

Independent Commissioners, Audit Committee, Ownership Structure, and Financial Statement Quality of Indonesian Consumer Cyclical Firms

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Abstract

This study examines associations between Good Corporate Governance (GCG) mechanisms and financial statement quality in Indonesian consumer cyclical companies during 2022–2025, controlling for Return on Assets (ROA). Signed Discretionary Accruals (DA) indicate the direction of abnormal accrual adjustments rather than overall reporting quality. Purposive sampling yielded 19 companies and 76 firm-year observations. DA were estimated using the modified Jones model and analyzed through fixed-effects panel regression with Heteroskedasticity-Consistent Standard Errors, Type 1 (HCl) robust standard errors. Independent commissioners ($\beta = 0.047787$, $p = 0.7227$), audit committee meetings ($\beta = -0.010318$, $p = 0.4797$), and institutional ownership ($\beta = -0.003788$, $p = 0.9574$) showed insignificant associations. Managerial ownership was positively associated with DA ($\beta = 0.430569$, $p = 0.0271$), contrary to expectations. ROA was also positively associated ($\beta = 0.562850$, $p = 0.0032$). Although the overall model was significant ($p = 0.002878$, $R^2 = 0.527732$), the joint governance test was insignificant ($p = 0.219619$). Thus, H_1 – H_5 were unsupported. Governance mechanisms did not consistently constrain income-increasing accrual adjustments. Positive signed DA does not independently establish manipulation or declining reporting quality. Findings are restricted by the sector-specific sample, four-year observation period, and accrual-model assumptions. This study provides sector-specific evidence challenging uniform agency-theory expectations and demonstrates why governance indicators alone cannot establish monitoring effectiveness.

Keywords: Consumer Cyclical, Discretionary Accruals, Financial Statement Quality, Good Corporate Governance, Managerial Ownership

1. INTRODUCTION

Financial statements serve as a means of communication between a company's financial data or activities and interested parties, and they are prepared to provide information that is important, reliable, comparable, and understandable for business and economic decision-making (Tarca, 2020). Because financial statements present the overall financial condition of a company, management must prepare them in accordance with actual conditions (Ramadhanil et al., 2026). In the capital market context, transparent financial statements reduce information asymmetry between management as the manager (agent) and investors as the owners (principal), thereby increasing public trust and strengthening market efficiency (Cheng & Wu, 2018).

The obligation to submit periodic financial statements is regulated by Financial Services Authority Regulation (Peraturan Otoritas Jasa Keuangan/POJK) Number 14/POJK.04/2022, which requires annual financial statements fully audited by a public accounting firm (Kantor Akuntan Publik/KAP) to be submitted no later than the end of the third month after the date of the annual financial statements. This provision is reinforced by Indonesia Stock Exchange Regulation Number I-E (Kep-00087/BEI/12-2025), which requires annual financial statements to be submitted through the exchange's electronic reporting system (e-Reporting) and imposes tiered sanctions ranging from fines and written warnings to the suspension of share trading (Bursa, 2025b). Nevertheless, throughout 2024, the Financial Services Authority (Otoritas Jasa Keuangan/OJK) imposed administrative sanctions in the form of late-submission fines totaling IDR52.14 billion on 588 financial service actors in the capital market and 69 written warnings for late report submission, as well as 2 administrative sanctions in the form of written warnings for violations other than late submission (Otoritas Jasa Keuangan, 2024). These sanctions identify reporting-compliance problems, rather than establishing that issuers used discretionary accruals to manipulate earnings. Research on interim

reporting timeliness provides related institutional context but addresses a different reporting outcome from annual abnormal accruals ([Anugrah et al., 2026](#)).

These regulations govern reporting timeliness and require a full audit, but timeliness, audit status, and accrual-based earnings quality represent distinct aspects of financial reporting. Discretionary Accruals (DA), estimated through the Modified Jones Model, represent the portion of scaled total accruals not explained by the model's normal economic determinants ([Dechow et al., 1995](#)). They provide an indirect, model-dependent indicator of abnormal accrual adjustments. In signed form, positive DA indicates income-increasing adjustments and negative DA indicates income-decreasing adjustments; a higher signed value is not a general ranking of worse reporting quality. Estimates may reflect managerial discretion, model misspecification, or economic circumstances omitted from the accrual model. Accrual-based earnings management can involve estimates for receivable allowances, revenue recognition, depreciation, and inventory valuation, without every estimated abnormal accrual constituting fraud or data falsification ([Chung et al., 2022](#)). Auditing reduces some reporting risks but does not eliminate estimation uncertainty or all reporting bias, because auditors and managers respond to each other's incentives ([Patterson et al., 2019](#)). Market and contractual incentives therefore motivate the examination of accrual choices directly ([Chen et al., 2021](#)), rather than treating late filing or an audit opinion as evidence of discretionary accrual manipulation. This vulnerability is explained by agency theory: the relationship between shareholders (principal) and managers (agent) can give rise to conflicts of interest that are aggravated by information asymmetry, because managers possess more complete information about the company's condition and future ([Jensen & Meckling, 1976](#)). Information asymmetry tends to increase when the monitoring of management is weak, enabling managers to exploit their discretion in financial reporting, particularly estimate-based accounting policies, to mislead stakeholders about the company's actual performance ([Khan et al., 2022](#); [Panda & Leepsa, 2017](#)).

