



8 SKP

International Seminar & Colloquium

Certificate

This is to certify that :

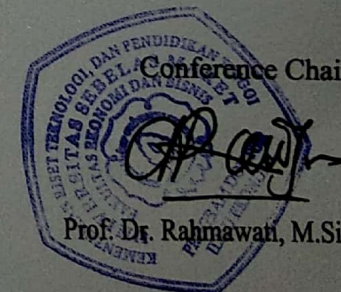
DRAJAT ARMONO

at

PRESENTER

INTERNATIONAL COLLOQUIUM ON BUSINESS AND ECONOMICS

Surakarta, September 24, 2019



Prof. Dr. Rahmawan, M.Si, Ak, CA



KEMENTERIAN RISET, TEKNOLOGI, DAN PENDIDIKAN TINGGI
UNIVERSITAS SEBELAS MARET
FAKULTAS EKONOMI DAN BISNIS
PROGRAM DOKTOR ILMU EKONOMI

Jl. Ir. Sutami 36A Kentingan Solo 57126 Telp./Fax.: +62 271 669090
Website: <http://fe.uns.ac.id> Email: pdie_fe_uns@yahoo.com

Dear

Drajat Armono – Universitas Islam Indonesia

Rahmawati – Universitas Sebelas Maret

Djuminah – Universitas Sebelas Maret

Falikhatusun – Universitas Sebelas Maret

We are pleased to inform you that your manuscript entitled “**The Effect of Motives in Earnings Management on Loan Loss Provision with Type of Ownership as a Moderating Variable**” has been accepted for presentation at the International Colloquium on Business and Economics organized by the Doctoral Program in Economics, Faculty of Economics and Business, Universitas Sebelas Maret (UNS) on 24th September 2019 in Solo.

A copy of the Conference Program will be distributed by 17th September 2019. Kindly check the Program at that time to make sure all information pertaining to you is included and correct.

Authors of selected papers presented at this conference will be invited to submit their papers for further review process in our affiliated journals by 15th October 2019.

Should there be any questions, please contact us at: colloquium2019.pdie@gmail.com.

We are looking forward to meeting you in Solo, Indonesia.

Kind Regards,

Prof. Dr. Rahmawati, M.Si, Ak

Conference Chair



FAKULTAS
EKONOMI DAN BISNIS
Universitas Sebelas Maret



Conference Program

The International Colloquium
on Business and Economics

2019

organized by

Doctoral Program in Economics, Faculty of Economics and Business Universitas Sebelas Maret (PDIE FEB UNS)

Conference Program

The International Colloquium on Business and Economics

24 September 2019

Building 4 - Faculty of Economics and Business

Universitas Sebelas Maret

Time	Session
08.00 - 08.30	Registration
08.30 - 08.45	National Anthem
08.45 - 09.15	Welcome Greetings and Opening Remark: - Head of Doctoral Program in Economics, Faculty of Economics and Business, Universitas Sebelas Maret - Dean of Faculty of Economics and Business, Universitas Sebelas Maret
09.15 - 09.45	Choirs
09.45 - 11.30	Plenary Sessions: - Prof. Jon Williams (Bangor University, UK) - Prof. Franco Fiordelisi (University of Rome III, Italy)
11.30 - 11.45	Token of Appreciation
11.45 - 12.00	Signing MoUs
12.00 - 13.30	Lunch Break
13.30 - 15.00	Parallel Session 1
15.00 - 15.30	Break
15.30 - 17.00	Parallel Session 2
17.00 - 17.15	Best Paper Announcement

Parallel Sessions

Room	1	2	3	4	5	6	7	8	9	10
Session										
1	EGD	BE	CG1	FA	SER	PSA	CF1	HRM1	OB	EN
2	HEM	IFE	CG2	DT	AF	IS	CF2	HRM2	MAR	

Note

EGD	Economic Growth and Development
HEM	Household Economic and Micro Finance
BE	Business Economics
IFE	Islamic Finance and Economics
CG1	Corporate Governance 1
CG2	Corporate Governance 2
FA	Financial Accounting
DT	Disclosure and Transparency
SER	Social and Environmental Responsibility
AF	Auditing and Fraud
PSA	Public Sector Accounting
IS	Information Systems, Financial, Accounting and Management Education
CF1	Corporate Finance 1
CF2	Corporate Finance 2
HRM1	Human Resource Management 1
HRM2	Human Resource Management 2
OB	Organizational Behavior
MAR	Marketing
EN	Entrepreneurship

PARALLEL SESSION 2

CORPORATE GOVERNANCE 2 (CG2)

Room 3

Time 15.30 – 17.00

Reviewer Dr. Hiras Pasaribu

Assistant Siti Arifah, Titiek Puji Astuti

- 1 EFFECT OF OWNERSHIP STRUCTURE ON CORPORATE RISK DISCLOSURE IN INDONESIA
Hudi Kurniawanto
Rispanyo

- 2 THE OWNERSHIP STRUCTURE AND INDEPENDENT COMMISSIONERS INFLUENCE ON THE TENDENCY OF FAMILY CEOs TO CONDUCT EARNINGS MANAGEMENT: EMPIRICAL STUDY OF FAMILY-OWNED PUBLIC COMPANIES IN INDONESIA
Yusef Widya Karsana
Rahmawati
Djuminah
Agung Nur Probohudono

- 3 THE ROLE OF CORPORATE GOVERNANCE STRUCTURE ON STRATEGIC MANAGEMENT ACCOUNTING DISCLOSURE
Setianingtyas Honggowati
Djoko Suhardjanto

- 4 THE EFFECT OF MOTIVES IN EARNINGS MANAGEMENT ON LOAN LOSS PROVISION WITH TYPE OF OWNERSHIP AS A MODERATING VARIABLE
Drajat Armono
Rahmawati
Djuminah
Falikhatun

The Effect of Motives in Earnings Management on Loan Loss Provision with Type of Ownership as a Moderating Variable

Drajat Armono^{a*}, Rahmawati Rahmawati^b, Djuminah Djuminah^c, Falikhatun Falikhatun^d

^aUniversitas Islam Indonesia, Yogyakarta, Indonesia

^bUniversitas Sebelas Maret, Surakarta, Indonesia

^cUniversitas Sebelas Maret, Surakarta, Indonesia

^dUniversitas Sebelas Maret, Surakarta, Indonesia

ABSTRACT

The research aim is to investigate the influence of earnings management motives namely opportunistic, signaling, capital regulation motives and type of ownership as moderate variable on the loan loss provision. The population of this research is all of national banks in Indonesia which was existed dan registered by Bank Indonesia. The data were collected from public bank's financial statements for the period of 2013 until 2015 based on Indonesian Banking website and Financial Report published by bank in news paper. Type of ownership sample conform to degree of agency problem in dispersed ownership as represented of each type. The dependent variable is the total loan loss provision deflated total earnings assets. Opportunistic behavior motive is manifested into net income. Signaling motive is manifested into a proxy of total loan to deposit ratio. Capital regulation motive is manifested into a proxy of capital adequacy ratio. Whereas, the type ownership is dummy variable, T1 is joint venture (foreign and domestic shareholder) bank; T2 is non public private bank; T3 is public private bank; and T4 is state owned bank, which is used to support research hypotheses functions as interaction variable. The research findings are: sample agregat generate that the test result of opportunistic and signaling motive did not negative effects significantly on loan loss provision; capital regulation motive brings about significant and positive effect on loan loss provision; the different type of bank ownership moderates opportunistic, signaling and capital motive effect on loan loss provision.

Keywords: bank, opportunistic, signaling, capital regulation, earnings management, motive, type of ownership and loan loss provision

* Corresponding author. Address: Universitas Islam Indonesia Jl. Kaliurang km 14,5 Yogyakarta E-mail addresses: drajatarmono@gmail.com; 046110409@uii.ac.id (Drajat Armono)

INTRODUCTION

The choice of accounting policies in banking is different from the manufacturing industry. In the manufacturing industry, the transaction structure is dominated by past events, so it is more measurable, whereas in banks it is required to quantify future events related to the portfolio of productive assets controlled. The measurement and recording are carried out through the process of subjective judgments and are far more complex than the recording process for the manufacturing industry (Henry and Holtzman, 2006). This research emphasizes the motives of managers to manage earnings in banking, because each of these actions depends on the conditions faced (Hasan and Wall, 2003). Ahmed et al. (1999) explain that the motives of managers to manage earnings in banking include: signaling hypothesis and opportunistic behavior hypothesis and capital regulation hypothesis.

Productive assets can be interpreted as assets that are invested to generate interest or income, and one of them is a loan given. Productive assets are presented in the balance sheet at the gross amount of bank bills that have not been paid by the earners of productive assets (Bastian and Suhardjono, 2006). Ahmed et al. (1999) states that earning assets are bank resources that are allocated to obtain income so that the majority of bank activities are related to earning assets. Productive assets are the main object for managers to carry out earnings management. Managers do this during the process of determining the allowance for possible losses on earning assets because these actions have a direct bearing on the bank's bottom line. So that when there is a problematic productive assets especially loss, it will reduce bank performance very significantly. Bank Indonesia requires banks to set aside a portion of their productive assets. The percentage of allowance is dependent on the class of earning assets. Credit can be classified as criteria: current, special attention, substandard, doubtful, and loss, which have different percentages. Allowance for possible losses on earning assets (hereinafter referred to as LLP) is a component of the financial statements that describes the condition (quality) of the bank's productive assets for a certain period. The purpose of establishing LLP is to cover the possibility of losses arising from the bank being unable to withdraw part or all of the productive assets in a period (Bastian and Suhardjono, 2006).

