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CORPORATE GOVERNANCE MECHANISM AND FINANCIAL PERFORMANCE: ROLE OF EARNINGS MANAGEMENT*

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Abstract. The mechanism of good corporate governance is used to prevent the management of the company from engaging in unethical actions, such as the earnings management. It can be an effective way to control management. This study aims to analyse corporate governance, consisting of the size of the board of commissioners, the size of the sharia supervisory board, and the audit committee on financial performance, measured as return on assets (ROA), with earnings management as the mediating variable. The sample used for the study consists of nine Indonesian shariah banks and the period of analysis is 2013-2017. The results of the path analysis show that the size of the board of commissioners has a negative effect on the company's ROA. The study also finds that the size of the sharia supervisory board, audit committee and earnings management do not have significant effects on financial performance. Earnings management has a positive mediating role on the relationship between the board of commissioners, the audit committee and ROA. This finding indicates that the existence of the board of commissioners is effective in supervising the management. Thus the mechanism corporate governance can limit the managers' discretionary behavior and prevent earnings management.

Keywords: board of commissioners; sharia supervisory board; audit committee; financial performance; earnings management.

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JEL Classifications: M41, M48, M49

1. Introduction

Sharia banking in Indonesia has grown significantly. By April 2018, there were 13 Sharia Commercial Banks (SCBs), 21 startups, and 168 People's Financing Banks in Indonesia (OJK, 2018). These numbers demonstrate

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that sharia business activities are playing an important role in the Indonesian economy. Consequently, the competition in the banking industry has intensified. Serious efforts must be taken into action to stay in the market. The industry has large captive market as around 90 percent of the Indonesian population is Muslim. Islamic-based banking should be able to compete and gain trust from the majority of Indonesian people (OJK, 2018).

To be successful in the context of competition a company must have strong corporate governance (Larbsh, 2015). Good corporate governance (GCG) is perceived as a guarantor that a company will be able to survive in tight competition. The company must have a strong commitment to ensuring that good governance practices are part of the life blood of its daily activities. In this context, the company is expected to be profitable as profit is one of the key indicators of successful governance. Profit is the measure which attracts the most attention when assessing the success of a company's management (Arniati et al., 2019; Siddique et al., 2020). Given that profit is commonly used as the indicator of management success, managers may have as strong intention to perform in various ways that will positively influence the reported profits. Earnings management represents one of the possible ways to influence profit. Previous studies show that earnings management is found in sharia banks (Shabri, 2015). This is surprising given that under Muslim beliefs all sharia businesses should comply with the Islamic rule not to intentionally engage in manipulative or unethical actions.

Quttainah et al. (2013) and Abdelsalam (2016) suggest that earnings management occurring in Islamic banking is lower than in conventional banking. Under the Sharia concept, managers in Islamic banking have the stronger responsibility to provide true and relevant information to their users. Islamic banking is based on moral responsibility and it shall have an influence on the quality of financial statements published by Islamic banking. However, another study, Hamdi & Zarai (2013) found earnings management that occurs in Islamic banking is higher compared to conventional banking. Those three studies indicate that earnings management in Islamic banking has not completely disappeared. Islamic banking is guided by religious values and moral values but earnings management practices remain in persistence.

Sharia banks are institutions that operate according to Islamic principles. The Indonesian government has formed a Sharia Supervisory Board (SSB) assigned to supervising the operations of banks or financial institutions from a sharia perspective. The Board is designed to ensure that all activities are based on sharia principles, especially in terms of how they manage their financial reports to avoid fraud including in the area of earnings management.

Looking at the overall performance of the Indonesian sharia banking industry, the ROA over six years (2012-2017) fluctuated. From 2012-2014, the average ROA decreased from 2.14% to 0.14%, although it increased slightly in 2015 to 0.49%. The average ROA experienced a steady increase in 2016 and 2017. The fluctuation and relatively low in ROA over six years indicate that was not gaining competitive profits despite the board requires sharia banks to implement GCG. Likewise, OJK noted that profitability and efficiency improved but that they were still relatively low. In this context, the figures show that the growth of Islamic banking remains slow. As the Islamic banks have existed since 1992, their ability to compete in the banking industry should be improving. The profitability performance has tended to decline, leading to an unfavourable reputation that is not in accordance with Islamic principles (OJK, 2018).

