The Determinants of Bank Stability: An Empirical Investigation in Southeast Asia

Determinan Stabilitas Bank: Investigasi Empiris di Asia Tenggara

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ABSTRACT

This research aimed to examine the effect of institutional quality, financing growth, and earnings management on the stability of Islamic banks in Southeast Asia for the 2014-2021 period. The sampling technique used was purposive sampling and received 11 Islamic commercial banks from Brunei Darussalam, Indonesia, and Malaysia. Data sources were obtained from each bank's financial statements and the World Bank's statements. The analysis method used was panel data regression analysis with Eviews 12 software. The results showed that the quality of institutions and the growth of financing had a significant effect on the stability of banks proxied by the Z-Score. The quality of institutions has a positive influence, while the growth of financing has a negative effect on banks' stability. Furthermore, the variables of earnings management have no significant impact on the stability of the bank. This research was limited to a sample of countries in Southeast Asia, so it is expected to be a reference for improving the quality of institutions to support banking performance. The implications of this study are expected to be an evaluation for banks to pay more attention to their policies in financing expansion and improve the quality of financial statements to minimize earnings management practices whose existence does not affect bank stability.

Keywords: Bank stability, institutional quality, banking performance, financing

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh kualitas institusi, pertumbuhan pembiayaan dan manajemen laba terhadap stabilitas bank syariah di Asia Tenggara periode 2014-2021. Teknik pengambilan sampel menggunakan metode purposive sampling dan diperoleh 11 bank umum syariah dari negara Brunei Darussalam, Indonesia dan Malaysia. Sumber data diperoleh dari laporan keuangan masing-masing perbankan dan laporan World Bank. Metode analisis yang digunakan ialah analisis regresi data panel dengan software Eviews 12. Hasil penelitian menunjukkan bahwa kualitas institusi dan pertumbuhan pembiayaan berpengaruh secara signifikan pada stabilitas bank yang diproksikan dengan Z-Score. Kualitas institusi memiliki pengaruh yang positif sedangkan pertumbuhan pembiayaan berpengaruh negatif pada stabilitas bank. Selanjutnya, variabel manajemen laba tidak berpengaruh secara signifikan pada stabilitas bank. Penelitian ini terbatas pada sampel negara di Asia Tenggara, sehingga diharapkan dapat menjadi referensi dalam meningkatkan kualitas institusi untuk menunjang kinerja perbankan. Implikasi dari penelitian ini diharapkan dapat menjadi evaluasi bagi perbankan untuk lebih memperhatikan kebijakannya dalam ekspansi pembiayaan dan meningkatkan kualitas laporan keuangan guna meminimalisir praktik manajemen laba yang keberadaanya tidak mempengaruhi stabilitas bank.

Kata Kunci: Stabilitas Bank, Kualitas Institusi, Kinerja Perbankan, Pembiayaan

I. INTRODUCTION

The Islamic finance industry in Asia is showing substantial growth, considering that the region has more than 60% of the world's Muslim population, this number is increasing especially in Southeast Asia (Komijani & Taghizadeh-Hesary, 2018). The acceleration of Muslim population growth has increased the popularity of Islamic finance as an alternative to choosing financial institutions according to their religious beliefs (Nabela & Thamrin, 2022). This situation gives Islamic banking a broad market to sell its products. On the other hand, a wide market share can grow profitability, and make the company more stable. Then, a country with good institutional quality, supported by the ease of doing business can support company performance. Therefore, this study aimed to determine the influence of institutional quality, financing growth, and earnings management on the stability of Islamic banks in Southeast Asia.

According to Rama (2015), Southeast Asia is developing its Islamic financial industry to become a global center for Islamic banking and finance. Currently, the Islamic financial industry in Southeast Asia ranks second after the Gulf Cooperation Council (GCC). Furthermore, the total assets of Islamic banking assets in the region have been increasing, particularly during 2019-2021. In 2020, Islamic banking assets grew by 7.3% compared to 2019, reaching $250.2 billion. Then in 2021, it grew by 11.35% bringing its value to $287.5 billion. Although asset growth conditions are increasing and supported by a large Muslim population, currently when viewed from its total assets, Southeast Asia's Islamic banking contribution to the world is less than 50% (IFSI, 2022). This phenomenon is interesting because the number of assets owned can maintain bank stability conditions.

