The role of profit management in mediation of financial performance and transparency towards profit distribution management in sharia commercial banks

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ABSTRACT

This study aims to examine the effect of financial performance and transparency on profit distribution management with earnings management as a mediating variable in Islamic commercial banks in Indonesia. The population in this study were all Islamic Commercial Banks for 2014 - 2019, with as many as 14 Islamic commercial banks. Determination of the sample using the criteria to obtain 10 Islamic Commercial Banks. The data used is secondary data, in the form of financial statements of Islamic Commercial Banks, with data collection techniques in documentation. The analytical method used is the Structural Equation Model – Partial Least Square (SEM-PLS) method. The study results indicate that Financial Performance, Transparency affects Earnings Management. Financial performance affects Profit Distribution Management, while transparency does not affect Profit Distribution Management. Profit management can mediate financial performance and transparency of Profit Distribution Management.

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Introduction

Banking institutions have a significant position in supporting a country's economy. As part of the economic structure, banking institutions play an essential role in maintaining macroeconomic stability and balance, including fluctuations in aggregate demand, such as too much or too little money in circulation. This means that banking institutions can act as an instrument to create stability and balance macroeconomic conditions. The growth of the financial sector, especially the change in the composition or structure of the banking sector in Indonesia, is expected to bring positive changes to the national economy. For example, when there is a decrease in the amount of credit disbursed due to the conservative attitude of the bank, it will indirectly cause a slowdown in economic growth in the country concerned.

Indonesia, predominantly Muslim, makes this country the world's largest market for Islamic banking. The sizeable Muslim population provides a comprehensive enough space for developing Islamic banks in Indonesia. The first Islamic bank in Indonesia was born in 1991 and officially operated in 1992. After being proven to survive the 1998 crisis, the government issued Law No. 10 of 1998, which allowed banks to conduct sharia transactions (dual banking system). Since then, many Islamic banks have sprung up in Indonesia.

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In the process of raising funds and distributing funds, Islamic banks apply a profit-sharing system by calculating for income (revenue sharing) as well as for-profit and risk (profit and loss sharing) (Yaya et al., 2009). The profit-sharing system makes the size of the profits received by depositors (savers/shahibul maal) follow the size of the profits of Islamic banks. The distribution of depositors' funds collected will be placed by Islamic banks into productive (financing) sectors that generate profits (Africano et al., 2017). The higher the operating income, the greater the profit distributed by the bank to its depositors. However, if the payoff is small, the smaller the profit is distributed to the depositors.

The concept of profit-sharing can work if the funds of bank depositors are invested in the business, then the profits from the company are distributed. Unlike depositors' deposits at conventional banks, it doesn't matter whether the stakes are channeled into a business or not, and the bank is still required to pay the interest; besides that, the profits earned by the bank are not distributed to the depositors. No matter how significant a conventional bank's profit is, customers are only paid based on a percentage of their deposits. The bank's obligation to share the profits obtained by utilizing depositors' funds through financing is profit distribution (PD).

Africano et al. (2017) explained that profit distribution (PD) is the distribution of Islamic bank profits to depositors based on an agreed ratio every month. PD is regulated based on the product that depositors choose from the bank and the approval of the balance. The management of Islamic banks must pay attention to the level of PD through its management (profit distribution management). Profit distribution management (PDM) is an activity carried out by managers in managing the distribution of profits to fulfill the profit-sharing obligations of Islamic banks to their depositors.

Islamic bank managers in Indonesia carry out PDM, which refers to conventional bank interest rates. This is related to the type of customer in Indonesia. Islamic bank depositors in Indonesia are divided into several market segments. Karim and Afif (2005) state that in Indonesia, there are three market segments, namely sharia loyalists (consisting of devout religious adherents), floating element (combination of religion and market power), and conventional loyalists. The survey from Karim (2004) also stated that 70% of Islamic banking depositors are in the floating segment, which is sensitive to profit. Muchlis (2011), in his research, concluded that saving behavior in Islamic banks is most influenced by the level of profit distribution.

This study implies that Islamic banks must maintain the quality of the PD level. Depositors will always pay attention to and consider the profit-sharing level obtained in Islamic banks' investments. Logically, suppose the profit-sharing rate is too low compared to other banks, especially compared to conventional bank interest rates. In that case, the satisfaction level of depositors will decrease, and depositors will most likely move their funds to other banks (displacement funds). Indirectly, Islamic banks must carry out profit distribution management which refers to interest rates.

This finding is significant for banks to determine a profit distribution that is quite attractive to depositors. Depositors always consider the level of return that will be obtained in investing in Islamic banking. If the profit level offered is relatively high, depositors will choose Islamic banks as a place to invest. However, if conventional banks offer greater profits, depositors will transfer their funds to traditional banks. So that the level of profit distribution becomes one of the determining factors for the success of Islamic banks in raising third-party funds.

According to Sucipto (2003), financial performance determines specific measures that can measure the success of an organization or company in generating profits. Meanwhile, according to the Indonesian Institute of Accountants (IAI), Financial Performance is a company's ability to manage and control its resources. Financial performance is closely related to the measurement and assessment of company performance in accordance types of financial accounting. Performance measurement (performing measurement) includes the company's qualification, efficiency, and effectiveness in operating the business during the accounting period. Assessment is also related to operational, organizational, and employee effectiveness based on established goals, standards, and criteria, including financial statements.

