**Managerial Ability and Long-term Banking Performance: The Role of Book Tax Differences as Moderator**

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***Abstract***

*Accounting scandals and global financial crisis as well as Bank Century and Bank Mandiri cases show the importance of managerial ability in decision making which can effects the long-term banking performance. In addition, managerial ability is still limited to the research conducted in banking sectors when compared to the others only in the developed countries. Therefore, this study aims at examining and analyzing the influence of managerial ability on the long-term banking performance moderated by the book tax differences. The research samples were banks listed on the Indonesia Stock Exchange within the period of 2014-2018. A purposive sampling technique was conducted to collect 108 samples of the long-term banking performance (t+1) and 81 samples of the long-term banking performance (t+2). The data were then analyzed using eviews version 10 with the ordinary least square. The results showed that managerial ability positively and significantly influenced long-term banking performance (t+1 and t+2), while book tax differences could reduce the effect of managerial ability on the long-term banking performance (t+1 and t+2). This research has provided a contribution to the literature and still paid a little attention to the managerial ability in banking sectors since the research objects were only in the developed countries.*

***Keywords: Managerial Ability, Book Tax Differences, Long-term Banking Performance***

# Introduction

Many accounting scandals and financial crisis which globally happened can break the shareholders’ trust on the financial reports and resulted in some critics related to the company performance (Akeju & Babutunde, 2017). Campello *et al.* (2010) explained that during the financial crisis, the companies with limited resources experienced lack of investment. This condition happened due to the low available resources for investment opportunities (Ivashina & Scharstein, 2010). Banking performance is the achievement measurement of the managers’ commpetency in increasing the profits. Selvam *et al.* (2016) explained that banking performance is a part of organizational effectivity covering the operational and financial results. The important issues on the shareholders’ lack of trust in banking contexts happened when the Bank Century case arised and resulted in the disruption of state’s economic stability and triggered critics from various community levels. Besides, problems related to Bank Mandiri’s information technology system failure has recently happened and resulted in its clients’ data loss disrupting the stakeholders’ concerns, especially on clients and shareholders.

Salehi & Moghadam (2019) explained that to significantly increase the company’s wealth, it should be based on the company’s resources and its employees’ competencies. The Employees’ (managers’) characteristics are one important part in the organization and considered as their competitive excellence. Bertrand & Schoar (2003) explained that the managers’ characteristics strongly influence researches in economic, financial, management accounting, and business practice sectors. Therefore, it is difficult to differentiate between the company’s and manager’s characteristics. Thus, it is important to analyze the management activities referring to the managerial characteristics (Change *et al*., 2010). Managerial characteristics are one important company predictor to achieve its competitive excellence. The resources based theory explains that the sustainable competitive excellence can be achieved by the company when the managers can use the company resources efficiently and effectively. The use of these resources is the basis for the managers to gain the company’s sustainable competitive excellence aiming at achieving high efficiency levels. When the managers are able to use certain resources to achieve high efficiency levels, then the managers have the ability to well manage the company. Cheung *et al.* (2017) explained that the more the managers’ authority, the higher the managers’ ability in improving the company performance.

Demerjian *et al.* (2012) explained that a competent manager has better ability to well manage the company to earn higher return rate and market value. A competent manager is able to understand the technological and industrial trends, predict the product demands, invest on projects with higher return rate, well manage the employees, and better identify and utilize investment opportunities (Demerjian *et al.,* 2012; Mishra, 2014); give positive signals in delivering the profit information that the markets have positive reactions on the profit information released by the company (Huang *et al.,* 2014; Luo & Zhou, 2017); well predict a significant projection of environmental capital expenses without substantially deviating what to spend in the following years (Chen & Chen, 2019); go public dual class companies with competent managers have higher growth opportunities than the single class (Cox, 2017).

A competent manager is able to improve both financial and non-financial performance (Sun, 2017); improve the quality of company’s internal control (Li, 2015); bear higher risks and willingly do more value-adding activities (Davis *et al.,* 2010); have more profitable credit rating and lessen the negative influence on the credit risk rating (Cornaggia *et al*., 2017); take more risks than the less competent manager, lessen the capital expenditure, but increase the expenditure to the research and development projects (Yung & Chen, 2018); as well as do the tax evasion (Akbari *et al.,* 2018). The managers’ knowledge and efficiency excellence will help the company achieve a better operational performance (Demerjian *et al.,* 2012; Baik *et al.,* 2011; Haem, 2014) and provide the qualified financial reporting information to the markets (Demerjian *et al.,* 2013; Khrisnan & Wang, 2015).

