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Elements influencing company worth and the role of earnings management as a moderating factor insight from Islamic banking

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ABSTRACT

This study examines factors affecting firms' value (FV) and earnings management (EM) as moderating variables. In analyzing data, this study used discretionary accruals according to the modified Jones model to measure earnings management. ROA is used to measure the firm value. Sharia supervisory board (SSB) as a proxy for corporate governance, acting as an independent variable, while firm characteristics and institutional ownership serve as control variables. This study used firm characteristics involving Asset Growth (AG), Capital Adequacy Ratio (CAR); Non-Performing Financing Ratio (NPFR), and institutional ownership as control variables. This research employed panel data regression analysis covering on 33 Islamic Banks that were active in Indonesia between the years 2012 and 2020. In analyzing data, STATA (software for statistics and data science) application is used. We use STATA because it is a complete, integrated software package that provides all our data science needs as well as data manipulation, visualization, statistics, and automated reporting. The results showed that the relationship between SSB size and FV was not further controlled by earning management. Thus, smaller SSBs are superior to larger ones when it comes to monitoring the behavior of managers. The other finding shows that asset growth and non-performing financing significantly influence firm value. These mean that investors consider an investment to be successful if it can improve the book value of the investment and have a low rate of debtor default. This study suggests that asset growth (AG) and a drop in non-performing financing ratio (NPFR) can increase a firm's value. These findings have important implications for excellent corporate governance, investment financing, and determining the level of credit risk. The main limitation is data availability. The maximum number of Islamic banks that disclose financial data covering the period of 2014-2022 limited the scope of the study to 34 Islamic banks in Indonesia. The findings of this study can also significantly impact public trust in investing in Islamic banking. Beside that, the findings of this study provide valuable insights that are advantageous to current and prospective investors, as well as other relevant stakeholders.

Contribution/ Originality: This study enriches existing research by the employability of a moderating variable, namely earning management, for analysis of the relationship between corporate governance and firm value.

1. INTRODUCTION

Indonesia with the world's largest Muslim population, will account for 11.92% of total Muslim population in 2022. Consequently, the contribution that the Islamic banking sector makes to the economy on a national, regional, and global scale should be significant. Islamic banking adheres to the concept that the banking system should be in

accordance with fundamental Islamic principles, often known as Islamic regulations [1]. Then, the firm value itself is a true representation of the state of the company when the company maintains its commitment to transparency, relevance, dependability, and comparability [2].

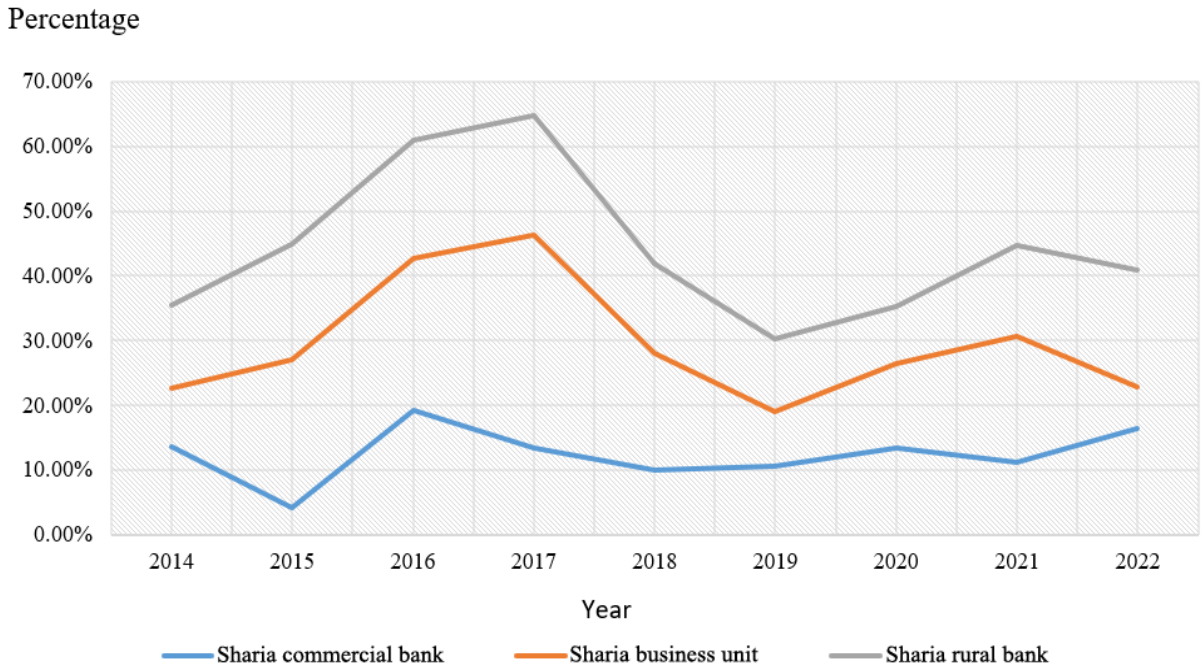

Figure 1. Assets growth of Indonesian Islamic banking.