Although research on the financial performance of Islamic banks has been widely carried out in various countries, for example by Ajili (2018), Elghuweel et al., (2017), Farook et al., (2012), Mollah & Zammari (2015), Musibah & Sulaiman (2014) and Muneeza & Hassan (2014), Adeniran et al., (2020), conditions in Indonesia cannot be compared. For example, in Indonesia there was a unique situation in that, in the period of research, the Islamic banks grew quite rapidly but their financial performance declined. Indonesia is the country with the largest Muslim population in the world. With Islamic banking having a large market share, it is reasonable to expect that sharia banking would be able to increase its profitability. But in the period covered by this study it appears that the profits have declined. According to Muneeza & Hassan (2014), conventional corporate governance is more

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focused on protecting the rights of stakeholders, while sharia companies focus on governing according to sharia principles.

The application of GCG can improve corporate financial performance (Prasojo, 2015). GCG is important in every sector of the industry since risks and challenges increase continuously. If the risks and challenges cannot be managed properly, then it can result in losses, especially in the financial industry (Soewarno & Mahyarni, 2018). Corporate governance mechanisms are needed to ensure that a company is performing well without abuse (Arniati et al., 2019).

Good corporate governance has been asserted in Section 34 article 1 of Law No. 21 of 2008 with regard to sharia banking, and Central Bank Rules No 11/33/2009 concerning the implementation of sharia commercial banks and sharia business units. The implementation of corporate governance is expected to have a positive impact on the financial performance and control within companies. Previous researches on the effect of Islamic corporate governance on financial performance are inconclusive. In the current study, earnings management is included as the mediating variable, to see the direct or indirect effects. Earnings management can have a negative impact on financial performance, so it needs an effort to reduce the impacts. We argue that good corporate governance practice could reduce the occurrence of earnings management. Thus, the reduced earnings management is believed to affect the company's performance.

Previous researches report the existence of earnings management in Islamic banking. Under the sharia rule, Islamic banking shall be free from any earnings management actions. Yet, empirical evidence confirms the presence of earnings management practices. Therefore, to prevent the practice of earnings management in Islamic banking, actions that can minimize it are necessary. One of the effort to eliminate earnings management in Islamic bank is by the strong endorsement of GOCG practice.

Sharia banks are different to other companies in terms of their performance orientation. They are required to follow the principles and ethics of sharia business by implementing transparent and accountable governance. They must comply with Islamic Corporate Governance (Farook et al., 2012). Several measures are frequently used in various studies to assess Islamic corporate governance, such as the size of the board of commissioners (BoC), the size of the supervisory board, and the size of the audit committee.

The company's BoC has a collective responsibility to supervise and advise the directors and ensure that the company implements GCG (KNKG, 2006). Coller & Gregory (1999) state that the greater the number of board members, the easier it is to control the Chief Executives Officer (CEO) and the more effective the board is in monitoring management activities and maximizing profits. But the existence of a BoC does not always determine profitability. For example, one study found that the size of the BoC affects profitability (Taufiq et al., 2014), though Elghuweel et al., (2017) found no significant evidence for this.

The SSB is a board which advises directors as well as supervising bank activities in terms of following sharia principles (Rustam, 2013). The greater the number of SSB members, the better the role of SSB, especially in terms of increasing the supervision of sharia bank management, since all use of funds that is not sharia-based can reduce financial performance. Musibah & Sulaiman (2014) found that the SSB has a positive effect on the performance of sharia banks, but Ajili (2018) did not find such effect.

The audit committee is also a part of the GCG mechanism in the company's internal control. The stock exchange authority in Indonesia requires the existence of an audit committee in public companies. The audit committee is responsible for assisting the BoC by providing independent professional opinions to improve the quality of performance and reduce company management deviations. The audit committee is expected to optimise the

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supervisory function of the BoC and directors. Taufiq et al., (2014) found that the audit committee had an effect on profitability, but Ajili (2018) did not find any significant effect.

Earnings management is used as a mediation on the relationship between variables upon the reason that it occurs when managers use judgment in financial statements and the preparation of transactions to influence financial performance. It thus could mislead the stakeholders about the company's economic performance or to influence the results associated with contracts that depend on accounting numbers. Islamic banks as institutions based on Islamic principles shall be free of any intention to manage reported profits. Earnings management practice could mislead the users of financial statements leading to poor financial judgement (How et al., 2005).

