Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 08 Issue 08 August 2025

Article DOI: 10.47191/jefms/v8-i8-32, Impact Factor: 8.317

Page No: 5361-5373

Improving Profit Quality Through Islamic Bank Performance and Islamic Corporate Governance: Evidence IBS in Indonesia

Kiryanto, Kiryanto[1]*, Provita Wijayanti[2]

[1,2]Department of Accounting, Faculty of Economic and Business, Sultan Agung Islamic University, Central Java, Indonesia

ABSTRACT: This paper aims to explore the extent of the role of Islamic Corporate Governance (ICG) and Islamic Bank Performance (IBP) in improving Earnings Quality (EQ) by using various dimensions for each construct variable of the study with a case study on Islamic banking in Indonesia. The object of this research is Islamic banking in 2018-2022, registered with the Financial Services Authority. Based on purposive sampling, 12 samples of banking companies were obtained, and over five years, 60 data were obtained. The existence of variables that use multiple measurements, the appropriate data processing used is Partial Least Square. The inner model test shows that ICG and IBP can increase EQ. However, ICG is unable to increase IBP in Indonesia. Likewise, IBP is unable to mediate the relationship between ICG and EQ. Previous research measuring each construct/variable, such as the ICG, IBP, and EQ variables, only used a single dimension. Therefore, this research is the first to use multiple measurements for each variable studied with the path analysis technique. The purpose of this research for policymakers is to provide empirical evidence of the importance of the role of the Sharia board and the performance of Sharia banking in improving a company's earnings quality. This research's limitation is that it uses non-Sharia indicators for EQ variable, while the IBP and ICG variables use Sharia indicators. However, this research's implication for future research is the importance of using Sharia indicators for the EQ variable.

KEYWORDS: Islamic Bank Performance, Islamic Corporate Governance, Earnings Quality

I. INTRODUCTION

Islamic corporate governance (ICG) has received much attention in recent years (Hassan & Christopher, 2005), (Muneeza & Hassan, 2014), (Hasan, 2011), (Zaman et al., 2019), (Choudhury & Hoque, 2006), (Choudhury & Alam, 2019), (Bukhari et al., 2013), (Grassa & Matoussi, 2014). Corporate Governance is due to the current financial crisis raising serious questions about the corporate governance of conventional banking practices (Demirgüç-kunt & Huizinga, 2013), (Bitar et al., 2018), (Buallay, 2019). Therefore, trust in conventional banks is decreasing, and conversely, there is an increase in confidence in Islamic banks. In addition, there is a rapid growth in individual interest in religion, so investing in their personal beliefs makes them more inclined toward Shariah-compliant banks.

The Shariah board (SB) consists of Islamic jurists with sufficient knowledge of contemporary finance established in Islamic institutions to ensure their compliance with Sharīʿah law. The accounting and auditing organization for Islamic financial institutions describes the SB as: "an independent body consisting of jurists specialized in the field of Fiqh-al-Muamalat (Islamic commercial jurisprudence) to ensure that Islamic financial institutions comply with the principles of shariah" (AAOIFI, 2015). In theory, the role of the SB is to issue fatwas, conduct shariah audits, calculate zakat, channel and distribute non-shariah-compliant income, and guide the bank as the backbone of Islamic banking. Sharia ICG has the same objectives as conventional corporate governance. Still, Sharia ICG combines Sharia principles and underlying fiqh (Islamic law) standards, making the scope of Sharia ICG more based on religious, ethical, and social considerations of Islamic banking in its business operations.

Corporate governance ensures that accountability and transparency run well so that quality profits are produced. High profit quality can predict future profits (Alhadab & AL-OWN, 2017). Therefore, profit quality is still an interesting topic in accounting today. Likewise, research results show results that are still very diverse.

Several studies have found that governance hurts earnings quality as measured by earnings management (accrual) (Istianingsih, 2021), (Bajra & Cadez, 2016), (Abbott et al., 2004), (Archambeault et al., 2008), (Alzeban, 2020), (Suryati, 2020), (Al-haddad & Whittington, 2019). Other studies have found that governance, as measured by the board of commissioners and audit committee, hurts earnings quality as measured by relevant value and earnings persistence (Asogwa et al., 2020), (Balagobei, 2017), (Almujamed & Alfraih, 2020). Meanwhile, (Wahyudianti et al., 2021) found that governance positively affects earnings quality as measured by the Earning Response Coefficient (ERC). However, (Zulkiffli et al., 2022), (Hidayah et al., 2021) found that governance does not hurt earnings quality as measured by earnings smoothing and persistence. Likewise, (Aeni et al., 2020) found that Islamic governance has a negative but insignificant effect on earnings quality measured by accrual.

Based on previous research shows that there are many measurements used in measuring earnings quality, so the results of the research vary greatly (Licerán-gutiérrez & Cano-rodríguez, 2019), (Ewert & Wagenhofer, 2019), (Lehmann, 2016). Therefore, research on the relationship between corporate governance and earnings quality is needed in several ways. First, each research variable will be a latent variable measured by several reflective variable indicators. Second, most analysis techniques are multiple linear regression with SPSS, Eviews, and other tools. Still, the SmartPLS tool will accommodate latent variable models with several reflective indicators in this study. Third, most of the research on corporate governance and earnings quality is still limited to conventional companies, so this study uses the Islamic banking industry as an object that is still rarely used.

This paper is structured in the following order: First, the researcher presents the background of the research on corporate governance and earnings quality in IB. Second, the researcher explains the theoretical framework and develops the hypothesis. Third, the methodology and research model are presented. Fourth, the research results should be interpreted, and additional sensitivity checks should be provided. Finally, show the conclusion of this paper and present some limitations and perspectives for future research.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Islamic Corporate Governance (ICG) and Earnings Quality (Size 10 & Normal)

Islamic corporate governance (ICG) ensures that accountability and transparency run well so that quality profits are generated. Research has found that corporate governance (CG) has a positive effect on earnings quality as measured by earnings management (Tuan, 2022), (Jiang et al., 2008). This research proves that Islamic governance can reduce opportunistic management behavior. Likewise (Suryati, 2020) found that GCG positively affects earnings quality. Meanwhile (Kiryanto, 2014) found that GCG positively affects earnings quality as measured by the Earnings Response Coefficient (ERC). Based on several studies, the hypothesis of this study is as follows:

H1: ICG has a positive effect on earnings quality

2.2 Islamic Corporate Governance (ICG) and Islamic Banks Performance (IBP)

Islamic Corporate Governance is important in addressing agency, transparency, and openness problems. The role of the Sharia supervisory board, independent board of commissioners, and audit committee in an effective Islamic corporate governance structure is to improve the quality of financial reporting and transparency as a form of maintaining the reputation of Islamic banks, which can ultimately improve the financial performance of Islamic banks (Hakimi et al., 2018), (Danoshana & Ravivathani, 2013), (Afandy et al., 2021).