Source: The Indonesian financial services authority (2022).

As can be seen in Figure 1, the asset growth graph of Islamic banks has increased, starting from the period between 2015 to 2016 and the period 2019 until 2022.

The degree to which Islamic banking outperforms in generating firm value via adherence to corporate governance determines the significance of firm value. Investors make investment choices by assessing the firm's value for long-term financial viability and durability [3].

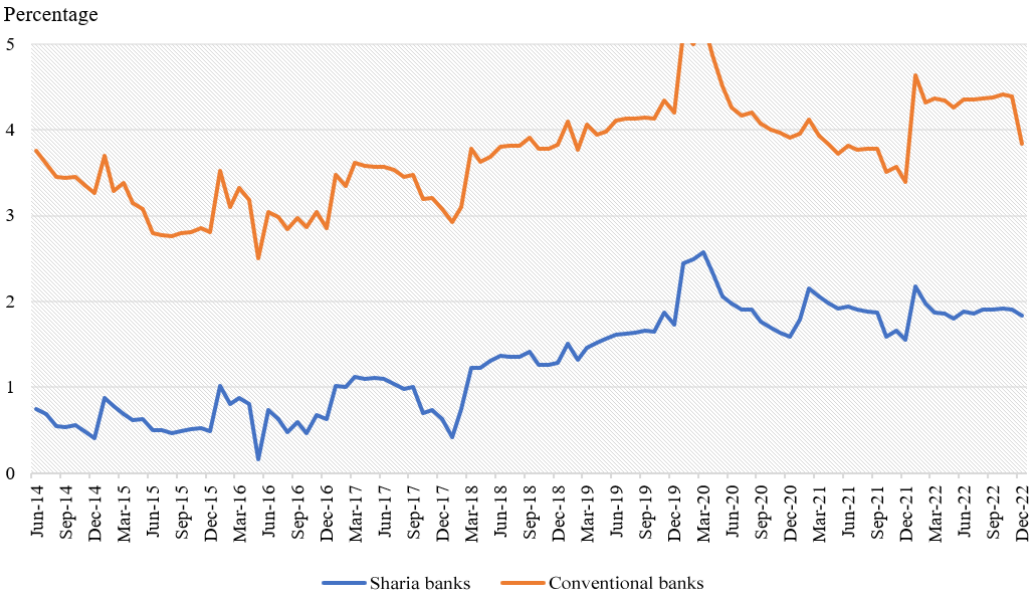

Figure 2. ROA comparison between Islamic banks and conventional banks.

Source: The Indonesian financial services authority (2022).

Corporate governance became an attractive issue after the financial crisis in 1997. Then came Bank Lippo and Bank Bukopin in the early 2000s, and Bank Century in 2008. Many researchers argued that corporate governance plays an important role in controlling the firm's operations [4, 5]. The sharia supervisory board is required to ensure adherence to Islamic principles and corporate governance standards and to help enhance the legitimacy and public confidence in Islamic-compliant institutions. According to Ghazalat, et al. [6] managers frequently rely on their personal discretion to modify financial documents. Managers have the ability to manipulate the reported financial statements.

Indonesia has 34 Islamic banks that are now functioning as Islamic banks. Islamic banking, which will only account for 7.09% of the country's financial sector by 2022's end, is a far smaller player than conventional banking, which will account for 92.91.1 percent [7].

The key issue is that the Islamic banking industry in Indonesia is still unable to compete with its conventional counterparts, despite the fact that the majority of the population in Indonesia is Muslim. Based on the data presented in Figure 2, it is evident that Islamic banks in Indonesia will continue to be in a more precarious position in comparison to conventional banks until 2022. According to the Return on Assets (ROA) ratios, Islamic commercial banks have an average of 1.91%, whereas conventional banks have an average of 2.43%.