The macro economic condition changes from time to time may limit the managers’ ability in predicting the business opportunities for a long term period. Therefore, this research investigated the long-term company performance for the next two years aiming at revealing the managers’ ability in affecting the long-term banking performance. The important implication of macro economic condition changes may affect the managers to opportunistically act in managing the profits. Thus, the accounting profit is different from the taxable profit. The difference between the accounting profit and taxable profit is called book tax differences. Huang & Wang (2013) explained that book tax differences can reduce the banking profit quality. This condition may reduce the long-term banking performance. Rohaya *et al.*(2009) explained that tax planning activity gives a contribution in providing a bigger gap between the accounting profit and taxable profit as well as the taxable profit which contains useful information on the reported profit quality.

Waluyo (2016) explained that permanent book tax differences have a positive and significant relationship with profit before tax changes, while temporary book tax differences have a negative and significant relationship with the profit before tax changes. Dechow *et al.* (2010) explained that qualified information will be only obtained from the companies with qualified profits. Qualified profits will give more information on the companies’ relevant financial performace in their decision making. Book tax differences will reduce the influence of managerial ability on the long-term banking performance. This condition happens as the accounting rules give more flexibility in presenting the accounting profits than the taxation regulations. Huang & Wang (2013) explained that book tax differences happen due to the recognition time differences between the accounting principles and rules.

This research is considered important as widens the research conducted by Garcia-Meca & Garcia-Sanches (2018) which examined the influence of managerial ability on the financial reporting quality in banking sectors, while this research examines the influence of managerial ability on long-term banking performance by involving book tax differences as the moderating variable. Garcia-Meca & Garcia-Sanches (2018) explained that their research was the first empirical research examining the managerial ability in the international banking sectors of nine countries. From the methodological side, this research is considered important since the measurement of managerial ability tends to be in the non-financial than the financial sectors. Besides, the previous research focused more on the capital markets in developed countries than in the developing countries.

# Theoritical Basis and Hypothesis Development

* 1. *Resources Based Theory*

Resources based theory explains that the managers eficciently and effectively use the company resources to achieve the competitive excellence. The resources used by the managers to achieve the competitive excellence requires the managers’ understanding on the relationship between resources, managers’ ability, competitive excellence, and eventually the profits earned by the company in a long term period. The essence of this theory is related to the company’s strategic resources as the basis to gain its sustainable competitive excellence.

Simons (1945) explained that this theory assumes that the company which maximizes the profits based on its resources and managers’ ability in managing the company is basically rational. The resources owned by the company are heterogenous and immobilized. It means that the competing companies tend to have the resource differences used by the company to achieve its sustainable competitive excellence.

* 1. *Agency Theory*

The agency relationship betwee agents and principals give the opportunity to the agents to fulfill their interests. This condition happens because agents have the responsibility to manage the company that they obtain more information than the principals (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). This responsibility separation shows that the principals do not completely know the agents actions which tend to fulfill their interests that the principals are willing to spend more costs to monitor the opportunistic agents’ actions.

Accounting information is known to have the quality when the profits are produced by a qualified company (Dechow *et al*., 2010). It means that the profit quality is considered competent to provide more information related to the company’s relevant financial performance in decision-making. Profit is considered qualified when the book tax differences tends to be small. This condition shows that the manager poorly uses their opportunism through the gaps of the accounting principles and rules to fulfill their interests. Conversely, when book tax differences are more dominant in a company, it shows that the managers use their opportunistic behaviors to manage the profits.

One factor lessening the agents’ opportunistic behaviours is through the bonding mechanism. Bonding mechanism is a mechanism used by the shareholders to lessen the managers’ opportunistic behaviours through remuneration (Eisenhardt, 1985); divident division (Esterbrook, 1987); and managers’ involvement in the ownership of company shares (Agrawal & Mendelker, 1987); Jensen & Meckling, 1976).