Bank stability is the state of banking institutions that carry out intermediary functions well and avoid financial distress (D. Sari & Indrarini, 2020). Banks that are of good institutional quality will cause optimal company performance which impacts banking stability. The movement of bank stability is closely related to global issues such as the financial crisis which can cause economic instability (Wahyuningsih, 2017). Some literature shows that when there is a crisis, banking institutions will experience vulnerability if they are not supervised, and vice versa, efficient and profitable banking institutions will be more stable (Pradhan et al., 2016). Banking institutions are the core of the economic component of a country (Baum et al., 2021). Therefore, several researchers have examined the stability of banks. However, the results showed that bank stability is not only influenced by internal banking factors but also influenced by government governance, institutional environment, regulatory strictness, and lack of supervision, as well as economic uncertainty (Fang et al., 2014; Gaganis et al., 2020; Killins et al., 2020; Shabir et al., 2021; Wu et al., 2020).

Countries with high-quality institutions can formulate policies more effectively than countries with low institutional quality values. We use the Ease of Doing Business (EoDB) indicator to represent the actualization of institutional quality to bank stability. In 2020 the Southeast Asia region had an average EoDB value of 67.15 (Schaper, 2020). The EoDB score is in the range of 0-100, a value of 0 means it has the lowest performance and the 100 best performance. A suspension of 67.15 means that the Southeast Asian region is 32.85 points away from the best score or is in a moderate position. A country with a high EoDB value has the opportunity to carry out more excellent financial activities (Puspitasari & Purwanti, 2021). This means that the increasing importance of institutional quality strengthens the high value of EoDB and can support companies, including banking institutions in improving their performance. This happens because a new business can stimulate the growth of the banking industry after all, new companies need an injection of funds for capital.

Some literature suggests that internal and external factors influence the stability of banks. Internally, management behavior is required to make decisions carefully. External economic uncertainty can reduce financing demand, lower profitability, stock prices, and bank valuations (He & Niu, 2018). In addition, unstable cash flow increases the amount of financing, resulting in a high risk of default that can cause the company to be under pressure (Kahle & Stulz, 2013).

Financing has a large contribution to bank income, the higher the financing channeled, the more the bank's income will increase (Prasastinah Usanti, 2019). However, abnormal financing can endanger banks because they risk default or customers cannot pay off their obligations. This caused the company's profit to decline. In fact, profit is a benchmark for investors in assessing the company's performance (Prayogi, 2022). Information about profit is obtained from the financial statements presented by the company so that profits are also used as a reflection for investors to find out whether the company is in a risky condition or not. Managers use this situation to reduce or add profits to create a good image

from external parties (Musofwan & Widyaningsih, 2022). The behavior carried out by the manager is called earnings management. So it can be concluded that banks with improper earnings management will impact banking operations. On the other hand, profit-oriented institutions will be more likely to absorb adverse shocks that can cause the banking system to be unstable (Wulandari, 2014).

Currently, there is no research that in detail describes how government institutions manage bank stability. Institutional management is usually measured by the level of effectiveness of banks in channeling and collecting funds. So the idea of the impact of institutional quality on bank stability is relatively new, although many studies have developed the impact of institutional quality on the country's financial stability, few have examined whether institutional quality has an impact on bank stability. Therefore, it is important to clearly describe the relationship between the quality of institutions and stability. Some of the previous literature examined the quality of institutions using conventional bank objects in their research (Muizzuddin et al., 2021; Shabir et al., 2021; Tran et al., 2022). Hence, in this recent study, the authors focused on Islamic banking as an object of research because Islamic banks are known to be more resistant when facing shocks/crises. Furthermore, several recent studies have analyzed the effect of institutional quality and bank stability in improving bank stability (Fang et al., 2014; Moudud-Ul-Huq et al., 2018; Uddin et al., 2020). When there is a shock, a country with good quality institutions can formulate the right policies, and vice versa (Klomp & de Haan, 2014). In addition, economic uncertainty may decrease the demand for financing. Thus, this study added variables of financing growth and earnings management to analyze their effect on bank stability. Finally, this research focused on Islamic banks located in the Southeast Asian region with the latest data sets. The findings in this study were expected to provide a reference in explaining variables that have proven to affect bank stability and become a reference for banks to be more efficient in managing finances and for the government to optimize the quality of institutions to help banking performance.