The pressure to manage earnings is relevant for companies in the consumer cyclicals or non-primary consumer goods sector, which covers the retail, media, entertainment, automotive, and non-primary consumer goods industries, whose demand depends heavily on public purchasing power, inflation, interest rates, and consumer confidence ([Bursa, 2025a](#)). During the observation period, some issuers in this sector restated their financial statements, such as PT Aspirasi Hidup Indonesia Tbk. (ACES) and PT Integra Indocabinet Tbk. (WOOD), which disclosed adjustments to the opening balances of the period before restatement in the Notes to the Financial Statements for fiscal year 2024 ([Bursa, 2025b](#)). These restatements identify accounting adjustments that warrant examining their disclosed causes, but do not independently establish opportunistic accrual manipulation; corrections, reclassifications, and changes in accounting treatment can have different explanations. Table 1 provides additional capital-market context by comparing the reported sector-index returns with the Jakarta Composite Index (*Indeks Harga Saham Gabungan/IHSG*) without using market performance as a direct measure of earnings management.

Table 1. Performance of the IDX cyclicals index and IHSG (2022–2025)

Year	IDX Cyclicals (% YtD)	IHSG (% YtD)	Notes
2022	-5.50	+4.09	Post-pandemic pressure and interest rate hikes
2023	+3.60	+6.16	Moderate recovery, still below the Jakarta Composite Index (IHSG)
2024	-9.30	-2.65	Weakening purchasing power and fiscal pressure
2025	-14.55	-5.04	Deepest decline vs. other sectors (as of April 2025)

Table 1 shows that IDX Cyclicals recorded weaker returns than the IHSG during the observed periods, including a decline of 14.55% compared with 5.04% in April 2025. However, the 2025 figures represent partial-year performance and do not establish greater volatility than other sectors. Weak market performance may create incentives to maintain reported earnings, although stock returns

also reflect expected cash flows, discount rates, and macroeconomic conditions ([Chung et al., 2022](#); [Widyantari et al., 2026](#)). Thus, market pressure provides contextual motivation rather than evidence of earnings manipulation. Reporting delays, restatements, and market returns represent distinct reporting and valuation dimensions, whereas this study specifically examines signed Discretionary Accruals (DA). Good Corporate Governance (GCG) mechanisms may influence accrual decisions through monitoring and incentive alignment. Independent commissioners and audit committees provide internal oversight, institutional ownership supports shareholder monitoring, and managerial ownership may align managerial and shareholder interests ([Jensen & Meckling, 1976](#)).

Previous studies report inconsistent findings regarding governance effectiveness. [Goyal and Gulati \(2024\)](#) found that independent directors and audit committee size improve reporting quality by constraining discretionary accruals, while [Mardjono and Chen \(2020\)](#) reported that independent commissioners reduce earnings management in Indonesian manufacturing companies. [Conversely, Tandiawan \(2022\)](#) found no significant influence of institutional ownership, independent commissioners, or audit committees in Indonesian banks. [Almarayeh et al. \(2022\)](#) identified audit committee independence as the only committee attribute associated with lower earnings management, while [Feng and Huang \(2021\)](#) demonstrated that governance effects vary across firms. In the consumer cyclicals sector, [Anugrah et al. \(2026\)](#) found that financial statement integrity was not significantly associated with interim reporting timeliness, unlike financial performance and company size.