* 1. *Book Tax Differences*

Book tax differences happen when the difference occurs between the accounting profit and taxable profit. Huang & Wang (2013) explained that this condition can happen due to the recognition time difference between the accounting principles and rules. The implication is that the long term perfomance achievement is not well fulfilled. The gap between the accounting profit and taxable profit significantly affect the profit quality considering the managers’ opportunistic behaviors in managing the accounting profit. Waluyo (2016) explained that permanent book tax differences have positive and significant relationship with the profit before tax changes, while temporary book tax differences have negative and significant relationship with the profit before tax changes.

* 1. Long-term banking performance

The banking performance shows the managers’ achievement in managing the company’s business activity to realize the banking vision, missions, and goals. The managers’ performance measurement is related to the actions made in various banking business activities to determine the banking business sustainability. The performance measurement result can give the information to the banking stakeholders. One banking performance measurement is return of asset (ROA). ROA shows the performance achievement by sacrificing certain banking assets to earn the accounting profit. High ROA shows that the managers are able to use certain assets to earn the optimal accounting profit. The ROA measurement as the performance is not only used to measure the short-term, but also long-term banking performance, such as ROA in the following year.

* 1. The influence of managerial ability on the long-term banking performance

Resources based theory explains that the sustainable competitive excellence can be achieved by the company when the manager efficiently and effectively uses the company resources. The use of company’s strategic resources is the basis to gain the sustainable competitive excellence. To use the resource, the managers require an understanding related to the relationship between resources, competitive excellence, and long term profit achievement. The managers’ ability in managing the company’s operational activity is obtained through education, experience, and skill (Collins *et al*., 2009; Kor, 2003). The managers use their ability not only to increase the financial, but also the non-financial performance (Sun, 2017); the company’s internal control system effectivity (Li, 2015); to bear higher risks and willingnessly to do more adding-value activities (Davis *et al.,* 2010); to obtain higher credit rating and lessen the negative effect on credit risk rating (Cornaggia *et al*., 2017); to take the risks and lessen the capital expenditure but invest to the research and development projects (Yung & Chen, 2018); and to predict a significant environmental capital expense projection, but substantially do not deviate from what to spend in the following years (Chen & Chen, 2019);

A competent manager is a manager who has managerial ability believed to be able to make the long-term business condition projection that they can design the proper strategies to optimize the utilization of company’s resources in producing output leading the company to have a good performance in the future. Carmeli & Tishler (2006) explained that the managerial competence affects the company performance. Besides, competent manager is considered having the ability to manage the shareholders’ interests to gain supports in fulfilling the business sustainability assumptions (Romaisyah & Naimah, 2018); able to make accurate decisions to improve the company performance (Andreou *et al*., 2015 & Dayan, 2018). However, Francis *et al.* (2008) explained that the competent managers, however, do not always increase the company performance nor significant to the company’s financial reporting quality (Jiang *et al*., 2013). This research then formulates the following hypothesis.

H1: Managerial ability positively affects the long-term banking performance

* 1. The Influence of Tax Differences on the Relationship between Managerial Ability and long-term banking performance

The managers frequently face various problems in predicting the long term business opportunities. This condition happens due to the macroeconomic condition changes from time to time which can not be controlled by the managers. Therefore, the negative implication is that the long-term company performance can not be completely controlled by the managers. The long-term performance investigated in this research for the next two years aims at revealing the managerial ability in affecting the long-term banking performance. The unstable macro economic condition changes may affect the managers to opportunistically act in managing the profits. Thus, the profits earned can not show the accurate condition because it can reduce the profit quality. Huang & Wang (2013) explained that one factor which can reduce the profit quality is book tax differences. Book tax differences are differences between accounting profit and taxable profit. Book tax differences happen because there is a difference of recognition time between the accounting principles and rules (Huang & Wang, 2013). Consequently, the long-term performance is then abandoned. Rohya *et al.* (2009) explained that tax planning activity contributes to the big gap between the accounting profit and taxable profit as well as the taxable profit which contains useful information. Waluyo (2016) explained that permanent book tax differences have a positive and significant relationship with the profit before tax changes, while the temporary book tax differences have a negative and significant relationship with the profit before tax changes.