Based on the explanation above, the main objectives of this research are: in what way do the characteristics of the firm have an impact on the value of the firm? Does ownership have a measurable impact on a firm's value? Are there major effects that corporate governance has on the value of the firm? There is an association between corporate governance and business value; does earnings management act as a moderator?

The significance of this study is that it is designed to bridge the gap by emphasizing the presence of corporate governance mechanisms such as Islamic supervisory boards that control and guarantee the performance of managers to carry out activities fairly and fairly so that it is expected to increase public trust in Islamic banks, which are expected to increase firm value.

2. THEORETICAL BACKGROUND

2.1. The Agency Theory

The link between shareholders and agents is where the agency theory first manifests itself. Because the firm's owners, the shareholders, lack the necessary managerial expertise, they hire agents to oversee daily operations. According to Ross [8] the description agency theory posits that their actions will be motivated by personal gain rather than the common goal of increasing shareholder value. Companies sometimes use their accounting systems to influence the user's perception of the financial statement and manage their profits. This action was undertaken to effectively control the company's financial gains [9-11]. Thus, the presentation of false accounting information that does not correspond to reality will enhance the possibility of manipulation of earnings [4, 12-14].

2.2. The Signalling Theory

Ross [15] demonstrates how debt may be utilised as a costly indicator in order to differentiate between excellent and poor businesses. Instead of assuming that managers, who are seen as "insiders," know how a company's profits are distributed accurately, Ross assumes the inverse about investors. Managers possess superior knowledge about the bank's state, enabling them to manipulate the accounting information, particularly the results, to improve the bank's performance and mislead [16].

2.3. The Prospect Theory

Losses have a greater impact on people than gains of the same value. Loss aversion is the primary assumption in this theory for understanding people's attitudes towards risk [17]. The idea of this theory is to compare potential gains and losses to a predetermined standard. The starting point is denoted by zero. Positive numbers represent

profits in the world of finance, while negative numbers represent losses. For every gain potential, there is an equal and opposite probability of loss [18, 19].

3. LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

This study uses the mean of industry-adjusted Return on Assets (ROA) measures as a dependent variable to measure the value of the firm and number SSB size as an independent variable [20]. Furthermore, asset growth, capital adequacy ratio, nonperforming financing ratio [21] and institutional ownership are control variables [22, 23].

3.1. Islamic Supervisory Board

Fama and Jensen [5] and Jensen and Meckling [12] argued that shareholders would benefit financially from more shareholder involvement in corporate governance. One type of internal governance framework that guarantees all transactions following Islamic principles is a sharia supervisory board (SSB) [24-27]. SSBs provide recommendations and guidance to both external stakeholders as well as internal parties, including management and personnel of banks [28, 29]. Specifically, this is due to the fact that a larger SSB possesses a stronger capacity to analyze Islamic compliance.

H_1: SSB size has a significant effect on firm value.

3.2. Firm Characteristics

3.2.1. Asset Growth

It is important to account for changes in competitive conditions, markets, and product offerings associated with various-sized banks while controlling for the increase of a bank's assets. Period differences are the changes in the bank's assets from one period to another. Furthermore, this variable governs scale efficiencies. According to Al-Kayed, et al. [30] it is anticipated that larger Islamic banks would benefit from improved profitability because they could get cheaper sources of capital in more situations [31].

H_2: Asset growth has a significant effect on firm value.

3.2.2. Capital Adequacy Ratio

The Capital Adequacy Ratio (CAR) refers to the proportion of a bank's capital in relation to the level of risk it encounters. Capital adequacy ratio refers to the capability of the management of a bank to effectively address the growing need for more capital. A previous study was uncovered by Azizud-Din, et al. [32] described that all factors, except managerial capacity, liquidity (liquid asset to total asset ratio), sensitivity to market risk, and type of bank, were found to be very important in impacting firm value.

Another study, conducted by Dao [33] and Al-Sharkas and Al-Sharkas [34] also identified the factors that determine bank performance, namely ROE. Additionally, there were independent variables that included credit growth, loans to deposits, return on assets, GDP growth, Tobin Q, equity to deposits, bank size, cost to income, liquidity risk, non-performing loans, and provision for Loan loss ratio. The findings indicate that there is a statistically significant negative link between the ratio of the capital adequacy and the bank's performance.

H_3: Bank capital adequacy ratios have a significant effect on firm value.