II. LITERATURE REVIEW
Bank Stability

Banking stability is a mirror of the bank's financial condition. Therefore, banks must always maintain their level of stability. The factors that affect bank stability from macroeconomics are institutional, regulatory and policy, and supervisory factors (Pitasari et al., 2019). According to Lestari & Suprayogi (2020), bank stability is a condition where the bank is in a healthy state and free from financial distress. A bank can be said to be stable by the level of health of the company, which includes the function of the bank as an intermediary running well and the bank having adequate funding mobilization (Fajriani & Sudarmawan, 2022). If these conditions are maintained, the process of money circulation and the transmission mechanism of economic monetary policy, mostly through the banking system, will run well. So, when banks are in a vulnerable state, the effectiveness of the monetary policy will be hampered because banks will be more difficult to respond well to monetary policy.

Several factors affecting the stability of both conventional and Islamic banks are the same, except for the level of income diversification. Income diversification is a combination of net interest income and non-interest income. Islamic banking does not use diversification in determining its stability. This makes Islamic banks more resistant when shocks occur. Bank stability can be calculated using profitability such as Return on Asset (ROA), Return on Equity (ROE), and Z-score (Beck et al., 2013; Fu et al., 2014)

Institutional Quality

Institutions in the narrow sense are the rules that apply in society, while quality is the judgment of something about good or bad. So the quality of institutions is a measure of the good and bad rules that govern social interactions. In the constitutional context, the quality of institutions is the quality of governance in the process of how to select, supervise, and change the government, including the effectiveness of the government in formulating regulations and policies as well as public awareness in applying norms that have been regulated in social and economic activities (Widianatasari & Purwanti, 2021). High-quality institutions are essential for a country to achieve its goals, such as economic growth and improved welfare for its people. The quality of institutions influences the decision-making of economic actors. According to the Worldwide Governance Indicators (WGI), there are 6 indicators of institutional quality, which are voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rules of law, and control of corruption.

The quality of institutions plays an important role in a country's economy. Countries with low

institutional quality values will have weak law enforcement systems and less effective regulations. So, good institutional quality will encourage more effective macroeconomic policies that include banking regulations, for example regarding credit that can reduce credit/default risks (Canh et al., 2021; Lusiana et al., 2022; Phuc Canh, 2018; Thanh et al., 2019). A country with good institutional quality will maintain banking operations which affects bank stability (Muizzuddin et al., 2021; Tran et al., 2022; Uddin et al., 2020). This is because unstable or unpredictable political conditions make it difficult for banks to set their policies to engage in capital investment. It can be said that inadequate institutional factors are a barrier to the growth of banks.

H1: Institutional Quality Affects Bank Stability

Financing Growth

Banking operational activities are the mobilization of deposits of funds from customers and then distribution to parties in need in the form of financing (Khasanah et al., 2021; Maharanie & Herianingrum, 2015). Financing is a funding activity carried out by Islamic banks based on lending and borrowing agreements between financial institutions and supporting parties who are required to pay off their debts within a certain period (Erlindawati, 2017). Meanwhile, financing growth is a change in the increase or decrease in the current amount of financing compared to the previous period. Financing to Islamic banks in profit-sharing transactions, rental rents, buying and selling, loans in the form of cards, and multi-service transactions with *kafala* or *ijarah*. Banks in disbursing financing to customers use 5C + 1S analysis to determine whether the proposed financing is feasible or not to be provided (Rizqya Nur & Septiana Wulandari, 2022). Through this analysis, banks can determine customers' ability to pay installments for the proposed financing (Hamonangan, 2020).