Pinteris (2002) explains that in terms of its industrial structure, private banks in developing countries generally have a concentrated ownership structure and are controlled by a few large shareholders or families. In addition, government banks or reputable banks dominate the banking industry. Wahlen (1994) proves that in commercial banks, reserves for losses from earning assets that contain the accumulated allowance for earning assets losses are the main tools of managers to manage earnings. The problem of earning a loss in productive assets not only occurs at a point in time, but occurs throughout the period and the possibility of market participants reacting differently (Docking, Hisey and Jones, 2000). Ahmed et al. (1999) argue differently that earnings management is a less important determinant variable in the process of determining the amount of allowance for earning assets losses. The desire to provide information for outsiders is not the most important determinant in the allowance for possible losses on earning assets. Rees et al. (1996) stated that asset write-downs and discretionary operating accruals are a proper management response to changes in the company's economic environment. In addition, asset write downs also indicate a deteriorating performance of bank operations so that managers act opportunistically to improve future performance. Research conducted by Rees et al. (1996) examined abnormal accruals in recognition of permanent asset impairment in the company's financial statements to determine whether the company systematically engineered profits for the year. The result is that there is a relationship between abnormal accruals and stock returns. This shows that the manager's discretionary action provides useful information for the market in relation to the company's value. However, the results of this study do not prove that the existence of write down assets has the potential to be used as a way to manipulate earnings. The manager's discretionary action aims to provide value relevant signals to investors. However, if the main motive for asset write-down is opportunistic earnings management, companies will also discretion in operating accruals. Wahlen (1994), Collins (1995) found evidence that managers use the allowance for earning assets to manipulate earnings. However, Beattie et al. (1995), and Ahmed et al. (1999) failed to prove the earnings management hypothesis in banks.

Based on previous studies and research, this research focuses on the three main motives of managers in managing earnings, namely the opportunistic hypothesis; signaling hypothesis; and capital regulation hypothesis (Ahmed et al., 1999; Lobo and Yang, 2001; and Kanageratnam et al., 2003 and 2004). In addition, this study also considers differences in types of bank ownership based on the level of agency conflict that occurs (foreign banks, closed public, open public, and government) in testing these motives for the allowance for possible losses on earning assets.

This research was developed mainly based on the research of Lobo and Yang (2001) who have tested various managerial decisions in accounting discretion for the allowance for earning assets losses. The study of earnings management in the banking industry in developing countries as well as in Indonesia is an interesting study considering: There are agency problems as a result of regulatory infrastructure that

has not functioned properly in an effort to protect the interests of shareholders, especially minority shareholders (Freixas and Santomero, 2003), and the need for a review of the use of agency theory in understanding earnings management problems in the banking industry given the basic assumptions of agency theory differ from the characteristics of the banking industry business as a result of the multi-dimensional agency conflict because it involves many parties, namely managers, owners, regulators, savers and debtors (Supriyatno, 2006).

Research on the influence of managers' motives for earnings management as well as the type of ownership on earnings management in banks has been widely carried out, but several studies conducted are more related to banking problems in developed countries (McNulty, 2005), or concerning banking crises that occur in developing countries (Kunt and Detragiache, 2003). Previous studies have only focused on managers' motives for income smoothing (Kanageratnam et al. 2001, 2003 and 2004). Previous research on company ownership generally related to performance, including bank research (Hyun and Byung, 2004). The research was conducted by Anderson, Makhija, and Spiro (1997) who examined the role of foreign banks in the process of banking privatization. Therefore, researchers are motivated to conduct studies on the effects of opportunistic motive, signaling motive and capital regulation motive as well as the types of ownership on the allowance for the elimination of productive assets in Indonesia.

This research is expected to provide a deeper understanding of earnings management issues related to opportunistic motives, signaling motives, capital regulation motives and the types of ownership in the banking industry that occur in Indonesia that are "very" likely to have different characteristics from what happens in other countries. This type of ownership takes the approach of ownership dispersion which consists of three characteristics of company ownership (a) foreign and jointly owned banks; (b) banks whose ownership is concentrated/closed (closely held ownership); (c) banks where the composition of ownership is highly spread out are usually in the form of publicly owned companies (dispersed ownership); (d) state-owned banks.

Agency Problems and Earnings Management

Managers and owners should have goals that are aligned in order to increase the value of the company (value maximizing), but in reality the goals of each party are not always in line. Managers are more likely to risk adverse than shareholders. The terms agency conflict and agency costs have emerged since Jensen and Meckling (1976) introduced the theory of separation between ownership and control within a company. The interests of managers and owners are not always perfectly aligned because there are differences in risk level preferences, differences in diversification and the existence of information asymmetry of each party. Information asymmetry encourages managers to achieve strategies that benefit their interests at the expense borne by the owner. The substance of the owner's interest is the efficiency of the management of bank resources by the manager and prevents the manager from expropriating the assets. The owner actually tries to always control the management so that the manager always acts in harmony with his interests. This is based on the possibility of mismanagement and opportunities to commit fraud (Dewatripont and Tirole, 1994). The behavior of increasing organizational risk by managers is termed moral hazard (Jensen and Meckling, 1976). Three types of accounting explanations, each of which is mutually exclusive. First, the reason managers choose an accounting method is to reduce agency costs between parties in the company or; Second, managers want to maximize the welfare they receive (opportunistic behavior), when contracts that occur within the company are based on accounting numbers, or; Third, the manager's motive is to express management's expectations about future cash flows (signaling motive).

Earnings Management in Bank

Two requirements for earnings management in banking, namely:
Opportunities and desires that underlie managers to use earnings management techniques by considering the risks received, the accrual way that can be done in processing large amounts of transactions and have

a significant influence on bank financial statements (Gray, 2004). When banks do not carefully identify the possibility of troubled assets, the balance sheet and income statement no longer reflect the true financial condition of the bank.

Allen (1992) argues that one of the motives for earnings management in banking is the purpose of window dressing. Window dressing is the use of short-term financial transactions that are used to manipulate accounting values at the end of the balance sheet date. Window dressing behavior often does not produce the best benefits for regulators or shareholders. Managers sometimes permanently overstated by increasing the trend in the size of bank assets (upward window dressing) to increase the benefits received by managers. Shareholders actually prefer managers to do downward window dressing to reduce tax obligations. Window dressing can be passive or active. Window dressing is passive when managers do window dressing due to external parties' pressure, for example the demand to reduce the loan size at the end of the quarter in order to engineer a balance sheet. Window dressing is active when the action is a manager's effort in responding to regulations and or market changes. Separating active and passive window dressing is done by estimating retail deposit accounts, bank purchased or liability managed funds. Adjustments made to retail savings accounts are evidence of passive window dressing because retail savings accounts are not directly controlled by the bank. Active/upward window dressing can also be observed from the bank purchased to find out the deviation at the end of the period. Whereas downward window dressing can be assessed from the behavior of loan sales that only occur on the last day of the period and aims to reduce bank assets at the end of the quarter. The manager does a downward window dressing on government funds (for example, a Bank Indonesia certificate), by way of transactions (selling) of government funds held on the last day of the period. Supriyatno (2006) states that the government guarantee program for all bank deposits (fixed rate deposit insurance) encourages earnings management. In accordance with agency theory, the social insurance program, has created moral hazard for managers and bank owners by wanting to shift the risk of bank business to the government. Managers and owners assume that despite liquidity and solvency difficulties the government will be bailed out through a deposit guarantee program.

Loan Losses Provisions (LLP)/ (Allowance for Earning Asset Losses)

The bank's demand to form Loan Losses Provisions or in Indonesia is termed as allowance for earning assets losses (LLP) began to emerge after the banking "disaster" in the United States in the 1980s. At that time, banks were considered unable to anticipate the occurrence of losses in productive assets so that there was pressure on bank regulators to make rules that require banks to form and maintain adequate reserves or allowance for losses (Beaver and Engel, 1996).

According to the accounting view, earning assets losses are inherent in the earnings assets of the portfolio at the balance sheet date but cannot be specifically identified. Impairment of asset values will reduce the income and equity of shareholders (Beattie et al., 1995). The higher the level of uncertainty around the actual loss date, the more difficult it is to measure with certainty the adequacy of the allowance for possible losses on earning assets for one period (Hasan and Wall, 2003). According to the Decree of the Board of Directors of Bank Indonesia Number. 31/148/1998, allowance for write off of productive assets is a reserve that must be formed at a certain percentage of nominal based on the classification of the quality of productive assets. The reserve account aims to quantify (cover the risk of losses) that occur due to the deteriorating quality of the earning assets (bank portfolio) even though it is not precisely known the amount of bank portfolio losses that must be displayed in the financial statements.