Dechow *et al.* (2010) explained that qualified information can only be obtained from the companies with qualified profits. Those qualified profis will give more information related to the company’s relevant financial performance in decision making. Qualified profit is the profit belonging to the book tax differences which tends to be small since showing that the managers are able to supress the opportunistic behaviours from the gaps between the accounting principles and rules. Conversely, when book tax difference is more dominant in a company, it shows that the managers use their opportunistic behaviors to manage the profits. This condition happens because the accounting rules give more flexibility in presenting the accounting profits than the tax regulations. This research then formulates the following hypothesis.

H2: Book tax differences have a negative impact on the managerial ability to affect the long-term banking performance.

# Research Methodology

* 1. Data and Samples

This research used the data of conventional banking financial reports listed in Indonesia Stock Exchange within the period of 2014-2018. The researchers obtained the financial reports from [www.idx.co.id](http://www.idx.co.id) site and each banking site to become the research samples. The conventional banking samples within the period of 2014-2018 were collected by the reseachers using a purposive sampling technique with the following criteria: (1) conventional banking publishing the financial reports with the period of 2014-2018 as many as 45 emitents, (2) conventional banking experiencing loss as many as 18 emitents.Thus, the final samples were 27 emitents within those four years with a total of 108 observations. The researchers’ main reasons using the conventional banks than the Islamic banks were (1) conventional banks are more dominant in Indonesian capital markets, (2) conventional banks are more capital intensive as they have higher business risk than the Islamic banks which are not profit-oriented, (3) conventional banks are managed and monitored more strictly by the regulator, (4) this research issue more dominantly leads to the conventional banks’ cases, such as Bank Century and Bank Mandiri.

The period of 2014-2018 was used by the researchers with some reasons: (1) This period showed the government period of Joko Widodo and Jusuf Kalla cabinet, that the results could evaluate the first reign of Joko Widodo, (2) In this period, the macro economic conditions experienced fluctuation that the results could predict the profits in the future period, and (3) This period was the last five years period that it could describe the current banking conditions.

* 1. Operational Definition and Variable Measurement

The variables of this research were long-term banking performance, managerial ability, and book tax differences. The following is the description of operational definition and research variable measurement.

1. Long-term banking performance

Selvam *et al.* (2016) explained that banking performance is a part of organizational effectiveness covering the operational and financial results. The intended long-term banking performance in this research is the long-term banking performance in the next two years (t+1 and t+2). The researchers adapted the research conducted by Salehi & Moghadam (2018) and Romaisyah & Naimah (2018) to measure the long-term banking performance. The equation used by the researchers was as follows.

EAT =

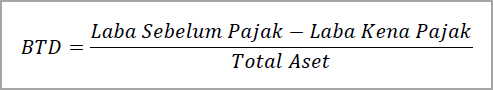
Long-term banking performance is used to measure the banking efficiency in managing its resources to earn profits. This higher ratio shows better banking performance in managing its resources.

1. Managerial Ability

Managerial ability is the managers’ ability in making and implementing the decisions to achieve the operational efficiency level (Demerjian, 2013). The researchers adapted the research conducted by Garcia-Meca & Garcia Sanchez (2018) to measure the managerial ability in banking sectors. The equation used by Garcia-Meca & Sanchez was as follows.

This research used DEA (data envelopment analysis) to measure the managerial ability by classifying it into inputs and outputs. The inputs used were (1) fixed assets, (2) intangible assets, (3) interest expense, (4) labor costs, (5) operating lease expense, while the outputs used were (1) deposits, (2) loan, (3) finance lease investment, and (4) interest income. The ccore results obtained using DEA showed the managerial ability. The managerial ability score does not exceed 1 or 100%. It means that a manager is considered competent if the score resulted by the DEA calculation is 1 or 100%.

1. *Book Tax Differences*

Book tax differences are the differences between the accounting profit and taxable profit. Book tax differences happen due to the difference of recognition time between the accounting principles and rules (Huang & Wang, 2013). The researchers adapted the research conducted by Rohaya *et al.* (2009) to measure the book tax differences. The equation used by Rohaya *et al.* (2009) to measure the book tax differences was as follows.Description:

*Laba sebelum pajak* = profit before tax

*Laba kena pajak* = taxable profit

Total asset = total assets

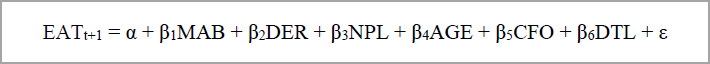
1. Control Variable

The researchers used the control variable to produce the research model quality aiming at reducing the decision-making bias. Hartono (2016) explained that control variable is used to complete or control the causality relationship to get complete and better empirical model. The control variables include debt to equity ratio which is the total debt divided by equity, net performning loan which is the total of net performing loan divided by total credit, banking age, cash flow from operation which is the operating cash flow divided by total assets, deposit to total liability which is the deposits divided by total debt.