This study addresses contextual and measurement gaps by examining governance mechanisms and signed DA in Indonesian consumer cyclicals companies, rather than manufacturing, banking, or other national settings ([Mardjono & Chen, 2020](#); [Tandiawan, 2022](#); [Goyal & Gulati, 2024](#); [Almarayeh et al., 2022](#)). Unlike [Anugrah et al. \(2026\)](#), which examined reporting timeliness, this study focuses on the direction of abnormal accrual adjustments as a distinct dimension of financial reporting. The sector's sensitivity to economic cycles provides a rationale for investigating income-increasing incentives without excluding income-decreasing adjustments ([Türegün, 2020](#)). Furthermore, the 2022–2025 panel captures the reporting environment following POJK No. 14/POJK.04/2022 and the post-pandemic recovery, although the regulation's causal effects are not examined. By jointly assessing four governance mechanisms while controlling for profitability and company fixed effects, this study provides sector-specific evidence on governance associations with signed DA.

Financial performance is included because accrual estimates may be affected by company profitability. The Modified Jones Model may be misspecified for firms with extreme financial performance ([Dechow et al., 1995](#)), making Return on Assets (ROA) a relevant control variable ([Kothari et al., 2005](#); [Okyere et al., 2021](#)). Earnings-based compensation may also influence managerial accrual decisions ([Ngo et al., 2022](#)). Accordingly, ROA is included as a control variable without a separate hypothesis. This study aims to examine the individual and joint associations of independent commissioners, audit committee meeting frequency, institutional ownership, and managerial ownership with signed DA among consumer cyclicals main board companies listed on the Indonesia Stock Exchange during 2022–2025. Theoretically, it evaluates agency-theory expectations regarding monitoring and incentive alignment; practically, it provides insights for investors assessing financial reporting credibility and companies seeking to strengthen governance effectiveness.

2. LITERATURE REVIEW

2.1 Agency Theory and Financial Statement Quality

Agency theory explains the contractual relationship between shareholders (principals) and managers (agents), in which shareholders delegate managerial responsibilities and provide compensation ([Jensen & Meckling, 1976](#); [Panda & Leepsa, 2017](#)). Conflicts arise from differences in interests, risk preferences, information asymmetry, and moral hazard, as managers possess greater access to internal information and company prospects ([Cheng & Wu, 2018](#); [Khan et al., 2022](#)). [Panda and Leepsa \(2017\)](#) emphasize the separation of ownership and control as a source of agency conflicts, while [Jensen and Meckling \(1976\)](#) classify agency costs into monitoring expenditures, bonding expenditures, and residual loss. In financial reporting, managers may conceal unfavorable information

or engage in earnings management to protect their reputation or compensation, potentially distorting Discretionary Accruals (DA) when monitoring is inadequate ([Chen et al., 2021](#)).

Good Corporate Governance (GCG) addresses agency problems through transparency, accountability, responsibility, independence, and fairness ([Panda & Leepsa, 2017](#)). Effective governance mechanisms align managerial and shareholder interests, strengthen financial reporting discipline, and reduce opportunities for earnings manipulation ([Jensen & Meckling, 1976](#)). Accordingly, the individual hypotheses predict negative associations between governance mechanisms and signed DA, indicating a lower tendency toward income-increasing accrual adjustments. However, more negative DA does not necessarily indicate better reporting quality because income-decreasing earnings management may also occur. The joint hypothesis examines whether the four governance coefficients collectively differ from zero rather than requiring all mechanisms to exhibit negative effects.

Financial statement quality encompasses relevance, faithful representation, comparability, and timeliness ([Tarca, 2020](#)). Under International Accounting Standard 1 (IAS 1), annual financial statements include statements of financial position, comprehensive income, changes in equity, cash flows, and accompanying notes. However, these reporting characteristics cannot be fully captured by a single accrual measure. The Modified Jones Model estimates abnormal accruals based on specified economic determinants ([Dechow et al., 1995](#)). Signed DA reflects the direction of accrual adjustments, whereas absolute DA captures their magnitude. Positive and negative DA indicate income-increasing and income-decreasing adjustments, respectively, but neither independently establishes manipulation because accruals may also reflect estimation errors or economic conditions ([Goyal & Gulati, 2024](#); [Man, 2021](#)). This study emphasizes income-increasing adjustments because earnings pressures may influence accounting estimates in economically sensitive industries ([Chung et al., 2022](#)). Nevertheless, a negative regression coefficient only indicates a reduction in signed DA, not necessarily improved reporting quality. Without examining absolute DA and distinguishing positive from negative observations, changes in signed DA cannot establish an overall improvement in financial statement quality.