LLP is a subjective judgment bank manager in determining the funds prepared to anticipate the loss of productive assets in the future. The allowance for possible losses on earning assets should be able to be used to determine the amount of net productive assets in the balance sheet and present expectations about future repayments (Beattie et al., 1995; and Gray, 2004). Loan loss allowance is accumulated allowance for write off of net productive assets from year to year. The policy for the allowance for possible losses on earning assets cannot be separated from agency conflicts between several parties that have an interest in banks (Beattie et al., 1995). Various parties concerned with banks emphasize the

accuracy of the allowance for possible losses on earning assets presented by banks. When the allowance for possible losses on earning assets has a large portion of the bank's net income, an accurate estimate is needed to ensure the accuracy of the value of the productive assets and reported earnings. In addition, the regulator also emphasizes the prudence and soundness of the provision for the elimination of productive assets (Robb, 1998). The policy illustrates how management protects the interests of the owner through the establishment of allowance for earning assets that have the potential to be problematic or will become bad (Aggarwal et al., 2002).

Hypothesis Development

Opportunistic Motive

The opportunistic behavior hypothesis explains the purpose of banks in managing earnings is to reduce the volatility of reported earnings information. Earnings information is reported to be the main concern of managers because it has several important impacts, both from the internal side of the bank and investors. From the managerial side, profits are the main source for continuing operations (survival) and future growth and business expansion. However, profits which are overgrowing in the current period can disrupt future earnings so the manager tries to make a limit on the current period's profit level. This restriction aims to keep profit growth at a certain level of growth. These restrictions result in managers becoming often neglected to take advantage of existing opportunities even though sometimes these opportunities have the potential to increase the value of the company and the owner loses the opportunity to gain additional welfare.

The benefits received by managers for the decline in earnings volatility are for the purpose of obtaining compensation through achieving at a certain profit level and retaining office (Fudenberg and Tirole, 1995; DeFond and Park, 1997; and Cohen et al., 2005). On the owner and (investor and debt holder) side, a decrease in earnings volatility can increase the predictability of reported earnings even though the real owner is disadvantaged because of the loss of potential earnings from business opportunities that are ignored by managers. Another loss is that the profit information presented does not inform the true condition of the loss in earning assets or the negative impact of changes in the company's environment.

The accounting profession and financial practitioners differ in view of the managerial opportunistic behavior. The accounting profession views this behavior with bad connotations because it is considered to be the result of the business of managers who intentionally modify (engineer) profits for their benefit and reduce the reliability and comparability of earnings information reported by companies with other companies. While financial practitioners have a positive outlook. Such behavior is precisely as a type of expression of risk adverse behavior of managers in reducing the negative impact of earnings volatility on the value of capital. Earnings volatility and predictability are key factors in evaluating a company's fundamental cash flow risk (Gebhardt et al., 2001; DeFond and Park, 1997). Shareholders, debt holders (including savers) ask for a higher risk premium with higher profit variability (Barth et al., 2001). Cost of funds is a function of risk perception of banks. The lower the volatility of earnings, the risk perception of fund owners (investors and debtholders) will be lower and the lower the risk, the lower the return requested by the fund owner. The bank tries to increase reported profits when actual (non-discretionary) profits are lower or decrease reported profits when actual (non-discretionary) profits are higher than previously expected profits. When expected earnings are low, the manager deliberately determines the amount of LLP in an understated way to prevent the negative effects of other factors on earnings. Managed accruals are closely related to the credit cycle, namely the increase or decrease in losses in earning assets. The earning asset cycle is a complex combination of changes in the external environment (external shock) and internal dynamics. Profit in "perfect condition" is not (less) affected by fluctuations in losses of earning assets during the productive asset cycle.

LLP policy related to the economic cycle will be the main determinant that affects bank profits. In the end the bank will implement the LLP strategy which is able to reflect the managerial objectives of the bank. Aggarwal et al. (2002) proved that 78 banks in Japan for 15 years (1985-1999) had conducted

discretion using LLP and securities portfolio realization. Banks with low non-discretionary profits use LLP to achieve income smoothing and to prevent a decrease in return on investment (ROI). The period is divided into three sub-periods that describe the evolution of the Japanese banking system, namely: (i) the era of high growth (1982-1989); (ii) the period of financial crisis (1990-1994) and (iii) the era of the deteriorating position of the post-crisis bank balance sheet (1995-1999). During the period of high growth (1985-1989) there were three factors related to LLP: (i) high economic growth (high demand for productive assets); (ii) the bank's goal is to maintain the loan to assets ratio at a safe point; (iii) increase in bank assets. Reserves for losses on productive assets (ratio of provisions to assets) for the three periods indicate that banks are not careful in managing risk. Banks perform understated LLP when collateral values decrease significantly during the crisis period. The ratio of capital to assets increased but loan growth decreased during the capital restriction period (1995-1999). Ford and Weston (2000) prove that Japanese banks provide stable dividend growth for investors. Dividend payments are significantly hindered by various activities of the bank's productive assets during periods of financial difficulties, so banks need to understand LLP accounts to maintain the growth of dividend payments while still experiencing a crisis.

Laeven and Majnoni (2002) prove that banks tend to postpone the provision of allowance for productive assets that are stuck until sometimes very late when the bank experiences a decline in the productive asset cycle. Profit is an indicator of bank performance and health that has been agreed upon by financial practitioners and academics. Banks, owners and regulators always observe conditions and earnings movements. In the condition of pre-managed earnings considered to be too high than expected, the bank will increase the amount of LLP to reduce net income at the end of the reported period so that earnings volatility decreases. In the condition of pre-managed earnings considered to be too low than expected, the bank will reduce the amount of LLP to increase net income at the end of the reported period so that earnings volatility decreases. Furthermore, when banks do not change LLP policies when pre-managed earnings are considered to be in line with expectations. Based on the description above, a hypothesis can be arranged as follows:

H1: Opportunistic motive has a negative effect on loan loss provision

Signaling Motive

Signaling hypothesis explains that the purpose of managers doing earnings management is to communicate private information about the conditions and prospects of the company owned to external parties. The manager considers that the real value of the company exceeds the market value so it must be corrected (Cohen et al., 2005). Financial practitioners argue that influencing investor perceptions about the value of a company is the main motivation for earnings management (Bartov and Gul, 2000; and Stolowy, 2004). The amount of LLP is a signal of the financial strength of the bank. Signals of bank strength can be represented through subsequent period earnings and stock returns (Ahmed et al., 1999), the ratio of the total funding allocated to the total savings (loans to deposit ratio) (Kanageratnam et al., 2004). Beaver et al. (1989) states that investors will interpret the increase in allowance for earning assets losses as a signal of bank strength. Allowance for possible losses on earning assets is an indicator of management concern in managing the risk of earning assets of banks. Market expectations will likely change if there is information that is formally announced by the bank. The value of bank equity in the half-strong efficient market is a response to changes in the allowance for possible losses on earning assets.

The change in LLP policy is a relevant signal for investors (affecting the value of the company). Financial practitioners differ in their views on the direction of the relationship between the allowance for possible losses on earning assets and market reactions. The simple view states that when announcing the recognition of a potential loss or actual loss is considered "bad news" then the external party must immediately evaluate the prior expectations with the information announced by the bank. However, when the news received is "good news" (according to previous estimates), market participants will react less. Beaver et al. (1989) stated that investors would interpret the increase in LLP as a signal of bank strength, consistent with the signaling hypothesis. LLP can indicate the level of concern (management) of the

strength of bank profits to be able to survive and be able to achieve profit targets that are reflected in the form of additional LLP.

Wahlen (1994) proved a positive relationship between unexpected LLP and changes in pre loans loss to future earnings as well as stock returns. Commercial banks generally have a portfolio of productive assets ten to fifteen times greater than the equity of the bank itself. The impact is the cash flow from the bank's non-productive earning asset portfolio has an important impact on the bank's performance which is reflected in the market value of its equity (shares). Beattie et al. (1995) indicate that the allowance for write off of earning assets and write off of earning assets is usually sensitive information on stock prices and affects the acquisition of additional new capital. Collins (1995) proved a positive relationship between the allowance for earning assets and earnings losses. The manager provides allowance for earning assets losses. Beaver and Engel (1996) found positive coefficients of the discretionary component of allowance for earning assets losses in the regression of market value of equity to earnings (prior to allowance for write off of productive assets), allowance for write off of earning assets, discretionary component of allowance for write off of earning assets and nonperforming loans. The coefficient of valuation of the discretionary and non-discretionary component of the allowance for write off of productive assets is positive and negative consistent with the signaling hypothesis.

Krishnan (2003) proves that the securities market reacts to an increase in discretionary allowance for earning assets losses. Reasons for a positive market reaction are signaling motives and income smoothing motives. Signaling models are only possible for banks of better quality to communicate the quality of the portfolio of productive assets without fear of being used by other low-quality banks (free riders). Hatfield and Lancaster (2000) prove that the international productive assets crisis led to increased public attention to bank announcements about increasing the amount of reserves for productive assets losses despite the fact that banks always make adjustments to the policy for reserves of losses on productive assets.

Allen et al. (2004) examine the information content of quarterly earnings announcements derived from syndicated bank loans. The results show that when the earnings announcement presents relevant information about the borrowing company, that information is reflected in the market price of the syndicated bank loan. Ahmed et al. (1999) failed to prove the existence of signaling hypotheses, there was no evidence of a relationship between the allowance for earning assets losses and changes in earnings for the next year. This result is contrary to the results of Wahlen's (1994) research. However, testing the market value indicates a positive coefficient between the allowance for the elimination of discretionary earning assets and stock returns, meaning that it is consistent with Beaver and Engel (1996).