3.2.3. Non Performing Financing Ratio

In Islamic banking, "non-performing financing ratio" (NPFR) is a bank loan where the borrower has either failed to repay the debt in full or is highly unlikely to do so [35]. Additionally, it shows the percentage of the entire loan portfolio that carries a corresponding loan loss reserve, yet remains unpaid. This implies that the higher the credit ratio is, the poorer the loan quality [36].

Mendoza and Rivera [36] demonstrated a negative and statistically significant correlation between credit risk and profitability. On the other hand, research in the Philippines found that rural banks' profitability is unaffected by capital sufficiency. The conclusion is that smaller credit risks show higher performance to crate profitability.

H_5: Non-Performing Financing has a significant effect on firm value.

3.2.4. Institutional Ownership

The following topics are covered in the positive agency theory presented by Braendle and Rahdari [37]: ownership structure, efficient capital markets, management of opportunistic conduct, and strategies for separating ownership-control and monitoring. Consequently, insiders with a high level of management possession may be more likely to modify discretionary accruals to raise profitability, and the value of their stock holdings [16, 38, 39].

According to Berle, et al. [40] and Jensen and Meckling [12] the fundamental owner-manager conflict indicates that concentrated ownership ought to boost firm value by lowering the number of conflict of interest that exist between owners and managers [41]. This is because concentrated ownership reduces the likelihood of owner-manager conflicts of interest. Theoretically, companies comprising a significant number of state-owned enterprises stand a better chance of receiving financial assistance from the government.

Previous research, as well as the results of Almari, et al. [42] have shown that earnings management and family ownership, managerial ownership, and institutional ownership both have an effect on the value of a firm. This appears to have a significant positive impact on the firm's value.

H_5. Institutional ownership has a significant effect on firm value.

3.2.5. Earning Management and Firm Value

There is a possibility that management may intentionally intervene in the external financial reporting process. This intervention approach by management or earnings management, which is often referred to as "cooking the books," is a strategic instrument that a company uses to optimize firm value and reduce risk while concurrently altering reported profits [28, 42, 43].

In addition, accounting principles include a wide range of alternate approaches that might be used in regard to the same circumstances. Malicious abuse of these procedures could potentially provide false financial information [10, 12, 44].

H_6. Earning management has a significant effect on firm value.

3.2.6. Earning Management Moderating Effect

Nobakht and Acar [45] carried out research with the purpose of determining the influence of real management and accrual-based management. When real earnings management and accrual earnings management were combined, they found that this is indeed the situation.

According to Thavikulwat [46] the common measurements beside Tobin's Q are ROA and ROE. Because some of the firms in our sample are not publicly held banks, we are unable to quantify their success using market-based valuation information [20, 47].

H_7: Earnings management moderates the relationship between Islamic supervisory board size and firm value.

4. DATA AND METHODOLOGY

4.1. Theoretical Framework

This study will adopt a quantitative research method to assess the relationship between Sharia supervisory boards (SSB) and firm's value, and assess the effect of the firm's characteristics, namely asset growth (AG), capital adequacy ratio (CAR), non-performing financing ratio (NPFR), and institutional ownership, on firm's value. The proposed model is as follows:

$$FV = \alpha + B_1\,SSB + B_2\,AG + B_3\,CAR + B_4\,NPFR + B_5\,INT\_OWN + e \quad (1)$$

$$FV = \alpha + B_1\,SSB + B_2\,AG + B_3\,CAR + B_4\,NPFR + B_5\,INT\_OWN + B_6\,SSB * EM \quad (2)$$

The theoretical framework for the research may see the notion explained in Figure 3:

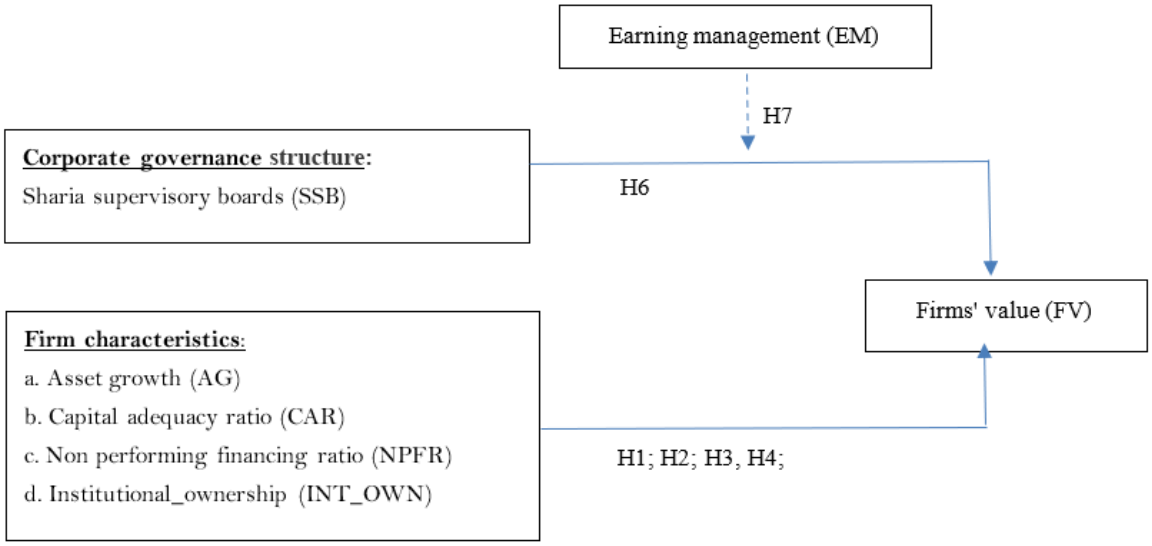

Figure 3. Theoretical framework.

4.2. Research Design

A quantitative approach was taken for the design of this investigation. The study commonly utilized statistical analysis, tables, and graphs. The data that was acquired from the annual report of the Islamic bank was used to conduct the evaluation and assessment of the value of the bank firm.

4.3. Sampling and Data Collection

The annual reports of 13 Islamic Commercial Banks and 20 Islamic Business Units that were active in Indonesia between the years 2012 and 2020 are among the sources that are used to produce the information that follows.

Table 1. Descriptive statistic.

Variables	Mean	Standard deviation	Minimum	Maximum
Dependent variable:				
Firm's value (FV)	0.020	0.047	-0.121	0.760
Independent variable:				
Sharia supervisory board (SSB)	0.370	0.105	0.150	0.600
Control variables:				
Asset growth (AG)	0.141	0.304	-0.501	4.586
Capital adequacy ratio (CAR)	0.231	0.244	0.002	3.291
Non-performing financing ratio (NPFR)	0.033	0.039	0.000	0.439
Institutional ownership (INT_OWN)	0.542	0.466	0.000	1.000
Moderating variable:				
Earning management (EM)	-7.057	68.237	-772.815	130.593

According to Table 1, present the descriptive statistics of the variables employed in this study. The variables were categorized under dependent variables, independent variables, control variables, moderating variables.

5. DATA ANALYSIS AND FINDINGS

5.1. Descriptive Analysis

According to Table 1, the firm value (FV) for the 306 pooled data has an average of 0.020 with a maximum value of 0.76 and a minimum of -0.121. The standard deviation for the data is 0.047. 2016 has the highest mean value for FV among all the calendar years.

Regarding the asset growth (AG) value, for the 306 pooled data, the mean value is 0.141. Across all observations for the nine-year period, the standard deviation is 0.304, with the highest value reaching 4.586 and the lowest being -0.501. 2014 has the highest mean value of AG by individual year.

With respect to CAR, the mean value for pooled data is 0.231 with a standard deviation of 0.244 for 306 observations. The maximum value and minimum value are stated as 3.291 and 0.002, respectively. Meanwhile, across individual years, the highest maximum (minimum) value was 3.291 in 2020 and 0.0023 in 2013.

According to Table 1, the average of NPFR for the 306 pooled data shows a value of 0.033, with a standard deviation of 0.039, a maximum value of 0.439, and a minimum value of 0.5058. For the individual calendar year, the maximum value is found in 2016, and the most minimum value is found in 2017.

Regarding the institutional ownership (INT_OWN) value, for the 306 pooled data, the mean value is 0.542. Across all observations for the nine-year period, the standard deviation is 0.466.

With respect to Sharia Supervisory Board (SSB), the mean value for pooled data is 0.370 with a standard deviation of 0.105 for 306 observations. The maximum value and minimum value are stated as 0.600 and -0.150, respectively. Meanwhile, across individual years, the highest maximum (minimum) value was in 2018.

5.2. Diagnostic Test

5.2.1. Outlier Test

The results of the normality tests that were carried out in order to ascertain the skewness and kurtosis of the data are shown in Table 2. This research transforms the data by using the winsorization treatment at the 3 and 97 percentiles to control for any outlier problems [48] and Schwandt, et al. [49]. This is consistent with previous studies [50-52].