Soewarno & Mahyarni (2018) report that earnings management actions negatively affect financial performance. This means that the effect resulting from earnings management practices has an impact on declining corporate financial performance. The profit management phenomenon that can occur in Islamic banking can be minimized by applying corporate governance in Islamic banking. So, the application of a good Islamic corporate governance can minimize the possibility of earnings management. Minimizing the occurrence of earnings management has an impact on the quality of financial reporting, so investors are interested in the company resulting in improved financial performance.

Mitigation of earnings management is something that must be done by Islamic banking. This is because earnings management carried out by Islamic banking can be detrimental to users of financial statements. The losses borne by the users of the financial statements can have a negative impact on Islamic banking in the long run. Therefore, the decomposition of earnings management mitigation measures in Islamic banking will be the input to Islamic banking management in Indonesia to minimize earnings management practices in bank financial reporting.

Islamic Corporate Governance (ICG) is a concept which has been proposed to improve a company's financial performance through the supervision of management performance and by ensuring management accountability for stakeholders based on the regulatory framework. Corporate governance exists to reduce earnings management. Earnings management can occur as a result of information discrepancy between the agent (manager) and principal (owner). It occurs when managers do not supply owners with all the information they require. In this situation, a control mechanism that aligns the different interests of the two parties is needed, for example, the ICG mechanism. Supervision of the ICG mechanism (SSB, audit committee, the BoC) within a company's management activities can minimise earnings management practices and improve its financial performance.

This study analyses the effect of the size of BoC, SSB size and audit committee size on the company's financial performance both directly and through earnings management as mediation. The originality of this research lies in the existence of SSB and BoC in the SCBs by including earnings management as the mediating variable. Earnings management practices seem to exist among SCB in Indonesia. The actions was performed to affect reported earnings. The sample for this study consists of nine sharia banks registered with the financial services authority in Indonesia. The results show that the size of the BoC affects the financial performance of the banks. The size of the SSB, audit committee and earnings management have no effect on financial performance. Earnings management can mediate the effect of the size of the BoC and audit committee on financial performance but is unable to mediate the effect of the size of the board sharia supervisor on financial performance.

2. Literature Review and Hypotheses Development

Based on agency theory, the owners delegate the management of the company to the agent (managers) and they are unable to supervise the manager's performance. As a result, the manager's decision is sometimes different from what the owners wants (Jensen & Meckling, 1976). The BoC is assigned to conduct general and specific supervision, according to the company's articles of association, and to give advice to directors (Rustam, 2013).

The BoC is responsible for supervising and ensuring that the company implements corporate governance. The BoC supervises the directors' policies in terms of running the company and giving advice. The more members of the BoC, the better is the supervision on directors. Coller and Gregory (1999) state that the greater the number on the BoC, the easier it is to control the CEO and the more effective the BoC is in terms of monitoring management activities and maximizing profits. Taufiq et al. (2014) and Akpey et al. (2016) state that the size of the BoC influences a firm's profitability.

Based on the above descriptions, the following hypothesis is formulated:
H_1: The size of the board of commissioners has a positive effect on the financial performance.

Bank Indonesia Regulation No 6/24 / PBI / 2004 article 26 (1) states that there must be at least two members of the SSB and, at most, five people. The size of the SSB refers to the total number of SSB members who conduct sharia supervision in each sharia bank. According to Klein (2002), the greater the number on the board, the better is the mechanism for monitoring company management. Thus, the greater the number of members of an SSB, the more supervision of the bank's management there will be in line with sharia principles. If the number of members of an SSB increases but does not exceed the maximum limit set, then the performance of the sharia bank will increase and this will impact on customer trust. Musibah & Sulaiman (2014) and Mollah & Zaman (2015), in their research, state that the size of the SSB has a positive effect on ROA.

Based on the above descriptions, the following hypothesis is tested:
H_2: The size of the SSB has a positive effect on the financial performance.

