The Effect of the Implementation of Risk Management and Corporate Governance with Profit Management as a Variable Intervening On the Financial Performance of Banking (Analytical Study on Commercial Banking Listed On the Indonesia Stock Exchange)

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Abstract

This study aims to determine whether Risk Management and Corporate Governance with earnings management as an intervening variable on the financial performance of banking companies listed on the IDX, to determine whether Risk Management and Corporate Governance affect the financial performance of banking companies. IDX listed earnings management as an intervening variable to determine whether Risk Management and Corporate Governance affect earnings management in banking companies listed on the IDX and whether earnings management affects earnings management. On the financial performance of banking companies listed on the IDX. The population used in this study were 43 banking companies listed on the Indonesia Stock Exchange. Using the purposive sampling method, there were 20 selected banking companies. Using 2016 to 2020 (5 years) observation years but measuring discretionary accrual plus the 2015 observation year will get 100 data observations as sampling in this study. Hypothesis testing is done by linear regression analysis. From the results of hypothesis testing, it is known that the application of risk management has no significant effect on financial performance and corporate governance has no significant effect on financial performance. Moreover, applying risk management using earnings management as an intervening variable cannot mediate financial performance. Applying corporate governance using earnings management as an intervening variable cannot mediate company performance, meaning that earnings management is not a good variable in mediating the relationship between risk management, Corporate Governance with Financial Performance (KK), and Risk Management have an effect on earnings management. In contrast, Corporate Governance does not affect earnings management, and earnings management does not affect financial performance.

I. Introduction

The economy grows and develops with various kinds of financial institutions. One financial institution that seems to have the biggest role in the economy is the bank financial institution. A bank is a financial institution that is a place for companies, government and private agencies, and individuals to store their funds. Through credit activities and various services provided, banks serve financing needs and facilitate payment mechanisms for all sectors of the economy. (Kasmir, 2011:4)

Risk management is a structured approach to managing the uncertainty related to threats, a series of human activities, including risk assessment, developing strategies for its management, and risk mitigation using empowerment or resource management. Risk management in bank operational activities includes risk identification, measurement and assessment, and how to minimize negative effects or risks from financial results and bank capital.

The application of risk management has become a necessity for the banking world in improving the business performance of banks. It is also a must according to the provisions of Bank Indonesia in the Circular Letter of Bank Indonesia Number 5/2/DPNP/2003. Risk profile management in the process of implementing banking risk management in Indonesia is certainly not easy to do. The problem is how to manage the risk management in banks so that the banking intermediary function remains consistent and integrated.

Corporate governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, the board of commissioners, shareholders and other stakeholders. Determine performance monitoring techniques (Darmawati, 2006).

Implementing corporate governance is one of the significant efforts to escape the economic crisis that has hit Indonesia. The role and demands of foreign investors and creditors regarding the application of corporate governance principles are one of the factors in making investment decisions in a company. For this reason, the implementation of corporate governance in Indonesia is very important because the principles of corporate governance can provide progress to a company's performance so that companies in Indonesia are not oppressed and can compete globally.

With a corporate governance system, shareholders and investors are confident that they will get a return on their investment because corporate governance can provide effective protection for shareholders and investors. Corporate governance can also assist in creating a conducive environment for efficient growth in the corporate office. In this case, corporate governance can be defined as a set of rules that determine the relationship between shareholders, managers, creditors, government, employees and other internal and external stakeholders by their rights and responsibilities. (FCGI, 2003).

Financial performance is an analysis conducted to see the extent to which a company has implemented by using financial implementation rules properly and correctly. The assessment of the financial performance of each company is different depending on the company's scope of business. If the company is engaged in the mining business sector, it differs from those in the agricultural and fishery businesses. So also for companies engaged in the financial sector, such as banking which has a different business scope from other business scopes (Fahmi, 2011)

Good quality financial performance is an important element for the development of company operations. To decide whether a company has a quality of financial performance is good. It can use two assessment references: an assessment based on financial performance (financial performance) and an assessment based on non-financial performance (non-financial performance). Assessment based on financial performance looks at the company's financial statements, which come from information obtained on the balance sheet, income statement, and cash flow statement, as well as other matters related to financial performance. Supports strengthening the assessment of financial performance (financial performance). At the same time, the assessment based on non-financial performance (non-financial performance) looks at the customer (customer), management (management) learning growth and sensitivity to market risk (sensitivity to market risk).