Financing is the main source of bank income, so its existence is important in banking operations (Wijayanti & Mardiana, 2020). Increasing the amount of financing helps expand market share, increase profits, and improve overall banking performance. The greater the financing provided, the more income the bank earns. Dang, (2019); Wijayanti & Mardiana, (2020) showed that financing growth positively impacts bank profitability in both the long and short term. The discovery is linear with Nguyen & Le, (2022) who stated that financing expansion increases profitability and profitability positively impacts bank stability.

H2: Financing Growth Affects Bank Stability

Earnings Management

Earnings management is defined as an action in preparing financial statements to influence the value of the profit presented to achieve specific goals. Another definition stated that earnings management is a deliberate process of regulating profit reporting with the constraints of accounting standards to make it look good in the eyes of readers of financial statements that can harm shareholders and benefits managers (Lestari & Wulandari, 2019; Santana & Wirakusuma, 2016). The earnings management method can be done by changing the accounting method, and the estimates and policies (Kania Paramitha & Idayati, 2020). According to Scoot in Chanifah et al. (2020), there are several motivations for earnings management, including bonus motivation, debt contracts, political motivations, and tax motivations.

Every entity engaged in services and trade certainly has financial statements, and managers have an essential role in the financial recording process (Kibtiah & Reni Cusyana, 2020). Banks as financial institutions should tighten supervision in managing their results, especially Islamic banks that must be transparent in reporting them (Dewi & Sudarmawan, 2022). However, research conducted by (Marliana, 2017; Vania et al., 2018) found earnings management practices in Islamic banking in Malaysia and Indonesia. Therefore, this study tested whether earnings management affects bank stability. Riahi, (2020) in his research stated that earnings management proxied with a high LLP value has an impact on the low stability of banks. Earnings management also influences the value of the company (Abbas, 2018).

H3: Earnings Management Affects Bank Stability

III. RESEARCH METHODS

This research was a quantifiable study that used secondary data. The data collection method was carried out with a literature study from the world governance indicator (WGI) and the financial statements or annual reports of each bank used in this study. This study used the population of all Islamic

banking in Southeast Asia. Then we selected 11 Islamic banks in Southeast Asia that issued financial statements during the 2014-2021 period. The 11 Islamic banks were Sharia Commercial Banks (BUS) with a top 5 ranking based on total assets in countries that contribute to Islamic banking in the world according to the Islamic Financial Services Industry Stability Report (IFSI) 2022 report, namely Indonesia, Malaysia, and Brunei Darussalam. The total assets became a criterion for sample selection because banks with larger total assets tend to be more stable and resistant. The list of Islamic commercial banks sampled is written in table 1 below:

Table 1. Sample List

No.	Bank	Country
1.	Bank Syariah Indonesia	Indonesia
2.	Bank Muamalat	Indonesia
3.	Bank BTPN Syariah	Indonesia
4.	Bank Panin Dubai Syariah	Indonesia
5.	Bank Mega Syariah	Indonesia
6.	CIMB Islamic Bank Berhard	Malaysia
7.	RHB Islamic Bank Berhard	Malaysia
8.	Bank Islam Malaysia Berhard	Malaysia
9.	Public Islamic bank	Malaysia
10.	Ambank Islamic Berhard	Malaysia
11.	Bank Islam Brunei Darussalam	Brunei Darussalam

This study used dependent, independent variables, and control variables. The use of control variables aimed to prevent biased calculation results. The operational definitions of each variable are presented in table 2 as follows:

Table 2. Operational Definition of Variables

Code	Variable	Description
Dependent Variables		
Ln_Zscore	Bank Stability	Natural Logarithm Z-score $= \frac{ROA_{it}+CAR_{it}}{\sigma ROA_{it}}$ ROA is the Return on Asset ratio, CAR is the Capital Adequency Ratio in the period t and σROA_{it} it is the standard deviation from ROA. (Beck et al., 2013; Ajizah & Widarjono, 2023; Uddin et al., 2020)
Independent Variables		
KI	Institutional Quality	Average of 6 Institutional Quality Indicators (Voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rules of law, and control of corruption). The value of each indicator was obtained from the World Governance Indicator (WGI) report found on the World Bank website. (Asteriou et al., 2021; Hou & Wang, 2016; Shabir et al., 2021)
PP	Financing Growth	Financing growth is a change in the current total financing with the previous year's financing. Calculated using formulas : $=\frac{Financing_t - Financing_{t-1}}{Financing_{t-1}} \cdot 100\%$ t = current period/year, t-1 = previous period. (Andhika & Sujana, 2016)
ML	Earnings Management	Calculated using the discretionary accruals formula: $DAC_{it} = \left(\frac{TAC_1}{A,t-1}\right) - NDA_{it}$ DAC : *Discretionary Accrual* TAC : *Total Accrual* At-1 : Total assets of the previous period NDA : *Non Discretionary Accruals* (Abbas, 2018; Azmi & Aprayuda, 2021; Muhammad & Pribadi, 2020)

Control Variables		
ROA	Return on Asset	Return on Asset is a ratio used to measure the ability of a company's assets to generate net profit. $ROA = \frac{Net\ Profit}{Total\ Assets} \times 100$ (Boulanouar et al., 2021)

The data in this study were processed using the statistical software Eviews 12 and analyzed using panel data regression analysis. The technique analyzes data consisting of time series and cross-sections. Before performing a data regression analysis, the panel needed to choose a suitable model. There were three estimation models in panel data regression, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The best model from the three estimates was selected by conducting a Chow test, a Hausman test, and a Lagrange Multiplier test. The Chow test was used to choose between CEM and FEM. The Hausman test was conducted to find out the best model between FEM and REM. The Largrange Multiplier test was used to select between CEM and REM. After choosing the suitable model, the next stage was to analyze the T-test (partial) and the F-test (simultaneously) to determine the influence of independent variables on the dependent variables.

The following is the equation of the regression model in this study:

$Ln\_Zscore_{it} = \alpha + \beta_1 KI_{it} + \beta_2 PP_{it} + \beta_3 ML_{it} + \beta_4 ROA_{it} + e$

Description :

Ln_Zscore_{it} = bank stability; KI_{it} = Institutional Quality; PP = Financing Growth; ML = Earnings Management; ROA = Return on Asset; β1, β2, β3, β4 = constants of the variables KI, PP, ML, and ROA; ε = error term; α = Significance level/ probability value; i =company ; t = period

IV. RESULTS AND DISCUSSION
Descriptive Statistics

Descriptive statistics is an analysis used to describe the data collected in the form of average indigo, standard deviation, maximum value, and minimum value. The descriptive statistics in this study are presented in table 2 as follows:

Table 2. Descriptive Statistics

	KI	PP	ML	ROA	LN_ZCORE
Mean	0.1613	0.1101	-0.0051	0.0138	3.9500
Maximum	0.8175	0.8344	1.1675	0.1358	5.7174
Minimum	-0.2946	-0.3795	-0.4702	-0.1077	-1.8136
Std. Dev.	0.3084	0.1741	0.1669	0.0309	1.2860
Observations	88	88	88	88	88

Table 2 showed that the observation data numbered 88. The institutional quality variable had an average value of 0.1613 with a maximum value of 0.8175, a minimum value of -0.2946, and a standard deviation of 0.3084. The quality value of a good institution was between -2.5 to 2.5. This means that the average value of the institutional quality is in good condition. The minimum value of financing growth was -0.3795 which was Bank Muamalat Indonesia's (BMI) value in 2021. Meanwhile, the maximum value was 0.8344 from Panin Dubai Syariah Bank in 2014. The average value was 0.1101 and the standard coefficient was 0.1741. This indicates that the average value cannot represent the overall financing growth data because the value is less than the standard coefficient. The mean value of Earnings management was -0.5551 and had a standard deviation of 0.1669. This showed that the deviation of the data from the average was large, meaning that the mean value cannot describe the overall data well.