Table 2. Outlier test result after winsorizing treatment.

Variables	Skewness	Kurtosis	Conclusion
Dependent variable: Firm's value (FV)	-0.297	3.706	Normal
Independent variable: Sharia supervisory board (SSB)	0.213	2.646	Normal
Control variables: Asset growth (AG)	1.607	9.532	Normal
Capital adequacy ratio (CAR)	1.903	7.465	Normal
Non-performing financing ratio (NPFR)	0.824	3.470	Normal
Institutional ownership (INT_OWN)	-0.180	1.164	Normal
Moderating variable: Earning management (EM)	-1.719	9.752	Normal

5.2.2. Multicollinearity Test

In order to validate multicollinearity, tests based on the variance inflation factor (VIF) were carried out on each independent variable. If the VIF value is more than 10, multicollinearity arises. If the VIF value exceeds 10 or the tolerance values fall below 0.01, we rejected the null hypothesis [6, 53, 54]. Based on Table 3, the mean VIF is 1.10, which is greater than 0.01 and/or lower than 10 for the tolerance factor, which indicates non-multicollinearity problems for the tolerance factor; and VIF falls within the permissible range of values. To sum up, the result if this study accepts null, hypothesis means that multicollinearity does not exist.

Table 3. Variance inflation factor (VIF) for multicollinearity test.

Variables name	VIF	1/VIF	Conclusion
Mean VIF	1.10	-	Non-multicollinearity
Independent variable:			
Islamic supervisory board (SSB)	1.11	0.905	Non-multicollinearity
Control variables:			
Asset growth (AG)	1.09	0.921	Non-multicollinearity
Capital adequacy (CAR)	1.09	0.921	Non-multicollinearity
Non-performing financing (NPF)	1.17	0.867	Non-multicollinearity
Institutional ownership (INT_OWN)	1.13	0.882	Non-multicollinearity
Moderating variable:			
Earning management (EM)	1.01	0.988	Non-multicollinearity

5.2.3. Hausman Test

Since the p-value is less than 0.05 and the results of the Hausman test reveal that Prob>chi2 = 0.001, we may accept the null hypothesis and conclude that the Fixed Effect Model is the best fit for the data.

Table 4. Hausman test result.

Test	Parameter	Value	Conclusion
Hausman test result	Prob>chi2	0.0010<0.05	Reject H0 = Fixed effect (FE) is better estimator than random effect (RE)

5.3. Multiple Regression Analysis

5.3.1. General Least Square - Fixed Effect Model

Based on the information presented in Table 5, According to the Sharia Supervisory Board (SSB), the first model has an R-squared value of 0.297 (Table 5), which means that it accounts for 29.7% of the variation in the firm's value. Additionally, a regression equation (independent variable) is statistically used to compute the variation in FV as a measure of firm value, as shown by an R-squared value of 29.74%. Similar to Table 4, the findings demonstrate that the second model is statistically significant (p <0.0l), suggesting an R-squared value of 0.299, showing that this model accounts for 29,9% of the variation in the firm's value.

Next, we can see that the model is suitable for further analysis since the goodness of fit findings (Prob>F=0.000) are less than 0.05. In addition, control factors, such as asset growth (AG) and non-performing financing ratio (NPFR), have a considerable impact on firm value (FV) according to their coefficients.

First, according to Table 5, the Sharia supervisory board (SSB) variable models have positive coefficients of 0.028 and 0.029, respectively. Additionally, the p-values for these models are 0.048 and 0.046, which are statistically significant at the level of p <0.05. These findings suggest that the size of an SSB may influence the growth of a firm value. The research concludes that Sharia supervisory boards (SSBs) significantly impact business value, supporting the null hypothesis (H1). It is believed that the larger the SSB, the higher the worth of the firm. According to FV, this means that the size of SSB is the most important factor to play in the development of value and productivity in Islamic banks [55].

The two models' asset growth (AG) coefficients 0.012 for the first and 0.001 and 0.001, respectively, show positive and statistically significant p-values at the 0.05 level. Based on these findings, it appears that increasing the value of the firm would be possible by growing its assets (AG). Subsequently, we may say that the alternative hypothesis (H2), which states that asset growth (AG) can impact firm value, is true.

This research has also been confirmed by Septiani [56] who found that good corporate governance effect on management ownership significantly lowers the organization's financial performance (ROA). This finding was also confirmed by Shafiquea, et al. [57] who researched the impacts of asset utilization and corporate growth on financial performance.