It is proven by research by (Gulzar et al., 2020), (Kusuma & Rosadi, 2018) that Islamic corporate governance affects the financial performance of Islamic banks because Islamic banks have a prudent governance structure that is considered efficient in allocating resources to generate profits. (Siswanti et al., 2017), (Khan & Zahid, 2020) said that Islamic Corporate Governance affects Islamic Banks Financial Performance because the implementation of Islamic corporate governance in Islamic banking is very important to foster the existence of Islamic banks to maintain the image of Islamic banks in society. Based on this explanation, the following hypothesis is proposed:

H2: ICG has a positive effect on Islamic Bank Performance (IBP)

2.3 Islamic Banks Performance (IBP) and Earning Quality

Islamic banking performance is based on Islamic values and a metaphysical relationship with Allah, so the performance obtained also provides quality profit results. Research has proven (Asl & Doudkanlou, 2022); (Afandy et al., 2021) found that Islamic banking performance positively impacts the quality of company profits as measured by profit management. Based on this explanation, the following hypothesis is proposed:

H3: Islamic Banks Performance (IBP) Affects Earning Quality

III. RESEARCH METHOD

This study's population consists of Islamic banking companies registered with the Financial Services Authority (OJK) from 2018 to 2022. The sampling technique used is purposive sampling. Data will be analyzed using Partial Least Square (SmartPLS). The OJK page and each banking company's website contain data.

3.1 Operational Definition and Measurement of Variables

3.1.1. Islamic Bank Performance (IBP)

The selection of Islamic bank performance based on research by (Ibrahim et al., 2004) is a performance measurement tool that can reveal worldly and spiritual values in Islamic banks. The Islamic performance index developed by (Ibrahim et al., 2004) can be used as an additional alternative to measure Islamic banking performance. The following is an explanation of these variables:

a. Profit Sharing Financing Ratio (IBP_PSF)

The profit-sharing principle is al-ghunm bi'l-ghurm or al-kharj bi'l-daman, which means there is no profit sharing without taking part in the risk or loss (Yumanita, 2005). Meanwhile (Ibrahim et al., 2004) developed the profit-sharing ratio and identified how Islamic banks could achieve these goals. The profit-sharing financing ratio formula is as follows:

$$PSF = \frac{Mudharabah + Musyarakah}{Total\ Financing}$$

b. Zakat Performance Ratio (IBP_ZPR)

The performance of Islamic banks should be based on the zakat obligations paid. This measurement is because Islamic banks' performance indicators differ from conventional banks that use earnings per share (EPS) in their operations (Ibrahim et al., 2004). The formula for the zakat performance ratio is as follows:

$$ZPR = \frac{Zakat}{Net\ Asset}$$

c. Equitable Distribution Ratio (IBP_EDR)

Islamic banking activities are not only focused on profit sharing. Islamic banks also implement fair distribution for their stakeholders. Also, (Ibrahim et al., 2004) tried to find out how much Islamic bank income is distributed to its stakeholders. The formula for the equitable distribution ratio is as follows:

$$EDR = \frac{Qard + Employee\ Expense + Deviden + Net\ Profit}{Income - (Zakat + Tax)}$$

d. Directors – Employees Welfare Ratio (IBP_DEWR)

It is important to identify how much money has been spent on directors' remuneration compared to the money spent on employees' welfare. Welfare here includes salary, training, etc. The formula for the directors-employees welfare ratio is as follows:

$$EWR = \frac{Average\ Directors\ Renumeration}{Average\ Employee\ Welfare}$$

3.1.2 Islamic Corporate Governance (ICG)

In Islamic corporate governance, corporate decisions will be based on shura or consultation. The structure may be based on a two-tier system in which an independent Shariah board will be formed to safeguard the Islamic elements of the company, and a Board of Directors will be formed to manage and direct the company. The scope of work of the independent Shariah Board will advise the Chief Executive Officer or Board of Directors on Shariah matters. Shariah audits should be conducted to make the company accountable to God, shareholders, stakeholders, and the community.

Muneeza & Hassan, (2014) put forward two structures of Islamic corporate governance models: the Tawhid and Shura-based and stakeholder-based approaches. In the Tawhid and Shura approach, the most important constituents are the Shariah Board and the group's Shura Board, whose participants are the stakeholders. Both groups will interact and consult with each other before making any decision regarding the corporation. The Shariah Board will act as a supervisor to maintain the Shariah elements in all decisions taken. In this way, the Islamicity of the company will never be compromised. In stakeholders, The approach, methods, and mechanisms of governance do not only protect rights and interests.

Based on the description above, Islamic Corporate Governance (ICG) is proxied by the Sharia Supervisory Board (SSB) and measured by 4 indicators (Munifatussa'idah, 2019), namely:

a. Number of Sharia Supervisory Board (ICG_SSB) Members

The more SSB members are expected to be more effective in supervising management. Therefore, SSB members are measured by the number of SSB members in the Company.

b. Activities of Sharia Supervisory Board (ICG_ASB) Members

The more SSB activities meet with the board of directors, the more effective they are expected to be in supervising management. Therefore, SSB activities are measured by the number of SSB member activities in meetings with the board of directors in the company.

c. Competence of Sharia Supervisory Board (ICG_CSB) Members

Supervision requires an educational background that is appropriate to the field and supported by adequate experience. Therefore, the competence of members of the Sharia Supervisory Board (SSB) is measured by the proportion of educational background and experience of members according to their fields with the number of SSB members.

e. Independence of Sharia Supervisory Board (ICG_ISB) Members

The independence of members of the Sharia Supervisory Board is very necessary in carrying out supervision so that the resulting report is truly independent. The proportion of the number of independent members with the number of SSB members measures ISB.