Earnings management is a management intervention in financial reporting to benefit himself (manager). Earnings management is one of the factors that can reduce the credibility of financial statements. Earnings management adds to the bias in financial statements. It can

interfere with users of financial statements who believe that the engineered profit figure is an unengineered profit figure (Setiawati & Na'im, 2000) in Rahmawati (2006). Earnings management is measured by using the proxy Discretionary Accrual (DA).

Meanwhile, what is meant by Discretionary Accrual is the accrual component in the manager's policy, meaning that the manager gives his intervention in the accounting reporting process. Earnings management differs from income smoothing because income smoothing is an act of smoothing out profits reported in financial statements, for external reporting, especially for investors. After all, investors generally like relatively stable earnings. Therefore, income smoothing is part of earnings management.

II. Review of Literature

2.1 Agency Theory

According to (Achmad, 2012) agency theory assumes that all individuals act in their interests. Shareholders as principals are assumed to be only interested in increasing financial returns or their investment in the company. Meanwhile, the agents are assumed to receive satisfaction in financial compensation and the accompanying conditions in the relationship. Agency theory states that management and owners have different interests. Companies that separate management and ownership functions will be vulnerable to agency conflicts. Agency theory is a relationship or contract between the principal and agent where it is assumed that each individual is solely motivated by his interests, causing a conflict of interest between the principal and agent. In agency theory, the so-called principle is the shareholder, while the agent is the management who manages the company. Principals are assumed to be only interested in the financial returns from their company investment. Meanwhile, the agent is assumed to receive satisfaction from financial compensation and other extras involved in the agency relationship.

2.2 Risk Management Risk

Management is a structured approach to managing the uncertainty related to threats, a series of human activities, including risk assessment, strategy development for its management, and risk mitigation using empowerment or resource management. Risk management in bank operational activities includes risk identification, measurement and assessment, along with how to minimize the negative effects or risks obtained from the bank's financial results and capital.

Risk management in this study is proxied by:
a. A non-Performing Loan (NPL) is one of several factors that indicate a bank's health. NPL is obtained by:
    Non-Performing Loan (NPL) = Total Non-Performing Loans/Total Credit
b. Operating expenses and operating income (BOPO) is the ratio between total and operating expenses, where the ratio is calculated per position. BOPO is obtained by:
    BOPO = Total Operating Expenses/Total Operating Income
c. Capital Adequacy Ratio (CAR) is a capital adequacy ratio that is useful for accommodating the risk of loss the bank may face. CAR is obtained by:
    Capital Adequacy Ratio (CAR) = Bank Capital / Risk-Weighted Assets x100%
d. Loan to Deposit Ratio (LDR) is the ratio of loans to deposits used to assess bank liquidity by comparing total bank loans with total deposits for the same period. LDR is obtained by:
    Loan to Deposit ratio (LDR) = Loans Disbursed / Total Funds Received x 100%

2.3 Corporate Governance

Corporate governance is a system that regulates and controls companies that create value-added for all stakeholders (Monks,2003). Two things are emphasized in this concept:

first, the importance of the right of shareholders to obtain correct and timely information and second, the company's obligation to make accurate, timely, transparent disclosures of all information on company performance, ownership and ownership. And stakeholders.

Corporate governance in this study is proxied by:

a. Institutional ownership (KI) is share ownership by third parties such as the government, financial institutions, legal institutions, foreign institutions, trust funds and other institutions. KI is obtained by:

Number of Shares Owned by the institution: Number of Shares Issued x 100%

b. Managerial Ownership (KM) is share ownership owned by the company's management. KM is obtained by:

Number of shares owned by managers: Number of shares issued in circulation x 100%

c. Proportion Independent commissioners (PDKIN) are representatives of minority shareholders responsible for regulating and providing direction to management from outside the company who have no relationship, business, or family with the company.

d. The size of the Board of Commissioners (UDK) is the company's organ in charge of conducting general or specific supervision by the articles of association and providing advice to the board of directors.

e. The audit committee is a committee formed by the board of commissioners to supervise the company's management.

