
30	MCOR	PT Bank Windu Kentjana Internasional Tbk.
31	MEGA	PT Bank Mega Tbk.
32	NAGA	PT Bank Mitraniaga Tbk.
33	NISP	PT Bank NISP OCBC Tbk.
34	NOBU	PT Bank Nationalnobu Tbk.
35	PNBN	PT Bank Pan Indonesia Tbk.
36	SDRA	PT Bank Himpunan Saudara 1906 Tbk.

Sharia status is a banking status based on Islamic principles. Measurement of sharia status is described by using a dummy variable that indicates the company is of sharia status or not. The size of the company, illustrated by the total assets owned by the company at the end of the period. Earnings management, proxied by discretionary accrual (DA)/special managed accruals by Beaver and Engel (1996). According to Rahmawati (2006) explains that the special managed accrual model is more appropriate in detecting earnings management when compared with the Jones (1991) model and the modified Jones model, as well as more directed at the amount of value managed by banking managers in a period. The model is written as follows:

$$NDA_{it} = \beta_0 + \beta_1 CO_{it} + \beta_2 LOAN_{it} + \beta_3 NPA_{it} + \beta_4 \Delta NPA_{it+1} + \varepsilon_{it}$$

Explanation:

- CO_{it} : Loan charge offs
- LOAN_{it} : Loans outstanding
- NPA_{it} : Non performing assets (troubled productive assets), consisting of earning assets based on their collectibility level classified as (a) under special attention, (b) substandard, (c) doubtful, and (d) loss
- ΔNPA_{it+1} : Difference between non performing assets t + 1 with non performing assets t
- NDA_{it} : non-discretionary accrual (PPAP)
- β : regression coefficient
- ε_{it} : Error coefficient

In accordance with the definition that:

$$TA_{it} = NDA_{it} + DA_{it}$$

Where: AD_{it} is managed accrual, TA_{it} is total accrual, and NDA_{it} is non-managed accrual, then:

$$TA_{it} = \beta_0 + \beta_1 CO_{it} + \beta_2 LOAN_{it} + \beta_3 NPA_{it} + \beta_4 \Delta NPA_{it} + 1 + zit$$

$$\text{Where } zit = DA_{it} + \varepsilon_{it}$$

Zit is residuals value, AD_{it} is managed accrual and ε_{it} is the error coefficient.

To determine the total accruals by using the discretionary accrual model specific to Beaver and Engel's model (1996), the total allowance for possible losses on earning assets (PPAP) is used. In determining the earnings management coefficient, all variables are deflated first with the book value of equity t-1.

The hypothesis testing technique in this study uses multiple linear regression analysis. Before testing hypotheses, it is necessary to test classical assumptions first to ensure that the data used by researchers have a normal distribution. There is one classic assumption test used in this study, namely the data normality test. The normality test in this study uses the Kolmogorov-Smirnov (K-S) non-parametric statistical test.

If the existing data has passed the classical assumption test, then hypothesis testing will be performed using multiple regression analysis through the value of the coefficient of determination (R^2), the statistical value of f, and the statistical value of t. This test aims to strengthen the hypothesis (H1) proposed by researchers. This test is done by comparing the mean values of two independent data sample groups (Yamin and Heri, 2009).

Results and Discussion

Data collection in this study uses secondary data. Based on the sampling criteria described previously, we obtain a sample that is detailed as follows:

Tabel 3. Sample of Islamic Bank

Criteria	Amount			Total
	2010	2011	2012	
Data on Islamic bank financial statements registered with BI (11 banks)	11	11	11	33
Data on banking financial statements not found	(6)	(2)	(0)	(8)
Total Research Samples	5	9	11	25

Table 4. Selection of Conventional Bank Samples

	Criteria	Amount			Total
		2010	2011	2012	
JIAFR 110	Data on conventional bank financial statements registered with BI (121 banks)	121	121	121	363
	Islamic commercial banks (11 banks)	(11)	(11)	(11)	(33)
	Data on banking financial statements that are not found and are incomplete.	(75)	(75)	(74)	(224)
	Amount of conventional bank financial statement data to be observed (36 banks)	36	36	36	108
	Observation data not found and incomplete	(7)	(5)	(5)	(17)
	<i>Outlier</i>	(4)	(2)	(3)	(9)
	Total Research Samples	25	29	28	82

Description of Statistical Analysis

Descriptive statistical analysis aims to obtain projections regarding the overall data of the research sample, so that the characteristics of the data can be known (Ghozali, 2013). Descriptive statistical items from this study that are used are maximum, minimum, mean, and standard deviation.

Descriptive statistical results of earnings management variables of absolute value (*Abs_EM*) which is the dependent variable shows that in Islamic banking the minimum value is 0.00115, the maximum value is 0.12432, the average value is 0.03763, with a standard deviation of 0.03675. In conventional banking shows that the average value of 0.06942 and standard deviation of 0.06238. The minimum value is 0.00058, the maximum value is 0.30576.

The status variable in this study was assessed using a dummy variable using a value of 1 (one) for Islamic banking and a value of 0 (zero) for conventional banking. So it can be seen that the minimum value of 0, a maximum of 1, the average value of Islamic and conventional banking is 0.23 with a standard deviation of 0.425.

Company size variables in this study are described using total assets. In Islamic banking there is a minimum asset value of 929 billion, a maximum

value of 635 trillion, the average value of the total assets is 107 trillion and the standard deviation is 188 trillion. Whereas in conventional banking the minimum value of assets is 1 trillion, the maximum value is 551 trillion, and the average assets in conventional banks is 70 trillion and the standard deviation is 115 trillion.