3.1.3 Earnings Quality (EQ)

Many measurements can be used to measure earnings quality, including earnings management (Othman & Mersni, 2016), (Hapsari et al., 2022); (Felicia & Natalylova, 2022); (Anam, 2023); (Bajra & Cadez, 2016), income smoothing (Balagobei, 2017); (Almujamed & Alfraih, 2020), earnings persistence (Asogwa et al., 2020), misreporting/restatement (Baber et al., 2015); (Abbott et al., 2004), (Archambeault et al., 2008). Referring to previous studies, this research only uses 3 measurements for the earnings quality variable, namely:

a. Earnings Management (EQ-ML)

The measurement of earnings management follows the same approach (Othman & Mersni, 2016). The researcher uses a two-stage approach. In the first stage, we use specific accruals to measure earnings management in Islamic banks. More specifically, the researcher uses accruals in the banking sector and loan loss provisions (LLP). This proxy is divided into two components: discretionary and non-discretionary. Therefore, the basic model is:

LLP = LLP Non-Discretionary + LLP Discretionary

$LLP_{it} = \beta_0 + \beta_1 NPL_{it-1} + \beta_2 \_NPL_{it} + \beta_3 \_ TL_{it} + \varepsilon_{it}$ [1]

Description:

LLPI it: The amount of credit, musyarakah, mudharabah, and murabahah investment provisions of bank I in year t

NPLit-1 t: initial balance of non-performing loans of the bank I in year t

NPL it: Changes in the value of the bank's non-performing loans in year t

TL: change in total loan value for bank I in year t

$NDLLP_{it} = \beta_0 + \beta_1 NPL_{it-1} + \beta_2 \_NPL_{it} + \beta_3 \_TL_{it}$ [2]

$DLLP_{it} = LLP_{it} – [\beta_0 + \beta_1 NPL_{it-1} + \beta_2 \_NPL_{it} + \beta_3 \_TL_{it}]$ [3]

b. Time-series properties of earnings (EQPS)

Earnings quality is indicated by a higher coefficient for current cash flows, indicating that future earnings are explained more by the permanent component (cash flows) than by the temporary component (accruals). Rather than analyzing the earnings coefficient, only the cash flow coefficient measures the extent to which earnings quality is reflected by the time-series properties of earnings (the higher the cash flow coefficient, the higher the earnings quality). Finally, earnings variance has been used as a proxy to analyze the extent to which earnings quality is derived from the time-series properties of earnings; higher earnings variance indicates lower predictive ability of time-series earnings properties because earnings volatility affects the temporary components of earnings, thereby reducing earnings predictability (Clubb & Wu, 2014).

This earnings quality is measured by comparing operating cash flows with net income so that the higher this ratio, the higher the earnings quality (Pratiwi & Pralita, 2021); (Sorialam et al., 2022). This earnings quality can be formulated as follows:

$$PS = \frac{Operasting\ Cashflows}{Earning\ before\ Interest\ and\ Tax}$$

c. Income Smoothing (EQIS)

Income smoothing is a management effort to reduce abnormal income variations. The relationship between income smoothing and earnings quality is still controversial. Low earnings variability over time can indicate high-quality earnings because smoothed earnings can be estimated with lower errors than earnings with high variability (Biddle et al., 2006); (Burgstahler & Leuz, 2006); (Schipper & Vincent, 2003); (Dechow et al., 2010). This earnings quality can be formulated as follows:

IS = (Earnings)/(Cash flows)

3.1.4 Firm Size (FS)

Firm size is a control variable in this study, measured by Log Total Asset.

3.2 Analysis Technique

The data analysis technique uses path analysis with the Partial Least Square (SmartPLS) analysis tool. To test the hypothesis of this research, a multiple regression analysis model is used with the following model:

$IBP = \alpha + \beta_1 ICG + \beta_2 FS + \varepsilon$

$EQ = \alpha + \beta_1 ICG + \beta_2\ IBP + \beta_3 FS + \varepsilon$

The empirical model of this research can be presented in Figure 1.

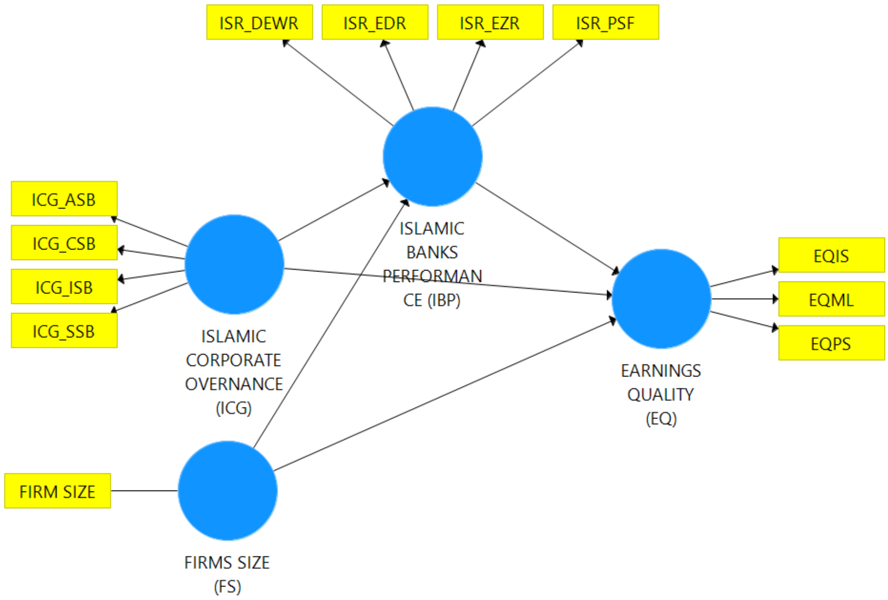

Figure 1. Empirical Research Model

IV. RESULT AND DISCUSSION

4.1 Sample Description and Variable Description

Based on the sampling technique used, 60 data can be processed from observations conducted over 5 years. The results of descriptive analysis for each research variable are presented in Table 1.