2.4 Earnings Management

Earnings management is a process of taking deliberate steps within the limits of generally accepted accounting principles, both within and outside the limits of the General Accepted Accounting Principles (GAAP). Copeland (1968: 10) in Utami (2005) defines earnings management as "some ability to increase or decrease reported net income at will". This means that earnings management includes management's efforts to maximize or minimize profits, including income smoothing, according to the manager's wishes. DA can be obtained by:

$TA_{it} = N_{it} – CFO_{it}$

Total accrual value (TA) which is estimated by the regression equation Cross Sectional Ordinary Least Square (OLS) as follows:

$TA_{it}/A_{it-1} = 1 (1 / A_{it-1}) + 2 (\Delta Revt / A_{it-1}) + 3 (PPE_t / A_{it-1}) + e$

Using the regression coefficient above the value of non discretionary accruals (NDA) can be calculated by the formula:

$NDA_{it} = 1(1 / A_{it-1}) + 2 (\Delta Revt / A_{it-1} - Rect/ A_{it-1}) + 3 (PPE_t / A_{it-1})$

Then discretionary accrual (DA) can be calculated as follows:

$DA_{it} = TA_{it} / A_{it-1} – NDA_{it}$

2.5 Financial Performance

According to an expert, (Sundjaja & Barlian, 2003) revealed that financial performance is a good prospect for the company's future growth and development. Financial performance information is necessary to assess potential economic resource changes and predict available resources' production capacity. In general, financial performance is an effort made by every company to measure and assess every success achieved in generating profits so that companies can see prospects, growth, and development potential that have been achieved in the company. A company can be said to be successful if it has achieved the standards and objectives that have been set. Financial performance in this study is proxied by

a. Return on assets (ROA) is an indicator to show how much a company is compared to its total assets. ROA can be obtained by: ROA = Net Profit After Tax: Total Assets x 100%

b. The debt to Equity Ratio (DER) measures the percentage of liabilities in the company's capital structure. DER can be obtained by: DER = Total Liability: Total Equity x 100%
c. Net profit margin (to compare profits with the total money generated by the company. NPM can be obtained by: NPM = Net Profit After Tax: Net Sales

III. Research Method

This research type of quantitative research. Quantitative research is the data that can be measured or calculated directly in the form of information or explanation expressed in numbers or numbers (Sugiyono, 2010). This research is causal (Causal research). This design is useful for analyzing the relationship between one variable and another or how a variable affects other variables (Umar, 2001:30).

Data Collection Methods
1. Types of Data
Researchers used secondary data in this study. Secondary data is primary data that has been further processed and presented well by the primary data collector or another party (Umar, 2001:69).
2. Sources of Data
This research was conducted on 20 banks listed on the Indonesia Stock Exchange in 2016, 2017, 2018, 2019 and 2020, which were obtained from internet media by downloading through the www.IDX.co.id to obtain data on published financial and annual reports.

IV. Results and Discussion

The independent variables in this study are risk management (NPL, BOPO, CAR, LDR) and corporate governance (Institutional Ownership, Board of Directors Ownership, Proportion of Independent Commissioners, Board of Commissioners Size, Audit Committee). In contrast, the dependent variable is financial performance (ROA, DER). NPM) while the intervening variable is earnings management (DA). After the data is obtained, it will be reviewed descriptively regarding the condition of each research variable. Descriptive statistics provide an overview of descriptive data from the average value (mean), minimum value, maximum value, and standard deviation. After regressing this research using statistical methods, the following results were obtained:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPL	100	.00	9.92	1.7189	1.51426
BOPO	100	53.27	261.10	91.8401	31.63296
CAR	100	10.01	148.28	29.7747	20.85795
LDR	100	.47	761.45	97.1647	84.90224
Institutional Ownership	100	.00	.95	.5614	.32086
Board Of Directors Ownership	100	.00	.54	.0333	.11192
Proportion Of Independent Board Of Commissioners	100	.00	6.00	2.2700	1.29377
Board Of Commissioners' Size	100	2.00	10.00	5.0000	2.26078
Audit Committee	100	1.00	7.00	2.9400	1.14433
DA - Earnings Management	100	-.97	2.53	.2482	.50277

ROA	100	-15.89	33.00	1.1772	4.32791
DER	100	.43	16.08	5.1651	2.60825
NPM	100	-10.61	2.72	-.1040	1.58459
Valid N (listwise)	100				