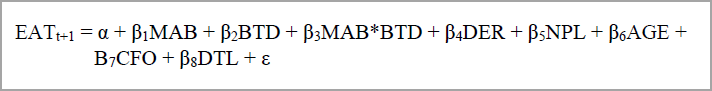
* 1. Data Analysis Method

This research used two important assumption tests to obtain the BLUE research model. The assumptions were heteroscedasticity and autocorrelation. Heteroscedasticity used the hubber-white to correct heteroscedasticity problems, so that the result could be immediately used by the researchers in the hypothesis testing (Ghozali & Ratmono, 2017). The autocorrelation test was adapted fro the research conducted by Santoso (2010) with the test result range of -2 to 2, so that this research model did not experience autocorrelation. The researchers did not use the normality test because the number of sample obeservations has fulfilled the criteria of central limit theorem (Gujarati & Porter, 2009). The researchers then examined the determination coefficient and research hypothesis test using the method of ordinary least square and analysis insrument of eviews 10. The regression equations to examine both hypotheseses were as the follows.

Model 1 hypothesis test of long-term performance main effect (t+1)



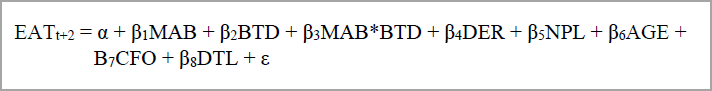
Model 2 hypothesis test of long-term performance moderation effect (t+1)



Model 3 additional test of long-term performance main effect (t+2)



Model 4 additional test of long-term performance moderation effect (t+2)



Description:

EATt+1: Long-term banking performance (the next 1 year) EATt+2: Long-term banking performance (the next 2 years) MAB: Managerial Ability

BTD: *Book Tax Differences*

DER: *Debt to Equity Ratio*

NPL: *Net Performing Loan*

AGE: Banking Age

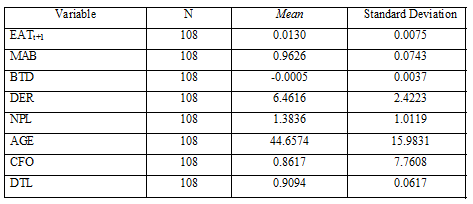
CFO: *Cash Flow from Operation*

DTL: *Deposit to total Liability*

# Result and Discussion

This research used descriptive statistics to explain some varibales used by the researchers. The variables were managerial ability, book tax differences, and long-term banking performance. The following table 1 shows the descriptive statistics of the research variables

Table 1. Descriptive Statistics

*Source: data processed by the researchers, 2020*

Desccription:

EATt+1: Long-term banking performance (the next 1 year) MAB: Managerial Ability

BTD: Book Tax Differences

DER: Debt to Equity Ratio

NPL: Net Performing Loan

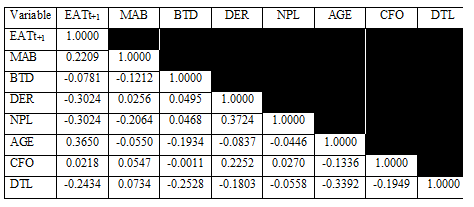
AGE: Banking Age

CFO: Cash Flow from Operation

DTL: Deposit to total Liability

Table 1 shows that the final total samples of this research were 108 collected using a purposive sampling technique. Meanwhile, the EATt+1 mean value was 0.0130. This condition showed that long-term banking performance (t+1) was still classified into low category since still at the level of 1.3 %. The MAB mean value was 0.9626. This value showed that the managerial ability almost reached 1. So, it was considered efficient. In addition, the BTD mean value was -0.0005. The value showed that the difference between the accounting profit and taxable profit was getting smaller. Besides, there were control variable mean values used in this research, such as the DER value of 6.4616, NPL value of 1.3836, AGE value of 44.6574, CFO value of 0.8617, and DTL value of 0.9094. Beside the descriptive statistics, the researchers should also explain the correlation between the variables of this research as shown in table 2.