Table 1. Descriptive Analysis

VARIABLE	INDICATOR	MAXIMUM	MINIMUM	MEAN	MEDIAN	STANDEV
	EQPS	1973,40576	-536,998114	25,412277	1,37451752	302,777363
EQ	EQML	1,00524233	0,00234521	0,1784436	0,11567992	0,18064145
	EQIS	21,2730134	-42,1997836	-0,827767	0,37318311	8,49321645
	IBP_PSF	0,99932474	0	0,4919933	0,51119854	0,3154155
IBP	IBP _ZPR	0	1,098057916	0,0824913	0,00770546	0,18812779
	IBP _DEWR	0,07773408	0,2654093	0,0589928	0,03151878	0,07821166
	IBP _EDR	2,01371221	200,0302619	3,6873303	0,06533073	25,8295856
	ICG_ASB	60	6	18,516667	13,5	12,2467452
ICG	ICG_CSB	2	0	0,5944444	1	0,53710414
	ICG_SSB	4	2	2,2166667	2	0,49030142
	ICG_ISB	3	1	2	2	0,61064012
FIRM SIZE		33,3537151	27,21839845	30,081508	30,0447389	1,27141091

Source: Processed Data

4.2 Evaluation of Measurement Model

The evaluation of this measurement model includes reliability, convergent validity, and discriminant validity. Table 2 presents the results of data processing regarding the evaluation of the measurement model.

Table 2. Construct Reliability and Validity

	Cronbach's Alpha	Outer Louding	Composite Reliability	Average Variance Extracted (AVE)
MODEL 1				
EARNING QUALITY (EQ)	-0,082		0,036	0,332
EQIS		-0,348		
EQML		0,894		
EQPS		-0,274		
ISLAMIC CORPORATE GOVERNANCE (ICG)	0,432		0,695	0,415
ICG_ASB		0,644		
ICG_CSB		0,100		
ICG_ISB		0,699		
ICG_SSB		0,864		
ISLAMIC BANKS PERFORMANCE (IBP)	-0,094		0,286	0,279
IBP_EDR		0,711		
IBP _DEWR		0,631		
IBP _EZR		-0,429		
IBP _PSF		0,161		
MODEL 2				
EARNING QUALITY (EQ)	1,000		1,000	1,000
EQML		1,000		
ISLAMIC CORPORATE GOVERNANCE (ICG)	0,594		0,790	0,561
ICG_ASB		0,625		
ICG_ISB		0,741		
ICG_SSB		0,861		
ISLAMIC BANKS PERFORMANCE (IBP)	0,138		0,680	0,532
IBP_EDR		0,891		
IBP _DEWR		0,519		
MODEL 3				
EARNINGS QUALITY (EQ)	1,000		1,000	1,000
EQML		1,000		
FIRMS SIZE (FS)	1,000		1,000	1,000
FIRMS SIZE		1,000		
ISLAMIC CORPORATE GOVERNANCE (ICG)	0,594		0,790	0,561
ICG_ASB		0,617		
ICG_ISB		0,748		
ICG_SSB		0,862		
ISLAMIC BANKS PERFORMANCE (IBP)	0,138		0,676	0,531
IBP_EDR		0,901		
IBP _DEWR		0,500		
MODEL 4				
EARNING QUALITY (EQ)	1,000		1,000	1,000
EQMLABS		1,000		

FIRMS SIZE (FS)	1,000		1,000	1,000
FIRMS SIZE		1,000		
ISLAMIC CORPORATE GOVERNANCE (ICG)	0,723		0,876	0,780
ICG_ISB		0,919		
ICG_SSB		0,846		
ISLAMIC BANKS PERFORMANCE (IBP)	1,000		1,000	1,000
IBP_EDR		1,000		

Source: Processed Data

Based on Table 2, several simulations have been conducted to produce a good model by obtaining a Cronbach's Alpha and Composite Reliability value of at least 0.70. Four simulations were carried out until finally, the best model 4 was obtained, which produced a Cronbach's Alpha and Composite Reliability value of at least 0.70. Convergent validity is indicated by the outer loading and average variance extraction (AVE) values greater than or equal to 0.7 and 0.5, so the convergent validity has been met based on model 4. These results indicate that the convergent validity consisting of the outer loading and average variance extraction (AVE) values are above 0.7 and 0.5, respectively, meaning the model is good.

4.3 Evaluation of Structural Model Test Results

According to (Field, 2005) provide guidelines for a maximum collinearity limit of 5. Based on Table 3, the test results show that all construct variables have a value of no more than 5, meaning that the structural model of this study is linear/satisfactory.

Table. 3 Collinearity Test

	VIF
EQML	1,000
FIRM SIZE	1,000
ICG_ISB	1,472
ICG_SSB	1,472
IBP_EDR	1,000

Source: Processed Data

Based on Table 4, it can be explained that Earnings Quality (EQ) can be explained by independent variables, namely Islamic Corporate Governance (ICG) and Islamic Bank's Performance (IBP), by 24%. In comparison, 76% is explained by other variables not included in this research model. At the same time, IBP can only be explained by Islamic Corporate Governance (ICG) by 1.3%, while other variables outside the model explain 98.87%.

Table 4. Coefficient of Determination Test Results

	R SQUARE	R SQUARE ADJUSTED
EARNING QUALITY (EQ)	0,283	0,244
ISLAMIC BANKS PERFORMANCE (IBP)	0,013	-0,022

Source: Processed Data

Effect Size (f2) assesses the magnitude of the influence between variables with Effect Size or f-square (Wong, 2013). The f square value is 0.02 small, 0.15 medium, and 0.35 large. Values less than 0.02 can be ignored or considered to have no effect (Sarstedt et al., 2017). Table 5 shows that the f Square value above that has a large effect size with the criteria of f Square> 0.35 does not exist. The moderate influence is with f Square between 0.15 and 0.35, so the influence of IBP on EQ is 0.307. At the same time, the influence of ICG on EQ is small because the f Square value is in the range of 0.02 to 0.15, namely 0.077. One influence is ignored because one has an f square value <0.02; namely, the influence of ICG on IBP is only 0.001.

Table. 5. f Square Test (f^2)

	EQ	IBP
FS	**0,000**	**0,013**
ISLAMIC CORPORATE GOVERNANCE (ICG)	0,077	**0,001**
ISLAMIC BANKS PERFORMANCE (IBP)	**0,307**	

Source: Processed Data

The predictive relevance of Q-Square for structural models measures how well the model produces the conservation value and parameter estimates. A Q-square value ≤ 0.02 indicates that the model has low predictive relevance; A Q-square value of 0.02 ≤ q2 <0.15 indicates that the model has moderate predictive relevance. If the Q-Square value ≥ 0.15 indicates that the model has high predictive relevance.

Table 6. Predictive Relevance (Q^2)

	Q^2 (=1-SSE/SSO)
EQ	0,141
IBP	-0,010

Source: Processed Data

Table 6 shows that the influence of ICG and IBP on EQ has a moderate predictive value because the Q-square value is 0.141. At the same time, the influence of ICG on IBP has a low predictive value because the Q-square value is -0.010.