4.1 Classic Assumption Test
a. Normality Test

Normality aims to determine whether in the regression model the confounding or residual variables have a normal distribution. This test is necessary because to perform the t-test and F-test assumes that the residual value follows a normal distribution. Test the normality of the data using a histogram graph and the Kolmogrov Smirnov test. The following are the results of the normality test of the data.
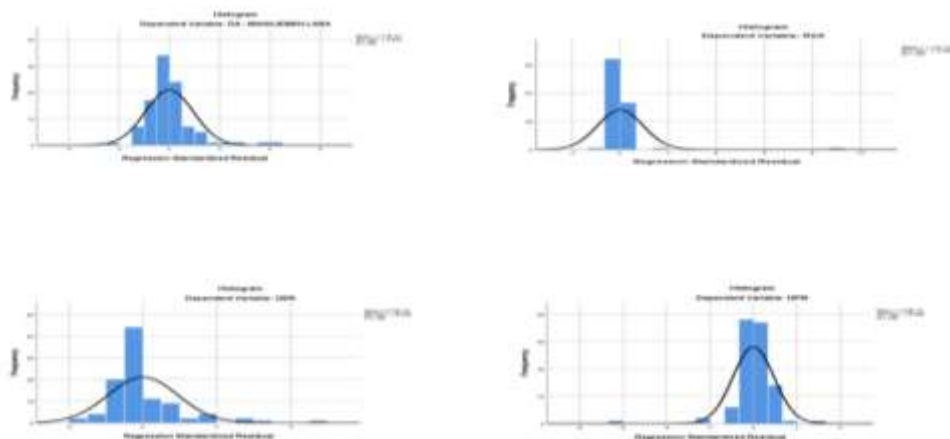
Based on the results of the classical assumption test, it is known that there is a data distribution that tends to be normal, where the distribution pattern of the image forms a wave that is curved to the center and does not tilt to the right and does not tilt to the left, or in other words, the residual value of the histogram approaches zero so that the data is normally distributed. To find out if the data is normally distributed or not, the Kolmograv Smirnov test is also used.

K-S Normality Test

This normality test is supported by looking at the one sample K-S test, which is based on the table above by looking at the Residual Asymp. Sig (2 Tailed) data above 0.05, which is 0.000, this means that the value is smaller than 0.05, so it can be said that the data is not normally distributed.

b. Multicollinearity Test

Variabel	Tolerance	VIF	Keterangan (ROA)	Tolerance	VIF	Keterangan (DER)	Tolerance	VIF	Keterangan (NPM)
NPL	-0,115	1,651	Non Multikolineritas	0,809	1,651	Non Multikolineritas	0,434	1,651	Non Multikolineritas
BOPO	-7,675	1,809	Non Multikolineritas	1,267	1,809	Non Multikolineritas	-9,911	1,809	Non Multikolineritas
CAR	0,369	2,451	Non Multikolineritas	-4,436	2,451	Non Multikolineritas	-1,918	2,451	Non Multikolineritas
LDR	-0,116	1,653	Non Multikolineritas	0,986	1,653	Non Multikolineritas	-0,672	1,653	Non Multikolineritas
KEPEMILIKAN INSTITUSIONAL	-0,702	1,238	Non Multikolineritas	-0,025	1,238	Non Multikolineritas	0,539	1,238	Non Multikolineritas
KEPEMILIKAN DIREKSI	-0,995	1,63	Non Multikolineritas	-1,355	1,63	Non Multikolineritas	0,686	1,63	Non Multikolineritas
PROPORSI DEWAN KOMISARIS INDEPENDEN	0,892	1,965	Non Multikolineritas	0,465	1,965	Non Multikolineritas	-0,163	1,965	Non Multikolineritas
UKURAN DEWAN KOMISARIS	-0,497	2,299	Non Multikolineritas	0,171	2,299	Non Multikolineritas	-0,012	2,299	Non Multikolineritas
KOMITE AUDIT	-1,224	1,396	Non Multikolineritas	1,448	1,396	Non Multikolineritas	0,349	1,396	Non Multikolineritas
MANAJEMEN LABA	-0,385	1,286	Non Multikolineritas	-0,261	1,286	Non Multikolineritas	5,382	1,286	Non Multikolineritas

Based on the above output results, there is no multicollinearity problem that arises. This is indicated by the tolerance value of each independent variable is greater than 0.10 and the Variance Inflation Factor (VIF) value of each independent variable is less than 10, it can be concluded that there is no multicollinearity problem.