According to Arens et al., (2011), the audit committee consists of a number of elected persons with responsibility for assisting the independent auditors. Most audit committees consist of three to seven people who are not part of the company's management. The audit committee must not be influenced by management in order to fulfill their responsibility to evaluate the effectiveness of management control and the role of external auditors as well as internal auditors. The audit committee also functions as a mediator between shareholders and the BoC in terms of control activities by management and by internal and external auditors. The audit committee is expected to optimise the supervisory function of the BoC and directors. Taufiq et al., (2014) and Corrina (2018) find that audit committees have a positive influence on the company's profitability.

Based on the above descriptions, the hypothesis to be examined is:
H_3: An audit committee has a positive effect on the financial performance.

According to Healy and Wahlen (1999), earnings management occurs when managers use judgment in financial statements and the preparation of transactions to change financial statements, thus misleading stakeholders about the company's economic performance or to influence the results associated with contracts that depend on accounting numbers. Kieso (2011) asserts that earnings management is the planning of revenues, expenses, profits and losses to balance earnings fluctuations. Information provided to stakeholders by management cannot reflect the company's actual financial condition. Earnings management is an option available to managers when they choose policies or select accounting methods, but it can have an impact on income and also on achieving the specific objectives of managerial statements (Scott, 2015). Earnings obtained by an entity are often used as a benchmark for users of financial statements in assessing the success of that entity (Shin & Kim, 2019; McNichols & Stubben, 2008; Savitri, 2018). This is one of the reasons for the existence of earnings management. Earnings management actions can reduce the information quality related to earnings and negatively affect the company's profitability. Soewarno & Mahyarni (2018) and Akram et al., (2015) state that earnings management practices have an impact on declining corporate profitability.

Based on the above descriptions, the hypothesis to be tested is:
H_4: Earnings management has a negative effect on the financial performance.

The duty of a BoC is to supervise and give advice to the company's directors. Bhatt & Bhattacharya (2015) state that the more members there are on the BoC, the better the supervision of the board of directors because the board of directors will receive many suggestions or options. It can be concluded that the greater the number on the BoC, the more effective the supervision of management activities will be, to minimise the occurrence of earnings management. Reduced earnings management in the company will improve the company's profitability. Afnan & Raharja (2014) and Soewarno & Mahyarni (2018) state that earnings management mediates the relationship of the size of the BoC on financial performance.

Based on the above descriptions, the following hypothesis is proposed:
H_5: Earnings management mediates the effect of the board of commissioners' size on the financial performance.

The SSB is a board for supervising bank activities in terms of following sharia principles. The role of the SSB is similar to that of the BoC (Firdaus, 2007). Klein (2002) state that the more boards, the better is the monitoring mechanism of company management. Thus, the greater the number of members on the SSB, the higher is the level of supervision of bank management following sharia principles. If this is so, a subtle earnings management will be effective to manage reported earnings that suit the management's expectation. In short, financial performance will increase as a result of reduced earnings management in the company.

Based on the above descriptions, the following hypothesis is formulated:
H_6: The size of the SSB has an effect on the financial performance.

The audit committee must provide formal communication between the BoC, management, external auditors and internal auditors. It will ensure that internal and external audit processes are carried out properly. A good internal and external audit process will improve the accuracy of financial statements and increase trust in financial statements. The audit committee can reduce earnings management activities which will further affect the quality of financial reporting. Makhrus (2013) found that earnings management can mediate the effect of the audit committee on financial performance.

Based on the above descriptions, the following hypothesis is tested:
H_7: The audit committee influences financial performance with earnings management as a mediator.

3. Research Method

3.1 Population and Sample

The population for this study is 13 SSBs in Indonesia during the period 2013 to 2017. The selected SSBs must satisfy the following criteria:

1. They must be registered with the Financial Services Authority
2. They must have published annual reports and financial reports
3. They must have complete information on research variables during the observation period and
4. They must present their financial statements in Indonesian rupiah.

Nine SSBs met the sampling criteria. The study uses path analysis to determine the causal relationships, with the aim of explaining the direct or indirect influence between the dependent variable and the independent variable. It

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analyses whether there is an influence on the size of the BoC, the size of the SSB and the audit committee on financial performance through earnings management.