Several primary sources of indicators are used as the basis for assessing a bank's financial performance, namely the financial statements of the bank concerned (Herdinigtas and Almilia, 2006). Analyze financial statements using financial ratios. Based on the report, a percentage will emerge that will be used to assess the bank's performance level. To determine the assessment of the condition of a bank, usually using various measuring tools, one of which is the RGEC which measures the success of management in generating profits or profits from the bank's business operations.

Based on the technique, financial analysis can be divided into eight types (Jumingan, 2006), namely: Comparative Analysis of Financial Statements, Trend Analysis (positional tendencies), Percentage Analysis per Component (standard size), Analysis of Sources and Use of Working Capital, Source Analysis and Use of Cash, Financial Ratio Analysis, Analysis of Changes in Gross Profit and Break-Even Analysis.

Permatasari and Nuswantara's research (2012) results show that the bank soundness rating system between CAMELS and RGEC is not much different. Some parts still look the same as the valuation system used by Capital and Income. The scoring system was changed for Good Corporate Governance. The components of Asset Quality, Liquidity and Sensitivity to Market Risk are finally integrated into the Risk Profile. The old system (CAMELS) was replaced with a new model (RGEC), which requires commercial banks to self-assess the soundness of banks using a risk approach (risk-based bank rating - RBBR) on both an individual and consolidated basis. This new regulation only regroups and weighting factors or assessment dimensions, which have not changed

much in terms of relative scope. Assessment Mechanism also remains self-assessment by each bank carried out every semester, but the central bank will validate or confirm steps to the assessment carried out by the bank. In addition, the scale or predicate is the same as the previous assessment, namely "Rank 1" to "Rank 5," where the ranking order of the smaller factor reflects the bank's condition better. Future research is recommended to continue this initial study. First, it is necessary to consider whether the self-assessment report on bank soundness published in July 2012 (according to the new rule) provides added value to the public. This can be tested on the information content of bank health reports on public perceptions. Second,

Islamic bank financial management can use profit sharing to depositors to stabilize and maintain the *mudharabah* rate of return. The bank's obligation to distribute the profits generated by saving funds through financing is called profit sharing (Mulyo and Siti, 2012).

Profit distribution partially involves investment account holders (IAH). The IAH rate of return or IAH profit distribution rate will function the distribution to IAH divided by the average IAH funds for a certain period (quarterly, semi-annually, annually).

The rate of profit is calculated by taking the total distributions paid to IAH during the end-of-period average fund from IAH. A higher number would indicate a relatively improved profit distribution management. The higher the amount of income smoothing measured by this variable means that it is assumed that there is greater exposure to Displaced Commercial Risk (Farook & Farooq, 2011).

Although there is literature on earnings management and income smoothing practices carried out in the banking industry, only a few have investigated the pattern of income smoothing in Islamic banks. Previous research such as Mismian and Ahmad (2011), Taktak et al. (2010), Zoubi and Al-Khazali (2007), Ismail and Lay (2002), and Ahmed et al. (1999) have tested the use of loan loss provisions as income and capital management for income smoothing. There is no test of earnings and capital management through PDM except studies by Sundararajan (2005) and Farook et al. (2012). They used PDM to test with other demographic and bank-specific factors

Based on the previous research related to understanding Profit Distribution Management by using Profit Management variables as mediation variables, researchers have never previously done this. Therefore, this research contributes to the science of financial management for Islamic commercial banks from the point of view of financial performance, transparency, profit management and Profit distribution management.

Literature review

Theoretical Background

Agency theory describes the relationship between the principal and the agent. Principals are parties who have the power and ability to delegate that power to agents for their welfare. Meanwhile, an agent can be defined as a party hired by the principal to carry out tasks as delegated.

Agency theory is the theoretical basis that underlies the company's business practices and arises because of the development of modern management science, which has shifted the classical theory, namely the existence of rules that separate company owners (principals) from company managers (agents). When the company grows bigger, moreover the shareholders are more dispersed, the more agency costs occur, and the owners are increasingly unable to exercise effective control over the managers who manage the company. The agency relationship is described as a relationship that arises because of a contract between the principal, who uses the agent to provide services for the principal's interest (Jensen and Meckling, 1976).

Control over agency problems in the decision-making process is essential when managers at the time of making and carrying out an important decision are not the main holders of residual claims and subsequently do not become another major part of the welfare effect of their choices. Jensen and Meckling (1976) state that this is a consequence of separating the management function from the ownership function. To overcome this agency problem and reduce agency costs that arise, we need a control mechanism and alignment of interests between managers, stockholders, and stakeholders.

Legitimacy theory is closely related to stakeholder theory. Legitimacy theory states that organizations continuously look for ways to ensure their operations are within the norms prevailing in society. Legitimacy theory focuses on the interaction between companies and society. In the legitimacy theory perspective, a company will voluntarily report its activities if management considers that this is what the community expects. This theory states that the organization is part of the community, so it must pay attention to its social norms because conformity with social standards can make the company more legitimate.

Legitimacy theory relies on the premise that there is a 'social contract' between companies and the communities in which they operate. The social contract is a way of explaining many societal expectations about how an organization should conduct its operations. These social expectations are not fixed but change over time, and this requires companies to be responsive to the environment in which they operate (Deegan, 2004).

To gain legitimacy, corporate organizations must communicate environmental activities by disclosing the social environment (Berthelot and Robert, 2011). Environmental disclosure is considered helpful for restoring, enhancing, and maintaining the legitimacy received (Hadjoh and Sukartha, 2013).