c. Heteroscedasticity Test
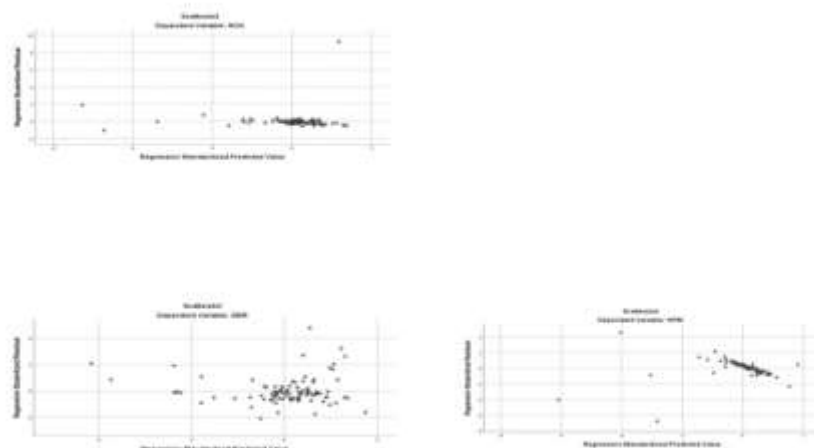
From the picture above, it can be seen that the dots spread randomly and spread throughout the parts. So it can be concluded that there is no heteroscedasticity between the independent variables.

4.2 Hypothesis
a. Testing Determination Coefficient Test
The coefficient of determination (R2) essentially measures how far the model's ability to explain variations in the dependent variable is. The value of the coefficient of determination is between zero and one. A small value of R2 means that the ability of independent variables to explain the variation of the dependent variable is very limited (Ghozali, 2011).

1) Coefficient of Determination Equation I
Determination Test Results I
Risk Management, Corporate Governance, Earnings Management on Financial Performance (ROA, DER, NPM)

Table 2. Model Summary

Variable	R	R Square
ROA	.731[a]	.534
DER	.646[a]	.417
NPM	.866[a]	. 749

The value of R square (R2) is 0.534, which is equal to 53.4%. This figure means that the variables of risk management, mcg, and earnings management on ROA are 53.4%. At the same time, the remaining 46.6% is influenced by other variables not proposed in the study. The magnitude of the number R square (R2.) is 0.417, equal to 41.7%. This figure means that the risk management variable, gcg, earnings management to DER is 41.7% While the remaining 58.3% is influenced by other variables not proposed in the study.

The magnitude of the number R square (R2.This figure implies that the risk management variable, gcg, earnings management to NPM is 74.9%. At the same time, the remaining 25.1% is influenced by other variables not proposed in the study.

2) Coefficient of Determination Equation II
Result of Determination II
Risk Management, Corporate Governance on earnings management

Table 3. Model Summary

Variable	R	R Square
Earnings Management	.472[a]	.222

The R square (R2The) magnitude is 0.222, equal to 22.2%.meaning that the risk management variable, gcg, on earnings management is 22.2%. At the same time, the remaining 77.8% is influenced by other variables not proposed in the study.

b. Statistical Test F (F test)
1) F test Equation 1
F Test Results Equation I
Risk Management, Corporate Governance, Earnings Management on Financial Performance (ROA, DER, NPM

Table 4. ANOVA[a]

Variable	F	Sign
ROA	10.214	.000[b]

DER	6.365	.000[b]
NPM	26.571	.000[b]

The ANOVA test or F Test resulted in a calculated F value of 10.214 with a significant level of 0.000. Because it is significantly less than 0.05, there is a significant positive effect of the three variables, namely risk management, corporate governance and earnings management, on ROA

The ANOVA or F Test produces an F count of 6.365 with a significant level of 0.000. Because it is significantly less than 0.05, there is a significant positive effect of the three variables, namely risk management, corporate governance and earnings management, on DER

The ANOVA or F Test produces a calculated F value of 26.571 with a significant level of 0.000. Because it is significantly less than 0.05, there is a significant positive effect of the three variables, namely risk management, corporate governance and Earnings Management, on NPM

2) F Test Equation 2
Test Results Equation II
Risk Management, Corporate Governance on earnings management

Table 5. ANOVA[a]

Variable	F	Sign
Earnings Management	2.861	0.005[b]

ANOVA or F Test produces a calculated F value of 2.861 with a significant level of 0.000. Because it is significantly smaller than 0.05, there is a significant positive effect of the three variables, namely risk management, corporate governance on earnings management

c. Statistical test t (t-test)
1) t-test Equation I
t-test results Equation I
Risk Management, Corporate Governance, Earnings Management on Financial Performance (ROA, DER, NPM)