3.2 Operational Definition and Measurement of Variable

Financial performance is an indicator used to assess the efficiency of a company in terms of utilising its resources to earn revenues (Zack et al., 2009). Financial performance is measured using Return on Assets (ROA). The size of the BoC is the total number of members on the BoC. It is measured by totaling the BoCs stated in the annual report. The size of the SSB refers to the research of Kholid et al. (2015); it is measured as the number of members of the SSB. An audit committee is a committee formed by the BoC. The audit committee is measured based on the number of people on the committee. Earnings management is measured using discretionary accrual.

This study measures earnings management using accrual discretion (Nabila & Daljono, 2013). Accrual discretion model was chosen because it is in line with the accounting basis, which is the accrual basis. The measures for total accruals, non-discretionary accruals, and discretionary accruals follows Nabila & Daljono (2013). Total accruals are calculated using the following formula:

$$\mathbf{TACC}_{it} = \mathbf{EBXT}_{it} - \mathbf{CFO}_{it}$$

where $TACC_{it}$ is total accruals, $EBXT_{it}$ is profits before extraordinary items, CFO_{it} is operating cash flow.

Discretionary accruals are measured using Kasznik's (1999) model, where he adds a component of CFO change in the modified-Jones model. According to the Kaznik model, it has the highest adjusted R^2 and the proportion of the coefficient after the prediction. The model is as follows:

$$\mathbf{TA}_{it} / \mathbf{A}_{it-1}\ (\mathbf{TACC}_{it}) = \alpha 1\ (1/\ \mathbf{A}_{it-1}) + \alpha 2\ (\Delta\mathbf{REV}_{it} / \mathbf{A}_{it-1} - \Delta\mathbf{REC}_{it} / \mathbf{A}_{it-1}) + \alpha 3\ (\mathbf{PPE}_{it} / \mathbf{A}_{it-1}) + \alpha 4(\Delta\mathbf{CFO}_{it} / \mathbf{A}_{it-1}) + \mathbf{e}_{it}$$

where TA_{it} /A_{it-1} is current year total accruals divided by previous year total assets, A_{it-1} is previous year total assets, ΔREV_{it} / Ait-1 is current year changing in income divided by previous year total assets, ΔREC_{it} /A_{it-1} is current year changing in net account receivable divided by previous year total assets, PPE_{it} /A_{it-1} is current year net plant and equipment divided by previous year total assets, ΔCFO_{it} /A_{it-1} is current year changing of operating cash flows divided by previous year total assets, and e_{it} is the error term.

The estimation from the equation is used to calculate the nondiscretionary accruals using the following model.

$$\mathbf{NDACC}_{it} = \alpha 1\ (1/\mathbf{A}_{it-1}) + \alpha 2\ (\Delta\mathbf{REV}_{it} /\mathbf{A}_{it-1} - \Delta\mathbf{REC}_{it} /\mathbf{A}_{it-1}) + \alpha 3\ (\mathbf{PPE}_{it} /\mathbf{A}_{it-1}) + \alpha 4\ (\Delta\mathbf{CFO}_{it} /\mathbf{A}_{it-1})$$

Then, the discretionary accruals are calculated using the following formula:

$$\mathbf{DACC}_{it} = \mathbf{TACC}_{it} - \mathbf{NDACC}_{it}$$

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4. Results and Discussions

4.1 Descriptive Statistics Results

The descriptive statistics of each variable are shown in Table 1.

Table 1. Descriptive statistics of the research variables (N=39)

Variable	Minimum	Maximum	Mean	Std. Deviation
Size of BoCs	3	6	3.82	0.914
Size of SSB	2	3	2.36	0.537
Total Audit Committee	2	7	3.74	1.208
Earnings Management	-0.13	0.17	-0.02	0.070
Financial Performance (%)	-1.12	2.63	0.80	0.719

Source: the authors' calculations in Path Analysis according to statistical data

Table 1 shows that the average number of members in the BoCs is almost four people. This is relatively big and is in line with Bank Indonesia Regulation Number 11/3/PBI/2009, which requires at least three members for BoCs. The average number of SSB members is two; this is in accordance with Bank Indonesia Regulation Number 6/24/PBI/2004 article 26 (1) which requires at least two members for an SSB. On average, the number of members for each company's audit committee is nearly four. OJK Regulation No.55/ Pojk.04/2015 states that the membership of the audit committee must consist of at least three people including the chair of the audit committee. This shows that there are still companies that have not conformed to the OJK regulations, as it can be seen that the minimum value is two. The average value of earnings management is -0.02. A negative average value indicates that there is a reduction in discretionary accruals. The ROA is 0.80%. The ROA level of SCBs from 2013-2017 is under 1.5%. This figure is below the standard set by Bank Indonesia.