Then, variable return on asset (ROA) had a minimum value of -0.1077 or -10.77% and a maximum value of 0.1358 or 13.58% with an average value of 0.0138 and a standard deviation of 0.0309. The bank's stability dependent variable had a standard deviation of 1.2860 smaller than the average of 3.9500 indicating a small data spread. This meant that the deviation of the data from the average is small, so the average value can represent the real data well.

Panel Data Regression Model Estimation

This study used panel data regression analysis, in which there were three models, namely: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). From the three models, the best model was selected by conducting the Chow, Hausman, and LM tests.

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	107.846083	(10,73)	0.0000
Cross-section Chi-square	242.732799	10	0.0000

The chow test selects a suitable model between the CEM and REM models. The results of the chow test had a probability value smaller than 0.05, which was 0.000, so the null hypothesis is rejected and the model chosen is FEM.

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.906175	4	0.0181

A Hausman test was conducted then to find out the best model between FEM and REM. Table 4 shows a probability value of 0.0181 smaller than 0.05 meaning that the null hypothesis is rejected and the conclusion is that the FEM model is better. Because the chosen one is the FEM model, there is no need to do an LM test.

The next step was to test the structure of the residual variances of the selected model using the glejser test. The probability value indicates a variable whose value is less than the critical value or 0.05 which means that the structure of the residual variances is subject to heteroskedastic problems. The second stage is to test whether there is a correlation between the disruptor error in the t period and the previous period using the Durbin Watson value. The results showed that the Durbin Watson value was smaller than dL or d<dL, which was 1.482<1.5356, meaning there was a positive autocorrelation in the regression model. So, this study used cross-section SUR (PCSE) in the FEM cross-section weight estimator (Ardiansyah et al., 2020; Religi & Purwanti, 2017).

Test Classical Assumptions

Normality Test

Table 5. Normality Test Results

Jarque Bera	3.323371
Probability	0.189819

To test the normality, this recent study used the Jarque Berra test. If the probability value exceeds the significance value (0.05) then the data is normally distributed. On the other hand, if the indigo is less than 0.05 then the data is not normally distributed. The normality test results showed a probability value of 0.1898. The value was greater than the indigo of significance. In conclusion, the data in this study are normally distributed.

Multicollinearity Test

Table 6. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.020995	1.879158	NA
KI	0.122346	1.315183	1.030071
PP	0.482615	1.819597	1.295844
ML	0.479868	1.184206	1.183046
ROA	0.001350	1.378047	1.147028

The results of the analysis showed that the value of the VIF did not exceed 10 or VIF<10. So it can be concluded that the regression model does not contract the problem of multicollinearity between independent variables.

Hypothesis Proof

The following are the results of panel data regression estimates using a fixed effect model with cross-section SUR (PCSE) with the number of observations of 11 Islamic banks in Southeast Asia during the 2014-2021 period.

Table 7. Panel Data Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.720331	0.033038	112.6085	0.0000
KI	0.617662	0.216466	2.853386	0.0056
PP	-0.293298	0.100558	-2.916714	0.0047

ML	0.076289	0.107690	0.708409	0.4809
ROA	0.117697	0.017244	6.825210	0.0000

Table 6 shows the following results: First, the institutional quality had a coefficient value of 0.6176 with a significance value of 0.0056 < 0.05. The significance value is less than 5% and the result of the calculated value is positive, meaning that the institutional quality has a significant effect on the bank's stability in a positive direction. So it can be concluded that hypothesis one is accepted. Secondly, financing growth showed a negative positive coefficient value of -0.2932 and a probability value of 0.0047. indigo probability less than significance value 0.05, the conclusion of which the second hypothesis is accepted in which financing growth affects the stability of banks in a negative direction. Third, earnings management had a coefficient value of 0.0762 and a probability value of 0.4809. The probability value was greater than the significance value of 5% or 0.04809>0.05. This means that the third hypothesis is rejected and the null hypothesis is accepted, that earnings management has no significant effect on the bank's stability. Fourth, ROA showed the value of the coefficient 0.1176 with a probability value of 0.000 < 0.05. The probability value was greater than the significance value of 5%. The conclusion that can be drawn is that the ROA control variable has a significant effect on bank stability.