Second, the non-performance financing ratio (NPFR) coefficients for the two models are -0.327 and -0.327, respectively, as shown in Table 5. In addition, the p-values are 0.000 and 0.000, respectively. These findings indicate that, at the 0.05 level ($p < 0.05$), non-performance financing ratio (NPFR) has a statistically negative effect on firm value (FV). The two models' findings indicate a 32.696 percent and 32.704 percent drop in firm value (FV) and non-performance financing ratio (NPFR), respectively, as evaluated in terms of assets. So, the analysis concludes that non-performance financing ratio (NPFR) significantly affects business value, supporting the fourth alternative hypothesis. NPFR may increase the firm's overall value. Based on the results of this study, non-performing financing (NPFR) may have a negative effect on firm value that is statistically significant at the 0.05 level ($p > 0.05$).

Safiullah and Shamsuddin [58] found that there is a negative link between Non-Performing Financing Ratio (NPFR) and SSB. Additionally, the finding was confirmed. They discovered a correlation between the size of an Islamic bank's Sharia Supervisory Board (SSB) and its ability to prevent insolvency and unmet operational requirements. This result is in line with the findings of Mendoza and Rivera [36] who examined how credit risk and capital adequacy impact bank profitability [59-61]. Their research has shown that there is a considerable inverse relationship between credit risk and profitability, and that this relationship is also statistically significantly significant.)

However, according to the findings presented in Table 5, three variables, namely capital adequacy ratio (CAR), institutional ownership (INT_OWN), and earnings management (EM), do not have a statistically significant impact on firm value (FV). The fact that all variables have p-values exceeding 0.1 leads to this conclusion. The P-value for the coefficient of capital adequacy ratio (CAR) is 0.296, and its value is 0.016. This indicates that CAR's positive impact on firm value (FV) is negligible. This coefficient value is indicative of a feeble value. If the CAR has risen, then the firm value (FV) has likewise increased; conversely, if the CAR has fallen, then the firm value (FV) has decreased. Firm value (FV) is not significantly impacted by the capital adeqacy ratio (CAR) ratio, according to the findings of this study. Therefore, capital adequacy ratio (CAR) is unable to substantiate alternative hypothesis H6 regarding the impact of asset growth (AG) on firm value.

This result is corroborated by the findings of Ningsih, et al. [62] concluded that meaningful influence on firm value was observed in only one of the variables, Audit Committee (AC). Conversely, no statistically significant impact was observed from the variables of Non-Performing Financing Ratio (NPFR), Return on Assets (ROA), and Capital Adequacy Ratio (CAR).

In conclusion, with regard to the influence of the remaining regressors, the coefficients for institutional ownership (INT_OWN) in both models are -0.042 and -0.042. these results indicate that institutional ownership (INT_OWN) has no significant negative impact on FV because the p-values of both models are 0.3050 and 0.3030, which are both less than 0.05. As hypothesized by the investigation, a 1% increase in institutional ownership (INT_OWN) is associated with a 0.815% decrease in the value of the firm (FV), which is an insignificant negative effect on firm value (FV). The alternative hypothesis that institutional ownership (INT_OWN) significantly influences firm value is therefore refuted in H5 by this study.

Ekinci and Poyraz [59] research aligns with this discovery. Their research findings indicate that there is insufficient evidence to support the claim that state-owned banks significantly impact the profitability of a company.

The aforementioned conclusion is supported by Hong and Hung [63] who revealed a positive correlation between short-term debt and the performance of a company, as measured by return on assets (ROA). This result has also been further corroborated by Grassa [55] and Sakawa and Watanabel [64]. His research found that ownership concentration had a negative impact on the relationship between revenue structure and insolvency risk.

The earning management (EM) coefficients for both models are -0.000 and 0.000, respectively. The corresponding P-values are 0.971 and 0.495. This implies that earning management (EM) has a negligible and non-significant impact on the firm value (FV). If there is an increase in earnings management (EM), the fair value (FV) decreases, and vice versa. Conversely, if there is a decline in earnings management (EM), the firm value (FV) increases.

The study findings indicate that the earning management (EM) ratio does not have a statistically significant impact on firm value (FV). Therefore, earning management (EM) is unable to substantiate the H6 of alternative hypotheses that suggest earning management (EM) can impact firm value.

The research that was carried out by Almari, et al. [42] investigated the influence of earnings management and ownership structure on business value. Research findings indicate that earnings management has a little and statistically insignificant impact on the valuation of a firm. This result is supported by Malahim, et al. [65], who found that earnings management lowers a firm value. Even now, its impact is harmful.