Kanagratnam et al. (2004) suggested that the need for additional fresh funds from the public is also included in the scope of the signaling hypothesis because the need for new bank funds is one of the main motives for managers to manage earnings. Cost of funds is a function of the perception of fund owners of the prospects for bank strength. The argument is that when banks require the inclusion of additional new funds to meet financing needs, the bank must make over its financial statements. The goal to be achieved is that the owners of funds are impressed and assume the bank has good prospects so they are willing to invest their funds in the bank. Benefits for banks and old shareholders are the increase in the market price of the equity sold. Signaling hypothesis explains that banks that require additional fresh funds (liquidity) from outside the bank are characterized by a high loan to deposit ratio, so the bank tries to give a signal to outsiders that the bank has good prospects (low risk). The aim is that the owners of funds from outside the bank are interested in investing their funds in low cost banks. Banks must continuously give the impression that the quality of productive assets held is in a healthy condition. If the condition of earning asset quality is good then the bank can provide dividends and returns to the owner of the funds in the future. The bank will form a low amount of LLP to give the impression that the productive assets owned are of good quality because they have good risk management in absorbing the possibility of losses in earning assets in the future. When a bank's risk management is good, the bank is also imaged by outsiders so that the owner of the funds is interested in investing their funds in the bank with a low cost of funds. Low cost of funds because the bank has a low level of risk. In addition, the

reason for using the ratio of total financing of productive assets to total deposits (loans to deposit ratio) as a proxy for signaling motive is because not all banks trade their shares on the stock exchange (Ahmed et al., 1999). Based on the description above, a hypothesis can be arranged as follows:

H2: Signaling motive has a negative effect on the allowance for possible losses on earning assets

Capital Regulation Motive

Capital regulation is one of the most fundamental aspects in implementing bank prudence. Bank capital must be sufficient to cover all business risks of the bank's operations. The aim of macro capital regulation is to create healthy banking in a stable economy and conducive banking regulation. When the reserves of productive assets losses are not enough to cover the losses incurred, the losses will reduce bank capital. If this condition continues, it will have a bad impact on the survival of the bank's business. Banks must create and maintain allowance for write offs of earning assets for productive assets as part of capital because there is a consensus in banks that unexpected losses must be covered by bank capital. The expected loss in earning assets must be covered by the allowance for earning assets losses or with future profit (future margin income). Beattie et al. (1995) explain that new equity can be entered into banks when a loss occurs, but when financial conditions deteriorate it is not the right time to add capital so a more appropriate strategy is to engineer a positive capital ratio. When all bank financing comes from own capital, earnings management is the best strategy to avoid insolvency. Capital regulation is also useful for the function of bank supervision and guidance. Capital regulation as a way to prevent moral hazard problems arising from savings guarantee programs, last lender resort facilities and other government guarantees (Berger et al., 1999) as quoted by Ahmed et al. (1999). Capital regulation is a way to realize sound and sound bank practices (Bikker and Metzmakers, 2002).

Implementation of capital adequacy regulations has several problems. First, the definition of capital that is part of general provisions is not consistent. Second, the Basel Accord ratio does not consider the risk characteristics of the commercial bank's productive asset portfolio. Another problem is the value of the capital adequacy ratio is a complex estimation process and when the capital conditions of each bank vary, the interbank capital ratio should also differ according to the characteristics of the bank. Capital problems related to the allowance for write off of productive assets is the allowance for write off of productive assets is the object of management judgment. Another obstacle is that the determination of the value of the loss of earning assets cannot be identified at a certain point in time and only the expected value can be determined. Yudistira (2003) argues that the policy for establishing allowance for earning assets losses is a true part of the regulation of capital requirements. The regulation provides an opportunity for management to determine the allowance for possible losses on earning assets. The implementation of capital adequacy rules requires the definition and measurement of capital, total liabilities and assets in accordance with bank specifications that are based on accounting numbers and the choice of accounting procedures. Measurement of capital, assets and risk depends on the accounting procedures chosen by the bank so that the interbank value can vary. LLP has a direct effect on the size of capital adequacy. Yudistira (2003) suggested an important difference in the practice of calculating the capital adequacy ratio, that is, especially in the accounting treatment in the calculation for the provision for loss of productive assets that are general and specific, namely: (1) general LLP (general provisions) can be included or separated from capital regulations . In addition, capital can also be deducted or not from the value of its assets; (2) allowance for write-off of specific productive assets (specific provisions) which can also be deducted or not from the value of their assets. The difference in recognition will affect the deferred tax assets, the ratio of capital and assets in accordance with bank regulations. Managerial discretion is still unavoidable because it is difficult to separate loan and equity, especially on hybrid securities. This can lead to an understated increase in profits and also capital and bank assets. Bank capital requirements encourage sudden contraction of productive assets. In other words, the minimum capital requirements still change the behavior of banks to reduce their balance sheets and the effect will be to reduce the rate of economic growth.

Galai et al. (2003) state that managers face a dilemma, on the one hand regulation of capital adequacy requirements and expectations of earnings on the other hand. This creates an incentive for managers to "hide" earnings when good (by understating equity) and increase reported earnings when bad. The Bank in its operation faces an environment of uncertainty to try to maintain capital requirements and achieve growth target targets. Managers must always consider the ability of banks and when the quality of bank assets deteriorates because the business cycle decreases, the risk increases. Weak banks will have difficulty meeting capital requirements. The consequence is that banks are forced to cut (reduce) the value of productive assets and try to increase the amount of allowance for earning assets losses. For developing countries and characterized by banks as the main source of funds for companies such as Indonesia, the impact of bad business cycle conditions is more severe than in developed countries, this condition is known as credit crunch.

Loss of expected productive assets (expected loss) does not cause solvency problems. However, there are also possibilities that some banks will underprice productive assets. Ahmed et al. (1999) states that banks with low capital do not react significantly to regulatory changes. Banks with large capital are able to adjust more quickly and significantly to changes in regulations. Banks with large allocations to long-term loans, such as real estate and little to commercial loans, will react according to regulatory changes. Banks must incur high costs for violating capital requirements so that they have greater motives for fulfilling capital management. Capital adequacy requirements also have a negative impact because they limit the ability of banks that are below the minimum lower limit to grow faster. Banks cannot issue new deposits or increase investment through the allocation of productive assets so banks that are vulnerable to violations of capital adequacy requirements will tend to try to manage earnings to achieve capital adequacy requirements to avoid sanctions.

The government also rolled out a banking recapitulation program handled by the Indonesian Bank Restructuring Agency (BPPN) under the Minister of Finance to supervise and manage the assets of problem banks under their supervision. Various evidence shows that the regulation of capital requirements will affect the real economy through reducing the quantity of productive assets allocated by banks that have limited capital (Yudistira, 2003).

Abdullah and Santoso (2000) as quoted in Supriyatno (2006) argue differently that capital regulation has not been able to capture the banking problem in Indonesian banking. Risk-based capital requirements regulations still only base on risk of productive assets and fail to uncover what is happening at the bank. Various empirical studies have been carried out but the results are not uniform. Banks reduce the portfolio portion of high-risk loan types in the form of government securities which have lower risk weights simultaneously. Total productive assets in the form of commercial and investment credit facilities declined from 23 percent in 1989 to 16 percent in 1994.

In the same period, investment in government securities increased from 15 percent to 25 percent as a result of shifting bank portfolios. Research Gennote and Pyle (1990) prove that the level of bank risk is positively associated with an increase in capital. Fok and Lee (2004) prove that banks in Southeast Asian countries have a higher capital ratio than before the crisis. The risk-based capital requirement does not change investors' perceptions of the bank's risk. Banks in Southeast Asia are able to make capital ratios artificially high in crisis periods through the policy of allowance for earning assets losses. The method used is to exploit the difference between the size of capital determined by bank regulators and accounting regulators. Revised reserves for losses on earning assets represent costs that will reduce the amount of profit recognized for the period. The increase in allowance for earning assets losses is in line with changes in loan quality and will reduce bank retained earnings. Banks with weak capital will have a strong desire to understate the allowance for earning assets losses. Hodder et al. (2002) tested 230 public banks in the United States and proved that regulatory contracts influence corporate accounting decisions. Goddard et al. (2004) examined the relationship of growth rates to the profitability of 583 banks in five European Union countries (France, Germany, Italy, the United Kingdom and Spain) during 1992-1998. The result is that banks that maintain capital ratios tend to grow lower next period. Ford and Weston (2000) examined the risk (return performance) of banks in Asia, Australia, Europe and

the United States during 1991-1995. The capital requirements are arranged so that the level of bank capital is sensitive to differences in risk between interbank assets. Banks with high asset risk are required to have a higher capital level. Banks in Asia show a different picture because the high level of risk-based capital has no impact on earnings during this period. The main source of problems is the location of LLP policies, accounting standards and loan classification standards. Bikker and Metzmakers (2002) examined bank allowance behavior related to the business cycle using 8000 bank-years of observation from 29 countries over the past decade 1991-2001. The results of bank allowance were substantially higher when GDP growth was low, this reflects an increase portfolio risk of productive assets occurs when the business cycle decreases. Yudistira (2003) has proven that bank capital requirements have an effect on the banking balance sheet in Indonesia. On the liability side, there is a positive relationship between capital regulation and deposit growth. Banks that are in the area of approaching regulatory capital requirements tend to manipulate capital through allowance for earning assets losses to avoid regulatory sanctions from banks with good capital levels.