Table 2. Pearson Correlation on the Research Variables



*Source: data processed by the researchers, 2020*

Description:

EATt+1: Long-term banking performance (the next 1 year) MAB: Managerial Ability

BTD: Book Tax Differences

DER: Debt to Equity Ratio

NPL: Net Performing Loan

AGE: Banking Age

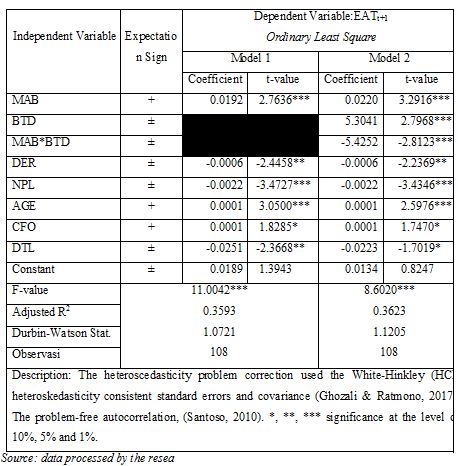
CFO: Cash Flow from Operation

DTL: Deposit to total Liability

Table 2 shows that the highest correlation happened between NPL and DER by 0.3724. This condition happened because both ratios were related to the debt level. It means that when the level of debt is high, it has the potential to experience the non-performing loss when the risks are not well managed. Furthermore, AGE and EATt+1 had the second highest correlation after NPL and DER. This condition showed that the longer the company is established, the higher the profit level will be owned by the long-term banking performance.

The hypothesis ttesting used the rules proposed by Baron & Kenney (1986) by separating the main effects (model 1 and 3) and moderation effects (model 2 and 4). Table 3 shows the hypothesis testing results of this research.

Table 3. Hypothesis Testing Results



Description:

MAB: Managerial Ability

BTD: Book Tax Differences

MAB\*BTD: Interaction between Managerial Ability and Book Tax Differences

EATt+1: Long-term banking performance (The next 1 year)

DER: Debt to Equity Ratio

NPL: Net Performing Loan

AGE: Banking Age

CFO: Cash Flow from Operation

DTL: Deposit to total Liability

The adjusted R2 value of model 1 to model 2 experienced an increase. This condition was ideal in accordance with the basic statistics theory that when there is an additional variable in the model and the variable is significant, the adjusted R2 will increase. Hypothesis 1 showed that the managerial ability positively affected the long-term banking peformance. The research result showed that the effect of managerial ability on the long-term banking performance (t+1) had the coefficient of 0.0192 with the significance level of 1% (model 1). The research result showed that the managerial ability positively and siginficantly affected the long-term banking performance (t+1).Thus, hypothesis 1 was supported. The managerial ability is the managers’ ability in making and implementing the decisions to achieve the operational efficiency level (Demerjian, 2013). Competent manager can manage the company better that the company can produce higher return rate and market value, understand the technological and industrial trends, predict the product demands, invest on the projects with higher return rate, manage the employees well, and succeed in identifying and utilizing the investment opportunities (Demerjian *et al.,* 2012; Mishra, 2014).

Managerial ability presumably can make the long-term business condition projections, such as designing the proper strategies to optimalize the utilization of company resources in producing the outputs directing the company to have better performance in the future. Sustainable competitive excellence can be achieved by the company when the managers efficciently and effectively uses the company resources. The utilization of company strategic resources is the basis to obtain the sustainable competitive excellence. Romaisyah & Naimah (2018) explained that a competent manager presumably can manage various shareholders’ interest to obtain supports in fulfilling the business sustainability assumptions. Besides, Andreou *et al*. (2015) and Zacca & Dayan (2018) explained that the managers use the ability to make accurate decisions to possibly improve the company performance.

