THE IMPACT OF CREATIVE ACCOUNTING ON COMPANY'S VALUE OF BANKING INDUSTRY IN INDONESIA WITH GOOD CORPORATE GOVERNANCE AND MANAGERIAL OWNERSHIP AS MODERATING VARIABLE

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FINAL ASSIGNMENT REPORT

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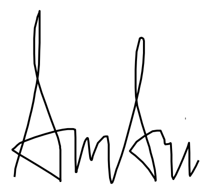
Prepared By,



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ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh langsung akuntansi kreatif terhadap Nilai Perbankan, dengan Good Corporate Governance dan Kepemilikan Manajerial sebagai moderator. Dewan komisaris independen (BoC) dan komite audit (AC) berfungsi sebagai proksi tata kelola perusahaan yang baik. Kami menganalisis nilai Bank menggunakan tiga rasio kinerja keuangan: laba atas aset (ROA), laba atas ekuitas (ROE), dan margin bunga bersih (NIM). Analisis ini berdasarkan data 33 bank Indonesia pada tahun 2020 hingga 2023, termasuk 132 observasi. Data dalam penelitian ini dianalisis menggunakan metode *Generalized Least Squares*. Dengan melakukan analisis statistik dengan Eviews 11, alat komputasi untuk ekonometrik deret waktu. Penelitian kami menemukan bahwa akuntansi kreatif yang diputuskan melalui akrual diskresioner, berdampak pada ROA dan NIM. Selanjutnya BoC, AC, dan kepemilikan manajerial (MO) dapat mempengaruhi dampak manajemen laba terhadap ROA dan NIM. Namun berdasarkan hasil regresi, akuntansi kreatif mempunyai pengaruh yang kecil terhadap ROE. Penelitian kami menambah bukti empiris bahwa penipuan akuntansi kreatif mungkin mempunyai pengaruh terhadap nilai Perusahaan. Di sisi lain, penelitian kami mengungkapkan informasi baru yang menunjukkan bahwa keterlibatan Dewan Komisaris, AC dan MO dapat mengganggu pengaruh manajemen laba terhadap nilai perusahaan yang menguntungkan bagi para pemangku kepentingan.

Kata Kunci: *Creative Accounting*, BoC, AC, MO, ROA, ROE, MO

ABSTRACT

This study sought to analyze the direct influence of creative accounting on Bankings' Value, with Good Corporate Governance and Managerial Ownership serving as moderators. The independent board of commissioners (BoC) and audit committee (AC) serve as proxies for good corporate governance. We analyze the Banks' value using three financial performance ratios: return on assets (ROA), return on equity (ROE), and net interest margin (NIM). This analysis is based on on data from 33 Indonesian banks from 2020 to 2023, including 132 observations. The data in this study were analyzed using generalized least squares method. By conducting statistical analysis with Eviews 11, a computional tool for time series econometrics. Our research found that creative accounting which is decided via discretionary accrual, has an impact ROA and NIM. Furthermore, BoC, AC, and managerial ownership (MO) may influence the impact of earnings management on ROA and NIM. However, according to the regression results, creative accounting has a minor impact on ROE. Our research adds to the body of empirical evidence that creative accounting fraud may have an influence on the Company's value. On the other hand, our research has revealed new information indicating that the involvement of the BoC, AC and MO may interfere with the influence of earnings management on the company's value which benefits for stakeholders.

KEYWORDS: Creative Accounting, BoC, AC, MO, ROA, ROE, MO

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Jakarta, 04 December 2024

Andriawan

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CHAPTER I

INTRODUCTION

The COVID-19 epidemic has resulted in an enormous health and economic calamity. According to the OECD Economic Outlook 2020, the pandemic's outlook and the route to economic recovery are still quite uncertain. The OECD has warned that the global recession will be the deepest since the Great Depression, with some variations depending on the steps adopted to reduce contagion, prevent a second or subsequent wave of the virus, and boost national economies. The continued uncertainty regarding the severity of the crisis and the chances for economic recovery increases concerns about the potential impact on the financial industry (OECD: 2021). According to Ngaziz and Setijaningsih (2022), companies that refuse to adapt in the era of disruption caused by Covid-19 will face difficulties, whereas competitors who are able to present new models and provide fulfillment of effectiveness, efficiency, and accuracy will gain market attention and be able to maintain their financial performance.