Profit distribution management is measured based on the research of Sundararajan (2005) and Farook et al. (2012), which uses an asset spread proxy that describes both revenue sharing and profit-sharing. Asset spread is the most powerful indicator for calculating PDM. The asset spread considers all income and expenses. It provides a spread between the total asset return of the bank's assets and the distribution given to depositors, meaning that the higher the asset spread indicates the distribution of profits to depositors far from the asset return. So that it strengthens the PDM action, which refers to interest rates according to the research of Sundararajan (2005) and Farook et al. (2012). Asset spread is the absolute spread between Return on Assets (ROA) and average Return on Investment Account Holders (ROIAH), the average return for depositors' profits.

$$\text{Asset spread} = |(\text{ROA} - \text{average ROIAH})|$$

The average ROIAH can be calculated using "total income to be divided" divided by "average balance of depositors' profit-sharing instruments." These two items can be seen in the Profit Sharing Distribution Report.

$$\text{Average ROIAH} = \frac{\text{Total Share Revenue}}{\text{Average Share Instrumen for Deposit}}$$

In addition to these formulas, PDM can also be measured using Profit-sharing. Profit-sharing (profit sharing) is one of the main objectives of Islamic banking. Therefore, it is crucial to know how far Islamic banking has succeeded in achieving profit sharing through profit sharing ratio (Hameed et al., 2004). The profit-sharing ratio is calculated by adding up the financing from the mudharabah and musyarakah contracts which are then compared with the total financing. The following is the formula for profit sharing ratio (PSR):

$$\text{PSR} = \frac{\text{Mudharabah} + \text{Musyarakah}}{\text{Total of Financing}}$$

The work results can be achieved by a person or group of people in an organization following their respective authorities and responsibilities to achieve the goals of the organization concerned legally, not violating the law, and following moral ethics. Mangkunegara (2005) performance as a result of work in terms of quality and quantity achieved to carry out tasks according to the responsibilities given. The relationship between performance with the RGEC method is to measure the increase in company performance through monitoring management performance and ensuring management accountability to stakeholders based on regulations and to determine the effect of the RGEC model financial ratios with banking performance and assessing bank health, which is measured using the RGEC approach. The assessment of inherent risk is carried out by taking into account quantitative and qualitative parameters/indicators consisting of 8 aspects, namely credit risk, market risk, operational risk, liquidity risk, legal risk, strategic risk, compliance risk, and reputation risk. However, in this study, the author will only choose one of eight risk aspects: liquidity risk. The liquidity risk assessment will be measured using the Financing to Deposit Ratio (FDR), which compares the financing provided by the bank and third-party funds that have been successfully mobilized by the bank (Muhammad, 2005). This FDR is one of the bank's liquidity ratios for the long term.

The FDR ratio is formulated as follows (Kasmir, 2013):

$$\text{Financing to Deposit Ratio (FDR)} = \frac{\text{Total of Financing}}{\text{Total of Third Party Funds}}$$

There are four main components needed in the concept of good corporate governance (Kaen, 2003; Shaw, 2003), namely fairness, transparency, accountability, and responsibility. These four components are essential because the consistent application of the principles of good corporate governance has been proven to improve the quality of financial reports and can also become an obstacle to performance engineering activities which result in financial statements not reflecting the company's fundamental values. GCG is measured using Composite Components, as seen in the table below.

Table 1: Composite Rating Weights for Good Corporate Governance Components

Rating	Description	Criteria
1	Very healthy	Composite Value < 1.50
2	Healthy	1.50 Composite Value < 2.50
3	Healthy enough	2.50 Composite Value < 3.50
4	Unwell	3.50 Composite Value < 4.50
5	Not healthy	4.50 Composite Value < 5.00

Source: Bank Indonesia Circular Letter No. 13/DPNP/2011

The "Earning" assessment uses two measures, namely ROA (ratio of profit to total assets) and BOPO (percentage of operating expenses to operating income). (Akbar & Africano, 2017)

$$ROA = \frac{\text{Earning Before Tax}}{\text{Total Asset}} \times 100\%$$

$$BOPO = \frac{\text{Net Interest Rate Income}}{\text{Average Productive Asset}} \times 100\%$$

The assessment is based on a model owned by one of the banks. One of the assessments uses the CAR (Capital Adequacy Ratio) method, comparing capital to risk-weighted assets (Kasmir, 2013 and Akbar & Africano, 2017). The "Capital" assessment uses only one measure, namely CAR (Capital Adequacy Ratio), which is the ratio of capital to assets weighted according to the risk ratio:

CAR shows the extent to which the decline in bank assets can still be covered by available bank capital; the higher the CAR, the better the bank's condition (Achmad and Kusumo, 2003). The greater this ratio, the bank's health is said to be improving. This is because the significant capital owned by the bank can cover the risk of losses arising from investing in productive assets that contain risks and can be used to finance investments in fixed assets and investments. According to Bank Indonesia regulation No. 10/15/PBI/2008, a bank declared as a healthy bank must have a CAR of at least 8% (Muhammad, 2014). This ratio can be formulated as follows (Desiana and Africano, 2018):

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Bank Equity}}{\text{Total ATMR}} \times 100\%$$

According to UNDP, transparency is the availability of free and directly accessible information to parties that have an impact on the implementation of a decision. Then information is provided with easy-to-understand, and a transparent system has clear procedures for making public decisions. Then, there is a channel of information communication between stakeholders and bureaucrats. Mardiasmo (2003) said that transparency is the openness of the government in making regional financial policies so that they can be known and monitored by the DPRD and the community.