Table 6. Coefficients

Variable	T Calculate	ROA		DER		NPM	
		T table	Sig	T table	Sig	T table	Sig
NPL	1.984	-115	.909	.809	.421	.434	.666
BOPO	1.984	-7.675	.000	1,267	.209	-9.911	.000
CAR	1.984	.369	.713	-4.436	.000	-1.918	.058
LDR	1.984	-.116	.908	.986	.327	-.672	.504
Institutional Ownership	1.984	-.702	.485	-.025	.539	.980	. 592
Ownership of the Board of Directors	1.984	-.995	.322	-1,355	.179	.686	.494
The proportion of Independent Commissioners	1.984	.892	.375	.465	.643	-.163	.871
Board of Commissioner's Size	1.984	-.497	.620	.171	.865	-. 012	990
Audit Committee	1.984	-1.224	.224	1,448	.151	.349	.728
Earnings Management	1.984	-.385	.701	-.261	.794	5,382	000

H1: Effect of risk management implementation on the financial performance of commercial banks listed on the Indonesia Stock Exchange.

The results showed that NPL did not affect financial performance. Non-performing loans reflect credit risk. The smaller the NPL, the smaller the credit risk borne by the bank. Banks must bear losses in their operational activities to affect the decrease in profits earned by the bank. For the value of the NPL ratio to be categorized as good, Bank Indonesia sets the criteria for the net NPL ratio below 5%.

The results showed that Bopo affected ROA and NPM. So the smaller the Bopo, the higher the bank's role. A bank's success based on a quantitative assessment of bank profitability can be measured using the ratio of operating costs to operating income (Kuncoro and Suhardjono, 2002). This is because any increase in operating costs will result in a decrease in profit before tax and will ultimately reduce the profit or profitability of the bank concerned. At the same time, the study's results showed that Bopo did not affect DER. So the bigger the book, the lower the bank's der. This is because every decrease in operating costs will increase profit before tax and ultimately increase the profit or profitability of the concerned bank.

The results show that the car does not affect financial performance. Capital Adequacy Ratio (CAR) is a capital ratio that shows the bank's ability to provide funds. For business development purposes and to accommodate the risk of losses and losses resulting from bank operations. The higher the Capital Adequacy Ratio, the better the ability of the bank to bear the risk of any credit or risky productive assets. If the value of the Capital Adequacy Ratio is high, the bank can finance operational activities and make a sizeable contribution to financial performance.

The results showed that LDR did not affect Financial Performance. The lower the LDR ratio, the lower the disbursed funds, and the lower the LDR indicates the bank's lack of effectiveness in channelling credit. In the end, the profit is also lower than the financial performance. A higher LDR in an illiquid financial institution or a company cannot fulfil its obligations. In contrast, a low ratio indicates that the bank is liquid or that the company can fulfil its obligations. Banks that are in an illiquid condition will have difficulty regaining public trust and carrying out the bank's main operational activities in channelling dredgers so that it has an impact on high and low profitability.

H2: The effect of the implementation of corporate governance on the financial performance of commercial banks listed on the Indonesia Stock Exchange.

The study results show that institutional ownership does not affect financial performance because large institutional ownership in a company makes management intervention large, thus making management feel bound and limited space for managers. The limited space for movement will encourage management to carry out dysfunctional activities so that too large institutional parties in banking companies can hurt company performance. . This makes the company incur extra costs, namely agency costs in monitoring managers' performance.

The results showed that the ownership of the board of directors did not affect financial performance. The ownership of the board of directors, which is quite low, allows managers not to be always moved to try to improve their company's performance. Because they think the proportion of profits they can get through the shares they own will remain small because the proportion of their own is also small. So it can cause the company not to experience a significant increase in profitability.

The results showed that the proportion of independent commissioners did not affect financial performance. This is due to the small percentage of an independent board of

commissioners to improve the company's financial performance. The board of commissioners with more independent members will tend to provide greater oversight to the company's management in improving the company's performance.

The study results show that the size of the board of commissioners does not affect financial performance. This is because the commissioners do not guarantee the efficiency of the agent's performance, meaning that the size of the board of commissioners does not guarantee the good supervisory performance of the agent, so it does not affect the increase or decrease in financial performance.

The results show that the audit committee does not affect financial performance. This is because too many audit committee members are not good for the company. After all, there will be many tasks or jobs that are divided. This causes the audit committee members to be less focused on carrying out their duties so that the company's performance will worsen.