The capital regulation hypothesis explains that banks in low pre-managed capital conditions will form a high amount of LLP to meet the capital regulations set by the regulator so as to avoid regulatory sanctions. LLP is part of the complementary capital of banks so that *ceteris paribus*, when the number of LLP increases, the value of capital adequacy ratio also increases. The capital adequacy factor is one indicator of bank health and the higher the capital ratio, the bank will be healthier because it has strong financial fundamentals in dealing with business risk. CAR's weight in health assessments using CAMEL is 25 percent. Based on previous research and literature, the following hypotheses can be arranged:
H3: Capital regulation motive has a positive effect on loan loss provision

The Type of Ownership

This type of ownership is crucial because it will determine the direction of the bank's operational policies. Each type of ownership has a different productive asset allocation orientation. The level of agency conflict in each type of bank ownership has a difference that will affect the bank's operations and performance (Husnan, 2001).

Regulations tend to limit both the shared benefits and the private benefits of large shareholders as a step for monitoring (monitoring) bank activities and limiting manager discretion. The structure of the banking industry in developing countries is dominated by state banks or only a few banks that are in good standing (Pinteris, 2002). Private banks are generally owned and controlled by a few large shareholders or families (concentrated). Foreign banks with an international reputation apply good governance, namely prudent and disciplined, including strict supervision. Foreign banks that open branches abroad have experienced two filter regulations, namely from the regulator of the country where the parent bank is and from the branch bank regulator. Foreign banks also need large capital to expand overseas. Non-public private banks are generally more tightly controlled by owners. In this type of ownership, conflicts between majority and minority groups are almost non-existent due to the relatively small number of owners able to carry out control mechanisms efficiently. The degree of agency problems between owners and managers of private non-public property will tend to be low. Banks with low conflicts tend to implement earnings management decisions relatively carefully.

The ownership structure is related to bank capital holdings. The higher managerial ownership, the lower the institutional risk. The existence of large block ownership will increase institutional risk, especially when charter values and managerial ownership are low. Different types of ownership also indicate differences in the level of earnings management sensitivity between types of ownership. The more dispersed the ownership (many owners) the lower the chance of the bank doing earnings management. The more owners there are, the more parties are overseeing bank activities. Based on the description and previous research, this study divides the types of ownership into four characteristics of bank ownership, namely:

Foreign or jointly owned banks, publicly owned banks with highly dispersed ownership composition, closely held ownership composition, and banks which are government-owned companies (Husnan, 2001),

so the following hypotheses can be arranged:

H.4.a: The type of ownership moderates the influence of opportunistic motives on LLP.

H.4.b: The type of ownership moderates the effect of signaling motives on LLP.

H.4.c: The of ownership moderates the effect of capital regulation motive on LLP.

RESEARCH METODOLOGY

This research is a causal research (causal research) which seeks to investigate the causality relationship or cause and effect between research variables. The research variables tested included the dependent variable (loan loss provision/allowance for earning assets losses), the independent variable (opportunistic motive, signaling motive and capital regulation motive) and the moderation variable (type of ownership).

Research model

The following earnings management models refer to previous research (Ahmed et al. 1999, Lobo and Yang, 2001; Kanagaretnam et al., 2003, 2004a; 2004b; McNulty, 2005):

$$LLP_{it} = \alpha_0 + \alpha_1 NI_{it} + \alpha_2 LDR_{it} + 1 + \alpha_3 CAR_{it} + \epsilon_{it}$$

where:

α_0 = constant

LLP_{it} = allowance for possible losses on earning assets divided by total productive assets of banks i period t

NI_{it} = net income divided by total assets of banks i period t

LDR_{it} = total earning assets divided by total third party funds for banks i period t

CAR_{it} = capital (core and supplement) divided by weighted assets according to the risk of bank i period t

α = parameter coefficient

ϵ_{it} = error term

The research model used using the regression model with variables based on the type of ownership group is as follows:

$$LLP_{it} = \alpha_0 + \alpha_1 NI_{it} + \alpha_2 LDR_{it} + \alpha_3 CAR_{it} + \beta_1 T_1 + \beta_2 T_2 + \beta_3 T_3 + \beta_4 T_4 + \delta_1 NI_{it} * T_1 + \delta_2 NI_{it} * T_2 + \delta_3 NI_{it} * T_3 + \delta_4 NI_{it} * T_4 + \delta_5 LDR_{it} * T_1 + \delta_6 LDR_{it} * T_2 + \delta_7 LDR_{it} * T_3 + \delta_8 LDR_{it} * T_4 + \delta_9 CAR_{it} * T_1 + \delta_{10} CAR_{it} * T_2 + \delta_{11} CAR_{it} * T_3 + \delta_{12} CAR_{it} * T_4 + \epsilon_{it}$$

where:

α_0 = constant

LLP_{it} = allowance for possible losses on earning assets divided by total productive assets of banks i period t

NI_{it} = net income divided by total assets of banks i period t

LDR_{it} = total earning assets divided by total third party funds for period i t banks

CAR_{it} = capital (core and supplement) divided by weighted assets according to the risk of bank i period t

T_1-4 = type of ownership, namely a mixed bank, privately owned closed private bank, public private bank and state owned bank

δ = parameter coefficient

ϵ_{it} = error term

Population and Research Samples

The aim is to get complete data. The process of selecting a sample of national-scale banks operating in Indonesia from 2013 to 2015. This study uses panel data methods (pooling data) in accordance with the affirmation of Ghozali (2005) that panel data can improve the ability of data prediction.

Research Variable

This study uses one dependent variable is the magnitude of LLP (Ahmed et al., 1999; Lobo and Yang, 2001 and Kanagaretnam et al., 2003, 2004a). The independent variable consists of four variables, namely three earnings management motives which include opportunistic motive, signaling motive and capital regulation motive (Ahmed et al., 1999; Lobo and Yang, 2001) and types of ownership (Husnan, 2001; and Supriyatno, 2006).

Definition of Variable Operations

Operational Definition of Dependent Variable

Based on previous studies and research, the amount of allowance for elimination of LLP has been widely used as a way to test earnings management. The reason is the amount or amount of allowance for earning assets losses is a representation of the bank in managing risk (risk management) portfolio of productive assets owned. Productive assets are the most dominant item in the bank's financial structure. This method has been used by many previous studies (Wahlen, 1994; Beatty et al. 1995; Beaver and Engel, 1996; Lobo and Yang, 2001; and Kanagaretnam et al., 2003, 2004a).

Measurement of Independent Variables

Opportunistic Motive

Opportunistic hypothesis explains that net income at the end of the period (net income) is one of the main indicators of financial performance and soundness of banks so that bank managers are very interested in earnings volatility. The higher the volatility of earnings at the end of the period (net income), the bank is considered unable to control its financial condition.

Opportunisticit = Net Income for the end of the period

The value of it net income is divided by the total asset value of it.

Signaling Motive

Signaling motives are not only proxy for stock returns but also loans to deposit ratios can be proxied. The ratio shows the condition of funds owned by banks to meet financing commitments. When the funds owned are low which is marked by the value of loans to deposit ratio, the bank tries to attract new funds with low cost of funds. The cost of funds for new funds is a function of bank business risk so that the cost of funds will be high if the owner's perception of the risk of the bank's productive assets is high and vice versa if the perception of the owner of funds about the quality of the bank's productive assets is low then the requested cost of funds is also low. The use of loans to deposit ratio as a proxy for signaling motive because not every bank sells shares so there is no stock return data. The process is: (i) calculating the amount of bank third party funds consisting of Demand Deposits, Other Immediate Liabilities and Savings; (ii) compare total profits with period third party funds t.

Signaling_{it} = $\frac{\text{loans to deposit ratio}_{it}}{\text{Credit}_{it}}$

LDR_{it} = $\frac{\text{Third Party Funds}_{it}}{\text{Third Party Funds}_{it}} \times 100\%$

Capital Regulation Motive

Capital regulation is proxied by the value of the capital adequacy ratio (capital adequacy ratio) because it is the principal ratio in the assessment of bank capital and health conditions. CAR is a ratio that shows the performance associated with the adequacy of capital owned by banks to cover the decline

Foreign	11	10.09	11	10.58	11	10.58	33	10.41
Mixed	19	17.43	17	3.11	17	16.35	53	16.72
Non Public Private	55	50.46	51	49.04	49	47.12	155	48.90
Public Private	19	17.43	20	19.23	22	21.15	61	19.24
State Owned	5	4.59	5	4.81	5	4.81	15	4.73
Total	109	100	104	100	104	100	317	100

Sample Distribution Analysis

The following table explains the distribution of the sample banks in this study:

Figure 2
Sample Distribution

Type	2013	%	2014	%	2015	%	Total	%
Foreign	7	8.24	8	9.76	10	12.35	25	10.08
Mixed	9	10.59	8	9.76	9	11.11	26	10.48
Non Public Private	46	54.12	47	57.32	37	45.68	130	52.42
Public Private	19	22.35	17	20.73	22	27.16	58	23.39
State Owned	4	4.71	2	2.44	3	3.70	9	3.63
Total	85	100	82	100	81	100	248	100

Descriptive Statistics

The following table explains the descriptive statistics of each variable in this study:

Figure 3
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CAR	248	8.84	84.13	21.9860	13.17642
LDR	248	3.78	165.49	74.5475	25.09500
NI	248	.01	8.59	2.4450	1.71473
LLP	248	.16	7.14	2.0707	1.18011

Loan Loss Provision (LLP)/Allowance for Earning Asset Losses

The average, minimum, maximum and standard deviation of allowance for possible losses on earning assets divided by total earning assets is 2.07; 0.16; 7.14; and 1.18. This implies that all banks

have prepared funds to anticipate the occurrence of losses in earning assets adequately. The standard deviation indicates the variation in allowance for earning assets losses.