4.2 Hypothesis Testing

The results of the analysis testing for the direct influence of the independent variables are shown in Table 2.

Table 2. Results of the analysis testing of the independent variables

Variable	Un-standardized coefficients		t-stat	p-value	Conclusion
	B	Std. Error			
(Constant)		0.564	2.864	0.007	
Size of the BoCs	-0.374	0.135	-2.779	0.009	Affect
Size of SSB	0.175	0.213	0.822	0.417	Does not affect
Audit Committee	0.040	0.107	0.370	0.714	Does not affect
Earnings Management	-3.202	1.637	-1.956	0.059	Does not affect

Source: the authors' calculations in Path Analysis according to statistical data

Table 2 shows that only the size of the BoC has an effect on financial performance. The size coefficient of the BoC is negative, which means that the greater the number of members on the BoC, the more financial performance decreases. On the other hand, the other three independent variables have no significant effect on financial performance. The size of the SSB and audit committee have a positive coefficient, while earnings management has a negative coefficient.

The effect of the board size, the SSB size, and audit committee on earnings management are shown in Table 3.

Table 3. Results of path analysis testing

Variable	Unstandardized coefficients		t-stat	p-value
	B	Std. Error		
(Constant)	-0.016	0.058	-0.269	0.789
Size of the BoC	0.011	0.014	0.777	0.442
Size of SSB	0.025	0.022	1.144	0.260
Audit Committee	-0.027	0.010	-2.622	0.013

Source: the authors' calculations in Path Analysis according to statistical data

Table 3 shows that only the audit committee influences earnings management. The audit committee coefficient is negative, meaning that the higher the number of members of an audit committee, the higher the decrease in profitability. This is interesting because a greater number of members of an audit committee precisely reduces the company's profitability. On the other hand, the other two variables do not affect earnings management. The size of the BoC and the size of the SSB show a positive coefficient.

The indirect effect test aims to detect the position of mediating variables in a model. It is carried out by multiplying the coefficient values of the independent variable effect with the mediating variable and the coefficient values of the mediating variable with the dependent variable. The results of the indirect effect test are presented in Table 4.

Table 4. Indirect effect testing results

Description	A	Sa	B	Sb	Ab	Sab	t-stat
Size of the BoC →earnings management to financial performance	0.01	0.01	-3.20	1.64	-0.04	-0.01	5.87
Size of SSB →earnings management to financial performance	0.03	0.02	-3.20	1.64	-0.08	0.08	-1.00
Audit committee →earnings management to financial Performance	-0.03	0.01	-3.20	1.64	0.10	0.05	2.00

Source: the authors' calculations in Path Analysis according to statistical data

Table 4 shows that there is an indirect effect of the size of the BoC through earnings management on financial performance. The mediation testing shows that the path coefficient value is -3.20 and (t-stat = 5.87). This shows that earnings management can influence the relationship between board size and financial performance. It can be inferred that earnings management does not mediate the effect of the size of the SSB on financial performance. The path coefficient value is -3.20 (t-stat = -1.00). This is smaller than the t-table, which is 1.96. Furthermore, there is an indirect effect of the audit committee through earnings management on financial performance. The mediation testing shows that the path coefficient value is -3.20 (t-stat = 2.00). This shows that earnings management can influence the relationship between board size and financial performance.