H3: The effect of the application of earnings management on the financial performance of commercial banks listed on the Indonesia Stock Exchange.

The results showed that earnings management (DA) did not affect financial performance. This is because the lower the earnings management action, the value of financial performance will decrease.

2) t-test Equation II
t-test Results

Risk Management, Corporate Governance on earnings management

Table 7. Coefficients

Variable	T Calculate	Earnings Management	
		T table	Sig
NPL	1.984	-2.021	.046
BOPO	1.984	-.357	.722
CAR	1.984	-.797	.428
LDR	1.984	4.062	.000
Institutional Ownership	1.984	.912	.364
Directors Ownership	1.984	-.059	.953
The proportion of Independent Board of Commissioners	1.984	-.365	.716
Board of Commissioner's Size	1.984	-.809	.421
Audit Committee	1.984	.441	.660

H4: Effect of risk management implementation on earnings management in general banking listed on the Indonesia Stock Exchange.

The results showed that NPL affected earnings management (DA). This is because NPL makes banks suffer losses. The customer cannot provide the interest income that should be received and becomes the bank's profit. Customers cannot return loans that banks have given. If the NPL condition in a banking company is high, it will increase costs, both the cost of reserves for productive assets and other costs, so it can potentially cause bank losses.

The study results show that Bopo does not affect earnings management (DA). If the Operational Cost of Operating Income (BOPO) decreases, the profit earned by the bank will

increase. This is because the level of efficiency of the bank in carrying out its operations affects the earnings generated by the bank, which is the aspect used to measure it.

The results showed that the car affected earnings management (DA). This shows that banking companies carry out earnings management, one of which is motivated by the minimum car ratio that Bank Indonesia of 8% has determined. So banks that cannot meet the minimum ratio of Bank Indonesia can be categorized as problematic or unhealthy.

The results showed that LDR affected earnings management (DA). This is because LDR shows the bank's ability to channel funds from the third parties it collects. The compensation received from lending is income for the bank. On the other hand, the bank must issue compensation for third-party funds, which are costs for the bank. The lower the LDR value, the lower the bank's income will motivate the bank to carry out earnings management by increasing profits.

H5: The effect of the implementation of corporate governance on earnings management in commercial banks listed on the Indonesia Stock Exchange.

The results show that institutional ownership does not affect earnings management. This is because the higher institutional ownership, the lower the tendency of management to carry out earnings management. The large share ownership of institutional investors can reduce agency problems, reducing the opportunity for earnings management actions taken by the company because institutions are easier to monitor managerial performance.

The results showed that the ownership of the board of directors did not affect earnings management. This is because the increase will be followed by the higher voting rights owned by the manager so that the manager has a strong position to control earnings management. In this case, external shareholders have difficulty controlling the actions of managers. Most of the companies in Indonesia are family companies whose managers and the company's board of directors are still family to the majority shareholders, leading to a lack of professionalism and competence in managing the company, which results in a decline in earnings management. Earnings management can be decreased due to the lack of participation of managers in making decisions to increase shareholder profits. The results showed that the proportion of independent commissioners did not affect earnings management (DA). This is because the higher the proportion of independent commissioners, the higher the level of earnings management and several conditions, including coordination that may not be independent. The fulfilment of this mechanism may only be a formality or to be able to comply with regulations.

The results showed that the size of the board of commissioners did not affect earnings management (DA). The size of the board of commissioners is not the main determining factor in the effectiveness of supervision of the company's management. However, it depends on the values, norms and beliefs accepted in an organization and the board of commissioners' role in controlling management activities (monitoring). Gideon (2005; Widiatmaja, 2010) add that the effectiveness of supervision depends on how to communicate, coordinate, and make decisions.

The results showed that the audit committee did not affect earnings management (DA). By Kep. 29/PM/2004, the audit committee membership consists of at least three members, one of whom is an independent commissioner who also serves as chairman of the audit committee. The average company in this study has a total number of audit committee members, as many as three people, so the company may use a committee audit only to meet the requirements proposed by the government.