Opportunistic Motive

The average, minimum, maximum value and standard deviation of net income divided by assets are 2.44; 0.01; 8.59; and 1.71. This means that interbank net profit shows high variation.

Signaling Motive

The average, minimum, maximum and standard deviation of loans to deposit ratio (LDR) are 74.54; 3.78; 165.49; and 25.09. This means that most of the third party funds raised by banks are allocated in the form of credit and there is high interbank variation.

Capital Regulation Motive

The average, minimum, maximum value and standard deviation of the capital adequacy ratio (CAR) are 21.98; 8.84; 84.13; and 13.17. This means that all banks have met the level of capital adequacy ratio (CAR) required by the regulator which is 8 percent. Standard deviations indicate high inter-bank variations. Hypothesis Testing Using Aggregate Samples using model 1. In this case, LLPit is the allowance for possible losses on earning assets divided by total productive assets. LLPit is the result of the subjective process of bank manager's discretion which is influenced by opportunistic motives which are proxied by net income, signaling motives which are proxied by loans to deposit ratio, capital regulation motive which is proxied by a capital adequacy ratio.

Figure 4
Aggregate Sample Regression Analysis Results

Variable	Aggregate Samples		
	Coefficient	Prob	Sig
Constant	24.05	0.000	
NI	0.364	0.000	**
LDR	- 0.023	0.708	
CAR	0.099	0.009	**
Test of Suitability of the Regression Model			
Adj. R ²	0.073		
F-Test	14.495	0.000	***
N	248		

*** significant at $\alpha = 1$ persen; ** $\alpha = 5$ persen; * $\alpha = 10$ persen

The value of the Simultaneous Influence Test (F test) shows a result of 14,495 which means that the opportunistic motive, signaling motive and capital regulation motive variables together influence the allowance for possible losses on earning assets. This equation gives an adjusted R² value of 0.073 which means that LLP variability can be explained by the variability of opportunistic motive, signaling motive and capital regulation motive variables by 7.3 percent and 97 percent is explained by other variables not included in the model (Ghozali, 2005).

Hypothesis 1

The regression results produce a positive net income coefficient (+0.364). The probability value is 0.000, which means opportunistic motive has a significant effect on the allowance for earning assets losses at a significance level of 1 percent. These results indicate that the first hypothesis that opportunistic motive

has a negative and significant effect on loan loss provision (H1) is rejected.

Hypothesis 2

The regression results produce a negative coefficient of loan to deposit ratio (-0.023). The probability value is 0.708 which means that signaling motive has no significant effect on the allowance for earning assets losses. These results indicate that the second hypothesis, signaling motive, has a negative and significant effect on the allowance for earning assets (H2) is rejected.

Hypothesis 3

The regression results produce a positive capital adequacy ratio coefficient (+0.099). The probability value is 0.099 which means that capital regulation motive has a significant effect on the allowance for earning assets losses. These results indicate that the third hypothesis namely capital regulation motive has a positive and significant effect on the allowance for earning assets losses (H3) is accepted.

The results of testing the first model (1) using an aggregate sample shows the coefficient of each proxy of 0.364; -0.0231; and 0.099 and the probability values are 0.000, 0.708 and 0.099, therefore only one hypothesis is proven to be statistically accepted. In addition, the result of Adjusted R2 is quite low at 0.073 so that it encourages testing with model (2) which uses samples grouped by type of ownership to get a better Adjusted R2 result.

Research Hypothesis Testing Based on Sample Groups

The sample grouping is distinguished based on the type of ownership of the diversity bank (homogeneity) of the sample and to see the gradation between banks based on the type of ownership more clearly.

Figure 5
Regression Analysis Results by Type of Ownership

Variable	Coefficient	Prob	Sig
Constant	2.784	0.000	**
NI	-0.230	0.016	**
LDR	-0.134	0.280	
CAR	-0.375	0.002	**
T1	-0.555	0.001	**
T2	-0.473	0.071	*
T3	-0.996	0.997	
T4	0.002	0.001	**
Variable	Coefficient	Prob	Sig
T1*NI	-0.130	0.257	
T1*LDR	-0.369	0.046	**
T1*CAR	0.424	0.003	**
T2*NI	0.293	0.770	
T2* L DR	0.027	0.889	
T2* CAR	0.180	0.300	
T3*NI	0.139	0.198	
T3* LDR	0.186	0.453	
T3* CAR	0.654	0.000	**
T4*NI	0.434	0.002	**
T4*L DR	-0.156	0.610	
T4*CAR	-0.094	0.810	
Test of Suitability of the Regression Model			

Adj. R ²	0.428		
F-Test	10.287	0.000	**
N	248		

The results of testing the model for equation (2) in Figure 10 show the results of the Simultaneous Effect Test (F-test) of 10,287 and probability 0,000, which means the interaction between types of ownership with net income, loan to deposit ratio, and capital adequacy ratio together affect the allowance for possible losses on earning assets. This equation gives an adjusted R2 of 0.428 which means that the variability in allowance for earning assets can be explained by the variability of net income, loan to deposit ratio, capital adequacy ratio and type of ownership by 42.8 percent while 57.2 percent is explained by other variables. The value of the Adjusted R2 model 2 (0.428) is greater than the value of the Adjusted R2 model 1 (0.073) which means that the type of ownership is indeed a moderating variable in net income, loan to deposit ratio, and capital adequacy ratio to allowance for earning assets losses (Ghozali, 2005).

Hypothesis 4A

The results of regression of ownership type moderating the effect of opportunistic motives on the allowance for earning assets losses have shown mixed results. The regression results for the type of ownership in a mixed bank (T1) produce a negative coefficient (-0.130) and have a non-significant probability value (0.257). Regression results on private banks closed (T2) produce positive coefficients (+ 0.293) and have a non-significant probability value (0.770). Regression results on public private banks produce positive coefficients (+0.139) and have a non-significant probability value (0.198). Regression results at state banks (T4) show positive coefficients (+0.434) and have a significant probability value (0.002). Thus, the type of ownership moderates the influence of opportunistic motives on the allowance for earning assets losses evident in state banks. These results indicate that hypothesis 4A, namely the type of ownership moderating the effect of opportunistic motives on LPP is accepted.

Hypothesis 4B

The results of the regression type of ownership moderate the effect of signaling motives on the allowance for possible losses on earning assets show mixed results. Regression results on mixed banks produce a negative coefficient (-0.369) and have a significant probability value (0.046). Regression results of the type of ownership in a closed private bank moderate the effect of signaling motive on the allowance for earning assets losses resulting in a positive coefficient (+0.027) and have a non-significant probability value (0.889).

Regression results for the type of ownership in a public private bank (T3) produce a positive coefficient (+0.186) and have a non-significant probability value (0.453). The results of regression of ownership types in state banks (T4) produce negative coefficients (-0.156) and have insignificant probability values (0.610). Thus, the type of ownership moderates the effect of signaling motives on the allowance for earning assets losses evident in mixed banks. These results indicate that hypothesis 4B, which is the type of ownership moderating the effect of signaling motive on LLP is accepted.

Hypothesis 4C

The results of the type of ownership regression moderating the effect of capital regulation motive on the allowance for possible losses on productive assets show mixed results. Regression results on mixed banks produce positive coefficients (+0.424) and have a significant probability value (0.003). The results of the regression type of ownership in private banks produce a positive coefficient (+0.180) and have a non-significant probability value (0.300).

The results of type regressions on public private banks produce positive coefficients (+0.654) and have a significant probability value (0,000). The results of regression of ownership types in state

banks (T4) produce a negative coefficient (-0.094) and have a non-significant probability value (0.810). Thus, the type of ownership moderates the effect of capital regulation motives on the allowance for earning assets losses in joint venture banks and public private banks. These results indicate that the hypothesis 4C that the type of ownership moderating the effect of capital regulation motive on LLP is accepted.

CONCLUSION

The results of this study provide additional evidence that the type of ownership moderates the effect of capital regulation motives on the allowance for earning assets losses: The coefficient of variation of the capital adequacy ratio shows positive and significant results in mixed banks and public private companies. The coefficient of variation test for capital adequacy ratio as a proxy for capital regulation motive shows that there is no negative and significant coefficient value for all types of ownership. These results support the use of capital adequacy ratio can be used as a proxy for capital regulation motive.

In general, the results of testing the type of ownership in moderating the influence of opportunistic motive, signaling motive and capital regulation motive on the allowance for the elimination of productive assets confirm the confirmation of Billet, Garfinkel and O'Neal (1998). This indicates the influence of ownership structure affecting the direction of bank policy (Supriyatno, 2006). These results are consistent with the affirmation of La Porta, Lopez-de-Silanes et al. (1996) which states that for countries that use (French civil law) like Indonesia, ownership structures tend to lead to concentrated structures. In addition, the results of this study confirm the research of McConnell and Servaes (1990) which states that the majority ownership by family, foreign (domestic), state institutions has a significant influence on the behavior of bank managers.