The analysis revealed that the moderating effect of earning management on the connection between SSB and FV was not statistically significant. The negative coefficient was found to be 0.000, and the p-value (|z|) of 0.102 did not meet the significance threshold of 0.05 ($p < 0.05$). This implies that earning management (EM) did not succeed in either reinforcing or diminishing the correlation between SSB size and FV. This conclusion contradicts hypothesis H7, which posited that earning management acts as a moderating factor in the relationship between corporate governance and firm value.

The aforementioned discovery is supported by research conducted by Mersni and Ben Othman [16] which reveals that a significant portion of SSBs does not impact the firm value due to their inability to oversee managerial operations. Organizations with huge boards may find it more difficult to communicate, collaborate, and make high-level decisions as compared to smaller groups.

Table 5. General least square - fixed effect model with and without moderating treatment.

Variables	Model 1: Non-moderating		Model 2: Moderating	
	Coefficients	P-value	Coefficients	P-value
Feasibility model		Prob>F=0.000		Prob>F=0.000
R-Square		0.297		0.299
Independent variable: Islamic supervisory board (SSB)	0.028	0.048***	0.029	0.046*
Control variables:				
Asset growth (AG)	0.012	0.001	0.012	0.001***
Capital adequacy ratio (CAR)	0.005	0.667	0.048	0.694
Non_performing financing ratio (NPFR)	-0.327	0.000***	-0.327	0.000
Institutional ownership (INT_OWN)	-0.042	0.305***	-0.042	0.303
Moderating variable:				
Earning management (EM)	-0.000	0.971	0.000	0.495
Interaction variable: SSB_EM			-0.000	0.102

Note: *** significant at 1% level, *significant at 10% level.

Table 6. Summary of hypothesis tests for the effect of moderation (Non moderation).

No	Hypothesis	Expected sign	Model 1 (Before moderated)		Model 2 (After moderated)	
			Result	Decision	Result	Decision
H1	Islamic supervisory board (SSB)	+	Sig (+)	Supported	Sig (+)	Supported
H2	Asset growth (AG)	+	Sig (+)	Supported	Sig (+)	Supported
H3	Capital adequacy ratio (CAR)	+	Sig (+)	Not supported	Sig (+)	Not supported
H4	Non performance financing ratio (NPFR)	-	Sig (-)	Supported	Sig (-)	Supported
H5	Institutional ownership (INT_OWN)	-	Sig (-)	Not supported	Sig (-)	Not supported
H6	Earning management (EM)	-	Sig (+)	Not supported	Sig (+)	Not supported
H7	SSB_EM	-	not available*	not available*	Sig (-)	Not supported

Note: The result is not available because in the interaction between SSB and EM only in the second model.

To sum up, as shown in Table 6, there are only three variables that are consistent to support the hypothesizes namely Islamic Supervisory Board (SSB), Asset Growth (AG), and Non-Performing Financing Ratio (NPFR) in accordance with the expectations. However, four variables are not supported the hypothesizes namely Capital Adequacy Ratio (CAR), Institutional ownership (INT_OWN), Earning management (EM), and SSB_EM for interaction between Islamic Supervisory Board (SSB) and Earning management (EM).

6. CONCLUSION

The management of earnings can influence the correlation between a firm's value and its strong corporate governance. To that end, this section will analyze Indonesian Islamic banks with an eye toward how moderate earning management impacts the link between corporate governance and firm value.

Also shown to be statistically significant in this model was the Islamic Supervisory Board (SSB). Consequently, the size of the SSB is not the only important structure in an Islamic bank but also affects the firm's value. As SSB grows in size, so does the value of the firm. According to FV, this indicates that the largest individual contribution to explaining firm value factors is the size of the SSB. There was a strong correlation between Islamic banks' value and corporate governance characteristics, especially SSB. The results of utilizing earnings management (EM) to moderate the correlation between SSB and FV revealed that EM did not further control the relationship between SSB size and FV. Thus, smaller SSBs are superior to larger ones when it comes to monitoring the behavior of managers. A small SBB correlates its discretionary accruals with its size. Therefore, smaller boards are more effective monitors since they are less likely to have conflicts of interest. Because investors consider an investment to be successful if it can improve the book value of the investment and have a low rate of debtor default, this study suggests that asset growth (AG) and a drop in non-performing financing ratio (NPFR) can increase a firm's value.

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