Classical Assumption Testing

Testing the normality of the data in this study used the non-parametric statistical test kolmogorov-smirnov (K-S). Based on the results of the K-S test the significance value shows the number 0.062 or above 5% so that the regression model has a normal distribution. While the results of normal probability plot testing in this study can be seen that the points spread around the diagonal line and the distribution follows the direction of the line. So it can be stated that the distribution of data in this study is approaching normal or fulfilling the normality assumption.

Determination Coefficient Test Results (Adjusted R²)

The coefficient of determination shows the adjusted R square value of 0.051 or 5.1%. This means that sharia banking status and company size represented by assets as control variables have an influence of 5.1% on earnings management, while the remaining 94.9% is explained by other variables outside the study.

Table 5. Descriptive Statistics Analysis Results

	N	Min	Max	Mean	Std. Deviation
Sharia Abs_EM	25	0.00115	0.12432	0.03763	0.03675
Conventional	82	0.00058	0.30576	0.06942	0.06238
Abs_EM	107	0	1	0.23	0.425
Sharia Status	25	929 M	635 T	107 T	188 T
Sharia Assets	82	1 T	551 T	70 T	115 T
Conventional	25				
assets	82				
Valid N (listwise)					
Valid N (listwise)					

Tabel 6. One-Sample Kolmogorov-Smirnov Test

Variabel	T	Sig.	
Unstandardized Residual	1.318	0.062	Normal Distributed

Tabel 7. Koefisien Determinasi R² Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.263 ^a	0.069	0.051	0.05731

Predictors: (Constant), Ln_Aset, Status_syariah

Dependent Variabel: Abs_EM

Simultaneous Test Results (f Test)

Simultaneous significance testing (Test f) can be seen that the calculated f value of 3.871 with a probability of 0.024. Test probability value is smaller than than 0.05, thus this research model is fit.

Individual Parameter Test Results (t Test)

The results of tests that have been carried out above indicate a significant sharia status lower than a 5% significant level of 0.014. This shows that the sharia status in banks shows a significant influence on the small earnings management. Sharia status is negative, which means that banks with sharia status have lower discretionary accruals (earnings management) compared to conventional banks.

While the size of the company (Ln_Aset) showed a significant of 0.177, higher than 5%. These results indicate the size of the company has no effect on earnings management. So it can be concluded that the size of a bank has not been able to influence the level of earnings management practices.

Table 8. Simultaneous Significance Test Results (Statistical Test f)

Model	Calculated F	Sig.	Explanation
1	3.871	0.024	Significant

Table 9. Significance Test Results (Statistical Test t)

Variable	Sig.	Unstandardized Coefficients	Explanation
Sharia Status	0.014	-0.033	Significant
Ln_Aset	0.177	-0.004	Not Significant

Table 10. Independent Samples Test

		<i>Levene's Test for Equality of Variances</i>		<i>t-test for Equality of Means</i>		
		F	Sig.	T	df	Sig. (2-tailed)
Abs_EM	<i>Equal variances assumed</i>	3.434	0.067	-2.419	105	0.017
	<i>Equal variances not assumed</i>			-3.156	68.927	0.002

Comparison Means Testing (Compare Means)

The result of the comparison test means between Islamic banks and conventional banks using the independent sample t-test different test is a negative t value of -2.419 with a significant level of 0.017 5%, this shows that there are differences in the level of earnings management between Islamic banks and conventional banks. These results reinforce the results of regression tests conducted using Abs_EM values which show the same results that earnings management in Islamic banks is lower than conventional banks statistically.

Profit Management at Sharia Banks is Lower than Conventional Banks

The main objective of this study is to examine whether the level of earnings management in Islamic banking is lower when compared to earnings management in conventional banking. Based on the test results it can be concluded that the dummy variable represented by sharia status has a significant effect on earnings management. While the control variable is the size of the company that is described by Ln_aset not significant to earnings management. The sharia status variable shows a negative value which means that banks with sharia status have lower discretionary accrual value

(earnings management) when compared to conventional banks. The results of this study indicate that the hypothesis (H1) proposed by researchers that earnings management in Islamic banks is lower than conventional banks is supported. The results of this study are consistent with Quttainah et al. (2011) and Febriani (2014) which stated that earnings management in Islamic banking is lower than non-Islamic banking.

Researchers assume that the value of earnings management is lower in Islamic banks because Islamic banks are banks that operate with Islamic sharia principles based on the Al-Quran and Hadith. As well as the existence of a sharia supervisory board that always oversees the operations of Islamic banks. Researchers also assume that sharia status in banks can improve earnings management practices in the banking industry in Indonesia. Another assumption is that Islamic banks conduct earnings management in order to increase shareholder confidence in managers, improve relations with creditors, and can attract investors to invest even though the value of earnings management in Islamic banks is lower than conventional banks. So that accounting policies are mocked by managers for this reason by making earnings management even if on average the value is lower than conventional banks.

Conclusion

This research was conducted to examine earnings management in Islamic banking and also in conventional banking. Based on the research results obtained, several conclusions can be drawn is that the practice of earnings management not only occurs in conventional banking but also in Islamic banking in Indonesia. Sharia status represented by dummy variables and company size represented by assets shows that the independent variable has a significant influence on the dependent variable, earnings management. Regression statistical test results show that the average value of discretionary accruals (earnings management) in Islamic banking is lower than discretionary accruals (earnings management) of conventional banking. So it can be said that Islamic banks are better at minimizing earnings management

practices and the hypothesis in this study is supported. The results of the statistical comparison test means that it will strengthen the results of the regression test that the average earnings management in Islamic banks is lower than conventional banks in 2010-2012.

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