Table 8. Coefficient of Determination Test Results

R-squared	0.986206
Adjusted R-squared	0.983560

Based on table 7, it can be seen that the value of R-Squared was 0.9862, this indicates that the ability of the independent variable to explain the dependent variable is 98%, and the remaining 1.4% is explained by other variables outside this study.

Effect of Institutional Quality on Bank Stability

This study used the average value of 6 institutional quality indicators to measure their effect on bank stability. Empirical findings indicate that the coefficient of KI on Ln_Zscore is significantly positive. This suggests that the stability of banks is highly influenced by institutional quality. Based on data from the World Bank, Indonesia experienced a surge in its EoDB ranking from 91 in 2016 to 66 in 2020. This phenomenon indicates the ease of doing business in the country, which is supported by a series of government policies and good governance. This encourages industries to develop their businesses, which has the potential to contribute to the development of the banking industry and ultimately promote bank stability through profitability. Meanwhile, countries like Malaysia and Brunei Darussalam are not only supported by EoDB rankings, but also have better scores in political stability and absence, government effectiveness, regulatory quality, rule of law, and control of corruption when compared to Indonesia. An unstable political situation can hinder banks from establishing their policies. In addition, Ali et al., (2019) stated that corruption negatively affects the quality of banking assets. Therefore, corruption control measures are needed to maintain banking conditions. This statement is to the results of this study, which shows that corruption control affects banking stability.

The results of this study are in line with (Muizzuddin et al., 2021; Tran et al., 2022; Uddin et al., 2020) who revealed that the quality of institutions has a positive influence on bank stability. Thus, good quality institutions can help banks in improving their performance. In addition, high institutional quality can reduce customer moral hazard through the force of law and effective law enforcement systems. A good rule of law and the quality of supervision proves that the government supports business development.

Effect of Financing Growth on Bank Stability

Financing is one of the bank's sources of income, so it is hoped that increased financing can increase profitability, ultimately making the bank more stable. However, the idea does not fit this study. Based on the regression results, it shows that financing growth has a negative influence on bank stability, meaning that when financing is on the rise, it will cause bank stability to decrease. This is because when financing grows abnormally it will be accompanied by increased credit risks such as defaults that can harm banks. This research is in line with (Bhowmik & Sarker, 2021; Cucinelli, 2016; Nguyen & Le, 2022; Pasaribu & Mindosa, 2021; Vithessonthi, 2016) which stated that abnormal average financing growth negatively impacts banking stability.

In addition, Soedarmono et al., (2017) revealed that abnormal financing growth may increase the systematic risks of banking one year to come. Financing growth usually accompanies an increased risk

of default/bad debts. The risk of default is caused by economic uncertainty and an uncertain environment or bank underpricing. The existence of non-performing loans is undoubtedly a trigger for concern in the bank's internals because it can cause cash turnover to be uneventful. So banks need to implement a policy to control the amount of financing disbursed. This can be done by measuring and managing the value of Non-Performing Loans (NPF). A high NPF value indicates that banks have failed to disburse financing, which could trigger a company's net profit decline.

Then, small-scale banks tend to channel financing to increase bank income, in contrast to large-scale banks having several other alternatives (Kim & Sohn, 2017; Pasaribu & Mindosa, 2021). To improve banking performance, banks loosen/lower the standard of financing requirements. This condition makes it possible to worsen the condition of bank stability because a decrease in the middle of providing financing can increase moral hazards such as falsification of documents, customers not providing information honestly, and lack of supervision. This statement is why banks become less stable when financing growth increases.