4.2 Intervening Test

Table 8. Sobel test results

INDICATOR	A	B	Sea	SEb	Sobel Test Statistic	One – Tailed Probability	Two- Tailed Probability
NPL- ROA	-0,078	-0,272	0,039	0,706	0,37831381	0,35259874	0,70519749
BOPO-ROA	-0,001	-0,272	0,002	0,706	0,30518061	0,38011430	0,76022860
CAR-ROA	-0,003	-0,272	0,003	0,706	0,35951044	0,35960664	0,71921327
LDR – ROA	0,003	-0,272	0,001	0,706	-0,38213087	0,35118215	0,70236430
KI – ROA	0,147	-0,272	0,161	0,706	-0,35496217	0,36130896	0,72261793
KD- ROA	-0,031	-0,272	0,533	0,706	0,05750972	0,47706958	0,95413916
PDKIN-ROA	-0,018	-0,272	0,051	0,706	0,26024680	0,39733670	0,79467341
UDK-ROA	-0,025	-0,272	0,031	0,706	0,34763576	0,36405687	0,72811375
KA-ROA	0,021	-0,272	0,048	0,706	-0,28913851	0,38623769	0,77247538
NPL- DER	-0,078	-0,124	0,039	0,476	0,25832212	0,39807916	0,79615831
BOPO – DER	-0,001	-0,124	0,002	0,476	0,23102827	0,40864642	0,81729284
CAR – DER	-0,003	-0,124	0,003	0,476	0,25209085	0,40048542	0,80097084
LDR – DER	0,003	-0,124	0,001	0,476	-0,25952759	0,397614 10	0,79522820
KI- DER	0,147	-0,124	0,161	0,476	-0,25050749	0,40109746	0,80219491
KD – DER	-0,031	-0,124	0,533	0,476	0,05676380	0,47736668	0,95473335
PDKIN – DER	-0,018	-0,124	0,051	0,476	0,20959493	0,41699192	0,83398384
UDK – DER	-0,025	-0,124	0,031	0,476	0,24789187	0,40210903	0,80421807
KA – DER	0,021	-0,124	0,048	0,476	-0,22382972	0,41144490	0,82288980
NPL- NPM	-0,078	1,021	0,039	0,190	-1,87438788	0,03043849	0,06087698
BOPO – NPM	-0,001	1,021	0,002	0,190	-0,49784956	0,30929504	0,61859008
CAR – NPM	-0,003	1,021	0,003	0,190	-0,98312199	0,16277370	0,32554740
LDR – NPM	0,003	1,021	0,001	0,190	2,61944074	0,00440370	0,00880741
KI- NPM	0,147	1,021	0,161	0,190	0,90014261	0,18402218	0,36804436
KD – DER	-0,031	1,021	0,533	0,190	-0,05815794	0,47681141	0,95362282
PDKIN – NPM	-0,018	1,021	0,051	0,190	0,35218237	0,36235075	0,72470150
UDK – NPM	-0,025	1,021	0,031	0,190	-0,79752063	0,21257436	0,42514873
KA – NPM	0,021	1,021	0,048	0,190	0,43605720	0,33139762	0,66279523

H6: The effect of risk management on financial performance is mediated by earnings management in commercial banks listed on the Indonesia Stock Exchange.

The results showed that earnings management could not mediate the relationship between NPL, ROA, and DER. Meanwhile, earnings management can mediate the relationship between NPL and NPM.

The results showed that earnings management could not mediate the relationship between income and financial performance.

The results showed that earnings management could not mediate the relationship between car and financial performance.

The results showed that earnings management could not mediate the relationship between LDR, ROA, and DER. Meanwhile, earnings management can mediate the relationship between NPL and NPM.

H7: The effect of the implementation of corporate governance on financial performance mediated by earnings management in commercial banks listed on the Indonesia Stock Exchange.

The results show that earnings management is not able to mediate the relationship between institutional ownership and financial performance.

The results of the study indicate that earnings management is not able to mediate the relationship of ownership of directors to financial performance.

The results show that earnings management is not able to mediate the relationship between the proportion of independent commissioners on financial performance.

The results showed that earnings management was not able to mediate the relationship between the size of the board of commissioners on financial performance.

The results showed that earnings management was not able to mediate the relationship of the audit committee to financial performance.

V. Conclusion

This study examines risk management variables with indicators NPL, bopo, car, LDR and corporate governance variables with indicators of institutional ownership, board of directors ownership, the proportion of independent commissioners, the size of the board of commissioners and the audit committee that are estimated to affect financial performance through earnings management as an intervening variable. Samples were taken from general banking sector companies listed on the Indonesia Stock Exchange (IDX).

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