2.2 The Effect of Independent Commissioners on Financial Statement Quality

Independent commissioners are members of the board of commissioners who have no affiliations with directors, other commissioners, controlling shareholders, or the company, allowing them to exercise independent oversight. POJK No. 33/POJK.04/2014 requires independent commissioners to constitute at least 30% of the board. Based on agency theory, their monitoring role is expected to limit managerial opportunism and earnings management ([Panda & Leepsa, 2017](#)). A higher proportion of independent commissioners may strengthen oversight and reduce income-increasing Discretionary Accruals (DA) ([Mardjono & Chen, 2020](#)). Supporting this expectation, [Goyal and Gulati \(2024\)](#) found that board independence improves financial reporting quality, while [Vitolla et al. \(2020\)](#) highlighted the importance of board characteristics for integrated reporting quality. However, [Tandiawan \(2022\)](#) reported no significant relationship between independent commissioners and managerial discretion, and [Marra \(2021\)](#) suggested that formal independence alone may be insufficient to constrain earnings management. These mixed findings justify further examination of the relationship between independent commissioners and signed DA, where a negative association indicates a lower tendency toward income-increasing accrual adjustments rather than necessarily improving overall reporting quality.

H₁: Independent commissioners are negatively associated with signed Discretionary Accruals (DA), consistent with a lower income-increasing accrual tendency in Consumer Cyclical sector companies listed on the Indonesia Stock Exchange

2.3 The Effect of the Audit Committee on Financial Statement Quality

The audit committee is a committee established by the board of commissioners to assist in overseeing the financial reporting process, the effectiveness of internal controls, and the implementation of the company's audit. POJK No. 55/POJK.04/2015 requires the audit committee to consist of at least three members chaired by an independent commissioner, with at least one member

having an educational background and expertise in accounting and finance, and to hold meetings at least once every three months, or at least four times in one fiscal year. Audit committee effectiveness is largely determined by the intensity of its meetings; a high meeting frequency reflects the seriousness of oversight of potential fraud in financial reporting ([Almarayeh et al., 2022](#)), and an effective audit committee is able to detect potential fraud and improve financial reporting quality ([Almaqoushi & Powell, 2021](#)).

Based on agency theory, the audit committee serves as a monitoring mechanism that reduces information asymmetry between managers and shareholders by ensuring that the financial reporting process complies with applicable accounting standards ([Kolev et al., 2019](#)). [Almaqoushi and Powell \(2021\)](#) show that firms with low audit committee quality manage earnings. [Mardjono and Chen \(2020\)](#) confirm that audit committee characteristics reduce earnings management in the Indonesian context. An increase in the frequency of audit committee meetings should reduce DA, interpreted here as a lower income-increasing accrual tendency, rather than a comprehensive quality improvement.

H₂: The frequency of audit committee meetings is negatively associated with signed Discretionary Accruals (DA), consistent with a lower income-increasing accrual tendency in Consumer Cyclical sector companies listed on the Indonesia Stock Exchange

2.4 The Effect of Institutional Ownership on Financial Statement Quality

Institutional ownership is the proportion of a company's shares owned by financial and non-financial institutions, such as pension funds, insurance companies, mutual funds, banks, and other investment companies. Unlike individual investors, institutional investors have a large investment scale, more sophisticated analytical capabilities, and the capacity to actively monitor management ([Elyasiani et al., 2017](#)). Within the framework of agency theory, institutions act as a principal with greater ability and incentives to monitor managerial behavior; therefore, their monitoring pressure can reduce managers' incentives to manage earnings through DA ([Panda & Leepsa, 2017](#); [Elyasiani et al., 2017](#)).

[Elyasiani et al. \(2017\)](#) confirm that ownership by monitoring institutions is negatively associated with earnings management. However, its effect is not always consistent because its effectiveness depends on the extent to which institutional owners are actively involved in strategic decision-making and the characteristics of the company's ownership structure ([El Mokrani & Alami, 2021](#)). The greater the proportion of institutional ownership, the stronger the pressure on management to present accurate financial information, hence, DA is expected to decrease.

H₃: Institutional ownership is negatively associated with signed Discretionary Accruals (DA), consistent with a lower income-increasing accrual tendency in Consumer Cyclical sector companies listed on the Indonesia Stock Exchange

2.5 The Effect of Managerial Ownership on Financial Statement Quality

Managerial ownership is the proportion of a company's shares owned by internal management, including directors, commissioners (including independent commissioners), and key company executives. This ownership makes management not only the manager but also an owner, thereby creating an interest alignment effect that theoretically reduces agency conflicts and costs ([Jensen & Meckling, 1976](#)). When managers own company shares, any decline in firm value resulting from earnings management directly affects their personal wealth, creating an incentive to present high-quality financial statements ([Birkhead, 2024](#)). [Saona and Azad \(2020\)](#) show that earnings management declines once insider ownership exceeds a critical level, although the effectiveness of ownership may vary depending on the regulatory environment and strength of the governance system ([Saona & Azad, 2020](#)).