4.4 Hypothesis Testing

After conducting various goodness-of-fit tests of the model, the next test is to test the research hypothesis. The results of this research hypothesis test can be summarized in Table 7.

Table 7. Hypothesis Test Results

	ORIGINAL SAMPLE (O)	T STATISTICS (|O/STDEV|)	P VALUES	CONCLUSION
FS -> EQ	-0,008	0,081	0,936	Rejected
FS -> IBP	0,115	2,160	0,031	Accepted
ICG -> EQ	-0,238	3,274	0,001	Accepted
ICG -> IBP	-0,034	0,233	0,816	Rejected
IBP -> EQ	0,472	2,448	0,015	Accepted

Source: Processed Data

Based on Table 4, the regression model can be formulated as follows:

IBP = -0,034 ICG + 0,115 FS + ε

EQ = -0,238 ICG + -0,238 IBP + -0,008 FS + ε

Table 7 shows the coefficient value of ICG on EQ of -0.28 and the calculated t value of 3.274 with a significance value of 0.001 smaller than 0.05 so that Ho: rejected and Ha: accepted. This shows that ICG has a significant negative influence on EQ. This negative influence shows that Islamic Corporate Governance has an impact on reducing earnings management to improve earnings quality.

Based on table 7 shows the coefficient value of IBP for EQ of 0.472 and the calculated t value of 2.448 with a significance value of 0.015 smaller than 0.05 so that Ho: rejected Ha: accepted. This shows that IBP has a positive influence on EQ. This positive influence shows that Islamic Banks' Performance can improve earnings quality. The better the company's performance, the better the quality of earnings.

Based on Table 7, the ICG coefficient value on IBP is -0.034, and the t-count value is 0.233 with a significance value of 0.816 greater than 0.05, so Ho: is accepted, and Ha: is rejected. This shows that ICG has a negative influence on IBP. This negative influence shows that the better the company's Islamic Governance (ICG), the lower the company's Islamic bank performance (IBP).

Based on Table 7, the FS coefficient value on EQ is -0.008, and the t-count value is -0.081 with a significance value of 0.936 greater than 0.05, so Ho: is rejected, and Ha: is accepted. This shows that FS has a significant negative influence on EQ. This negative influence shows that the larger the company, the lower the profit quality.

Based on Table 7, the coefficient value of FS on IBP is 0.115, and the t-value is 2.160 with a significance value of 0.031, which is smaller than 0.05, so Ho: is rejected, and Ha: is accepted. This shows that FS has a significant positive influence on IBP. This positive influence shows that the larger the company, the better the banking performance.

In addition to the direct influence, this study tests the indirect influence summarized in Table 8. Based on table 8 shows that the indirect influence of ICG on EQ through IBP has a t-value of 0.272 with a significance value of 0.785, which is greater than 0.05, so Ho: is accepted and Ha: is rejected. This shows means that the influence of ICG on EQ is direct. Likewise, the indirect influence of FS on EQ through IBP has a t-value of 1.474 with a significance value of 0.141, greater than 0.05, so Ho: is accepted, and Ha: is rejected. This shows that Islamic Banks Performance (IBP) is unable to mediate the relationship between Islamic Corporate Governance (ICG) and Earnings Quality (EQ).

Table 8. Hypothesis Test Results of indirect test

	ORIGINAL SAMPLE (O)	T STATISTICS (|O/STDEV|)	P VALUES	CONCLUSION
FS -> IBP -> EQ	0,054	1,474	**0,141**	Rejected
ICG -> IBP -> EQ	-0,016	0,272	**0,785**	Rejected

Source: Processed Data

To strengthen the results of this study for indirect testing, an indirect model test was also used with the Sobel test and the Sobel calculator test. The results of the Sobel test with the Sobel calculator test are presented in Figure 2, showing a t-value of 1.623 with a significance level of 0.05228 for one side, so Ho: is rejected, and Ha: is accepted at a significance level of 10%. This shows means that Islamic Bank's Performance (IBP) can mediate the relationship between firm size (ICG) and Earnings Quality (EQ) at a significance level of 10%

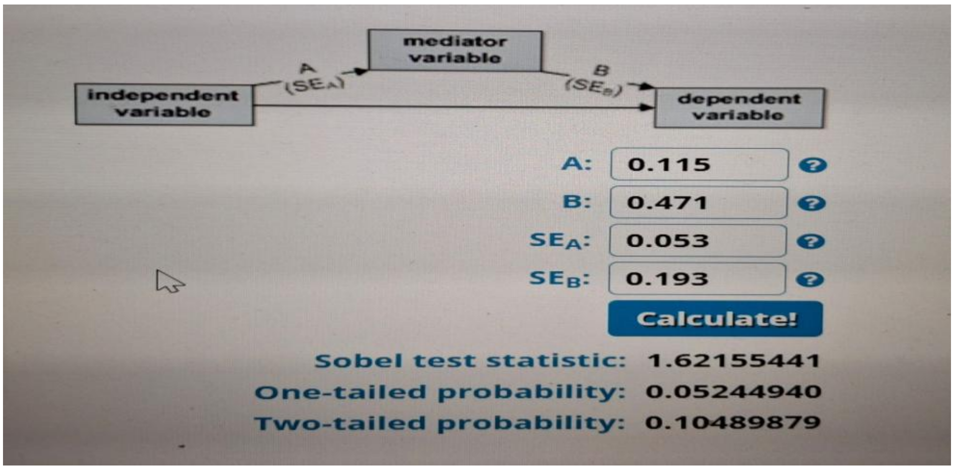

Figure 2. Sobel Test

4.5 Discussion

The results of the measurement model test show that this research model is quite good, but a re-examination of this seat research model is needed for future research.

This research found that Islamic Corporate Governance (ICG) hurts Earnings Quality (EQ). The results show a negative effect because the proxy for earnings quality with a high outer loading is only earnings management. The results of the selection of earnings quality indicators, namely earnings management (ML), earnings persistence (PS), and income smoothing (SI), only one is good as an indicator of earnings quality, earnings management (ML). This proxy is likely due to the different measurement methods between indicators. Therefore, future research must consider measuring the same direction if the earnings quality proxy is more than one.

Therefore, the effect of ICG on earnings quality proxied by earnings management has an impact on reducing earnings management, meaning that ICG can improve earnings quality. This finding supports the theory of corporate governance that good governance can improve the quality of a company's earnings. This study aligns with research (Jiang et al., 2008); (Othman

& Mersni, 2014), which found that governance hurts earnings management. The results of this study are inconsistent with the results of research (Aeni et al., 2020);(Tuan, 2022).