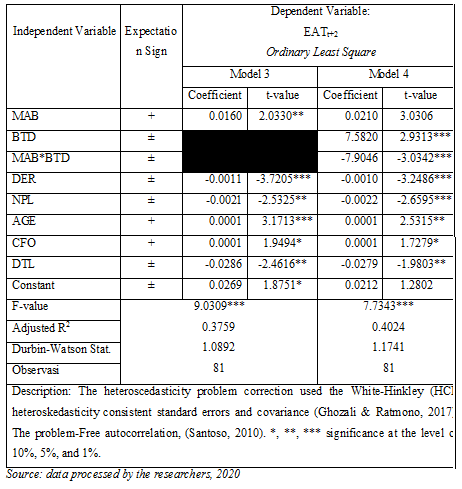
Hypothesis 2 showed that the book tax differences reduced the effect of managerial ability on the long-term banking performance. The research result showed that book tax differences reduced the effect of managerial ability on long-term banking performance (t+1) with the coefficient of -5.4252 at the significance level of 1% (model 2). Therefore, the research result showed that book tax differences reduced the effect of managerial ability on long-term banking performance (t+1). Thus, hypothesis 2 was supported. Book tax differences are the differences between the accounting profit and taxable profit. Huang & Wang (2013) explained that book tax differences happen due to the difference of recognition time between the accounting principles and rules.

Dechow *et al.* (2010) explained that qualified information will only be gained from the companies with qualified profits. It means that qualified profit information showed the information accuracy that can be used in decision-making. The profit of book tax differences which tends to be small shows that the managers are able to suppress their opportunistic behaviors through the gaps between the accounting principles and rules. Conversely, when the book tax differences are more dominant in a company, it shows that the managers used the opportunistic behaviors to manage the profit. This condition happened since the accounting rules give more flexibility in presenting the accounting profit that the tax regulations. In banking context, book tax differences are considered small, but it can reduce the effect of managerial ability on the long-term banking performance. This condition happens since banking is one sector which becomes the the regulator’s attention and capital intensive. Although book tax differences are small, they are still able to reduce the efffect of managerial ability on the long-term banking performance.

# Additional Testing:

This research used the addtional test by using the long-term banking performance (t+2). Table 4 shows the additional testing results related to the research hypotheses.

1. The Research’s Additional Testing Results



Description:

MAB: Managerial Ability

BTD: *Book Tax Differences*

MAB\*BTD: Interaction betwen Managerial Ability and *Book Tax Differences*

EATt+1: Long-term banking performance (the next 1 year)

DER: *Debt to Equity Ratio*

NPL: *Net Performing Loan*

AGE: Banking Age

CFO: *Cash Flow from Operation*

DTL: *Deposit to total Liability*

The additional testing results were consistent with the previous testing results. Thus, hypothesis 1 (model 3) and hypothesis 2 (model 4) were supported. It means that managerial ability positively and significantly affected the long-term banking performance (t+2), and book tax differences reduced the effect of managerial ability on the long-term banking performance (t+2).

# Conclusion, Implication, and Limitation

The findings of this research showed the empirical evidence that banking managers use their ability to achieve higher efficiency rate that they are able to affect the long-term banking performance (t+1 and t+2). Managerial ability is the managers’ ability in making and implementing decisions to achive the operational efficiency rate by using some inputs efficiently, such as (1) fixed assets, (2) intangible assets, (3) interest expense, (4) labor costs, (5) operating lease expense to produce optimal outputs, such as (1) deposit, (2) loan, (3) lease finance investment, and (4) interest income. Besides, the differences between the accounting profit and taxable profit called as book tax differences are able to reduce the effect of managerial ability on the long-term banking performance (t+1 and t+2). The implication of this finding is that the importance of future research on managerial ability does not have to only use the non-financial sectors, but also the financial sectors, such as banking in measuring the managerial ability. This happened due to the limited previous literature measuring the managerial ability in the banking sectors. The banking managers use their ability to achieve the sustainable competitive excellence through the effecient and effective use of resources. Therefore, the managers required an understanding on the relationship between resources, managers’ ability, competitive excellence, and long-term profit achievement. Collins *et al.* (2009) and Kor (2003) explained that manager ability in managing the company operational activity is obtained through education, experiemce, and skill.

The limitations of this research lied on the conclusion drawn which is based on various proxies to measure the managerial ability, book tax differences, and long-term banking performance. Further research can develop the managerial ability proxies beside those proposed by Garcia-Meca & Garcia-Sanchez (2018). The further research may also discuss some other issues: first, examining the factors which form the managerial ability, such as educational level, age, experience, or managerial expertise; second, whether or not the markets understand the current and future implicationd of managerial ability owned by the managers. Therefore, it is important for further research to examine the effect of managerial ability on the long-term company values in banking sectors.

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