The results of empirical research on the effect of opportunistic motive, signaling motive, capital regulation motive and type of ownership on the allowance for bank earning assets can be explained by agency theory. However, there is a more complex dimension of principal-agent problems in the banking industry that does not exist in the non-financial industry, so it must be supported by other theories (Eisenhardt, 1989). In addition, the existence of regulatory factors as a reflection of public interests, a market monitoring mechanism is also needed as one mechanism in order to discipline bank behavior.

References

- Aggarwal, Jacques and Rice. 2002. "Earnings Management During Distinct Phases of Capital Demand: Evidence from Japanese Banks". *Working Paper*. University of Hawaii. pp. 1-32.
- Ahmed, Takeda and Thomas. 1999. "Bank Loan Loss Provisions: a Reexamination of Capital Management, Earnings Management and Signaling Effects". *Journal of Accounting and Economics*. No 28. pp.1-40.
- Allen, Franklin and Gotesman. 2004. "The Information Content of Quarterly Earnings in Syndicated Bank Loan Prices". *Working Paper*. University of New York. pp. 1-63.
- Allen, Linda. 1992. "Bank Window Dressing: Theory and Evidence", *Journal of Banking and Finance*. No. 16. pp. 585-623.
- Amat, O. Gowthorp, C. and Perramon, J. 2006. "Manipulation of Earnings Reports in Spain-Some Evidence". *Working Paper*. <http://www.papers.ssrn.com>. pp.1-22.
- Barth, J. Caprio, G. and Levine, R. 2001. "Banking Systems Around the Globe: Do Regulation and Ownership Affect Performance and Stability". In: F. Mishkin, Editor. *Prudential Supervision: What Works and What Doesn't*. National Bureau of Economic Research and University of Chicago Press.
- Barth, J. Caprio, G. and Levine, R. 2001. "Bank Regulation and Supervision: What Works Best?". *Working Paper*. World Bank. pp. 1-65
- Barth, Nolle, Phumiwasana, and Yago. 2002. "A Cross-Country Analysis of the Bank Supervisory Framework and Bank Performance". *Paper. The 77th Annual Conference of the Western Economic Association International*. Seattle. Washington. (June 29 – July 3). pp. 1-61.
- Bartov, E. and Gul, F. 2000. "Discretionary-Accruals Models and Audit Qualifications". *Paper*. The Ninth Annual Conference on Financial Economics and Accounting. Penn State, the University of Rochester. pp.1-41.
- Bastian dan Suhardjono. 2006. "Akuntansi Perbankan". Buku 1 dan 2. Salemba Empat.

- Beattie, Casson, Dale, McKenzie, Sutcliffe and Turner. 1995. *Bank and Bad Debt: Accounting for Loan Losses in International Banking*. John Wiley and Sons.
- Beatty, Anne. 2006. "Do Accounting Changes Affect The Economic Behaviour of Financial Firms?". *BIS Working Paper*. Bank For International Settlements. No. 209. pp.1-23.
- Beatty, Anne. 1993. "Managing Financial Reports of Commercial Banks, The Influence of Taxes, Regulatory Capital and Earnings". *Working Paper*. [Http://www.papers.ssrn.com](http://www.papers.ssrn.com). pp. 1-66.
- Beaver, Eger, Ryan and Wolfson. 1989. "Financial Reporting, Supplemental Disclosures, and Bank Share Prices". *Journal of Accounting Research*. Vol. 27. No. 2. Autumn. pp.157-178.
- Beaver and Engel. 1996. "Discretionary Behavior with Respect to Allowance for Loan Losses and the Behavior of Securities Prices". *Journal of Accounting and Economics*. pp. 177-206.
- Beneish, Mesood. 2001. "Earnings Management: A Perspective". *Working Paper*. The Kelley School of Business. Indiana University. pp.1-16.
- Berger, A. Bonime, S. Covitz, D. and Hancock, D. 1999. "Why Are Bank Profits So Persistent? The Roles of Product Market Competition, Information Opacity, and Regional/Macro Economic Shocks. *Working Paper*. [Http://www.papers.ssrn.com](http://www.papers.ssrn.com). pp. 1-37.
- Bertrand, R. 2000. "Capital Requirement and Bank Behaviour: Empirical Evidence for Switzerland". *Working Paper of Swiss National Bank*.
- Bikker, J. and Metzmakers, P. 2002. "Bank Provisioning Behaviour and Procyclicality". *Working Paper*. De Nederlandsche Bank. pp. 1-21.
- Burkart, Gromb and Panunzi. 1997. "Large Shareholders, Monitoring and Fiduciary Duty". *Quarterly Journal of Economics*. pp. 1-20.
- Chen, Lin, and Zhou. 2005. "Audit Quality and Earnings Management for Taiwan IPO Firms". *Managerial Auditing Journal*. Vol. 20. No.1. pp.86-104.
- Christensen, Demski and Frimor. 2002. "Accounting Policies in Agencies with Moral Hazard and Renegotiation". *Journal of Accounting Research*. Vol.40. No.4. pp. 1071-1090.
- Christie. 1994. "Efficient and Opportunistic of Accounting Procedures: Corporate Control Contest". *The Accounting Review*. Vol. 69. pp. 539-566.
- Clement Chiahemba Ajekwe, Adzor Ibiameke, and Maria Fagson Silas. 2017. "Loan Loss Provisions, Earnings Smoothing and Capital Management Under IFRS: The Case of Deposit Money Banks in Nigeria". *American Journal of Management Science and Engineering*. Vol 2 (4) 58 – 64.
- Cohen, D. Dey, A. and Lys, T. 2005. "Trends in Earnings Management and Informativeness of Earnings Announcements in the Pre- and Post-Sarbanes Oxley Periods". *Working Paper*. Leventhal School of Accounting, Marshall School of Business University of Southern California and Kellogg School of Management Northwestern University. pp.1-44.
- Collins. 1995. "Bank Differences of the Coordination of Regulatory Capital, Earnings and Taxes". *Journal of Accounting Research*. Vol. 33. pp. 263-292.
- Dechow, Sloan and Sweeney. 1996. "Causes and Consequences of Earnings Manipulation: an Analysis of Firms Subject Actions by the SEC". *Contemporary Accounting Research*. Spring. Vol. 13. pp.1-36.
- Defond and Jiambalvo. 1994. "Debt Covenant and Manipulation of Accruals". *Journal of Accounting and Economics*. Vol. 17. pp. 145-176.
- Defond and Park. 1997. "Smoothing Income in Anticipation of Future Earnings". *Journal of Accounting and Economics*. Vol. 23. pp. 115-139.
- Demsetz, H. and Lehn, K. 1985. "The Structure of Corporate Ownership: Causes and Consequences". *Journal of Political Economy*. Vol. 93. No. 6. pp.1155-1177.
- Dewatripont, Mathias, and Tirole, J. 1994. "The Prudential Regulation of Banks". *Working Paper*. The MIT Press. pp.1-40.
- Docking, D. S. Hirschey, M. and Jones, E. 2000. "Reaction of Bank Stock Prices to Loan-Loss Reserve Announcements". *Review of Quantitative Finance and Accounting*. Vol. 15. No. 3. pp. 277-298.
- Dye, R. A. 1988. "Earnings Management in a Overlapping Generations Model". *Journal of Accounting Research*. (Autumn). pp.195-235.
- Eisenhardt, Kathleen. 1989. "Agency Theory: An Assessment and Review". *Academy of Management Review*. Jan. 14. 1. pp. 57-75.
- Fok, R. Chang, Y, and Lee, W. 2004. "Bank Relationship and Their Effects on Firm Performance Around the Asian Financial Crisis: Evidence from Taiwan". *Financial Management*. Vol. 33. No. 2. pp. 89-112.