The banking system began the COVID-19 crisis with higher capitalization and liquidity than in prior crises. However, vulnerabilities are visible in several locations. Many banks, particularly in certain parts of the world, continue to have poor valuations, low profitability, and significant levels of non-performing assets. Despite the ongoing crisis, problems such as low interest margins may be worsened by lower interest rates and flat yield curves, which are expected to persist in many jurisdictions. Furthermore, protracted and severe disruptions may result in a significant increase in non-performing loans (NPLs) due to higher consumer and corporate defaults, compelling banks to raise loan loss provisions. In example, declining bank asset quality and earnings prospects may have an influence on the bank's ability to sustain additional loan losses.

The economic uncertainty caused by the COVID-19 problem would undoubtedly have an impact on one of Indonesia's most significant sectors, banking. Banking's primary function is to collect and distribute public funds, with the goal of assisting in the implementation of national development in order to increase the distribution of development and its outcomes, economic growth, and national stability, thereby improving the standard of living of many people.(https://ojk.go.id/id/kanal/perbankan/ikhtisar-perbankan/Pages/Lembaga Perbankan.aspx).

Banks must distribute credit based on their credit objectives, which are profitability and safety. The purpose of this credit is to gain profits in the form of interest "from the principal of the loan, as well as other objectives aimed at repaying the loan granted to the customer. The wheels of a bank's business will rely significantly on credit income to be repurposed as capital for the following transaction. It is evident that credit management is critical, as failing to do so would result in losses for banks and other stakeholders, including entrepreneurs who will struggle to fund their businesses. To encourage the optimization of banking functions in financial intermediation, as well as to maintain financial system stability and support economic growth, policies as a legal strategy in overcoming the impact of COVID-19 in Indonesia, both direct and indirect, are required (Disemadi, 2021).

As a regulator, the government is concerned about the increase in the volume of substandard finance. According to Seto et al. (2022), this is due to the possible impact of unmanaged non-current funding, which includes the risk of default, decreased bank profitability, and liquidity concerns. To address inadequate banking financing, the government implemented an economic growth stimulus strategy called Financial Services Authority (OJK) Regulation Number 11/POJK.03/2020, which includes a credit/financing restructuring policy. According to Article 1 of PBI 9 of 2011, restructuring financing is the transfer of funding given by banks to customers who have difficulty paying credit payments.

Renegotiating contracts between parties interested in credit contracts is one step toward resolving negative credit issues during the Covid-19 epidemic. Apart from that, if the debtor is in default or unable to fulfill his obligations as a result of the Covid-19 pandemic situation, another option for renegotiation can be considered, namely credit restructuring as regulated in Law No. 2 of 2020, as well as POJK No.11/POJK.03/2020, which discusses banking policies that support the provision of economic recovery stimulus for debtors affected by the pandemic. Eliminating bad loans and restructuring are frequent practices in the banking industry. The goal is to lower the non-performing loan ratio while maintaining the bank's health. Nonetheless, this program should be implemented in accordance with existing legal regulations to avoid moral hazard, which would result in losses for all parties involved, including banks, debtors, and society.

According to Article 94 of the POJK no 17 of 2023, banks must provide transparency to stakeholders regarding financial and non-financial conditions. This includes preparing and presenting reports in accordance with Financial Services Authority regulations, as well as having channels for disseminating reliable information. However, in fact, various stakeholders have varying expectations of a company's achievements. As a result, management frequently supervises financial reports via earnings management. Earnings management is aimed to convey to stakeholders the company's good financial performance, allowing them to make the most appropriate assessment. Better assessment results will surely increase public trust and maximize funds for companies, particularly the banking industry (Andriawan and Setyawan, 2020). On the one hand, shareholders and corporate management have opposing interests, which can lead to agency issues involving the quality of the company's financial statements.

Shareholders expect returns, while firm management desires substantial compensation. Furthermore, information asymmetry can emerge when the management knows more about the company than shareholders. As a result, firm management can adopt earnings management actions since they have the option and only wish to highlight the company's positive attributes (Stevansyah and Suhendah, 2023). Aside from that, Windy and Lukman (2023) discovered that the position of management frequently causes managers to act in accordance with their own interests. Managerial ownership refers to shares owned by management. Managerial ownership will be one of the company's considerations while implementing debt policy. Managers who hold stock in the company are more likely to employ minor loans since they must accept the repercussions of their decisions. Based on this background phenomenon, more research will be conducted between 2020 and 2023 to assess the influence of creative accounting on the value of companies in the Indonesian banking industry, with sound corporate governance and managerial ownership serving as moderating variables.

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