Transparency is needed in various companies in this study; namely, Islamic banks are required for accurate disclosure and relevant information promptly. This study measures transparency by general transparency and profit distribution disclosure, which amounts to 27 disclosure items. Public disclosure of information in financial statements, namely the available transparency ratio (GEN) or the general transparency ratio totaling 14 items and the disclosure of free investment account (UIA) or unrestricted investment account, which measures the level of banks in terms of transparency of published information relating to allocated profits for the type of depositor, and the calculation of the rate of profit.

This study measured transparency using information disclosure items and profit distribution disclosures, totaling 27 disclosure items. Disclosure of information in general in financial statements, namely the general transparency ratio (GEN) or the general transparency ratio, counts 14 items. And disclosure of unrestricted investment account (UIA) measures the bank level with the number of funds invested and invested in the financial statements, which amount to 13 items.

Global Transparency Ratio (GTR) is the disclosure of the worldwide transparency ratio (GTR) measuring the overall transparency disclosure item that includes GEN and UIA. The global transparency ratio will be calculated as the average of all transparency ratios.

$$\text{Transparency} = \frac{\text{Number of items disclosed by the company}}{\text{Total Number of Items Index}}$$

Earnings management can manipulate the available options and make the right choice to achieve the desired profit level. Riahi-Belkaoui (2006) reveal that managers make an accounting policy choice earnings management for specific purposes. The impact that managers have opportunistic behavior in managing the company. Managers have the freedom to choose and use the available alternatives to prepare financial statements so that the profits generated can be as desired even though the profits generated do not reflect the company's actual state. Earnings management is done by playing with the accrual components in the financial statements,

This study uses the integration of the model of Kothari et al. (2005), and Cassell et al. (2015) used a modified Jones (1991) model (Dechow et al., 1995) by integrating the model developed by Noor and Sulong (2013), namely entering the value of profit before taxes and fees.

$$\frac{TA_{it}}{A_{it-1}} = \beta_0 + \beta_1 (\Delta REV_{it} - \Delta REC_{it}) + \beta_2 (PPE_{it}) + \beta_3 (CFO_{it}) + \beta_4 (NEG_CFO_{it}) + \beta_5 (NEG_CFO_{it} \times CFO_{it}) + EBTZP + \varepsilon_{it}$$

$$\frac{TA_{it}}{A_{it-1}} = \beta_0 + \beta_1 (\Delta REV_{it} - \Delta REC_{it}) + \beta_2 (PPE_{it}) + \beta_3 (CFO_{it}) + \beta_4 (NEG_CFO_{it}) + \beta_5 (NEG_CFO_{it} \times CFO_{it}) + EBTZP * D + \varepsilon_{it}$$

Where REV is the change in the company's net income, REC is the change in the company's net receivables, PPE is the company's gross fixed assets, NEG_CFO is the operating cash flow (one if the cash flow is less than zero, and zero otherwise) the company. The variables in the above equation are scaled to total assets at the beginning of the year. EBTZP (Profit before tax and zakat and provision/Total assets) and EBTZP*D (Dummy 1 if profit is negative, and zero if otherwise).

Research Framework

The theoretical framework is based on a literature review related to the research. The theoretical framework is described as follows:

Figure 1: Empirical Research Framework

Hypothesis

H1: Financial Performance affects Earnings Management

H2: Transparency affects Earnings Management

H3: Financial Performance affects Profit Distribution Management

H4: Transparency affects Profit Distribution Management

H5: Earnings Management affects Profit Distribution Management (PDM)

H6: Earnings Management can mediate Financial Performance and Transparency of Profit Distribution Management (PDM)

Research and Methodology

This study uses quantitative research methods. This method is based on the philosophy of positivism, which is used to examine specific populations or samples, data collection using research instruments, and data analysis are quantitative/statistical to test established hypotheses (Sugiyono, 2014, Africano, 2020). The data needed in this research is secondary data. The secondary data obtained in this study are the financial statements of Islamic Commercial Banks in Indonesia in 2014 - 2019, published in www.ojk.co.id. Data collection techniques in this study use the method of documentation. The population used in the study were all Islamic Commercial Banks for 2014 - 2019, with as many as 14 Islamic commercial banks. The Islamic Commercial Banks are PT. Bank Aceh Syariah, PT. BPD West Nusa Tenggara Syariah, PT Bank Muamalat Indonesia, PT Bank Victoria Syariah, PT Bank BRISyariah, PT Bank Jabar and Banten Syariah, PT Bank BNI Syariah, PT Bank Syariah Mandiri, PT Bank Mega Syariah, PT Bank Panin Dubai Syariah, PT Bank Bukopin Syariah, PT Bank BCA Syariah, PT Bank Syariah National Pension Savings and PT Maybank Syariah Indonesia. The sample is part of the population judged to represent its characteristics. The sampling technique used is purposive sampling, taking samples using predetermined criteria following the research objectives. The requirements for sampling are as follows:

- i. Sharia Banks, classified as Sharia Commercial Banks, operated in Indonesia during the 2014 - 2019 observation period.
- ii. The Islamic bank publishes annual financial reports for the 2014 - 2019 period consistently and has been published in Bank Indonesia or on the website of each of the Islamic banks.
- iii. Islamic banks have the required data related to measuring the variables used for research during the 2014 -2019 period.

Based on the sample criteria, the sample used is 10 Islamic commercial banks for 6 (six) years, 2014 - 2019. This means that there are 60 observational data (10 Islamic Commercial Banks x 6 years).

Data analysis and hypothesis testing used the Structural Equation Model – Partial Least Square (SEM-PLS) method.