- Ford, G. and Weston, R. 2000. "Capital Requirement and Bank Performance: a Regional Analysis". *Working Paper*. Macquarie University. pp. 1-16.
- Fischer, P. and Stocken, P. 2004. "Effect of Investor Speculation on Earnings Management". *Journal of Accounting Research*. Vol.12. No.5. pp. 843-870.
- Francis, J. Hanna, and Vincent. 1996. "Causes and Effects of Discretionary Asset Write-Offs". *Journal of Accounting Research*. Vol. 31. pp. 117-134.
- Fudenberg and Tirole. 1995. "A Theory of Income and Dividend Smoothing Based on Incumbency Rents". *Journal of Political Economy*. Vol. 103. NO. 1. pp. 75-93.
- Galai, Sulganik and Wiener. 2003. "Accounting Value versus Market Value and Earnings Management in Banks". *Working Paper*. Hebrew University. pp.1-25.
- Gennote, Gerard and Pyle, David. 1990. "Capital Control and Bank Risk". *Research Program in Finance Working Paper RPF*. No. 197. University of California. Berkeley. pp.1-34.
- Ghozali, Imam. 2005. *Analisis Multivariate Lanjutan dengan Program SPSS*. Penerbit Universitas Diponegoro. Semarang.
- Goddard, J. Molyneux, and Wilson, J. 2004. "The Profitability of European Banks: A Cross-Sectional and Dynamic Panel Analysis". *The Manchester School*. Vol. 72 No.3. Blackwell Publishing Ltd and The Victoria University of Manchester. pp. 363-381.
- Gray, Robert. 2004. "Methodology for Calculating the Allowance for Loan Losses in Commercial Banks". *Abacus*. Vol. 40. No. 3. pp. 321-341.
- Guay, Kothari and Watts. 1996. "A Market-Based Evaluation of Discretionary Accrual Models". *Journal of Accounting Research*. Vol. 34. Supplement. pp. 83-115.
- Hasan, and Wall. 2003. "Determinant of Loan Loss Allowance: Some Cross-Country Comparisons". *Working Paper*. [Http://www.papers.ssrn.com](http://www.papers.ssrn.com). pp.1-35.
- Hatfield and Lancaster. 2000. "The Signalling Effects of Bank Loan-Loss Reserve Additions". *Journal of Financial and Strategic Decisions*. Vol. 13. No. 1. Spring, pp. 57-73.
- Healy, S, Kang and Palepu. 1987. "The Effects of Accounting Procedure Changes on CEO's Cash Salary and Bonus Compensation". *Journal of Accounting and Economics*. Vol. 9. No. 1. pp. 7-34.
- Healy and Wahlen. 1999. "A Review of Earning Management Literature and Its Implications for Standard Setting". *Accounting Horizons*. Vol. 13. No. 4. pp. 365-383.
- Henry, Theresa F. and Holtzman, Mark P. 2006. "Critical Accounting Policy Disclosures for Financial Institutions". *Bank Accounting and Finance*. April-May. pp.14-27.
- Himmelberg, C. Hubbard, G. and Palia, D. 1999. "Understanding the Determinants of Managerial Ownership and the Link between Ownership and Performance". *Journal of Financial Economics* 53. pp. 353-384.
- Hodder, Kohlbeck, and McAnally. 2002, "Accounting Choice and Risk Management: SFAS 115 and US Bank Holding Companies". *Working Paper*. [Http://www.papers.ssrn.com](http://www.papers.ssrn.com). pp.1-44.
- Holderness, C. 2003. "A Survey of Blockholders and Corporate Control", *Economic Policy Review*. Vol. 9. No. 1. pp. 51-63.
- Houlthausen, Lacker dan Sloan. 1995. "Annual Bonus Schemes and the Manipulation of Earnings". *Journal of Accounting and Economics*. Vol.19. pp. 29-74.
- Huang, Chang, and Yu. 2006. "A Comprehensive Study on Information Asymetry Phenomenon of Agency Relationship in the Banking Industry". *The Journal of American Academy of Business*. Vol. 8. No.1. pp. 91-97.
- Indriyani, Yohana (2010). Pengaruh Kualitas Auditor, *Corporate Governance, Leverage, dan Kinerja Keuangan Terhadap Manajemen Laba*. Semarang: Fakultas Ekonomi Universitas Diponegoro.
- Jensen, M. and Meckling, W. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure". *Journal of Financial Economy* 3. pp. 305-360.
- Kanagaretnam, Lobo, and Mathieu. 2003. "Managerial Incentives for Income Smoothing through Bank Loan Loss Provisions". *Review of Quantitative Finance and Accounting*. Vol. 20. No. 1. pp.1-29.
- Kanagaretnam, Lobo, and Mathieu. 2004a. "Earnings Management to Reduce Earnings Variability: Evidence from Bank Loan Loss Provisions". *Review of Quantitative Finance and Accounting*. Vol. 3. No. 1. pp. 25-49.
- Kanagaretnam, Lobo, and Mathieu. 2004b. "Joint Tests of Signaling and Income Smoothing through Bank Loan Losses Provisions". *Contemporary Accounting Research*. Winter. Vol. 21. No. 4. pp. 843-884.
- Kartika, Nurshadrina & Dwi Astuti, Diana. 2015. Faktor yang mempengaruhi manajemen laba pada sektor perbankan Indonesia. *Journal of Business & Banking*. 5. 95.10.14414/jbb.v5i1.475.

- Koumanakos, Siripoulos and Georgopoulos. 2005. "Firm Acquisitions and Earnings Management: Evidence from Greece". *Managerial Auditing Journal*. Vol. 20. No. 7. pp. 663-678.
- Laeven and Majnoni. 2002. "Loan Loss Provisioning and Economic Slowdowns: Too Much, Too Late?". *Working Paper*. [Http://www.papers.ssrn.com](http://www.papers.ssrn.com). pp.1-21.
- Landsman, Wayne. 2006. "Fair Value Accounting for Financial Instruments: Some Implications for Bank Regulation". *BIS Working Paper*. Bank For International Settlements. No. 209. pp.1-14.
- Lobo, G. and Yang. 2001. "Bank Managers' Heterogeneous decisions on Discretionary Loan Losses Provisions". *Review of Quantitative Finance and Accounting*. Vol. 16. No. 3. pp. 223-250.
- Macey and O'Hara. 2003. "The Corporate Governance of Banks". *Federal reserve Banks Policy Review*. Vol. 9. No. 1.
- Mensah. M. Nguyen, H. and Prattipati, S. 2006. "Transparency in Financial Statements: A Conceptual Framework from a User Perspective". *The Journal of American Academy of Business*. Vol. 9. No. 1. University of Scranton. Scranton. pp. 47-51.
- Peraturan Bank Indonesia. 2012. Penilaian Kualitas Aset Bank Umum. Nomer 14/15/PBI/2012.
- Pinteris, George. 2002. "Agency Costs, Ownership Structure and Performance". *Working Paper*. University of Illinois. pp.1-29.
- Podder and Ashraf Al Mamun. 2004. "Loan Loss Provisioning System in Bangladesh Banking; a Critical Analysis". *Managerial Auditing Journal*. Vol. 19. No.6. pp.729-740.
- Rahmawati. 2006. "Pengaruh Asimetri Informasi pada Hubungan Antara Regulasi Perbankan dan Manajemen Laba serta dampaknya terhadap kinerja saham: Studi Empiris pada Industri Perbankan di Indonesia. Disertasi Universitas Gadjah Mada.
- Rees, L. Gill, S. and Gore, R. 1996. "An Investigation of Asset Write-Downs and Concurrent Abnormal Accruals". *Journal of Accounting Research*. Vol. 34. Supplement. pp. 157-169.
- Richardson, Vernon. 1998. "Information Asymmetry and Earnings Management: Some Evidence". *Working Paper*. University of Kansas. pp.1-40.
- Robb, Sean, W. G. 1998. "The Effect of Analysts' Forecasts on Earnings Management in Financial Institutions". *The Journal of Financial Research*. Vol. 11. No.3. Fall. pp.315-331.
- Spathis, Charalambos. 2002. "Detecting False Financial Statements Using Published Data: Some Evidence From Greece". *Managerial Auditing Journal*. Vol.17. No. 4. pp.179-191.
- Spohr, Jonas. 2005. "Essay on Earnings Management". *Working Paper*. [Http://www.papers.ssrn.com](http://www.papers.ssrn.com). pp.1-45.
- Stolowy, Breton. 2004. "Accounts Manipulation: a Literature Review and Proposed Conceptual Framework". *Review of Accounting dan Finance*. Vol. 3. No. 1. pp. 5-19.
- Subramanyam. 1996. "The Pricing of Discretionary Accruals". *Journal of Accounting and Economics*. Vol. 22. pp. 249-281.
- Sulistyanto, Sri (2008). *Manajemen Laba:Teori dan Model Empiris*. Jakarta: PT. Grasindo.
- Sulistyawan, Dedhy, Yeni Yanuarsi, dan Liza Alvia (2011). *Creative Accounting*. Jakarta: Salemba Empat.
- Santoso, A. (2003). *Indikasi Praktik Pengelolaan Laba dan Faktor-faktor yang Mempengaruhinya (Studi Empiris pada Sektor Perbankan Sebelum Krisis Perbankan Nasional)*. Tugas Akhir. Program Magister Akuntansi Fakultas Ekonomi Universitas Indonesia, Jakarta.
- Sweeney, A. 1994. "Debt Covenant Violations and Managers Accounting Respons". *Journal Accounting and Economics*. Vol. 22. pp. 249-281.
- Tobing, Winson R.L. dan Nur Ika Anggorowati (2009). *Perataan Laba Melalui Penyisihan Penghapusan Aktiva Produktif (PPAP) Sektor Perbankan*. *Jurnal Akuntabilitas*. Vol. 9, No. 1, September 2009, h 50-62.
- Wahlen, James. 1994. "The Nature of Information in Commercial bank Loan Loss Disclosures". *The Accounting Review*. Vol.69. pp.1-39.
- Wall, L. and Koch T. 2000. "Bank Loan-Loss Accounting: a Review of Theoretical and Empirical Evidence". *Economic Review*. Quarter 2. Federal Reserve of Atlanta. pp. 20-38.
- Watts, and Zimmerman. 1978. *Positive Accounting Theory*. Prentice Hall Englewood Cliffs. New Jersey.
- Went, Peter. 2002. "Risk Agency Problems in Commercial Banks". *Working Paper*. pp.1-33.
- Wilson, Peter. 1996. "Discussion Write-Offs: Manipulation or Impairment?". *Journal of Accounting Research*. Vol. 34. Supplement. pp. 171-177.
- Yudistira, Donsyah. 2003. "The Impact of Bank Capital Requirement in Indonesia". *Working Paper*. [Http://www.papers.ssrn.com](http://www.papers.ssrn.com). pp. 1-23.
- Zahara Zahara, Sylvia Veronica Siregar (2009). *Pengaruh Rasio Camel terhadap Praktik Manajemen Laba di Bank Syari'ah*. *The Indonesian Journal of Accounting Research*. Vol. 12, No. 2.