Effect of Earnings Management on Bank Stability

The results of the regression calculation showed that earnings management did not have a significant effect on the stability of the bank. This indicates that the size of earnings management does not affect bank stability. There are three reasons underlying the results of this study. First, earnings management in Islamic commercial banks in Southeast Asia is low in value. This is because the system in Islamic banking tends to avoid high-risk investments and has low motivation to carry out earnings management practices because Islamic banks have principles that highlight ethics and responsibility in their business (Elnahass et al., 2014; Farook et al., 2014). In line with Suripto (2022) who stated that companies with high religious compliance can report good earnings quality and have a small risk of fraud. Thus, Islamic banks practice fewer earnings management (Quttainah et al., 2013).

Second, Indonesia, Malaysia, and Brunei Darussalam have successfully implemented the International Financial Reporting Standard (IFRS) accounting standard. Countries that use IFRS standards entirely make earnings management value low, because adopting IFRS can improve the quality of earnings and corporate entities can present financial statements with compatibility and transparency (Aryati, 2015). As a result of the implementation of IFRS standards, earnings management practices decreased (Dimitropoulos et al., 2013). Banks in Malaysia tend not to adopt a Loan Loss Provision (LLP) policy for income smoothing purposes, where they assume that during good economic times customers are able to pay their financing and in bad economic times, they tend to reserve a little for LLP (N. K. Sari & Widaninggar, 2020). Additionally, the mechanism for implementing good corporate governance (GCG) in these three countries can also discourage earnings management practices (Suripto, 2022).

Thirdly, the purpose of managers engaging in earnings management is to obtain bonuses and reduce tax expenses. This proportion of goals is more important than the goal of improving bank stability. This research is consistent with Sutandijo & Sugiyarti, (2022) which revealed that earnings management does not affect bank stability carried in Islamic commercial banks in Indonesia registered with the OJK. The implications of this study show that Islamic banks tend to report their financial performance more transparently and show low earnings management value. So that it can provide space for investors to make the right decisions based on financial statements presented by real conditions or transparently. In addition, by providing accurate data, banks can already maintain thestability of the bank.

In previous studies, no one has clearly described the influence of institutional quality on bank stability. So this research seeks to reveal the influence of institutional quality on Islamic banks in Southeast Asia. The novelty of this study is to find that the quality of institutions influences bank stability. This shows that the better the government governance, the easier the bank's operations and lead to stable banking. In addition, researchers also revealed that earnings management does not affect bank stability. The findings add the reference, given that previous research has only examined earnings management on profitability, company performance, company value, and Corporate Social Responsibility (CSR) disclosures in manufacturing companies (Fitriyani et al., 2014; Mustika et al., 2015; Putri, 2019; Riswandi & Yuniarti, 2020).

V. CONCLUSION

This study used a sample of Islamic banking in Southeast Asia to determine the influence of institutional quality, financing growth, and earnings management on bank stability. Based on the results of the regression analysis, it was found that the quality of the institution and the Return on Asset (ROA) had a positive and significant effect on bank stability. So that by fulfilling six indicators of better institutional quality, it can boost banking performance to maintain bank stability. Then, the financing growth variable negatively influences bank stability, meaning that if financing is on the rise, it will reduce the value of bank stability. Finally, earnings management does not affect bank stability due to its low value of earnings management.

The novelty of this research is to reveal the influence of institutional quality, and earnings management, especially on Islamic banks in Southeast Asia. This study shows that there is an influence on the quality of institutions on the stability of Islamic banks. In addition, this research also reveals that there are earnings management practices in Islamic banks, but their value is low and does not affect bank stability. The implications of this study are to be an evaluation for banks to pay more attention to their policies in financing expansion and improve the quality of financial statements to minimize earnings management practices whose existence does not affect bank stability. Then, the government is advised to maintain the quality value of the institution and increase it proportionally, because uncertain economic circumstances can affect the risk-taking of banking companies. Finally, this study was limited to samples found in Southeast Asia. Therefore, further research is expected to expand the research sample.

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