The results of this study found that Islamic bank performance (IBP) positively affects Earnings Quality (EQ). This shows that the performance of Islamic banks, as proxied by the proportion of stakeholder interests to bank income, can improve earnings quality. This proxied shows that stakeholder interests are important in improving the quality of Islamic banking profits. The results of this study are in line with the findings of (Heryan & Adiwijaya, 2013); (Afandy et al., 2021); (Jiang et al., 2008); (Munifatussa'idah, 2019); (Muhamad & Sulong, 2019); (Boudawara et al., 2023) but different from the findings (Aeni et al., 2020).

This study found that Form Size has a negative but insignificant effect on earnings quality. This shows that the larger the company size, the lower the company's earnings management behavior (earnings quality). The larger the banking, the more complex it will be, so the digitalization system will be applied to make banking very transparent in its reports. Therefore, this earnings management behavior is difficult for management to carry out in large companies.

This study found that form size significantly affects the Islamic Bank's (IBP) performance. This shows that the larger the company size, the more it will improve the performance of Islamic banking. The larger the banking assets, the more complex the management will be, so the digitalization system will make banking financial reports very transparent. Therefore, large banks will increasingly improve their performance.

The study found that Islamic Banks Performance (IBP) was unable to mediate the relationship between Islamic Corporate Governance (ICG) and Earnings Quality (EQ). This shows that good performance is not necessary to achieve good earnings quality. The findings of this research indicate that good governance is an important determinant of improving earnings quality, not company performance.

The results show that the Islamic Bank's Performance (IBP) can mediate the relationship between firm size (ICG) and Earnings Quality (EQ). This shows that large companies must improve their performance first to improve their earnings quality.

V. CONCLUSION

This research aims to analyze the determinants of profit quality in Islamic banking in Indonesia using multi-dimensions for each variable (Licerán-gutiérrez & Cano-rodríguez, 2019). Therefore, the analysis technique used is Partial Least Square (PLS) with the SmartPLS analysis tool. The first stage is analyzing the ability of indicators to explain research variables by conducting a measurement model test, and the results show that the Profit Quality variable can only be measured by 1 indicator, namely profit management. While 4 indicators measure the Islamic Bank's Performance (IBP) variable after the measurement model test is carried out, only 1 indicator remains Equitable Distribution Ratio (EDR). Finally, the Islamic Corporate Governance (ICG) variable is proxied by 4 indicators, but only two pass the measurement model test, namely the number of Sharia supervisory boards and the independence of the Sharia supervisory board.

Then, the analysis results can be concluded as follows: First, Islamic Corporate Governance (ICG), proxied by the number of sharia supervisory boards, can improve profit quality. An independent Sharia supervisory board can reduce the behavior of banking companies' earnings management so that their earnings quality increases. Second, the Islamic Bank's Performance (IBP), which is proxied by the Equitable Distribution Ratio (EDR), can increase earnings quality. This shows that concern for stakeholders shown by EDR can increase the company's earnings management behavior. This means that the more profit is distributed to stakeholders, the more it will increase the earnings management behavior of its managers. This behavior is likely due to conventional earnings quality indicators, but its performance is proxied by sharia performance, so the measurements are very different. In addition, the task of the sharia supervisory board is not to directly supervise the behavior of the management but to supervise the level of compliance with sharia. Therefore, for future research, it is expected to use Sharia-compliant earnings quality proxies so that they are by the duties and functions of the Sharia supervisory board.

The third conclusion found that the Islamic Bank's Performance (IBP) proxied by the Equitable Distribution Ratio (EDR) was unable to mediate the relationship between Islamic Corporate Governance (ICG) proxied by the number and independence of the Sharia supervisory board with earnings quality proxied by earnings management. Therefore, for future research, the same research is expected to be conducted using Sharia-compliant earnings quality proxies based on the duties and functions of the Sharia supervisory board. In general, this research has not achieved the objectives as expected because not all proxy measurements of variable indicators can be included in the measurement model. Therefore, the same research can be conducted for future research by considering Sharia-compliant earnings quality indicators or earnings quality proxies that provide the same meaning.