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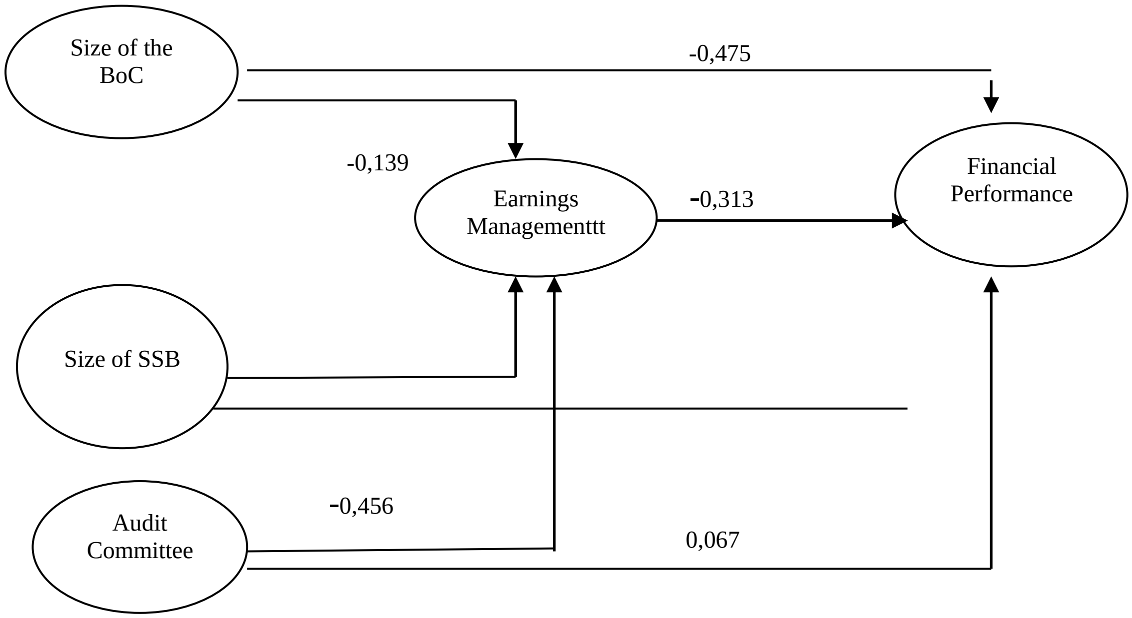

Figure 1. Results of Path Analysis
Source: the authors' calculations in Path Analysis according to statistical data

As shown in Figure 1, the effect between variables is presented both directly and indirectly. The size of the BoC affects financial performance through earnings management. The direct effect of X_1 on Y_2 is -0.475, while the indirect effect of X_1 through Y_1 on Y_2 is 0.044 (-0.139*-0.313). Then the total effect is -0.431 (-0.475 + 0.044). Thus, the value of the indirect effect is greater than the value of the direct effect. The size of the SSB does not significantly affects financial performance through earnings management. The direct effect of X_2 on Y_2 is 0.131, while the indirect effect of X_2 through Y_1 on Y_2 is -0.028 (0.089*-0.313). The total effect is 0.013 (0.131 - 0.028). In other words, the value of the indirect effect is smaller than the value of the direct effect. Audit committee has a significant effect on financial performance through earnings management. The direct effect of X_3 on Y_2 is 0.067, while the indirect effect of X_5 through Y_1 on Y_2 is 0.143 (-0.456*-0.313). The total effect is 0.21 (0.067 + 0.143). Thus, the value of the indirect effect is greater than the value of the direct effect.

4.3 Discussions

The size of the BoC negatively affects financial performance. Too many members on a BoC will reduce financial performance. This is due to the fact that it will slow down the decision-making process, so the number of members of a BoC in an Islamic bank must be appropriate to the bank's needs. Jensen (1993) suggest that large boards can be less-effective than small boards. The idea is that when boards become too big, agency problems (such as director free-riding) increase within the board and the board becomes more symbolic and less a part of the management process. Yermack (1996) tests this view empirically and finds support for it. He examines the relationship between Tobin's Q and board size on a sample of large U.S. corporations, controlling for other variables that are likely to affect Q. Yermack's results suggest that there is a significant negative relationship between board size and Q. The finding of the current study is consistent with Hermalin & Weisbach (2003). Arora & Sharma (2016) suggest that size of boards has strong impact on the effectivensss of monitoring for financial performance of the firm. The results of this study are in line with Taufiq et al., (2014) and Arora & Sharma (2016) who show that the size of the BoC has an impact on the effectiveness of the supervision of the company's profitability. This result is different to that of Elghuweel et al., (2017) who found no effect of the size of the BoC on the achievement of financial performance.