Result and Discussion

Convergent Validity

Table 2 shows the results of outer loading for all proxies in this model, which are declared valid.

Table 2: Value of Loading Factor

No	Proxy	Load Factor Value	Convergent Validity Criteria	Description
1	US	0.736	> 0.5	Valid
2	BOPO	0.821		Valid
3	CAR	0.799		Valid
4	EBTZP	0.986		Valid
5	EBTZP*D	0.769		Valid
6	FDR	0.769		Valid
7	GCG	0.836		Valid
8	GEN	0.765		Valid
9	PSR	0.617		Valid
10	ROA	0.662		Valid
11	UIA	0.645		Valid

Source: Smart PLS 3.0 M3 Output, 2021

Discriminant Validity

Table 3 shows that there are still loading factor values for each indicator of each variable having a higher value than the correlation of indicators from other variables. So, it can be said that the construct has high discriminant validity.

Table 3: Discriminant Validity Value

	Profit management	Financial performance	Transparency	Profit Management	Distribution
Profit management					
Financial performance	0.999				
Transparency	0.784	0.773			
Profit Distribution Management	0.997	0.999	0.760		

Source: Smart PLS 3.0 M3 Output, 2021

Composite Reliability and Average Variance Extracted (AVE)

Table 4: Measurement of Composite Reliability

Variable	Composite Reliability
Profit management	1,000
Financial performance	1,000
Transparency	1,000
Profit Distribution Management	1,000

Source: Smart PLS 3.0 M3 Output, 2021

The measurement results in Table 4 show that all latent variables have a composite reliability value > 0.8, meaning that all exogenous latent variables are appropriate and feasible to be tested to determine their effect on the endogenous latent variable, namely Profit Distribution Management.

Table 5: Measurement of Average Variance Extracted (AVE)

Variable	AVE. value
Profit management	0.555
Financial performance	0.510
Transparency	0.510
Profit Distribution Management	0.500

Source: Smart PLS 3.0 M3 Output, 2021

Table 5 shows that each construct's Average Variance Extracted (AVE) value has a value above 0.50. Thus, all constructs meet the reliable criteria according to the recommended standards.

Coefficient of Determination (R²)

The calculation of R² for each table of endogenous latent variables can be seen from the results of the analysis carried out by SmartPLS 3. The value of the coefficient of determination from the results of the analysis can be seen in the following table:

Table 6: Test R Square

	R Square	R Square Adjusted	Description
Profit management	0.673	0.662	Moderate
PDM	0.769	0.756	Good

Source: Smart PLS 3.0 M3 Output, 2021

Table 6 shows that the R-Square value generated to explain the first model is the effect of exogenous variables (financial performance and transparency) on endogenous variables (earnings management) of 0.673, which means that the impact of exogenous variables on endogenous variables is 67.3%. Furthermore, the R-Square value explains the second model, namely the effect of exogenous variables on financial performance, transparency, and earnings management on endogenous variables (PDM) of 0.769 means that the effect of exogenous variables on endogenous variables is 76.9%. Below is the estimated output for testing the structural path analysis model using Smart PLS 3.0 M3.

The Adjusted R Square value has an interval between 0 to 1. If the Adjusted R Square value is getting closer to 1, the exogenous latent variable (X) explains the variation of the endogenous latent variable (Y) better. The Adjusted R Square value of 0.662 or 66.2% was obtained in this study. So, it can be concluded that 66.2% of the variation that occurs in variable Y can be explained by exogenous latent variables, while the rest can be explained by other variables.

Path Coefficient

The results of the analysis to obtain path coefficient values for each relationship between exogenous and endogenous latent variables are described as follows:

Table 7: Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Earnings Management -> PDM	0.233	0.272	0.213	3,170	0.005
Financial Performance -> Earnings Management	0.403	0.377	0.140	2,189	0.004
Transparency -> PDM	0.291	0.293	0.153	1,877	0.057
Transparency -> Earnings Management	0.508	0.530	0.127	3,909	0.001
Financial Performance -> PDM	0.455	0.406	0.192	2,526	0.023

Source: Smart PLS 3.0 M3 Output, 202

Table 7 shows that the statistical t value is above the critical or 1.96, so it is considered significant (Ghozali and Latan, 2015). Results Table shows that one path is not significant, but some paths show significant results, or out of 5 paths, only one is not substantial.

Findings and Discussion

Effect of Financial Performance on Earnings Management

The results of hypothesis testing indicate that the direct effect of financial performance as proxied by BOPO, CAR, FDR, GCG, and ROA on earnings management provides evidence of an impact because the t-count value is 2,189 greater than the reference T-statistic, namely 1.96. This shows that H1 is accepted and H0 is rejected, which means there is empirical evidence of the effect of financial performance on earnings management. The value of the coefficient of the financial performance variable is 0.403 and means that if every increase in the value of financial performance by 1 unit, it will have a positive effect on earnings management by 0.403unit.

The implementation of financial performance affects earnings management because one of the company's performance measures that are often used as the basis for making business decisions is the profit generated by the company. Company profits are the main element in financial statements and are very important for those who use them because they have predictive value. This makes the company's management carry out earnings management so that the company's performance looks good from external parties. Based

on agency theory, the principal supervises the agent's performance through financial reports submitted by the management. In this case, each party has its rights and responsibilities in managing these resources and funds.