REFERENCES

1) Abbott, L. J., Parker, S., & Peters, G. F. (2004). Audit Committee Characteristics and Restatements. *Auditing: A Journal of Practice & Theory*, *23*(1), 69–87.
2) Aeni, H. A., Khairany, S. J., & Vegirawati, T. (2020). The Influence of The Role of Islamic Corporate Governance and Audit Quality on Profit Management. *Jurnal La Riba: Jurnal Perbankan Syariah*, *2*(01), 1–12.
3) Afandy, C., Usman, B., & Zoraya, I. (2021). Islamic Corporate Governance (ICG) On Sharia Financial Performance with Islamic Social Reporting (ISR) As A Moderating Variable. *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, *5*(3), 22916–22929.
4) Al-haddad, L., & Whittington, M. (2019). The impact of corporate governance mechanisms on real and accrual earnings management practices : evidence from Jordan. *Corporate Governance*, *19*(6), 1167–1186. https://doi.org/10.1108/CG-05-2018-0183
5) Alhadab, M., & AL-OWN, B. (2017). Earnings Management and Banks Performance : Evidence from Europe Earnings Management and Banks Performance : Evidence from Europe. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *7*(4), 134–145. https://doi.org/10.6007/IJARAFMS/v7-i4/3444
6) Almujamed, H. I., & Alfraih, M. M. (2020). Corporate governance and value relevance of accounting information Evidence from Kuwait. *International Journal of Ethics and Systems*, *36*(2), 249–262. https://doi.org/10.1108/IJOES-08-2019-0140
7) Alzeban, A. (2020). The impact of audit committee , CEO , and external auditor quality on the quality of fi nancial reporting. *Corporate Governance*, *20*(2), 263–279. https://doi.org/10.1108/CG-07-2019-0204
8) Anam, H. (2023). Determinants of earnings quality : An empirical study in Indonesia. *Akuntansi Dan Teknologi Informasi*, *16*(October 2022), 49–62.
9) Archambeault, D. S., Dezoort, F. T., & Hermanson, D. R. (2008). Audit Committee Incentive Compensation and Accounting Restatements *. *Contemporary Accounting Research*, *25*(4), 965–992. https://doi.org/10.1506/car.25.4.1
10) Asl, M. G., & Doudkanlou, M. G. (2022). How do Islamic banks manage earnings ? Application of various measurement models in the Iranian Islamic banking system. *ISRA International Journal of Islamic Finance Vol.*, *14*(3), 274–288. https://doi.org/10.1108/IJIF-02-2021-0040
11) Asogwa, C. I., Ofoegbu, G. N., & Modum, U. (2020). Effect of corporate governance on income persistence and value relevance of quoted Nigerian firms Cosmas Ikechukwu Asogwa *, Grace Nyereugwu Ofoegbu and Uche Modum. *African J. Accounting, Auditing and Finance*, *7*(1), 42–65.
12) Baber, W. R., Kang, S.-H., Liang, L., & Zhu, Z. (2015). External Corporate Governance and Misreporting *. *Contemporary Accounting Research*, *32*(4), 1413–1442. https://doi.org/10.1111/1911-3846.12137
13) Bajra, U., & Cadez, S. (2016). The Impact of Corporate Governance Quality on Earnings Management: Evidence from European Companies Cross-listed in the US. *Australian Accounting Review*, *00*(0), 1–15. https://doi.org/10.1111/auar.12176
14) Balagobei, S. (2017). Audit Committee and Value Relevance of Accounting Information of Listed Hotels and Travels in Sri Lanka. *Asian Journal of Finance & Accounting*, *9*(2), 387–398. https://doi.org/10.5296/ajfa.v9i2.12290
15) Biddle, G. C., Hilary, G., Biddle, G. C., & Hilary, G. (2006). Accounting Quality and Firm-Level Investment Capital. *The Accounting Review*, *81*(5), 963–982.
16) Bitar, M., Pukthuanthong, K., & Walker, T. (2018). The effect of capital ratios on the risk, efficiency and profitability of banks: Evidence from OECD countries. *Journal of International Financial Markets, Institutions & Money*, *53*(March), 227–262. https://doi.org/10.1016/j.intfin.2017.12.002
17) Boudawara, Y., Toumi, K., Wannes, A., & Hussainey, K. (2023). Shari ' ah governance quality and environmental , social and governance performance in Islamic banks . A cross-country evidence. *Journal of Applied Accounting Research*, *24*(5), 1004–1026. https://doi.org/10.1108/JAAR-08-2022-0208
18) Buallay, A. (2019). Corporate governance, Sharia'ah governance and performance: A cross-country comparison in MENA region. *International Journal of Islamic and Middle Eastern Finance and Management*, *12*(2), 216–235. https://doi.org/10.1108/IMEFM-07-2017-0172
19) Bukhari, K. S., Awan, H. M., & Ahmed, F. (2013). An evaluation of corporate governance practices of Islamic banks versus Islamic bank windows of conventional banks: A case of Pakistan. *Management Research Review*, *36*(4), 400–416. https://doi.org/10.1108/01409171311315003
20) Burgstahler, D. C., & Leuz, C. (2006). Importance of Reporting Incentives : Earnings Management in European Firms

University of Pennsylvania. *The Accounting Review*, *81*(5), 983–1016.

21) Choudhury, M. A., & Alam, M. N. (2019). Corporate Governance in Islamic. In *Research in Corporate and Shari'ah Governance in the Muslim World: Theory and Practice* (pp. 27–42). https://doi.org/10.1108/978-1-78973-007-420191003
22) Choudhury, M. A., & Hoque, M. Z. (2006). Corporate governance in Islamic perspective. *CORPORATE GOVERNANCE*, *6*(2), 116–128. https://doi.org/10.1108/14720700610655132
23) Clubb, C., & Wu, G. (2014). Earnings Volatility and Earnings Prediction : Analysis and UK Evidence. *Journal of Business Finance & Accounting Journal*, *41*(October 2013), 53–72. https://doi.org/10.1111/jbfa.12055
24) Danoshana, M. S., & Ravivathani, M. T. (2013). The impact of the corporate governance on firm performance : A study on financial institutions in Sri Lanka. *Merit Research Journal of Accounting, Auditing, Economics and Finance*, *1*(6), 118–121.
25) Dechow, P., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, *50*(2–3), 344–401. https://doi.org/10.1016/j.jacceco.2010.09.001
26) Demirgüç-kunt, A., & Huizinga, H. (2013). Are banks too big to fail or too big to save ? International evidence from equity prices and CDS spreads. *Journal of Banking & Finance*, *37*, 875–894. https://doi.org/10.1016/j.jbankfin.2012.10.010
27) Ewert, R., & Wagenhofer, A. (2019). Effects of Increasing Enforcement on Financial Reporting Quality and Audit Quality. *Journal of Accounting Research*, *57*(1), 121–168. https://doi.org/10.1111/1475-679X.12251
28) Felicia, & Natalylova, K. (2022). Pengaruh profitabilitas, likuiditas, leverage, dan faktor lainnya terhadap manajemen laba. *Jurnal Akuntansi TSM*, *2*(3), 185–198.
29) Field, A. P. (2005). *Discovering statistics using SPSS: and sex and drugs and rock "n" roll (2nd Edition)*.
30) Grassa, R., & Matoussi, H. (2014). Corporate governance of Islamic banks A comparative study between GCC. *International Journal of Islamic and Middle Eastern Finance and Management*, *7*(3), 346–362. https://doi.org/10.1108/IMEFM-01-2013-0001
31) Gulzar, I., Haque, S. M. I., & Khan, T. (2020). Corporate Governance and Firm Performance in Indian Textile Companies : Evidence from NSE 500. *Indian Journal of Corporate Governance*, 1–17. https://doi.org/10.1177/0974686220966809
32) Hakimi, A., Rachdi, H., Mokni, R. B. S., & Hssini, H. (2018). Do board characteristics affect bank performance? Evidence from the Bahrain Islamic banks. *Journal of Islamic Accounting and Business Research*, *9*(2), 251–272.
33) Hapsari, D. P., Wijaya, H., & Umdiana, N. (2022). Good Corporate Governance and The Impact on Earning Management Actions. *Jurnal Riset Akuntansi Terpadu*, *15*(1), 28–40.
34) Hasan, Z. (2011). A survey on Shari ' ah governance practices in Malaysia , GCC countries and the UK Critical appraisal. *International Journal of Islamic and Middle Eastern Finance and Management*, *4*(4), 30–51. https://doi.org/10.1108/17538391111122195
35) Hassan, S., & Christopher, T. (2005). Corporate governance statement disclosure of Malaysian banks and the role of Islam. *Asian Review of Accounting*, *13*(2), 36–50.
36) Heryan, Y. D., & Adiwijaya, Z. A. (2013). Analysis of The Influence of Audit Quality and Company Size on Profit Management. *Jurnal Akuntansi Indonesia*, *2*(1), 65–71.
37) Hidayah, R., Sholih, A., Agustina, L., & Rahayu, R. (2021). The Determinant of Earning Quality Using State Ownership as Moderating Variable on Companies in Malaysia. *Jurnal Economia*, *17*(1), 34–48.
38) Ibrahim, S. H. B. M., Wirman, A., Alrazi, B., Nor, M. N. B. M., & Pramono, S. (2004). Alternative Disclosure & Performance Measures for Islamic Banks. *Second Conference on Administrative Sciences: Meeting the Challenges of the Globalization Age, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia*, 1–37.
39) Istianingsih. (2021). Earnings Quality as a link between Corporate Governance Implementation and Firm Performance Earnings Quality as a link between Corporate Governance Implementation and. *International Journal of Management Science and Engineering Management*, *16*(4), 290–301. https://doi.org/10.1080/17509653.2021.1974969
40) Jiang, W., Lee, P., & Anandarajan, A. (2008). Advances in Accounting , incorporating Advances in International Accounting The association between corporate governance and earnings quality : Further evidence using the GOV-Score. *Advances in Accounting, Incorporating Advances in International Accounting*, *24*(2), 191–201. https://doi.org/10.1016/j.adiac.2008.08.011
41) Khan, I., & Zahid, S. N. (2020). The impact of Shari'ah and corporate governance on Islamic banks performance:

evidence from Asia. *International Journal of Islamic and Middle Eastern Finance and Management*, *13*(3), 483–501. https://doi.org/10.1108/IMEFM-01-2019-0003

42) Kiryanto. (2014). Analysis of the characteristics audit committee on earnings quality. *International Journal of Business, Economics and Law*, *4*(1), 31–37.
43) Kusuma, M., & Rosadi, S. (2018). Islamic Corporate Governance and Islamic Banking Financial Performance. *Journal of Finance and Islamic Banking*, *1*(2), 164. https://doi.org/10.22515/jfib.v1i2.1493
44) Lehmann, N. (2016). The role of corporate governance in shaping accruals manipulation prior to acquisitions. *Accounting and Business Research*, *46*(4), 327–364. https://doi.org/10.1080/00014788.2015.1116969
45) Licerán-gutiérrez, A., & Cano-rodríguez, M. (2019). A Review on the multidimensional analysis of earnings quality. *Revista de Contabilidad Spanish Accounting Review*, *22*(1), 41–60.
46) Muhamad, S. F., & Sulong, Z. (2019). *Corporate and Shariah Governance Mechanisms and Earnings Quality in Islamic Banks : A Review*. Springer Singapore. https://doi.org/10.1007/978-981-13-7584-2
47) Muneeza, A., & Hassan, R. (2014). Shari'ah corporate governance: The need for a special governance code. *Corporate Governance (Bingley)*, *14*(1), 120–129. https://doi.org/10.1108/CG-02-2011-0015
48) Munifatussa'idah, A. (2019). Sharia Compliance, Islamic Corporate Governance, Intellectual Capital, and Earning Management toward Financial Performance in Indonesia Islamic Banks. *IQTISHADIA*, *14*(2), 251–279.
49) Othman, H. Ben, & Mersni, H. (2014). *The use of discretionary loan loss provisions by Islamic banks and conventional banks in the Middle East region A comparative study*. *31*(1), 106–128. https://doi.org/10.1108/SEF-02-2013-0017
50) Othman, H. Ben, & Mersni, H. (2016). The impact of corporate governance mechanisms on earnings management in Islamic banks in the Middle East region. *Journal of Islamic Accounting and Business Research*, *7*(4).
51) Pratiwi, W., & Pralita, T. (2021). The Influence of Corporate Governance Mechanism , Accounting Conservatism , And Company Size on Earnings Quality. *Journal of Economics, Finance and Management Studies*, *4*(01), 26–34. https://doi.org/10.47191/jefms/v4-i1-04
52) Schipper, K., & Vincent, L. (2003). Earnings Quality. *Accounting Horizons*, *Supplement*, 97–110.
53) Siswanti, I., Salim, U., Sukoharsono, E. G., & Aisjah, S. (2017). The Impact of Islamic Corporate Governance , Islamic Intellectual Capital and Islamic Financial Performance on Sustainable Business Islamic Banks. *International Journal of Economics and Financial Issues*, *7*(4), 316–323.
54) Sorialam, H., Meiden, C., Dema, Y., & Info, A. (2022). The Effect of Audit Quality, Firm Size, and Earnings Growth on Earnings Quality at National and Local Enterprises in the Indonesia. *International Journal of Social Science (IJSS)*, *2*(1), 1065–1074.
55) Suryati, A. (2020). The Influence of Good Corporate Governance Against Profit Quality With Company Size As Moderating Variable. *Jurnal Kajian Ilmiah (JKI)*, *20*(3), 281–290.
56) Tuan, D. A. (2022). Impact of corporate governance on earnings management – Experimental evidence on listed commercial banks in Vietnam. *Banks and Bank Systems*, *17*(4), 189–197. https://doi.org/10.21511/bbs.17(4).2022.16
57) Wahyudianti, S., Armeliza, D., & Muliasari, I. (2021). Factors that Influence Earnings Quality. *Jurnal Akuntansi, Perpajakan Dan Auditing*, *2*(1), 109–125.
58) Yumanita, D. (2005). *Bank Syariah : Gambaran Umum* (Issue 14).
59) Zaman, M. S. R. M. H., Hossain, M. A., Mannan, M., & Hassan, H. (2019). Mediating e ff ect of employee ' s commitment on workplace spirituality and executive ' s sales performance An empirical investigation. *Journal of Islamic Marketing*, *Limited Ed*. https://doi.org/10.1108/JIMA-02-2018-0024
60) Zulkiffli, S. N. 'Atikah, Zaidi, N. F. Z., Padlee, S. F., & Sukri, N. K. A. (2022). Eco-Innovation Capabilities and Sustainable Business Performance during the COVID-19 Pandemic. *Sustainability (Switzerland)*, *14*, 1–17. https://doi.org/10.3390/su14137525