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The size of the SSB does not affect a bank's profitability. It is a fact that members of the SSB, in general, are specialist legal experts in Islamic Commercial Jurisprudence. Based on Bank Indonesia regulation Number 11/33/ PBI/2009, the main responsibility of the SSB is to ensure the compliance of transactions and bank operations with sharia principles. Members of the SSB can hold concurrent positions in four out of nine sharia financial institutions. The results of this study are consistent with Ajili (2018) who shows the SSB does not affect profitability in the sharia banking industry. Yet, the current study's results are not consistent with Musibah & Sulaiman (2014) and Mollah & Zaman (2015) who find that the size of the SSB has a positive effect on the performance of sharia banks.

The audit committee does not affect the company's profitability. The number of members of the audit committees does not guarantee the effectiveness of the audit committee's performance in supervising the company's profitability. The number of members of the audit committee will not affect its duty to supervise financial statements, especially in terms of accounting policies adopted by the company. Other duties of the audit committee include assessing internal control, supervising the external reporting system and ensuring the company follows the rules so that the quality of financial statements is ensured. Hence, it can be concluded that the number of members of the audit committee does not affect profitability. This result supports the research of Ajili (2018) and Wild (1996), which states that the audit committee guarantees a better quality of financial statements but it does not improve profitability. However, the findings for this study do not support Corrina's research (2018).

Earnings management does not affect profitability. This indicates that there may be many other factors, such as company growth, company size and assets, that can affect the company's profitability, along with the ability of organisations to manage knowledge and use it to improve both financial and non-financial performance (Luhn et al., 2017). Earnings management practices do not affect the company's profitability, because good profitability will reduce the risk of earnings management practices. This result supports Okafor et al., (2018) who report that earnings management does not affect profitability. However, it is not in line with Soewarno & Mahyarni (2018) and Akram et al., (2015) who document that earnings management has a negative effect on profitability.

The size of the BoC influences profitability through earnings management as a mediator. This finding supports agency theory in regarding the BoC to be the highest internal control mechanism in the company, which is responsible for monitoring the actions of top management. Supervision is conducted to reduce management's earnings management practices. Reducing earnings management practices in companies will improve the company's profitability. This result is consistent with Afnan & Raharja (2014) who report that the size of the BoC influences profitability by reducing earnings management in the company. however, it is not in line with Okafor et al., (2018).

The size of the SSB does not affect financial performance through earnings management as a mediator. Not all SSBs know the criteria that must be fulfilled; there are still many SSB members who do not understand banking techniques and sharia financial institutions. As a result, no matter how many member there are on the SSB, if supervision and other strategic roles are not optimal then it cannot minimise earnings management, so earnings management cannot mediate the influence of SSB size on profitability.

The audit committee influences financial performance through earnings management. The existence of an audit committee can reduce the occurrence of earnings management, and reduced earnings management in the company can improve the company's profitability. This result supports Makhrus (2013) who reports that earnings management mediates the effect of audit committee on profitability. However, it does not support Taufiq et al., (2014) who find that earnings management cannot mediate the influence of the audit committee on profitability.

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5. Conclusion and Suggestion

The results of this study indicate that the size of the BoC negatively influences the company's financial performance. The size of the SSB does not affect financial performance, because it only has authority to supervise the operational activities of the bank in accordance with Islamic law. In addition, the fact that an SSB is not effective in one sharia financial institution causes less performance. The audit committee does not have an effect on financial performance. Earnings management has no effect on financial performance. Earnings management is unable to mediate the influence of the SSB on financial performance. The audit committee influences financial performance through earnings management. This means that earnings management is a mediating variable between the audit committee and financial performance, which indicates that the existence of the audit committee suppresses the occurrence of earnings management, the audit committee will directly affect the company's performance, in this case the company's financial performance.

This research has several limitations that can be addressed for future research. First, the sample only included Islamic Commercial Banks, not all banks in Indonesia. Second, the only financial performance indicator analysed was ROA, which does not adequately reflect the state of the company's financial performance. Third, the number of measuring tools used in the calculation of earnings management means that research results between one researcher and other researchers is inconsistent. Therefore, it is recommended that future studies add other indicators into the assessment of the company's financial performance variables so that they can better represent the actual financial performance. Furthermore, researchers could increase the time period considered in the research. Other variables, such as the role of the SSB and the experience of the SSB, could also be used. Additionally, it is necessary to consider using samples from other countries in future research, so that the results can be generalized to countries other than just Indonesia.

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