In addition, the results of this study indicate that the earnings management actions are taken impact the company's performance in the eyes of shareholders and the public. The company is considered capable of preventing and reducing opportunistic actions and constantly evaluating all policies taken not to violate the accounting policies set so that the public or shareholders continue to believe in investing their shares in the company. The company's financial performance is one element that investors are very concerned about to reduce errors in investing. Earnings management actions carried out both to be efficient and opportunistic will reduce the quality of the earnings presented.

The results of this study support research conducted by Astari, et al. (2019), showing that the higher the results of the company's financial performance seen from the level of profit, the higher the earnings management actions, because information on the results of the company's financial performance encourages management to practice earnings management because the financial reports presented can influence shareholder decisions. This research is also supported by research conducted by Astari and Suryanawa (2017), which states that financial performance has a positive effect on earnings management.

The Effect of Transparency on Earnings Management

The results of hypothesis testing indicate that the direct effect of transparency as proxied by GEN and UIA on earnings management provides evidence of an impact because the t-count value is 3,909 greater than the reference T-statistic, which is 1.96. This shows that H1 is accepted and H0 is rejected, which means that there is empirical evidence of the effect of transparency on earnings management. Transparency variable coefficient value is 0.508 and means that if every increase in the value of transparency is 1 unit, it will positively affect earnings management by 0.508 unit.

This study indicates that banks that apply the principle of transparency will disclose much information. Because accurate and timely information helps the company gain investors' trust to invest in the company. Therefore, managers will try to make financial statements look good in the eyes of investors. The more transparent the financial statements disclosed the higher the company's earnings management. Transparency provides open and honest financial information to the public based on the consideration that the public has the right to know openly and thoroughly the government's responsibility for managing the resources entrusted to it and its compliance with laws and regulations (KK SAP, 2005).

This study proves that banks that focus on improving the quality, quantity, earnings management, and frequency of financial reporting can reduce fraudulent activities in reporting or manipulating reports (creative accounting) or earnings management and defective financial reporting. This study also suggests that the company is obliged to manage the company to foster an adequate accounting system to produce reliable earnings management.

The results of this study support the research of Pratiwi (2017), which shows that the results of transparency affect earnings management. This means that companies that apply the principle of transparency will disclose more information in their financial statements in an accurate and timely manner. In addition, The results of Zang's (2011) research show that transparency towards earnings management provides very effective support for the results of the process of preparing quality financial reports or the possibility of avoiding fraud with the board of commissioners ensuring the transparency and informativeness of financial statements to facilitate the rights of shareholders to obtain quality and valuable information for shareholders and provide confidence to shareholders that there is no fraud in any form in the company's earnings management.

The Effect of Financial Performance on Profit Distribution Management

The results of hypothesis testing indicate that the direct influence of financial performance variables as proxied by BOPO, CAR, FDR, GCG, and ROA on profit distribution management provides evidence that there is no effect because the t value is calculated. 1,877 smaller than the reference T-statistic that is 1.96. This shows that H1 is rejected and H0 is accepted, which means that there is no empirical evidence of the effect of financial performance on profit distribution management. The value of the coefficient of the financial performance variable is 0.291 and means that if every increase in the value of financial performance is 1 unit, it will have a positive effect on profit distribution management of 0.291 unit.

The results of Angela Liu et al. (2015) research examined the relationship between corporate information disclosure and earnings management. The researcher uses the transparency rating published by IDTRS in Taiwan to measure corporate disclosure and uses discretionary accruals and actual activity manipulation as proxies for earnings management. This research shows that after the implementation of IDTRS, earnings manipulation activity is significantly reduced. A top priority for regulators is establishing mechanisms such as IDTRS to minimize abuse of DA and RAM. His research stated that policy-making bodies should require companies to disclose more information and even set minimum disclosure requirements,

This study implies that it is essential for Islamic banks to maintain the quality of the profit-sharing level so that financial performance also looks efficient. Therefore, customers will always pay attention to and consider the level of profit-sharing obtained in investing in Islamic banks. Logically, suppose the profit-sharing rate is lower than other banks, especially compared to conventional banks. In that case, the satisfaction level of depositors will decrease, and it is more likely that customers will transfer

their funds to other banks (displacement funds). This means that Islamic banks are required to carry out profit distribution management which refers to interest rates, to fulfill the profit-sharing obligations of Islamic banks to their customers.

The results of this study support Alteza (2017) research, which states that financial performance as measured by FDR, CAR, and BOPO affects profit distribution management (PDM). These results are supported by the research results conducted by Muniruddin (2017). The bank's ability to manage funds for optimal profit sharing distribution to customers will improve the bank's financial performance. This is what encourages the management to carry out Profit Distribution Management (PDM) correctly so that customers or depositors as one of the primary stakeholders are satisfied with the profit-sharing obtained to keep their funds in the Islamic bank.

The Effect of Transparency on Profit Distribution Management

The results of this study prove that transparent disclosure will help investors reduce information asymmetry between agents and principals to provide investors with an overview of the company's actual performance. This means that the bank will use the allowance for accrual earnings management. The allowance account is one of the management accruals to perform earnings management. Provisions provide managers with substantial flexibility to manage earnings because the valuation of allowances is based on subjective estimates. Sharia-compliant decisions in disclosing activities in the budget for receivables, inventory reserves, and deferred tax asset reserves can signal investors to abuse the manager's authority in reporting these allowances and funds accounts in reporting accruals as a whole. Allowance and reserve accounts are one type of accrual that management can use to perform earnings management actions.

The results of hypothesis testing indicate that the direct effect of the transparency variable proxied by GEN and UIA on profit distribution management provides evidence that there is an effect because the t value is calculated. 2,526 greater than the reference T-statistic that, is 1.96. This shows that H1 is accepted and H0 is rejected, which means that there is empirical evidence of the effect of transparency on profit distribution management. Transparency variable coefficient value is 0.455 and means that if every increase in the value of transparency is 1 unit, it will positively affect profit distribution management by 0.455 unit.

The results of this study are consistent with the research of Doni and Africano (2017), which states that the results of statistical tests on the transparency variable do not affect profit distribution management. This shows that banks in doing profit distribution are not influenced by one of the factors whose cause is that there is still a problem that becomes an obstacle to the development of sharia-based investment, namely the uneven understanding or knowledge of the Indonesian people about sharia investment. The results of this study are in line with research by Permatasari and Adityawarman (2015), which states that transparency does not affect profit distribution management.

The negative parameter coefficient of GTR (Global Transparency Ratio) indicates that this ratio has an inverse relationship with the profit distribution. While UIA and GEN have positive parameter coefficients, the test results indicate that UIA and GTR have an indirect positive connection with profit distribution. The standard deviation of research data lower than the average value causes the research results to be insignificant.

The test results imply that the greater the information disclosure level, the greater the profit distribution by Islamic commercial banks. Information disclosure items can control Islamic banks to be more efficient and minimize the risk of mismanagement in managing investor funds. However, in reality, some Islamic commercial banks in Indonesia have not reported full transparency. As in the disclosure of information about open investment accounts and tied investments. Only a few Islamic commercial banks report. Several Islamic commercial banks have only operated in the past few years. So for the disclosure of financial information is still needed improvement.

Effect of Earnings Management on Profit Distribution Management

The results of hypothesis testing indicate that the direct influence of earnings management variables on profit distribution management provides evidence that there is no effect because of the value of t arithmetic 2,233 greater than the reference T-statistic, namely 1.96. This shows that H1 is accepted and H0 is rejected, which means that there is empirical evidence of the effect of earnings management on profit distribution management. The coefficient value of the earnings management variable is 0.233 and means that if every increase in the value of earnings management is 1 unit, it will have a positive effect on profit distribution management of 0.233 unit.

The results of this study indicate the role of earnings management carried out by Islamic bank managers by playing with accrual components in financial statements because accruals are easy to manipulate following the wishes of people who record transactions and prepare financial information statements.

The results of this study provide evidence that the bank's obligation to share the profits obtained by utilizing customer funds through financing is called profit sharing or profit distribution. According to Bank Indonesia, profit sharing or profit distribution is the distribution of Islamic bank profits to customers based on an agreed ratio each month. Profit is distributed between depositors and banks based on a predetermined percentage (Iqbal and Mirakhor, 2011). Profit Distribution or profit-sharing is a form of fund management activity in profit distribution by managers to fulfill the sharia bank's profit-sharing obligations to its depositors.

Michelson et al. (2000) investigated earnings management with income smoothing patterns. According to him, income smoothing can be generated from Natural Income Smoothing and Intentional Income Smoothing. Natural Income smoothing is the process of forming profits that inherently produce a relatively consistent stream of earnings, as in public utilities. Intentional Income Smoothing caused by management actions can be classified into two things, namely, first, Real Income Smoothing (RIS) is a manager's response to changes in economic conditions. The investigation results show that RIS affects the company's cash flow. Second, Artificial Income Smoothing (AIS) is an attempt by managers to reduce earnings variability artificially.

Earnings Management as a Mediation Between Financial Performance and Profit Distribution Management

The results of hypothesis testing indicate that the indirect effect of earnings management variables as a mediation between financial performance and profit distribution management provides evidence that Earnings Management can mediate between financial performance and PDM, with a significance value below 0.05. This shows that H1 is accepted and H0 is rejected, which means there is empirical evidence of the indirect effect of earnings management variables as a mediation between financial performance and profit distribution management.

The bank's obligation to share the profits obtained by utilizing customer funds through financing is profit sharing or profit distribution. The stronger the profit sharing, Islamic banks need to manage the distribution of profit-sharing by considering the factors that can affect the distribution of profit sharing. In this case, Islamic banks need to maintain the quality of profit sharing so that potential investors consider financial performance reasonable. Earnings management actions taken by the company can also impact the company's performance in the eyes of shareholders and the public or potential investors. Suppose the profit-sharing received by depositors is lower or significantly different from other banks, especially conventional banks. In that case, it will affect the decrease in customer satisfaction, affecting the bank's performance. So that Islamic banks are required to carry out profit distribution management which refers to interest rates to fulfill the bank's obligations to its customers.

The results of this study indicate that financial performance is an aspect that must be considered by Islamic banks by conducting supervision on a financial report result. Previous research tested an indirect relationship between performance and profit allocation. In other words, the researchers argue that the mechanism of corporate governance affects the company's performance, affecting the distribution of earnings, especially in the form of dividends. Islamic banks must maintain savings from the profits generated for smooth returns or cover periodic losses to compete with the interest rates offered by non-Islamic banks. This is triggered by a profit-sharing relationship with depositors. Islamic banks can manage the level of profit allocated based on market conditions. According to Lahrech et al. (2014), banking performance is estimated to correlate with profit-sharing strongly. There is no room to manipulate profits in the case of Islamic bank performance. However, in the case of low bank performance, Islamic banks tend to estimate profit sharing to maintain their profit share as *mudharib*. Islamic banks tend to underperform in bad economic conditions and cause losses to depositors.

Earnings Management as Mediation Between Transparency and Profit Distribution Management

The results of hypothesis testing indicate that the indirect effect of earnings management as a mediation between transparency and profit distribution management provides evidence that Earnings Management can mediate between transparency and PDM, with a significance value below 0.05. This shows that H1 is accepted and H0 is rejected, which means there is empirical evidence of the indirect effect of earnings management variables as a mediation between transparency and profit distribution management.

The results of this study prove that transparent disclosure will help investors reduce information asymmetry between agents and principals to provide investors with an overview of the company's actual performance. This means that the bank will use the allowance for accrual earnings management. The allowance account is one of the management accruals to perform earnings management. Provisions provide managers with substantial flexibility to manage earnings because the valuation of allowances is based on subjective estimates. Islamic banks' decision to disclose activities in the budget for receivables, inventory reserves, and deferred tax asset reserves can signal investors the abuse of the manager's authority in reporting these allowances and funds accounts and in reporting accruals as a whole. Allowance and reserve accounts are one type of accrual that management can use to perform earnings management actions. The existence of earnings management will influence the relationship of transparency to profit distribution.

This study proves that the management of Islamic bank funds includes the collection and distribution of funds that must be maximally carried out to customers and depositors. The management of Islamic bank funds consists of collecting and distributing funds that must be maximally carried out to customers and depositors. Banks can use the concept of profit sharing or revenue sharing following their respective policies. Most Indonesian banks use revenue sharing calculation to distribute profit sharing to customers. Islamic banking uses a profit and loss sharing principle (PLS) system or the principle of profit and loss sharing. Research by Lachrech et al. (2014) stated that the key to PLS is to avoid debt financing and use equity financing by providing financial instruments called *Mudharabah* and *Musarakah*. Although in reality, there are still many who fail to implement the PLS.

The bank's obligation to share the profits obtained by utilizing customer funds through financing is profit sharing or profit distribution. In banking institutions, the agency is one of the problems. In *Mudharabah* financing, the owner of the capital is not allowed by Sharia Law to manage the funds invested (Lachrech et al., 2014). Customers do not have the right to control or interfere in managing their funds which are the responsibility of Islamic banks acting as "*mudharib*" (Lahrech et al., 2014). Thus, it can be

said that there is still a lack of monitoring on the depositor's side. This condition can encourage controlling shareholders to take advantage of information for profit.

Differences in the ability to obtain information can cause information asymmetry. The problem of information asymmetry can be reduced in various ways, one of which is by disclosing information in a published report that can be accessed by anyone who needs it. In a musharaka system, profits are shared between participants at an agreed ratio, while losses are shared according to the proportion of their contributions. This contrasts to Mudharabah, where both partners share and control how the investment is managed. However, banks sometimes rely on professional managers and partners, such as external auditors and consultants, to manage and make business decisions.

On the other hand, one of the failures of implementing profit and loss sharing (PLS) is the problem of moral hazard. Islamic banks may not be exposed to the risk of loss, but they invest more in risky projects. Research by Ariffin et al. (2009) shows that the concept of bank transparency is more important for Islamic banks compared to conventional banks, such as Islamic banks operating under the principle of profit and loss sharing (PLS). So that the transparency of Islamic banking is a major concern for investment account holders. Based on several studies, it can be said that it is essential for Islamic banks to maintain the quality of the profit-sharing level.

On the other hand, performance is also an influence on profit sharing. According to Lahrech et al. (2014), banking performance is estimated to correlate with profit-sharing strongly. There is no room to manipulate profits in the case of Islamic bank performance. However, in the case of low bank performance, Islamic banks tend to estimate profit sharing to maintain their profit share as mudharib.

Islamic banks operate through profit and loss sharing facilities or their profit sharing. Islamic banks must agree on profit sharing ratios to comply with sharia guidelines. One of the main sharia principles is that profits and losses should be shared fairly among the parties involved in the transaction (Lahrech et al., 2014). The existence of transparency is expected to increase public confidence in the national banking system. Several standards are set by the IFSB or known as the Islamic Financial Services Board, which help provide a reference for increasing transparency among Islamic institutions. According to Lachreh et al. (2014), disclosure on the rate of return calculation and profit allocation is very important to prevent banks from profit manipulation activities. Increasing transparency of bank financial conditions will also reduce asymmetric information so that market participants can provide a fair assessment and encourage market discipline creation. Transparent financial reports can also be used to assess the bank's financial performance.

Conclusions

Improved Financial Performance is able to improve Earnings Management. Increased transparency can improve Earnings Management. Improved Financial Performance is able to improve Profit Distribution Management. Increased transparency can improve Profit Distribution Management. Earnings Management is able to mediate financial performance and transparency of *Profit Distribution Management*. Improved Earnings Management can improve Profit Distribution Management.

This research can contribute to developing knowledge in financial management research and practical interest for managers of Islamic commercial banks. This research can cover the knowledge gaps in the financial literature, especially Islamic commercial bank libraries related to transparency, earnings management and profit distribution management. It is expected to enrich the theoretical building structure built and developed by previous experts and researchers. Mediation model research involving earnings management is expected to clarify the mechanism of the effect of transparency on profit distribution management. This research can be helpful to information for managers of Islamic commercial banks to better recognize and understand the profit distribution management of Islamic commercial banks.

This study has a limited number of Islamic banks, which only uses 10 Islamic Commercial Banks, but the results of this study can provide significance to determine the profit distribution management model with profit management as mediation. Furthermore, for further research, it can be recommended to compare between shari'ah banks and conventional banks. So that it can be seen how the comparison of the application of profit management based on different sizes, it is also possible to add research variables.

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