Empirical evidence on managerial ownership is not yet fully consistent. [El and Alami \(2021\)](#) found that managerial ownership has no significant effect on earnings management, whereas [Saona](#)

and Azad (2020) found that insider ownership increases accrual-based earnings management in Asian banks. Tandiawan (2022) found a positive effect of managerial ownership on managerial discretion in Indonesian banks, while Tika, Pentiana, and Rusmianto (2025) found a significant negative effect of managerial ownership on earnings persistence. Based on agency theory, the greater the proportion of managerial ownership, the lower management's motivation to manage earnings, hence, DA is expected to decrease.

H₄: Managerial ownership is negatively associated with signed Discretionary Accruals (DA), consistent with a lower income-increasing accrual tendency in Consumer Cyclical sector companies listed on the Indonesia Stock Exchange

2.6 The Simultaneous Effect of Independent Commissioners, Audit Committee, Institutional Ownership, and Managerial Ownership on Financial Statement Quality

Governance mechanisms may provide complementary monitoring and incentive functions, but theoretical complementarity does not establish that their empirical coefficients must all be negative or that a significant model proves synergy (Goyal & Gulati, 2024). *H₁*–*H₄* retain the individual directional predictions. *H₅* is formulated separately as a nondirectional joint-association hypothesis for the four governance coefficients, conditional on ROA and company fixed effects. Its null restriction is $\beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$. Rejecting this restriction would establish that at least one governance coefficient differs from zero, without demonstrating that all four mechanisms reduce DA or identifying interaction effects. ROA is retained to account for performance-related accrual variation (Kothari, Leone, & Wasley, 2005), measures earnings relative to assets (Widyawati, Rusmianto, & Alfani, 2026), and has no directional hypothesis. Figure 1 presents the research model; its dashed line denotes the control variable, and the *H₅* connection denotes a joint coefficient test rather than a common negative direction.

H₅: Independent commissioners, audit committee meeting frequency, institutional ownership, and managerial ownership are jointly associated with signed Discretionary Accruals (DA) in Consumer Cyclical sector companies listed on the Indonesia Stock Exchange, conditional on Return on Assets (ROA) and company fixed effects

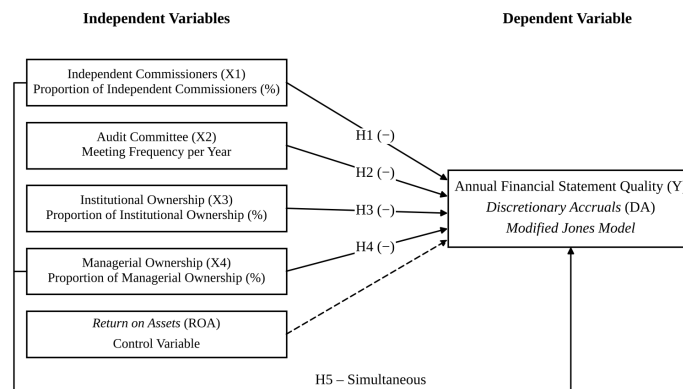


Figure 1. Research model

Figure 1 presents the research model; its dashed line denotes the control variable, and the *H₅* connection denotes a joint coefficient test rather than a common negative direction. The model examines the individual relationships between four Good Corporate Governance (GCG) mechanisms and signed discretionary accruals as an indicator of financial reporting adjustments. Furthermore, Return on Assets (ROA) is included as a control variable to account for differences in company profitability when assessing these relationships.

3. RESEARCH METHODOLOGY

The research population comprises 163 consumer cyclicals sector companies listed on the Indonesia Stock Exchange in the source sampling frame for 2022–2025. The period captures the reporting environment following POJK No. 14/POJK.04/2022 and post-pandemic recovery, without providing a before-and-after test of that regulation. Purposive sampling restricts the analytical population to established main board companies with continuous listing and complete governance and accounting data. This restriction reduces some differences associated with listing eligibility and operating history but does not ensure homogeneous monitoring quality or eliminate confounding. Annual audited financial statements, listing before January 1, 2022, and data on independent commissioners, committee meetings, ownership, earnings, and assets are required to construct a balanced four-year panel. For transparent, non-overlapping counting, the board-status categories in the source company register are applied first: 15 acceleration board companies, 34 companies under special monitoring, and 84 development board companies are excluded, leaving 30 main board companies. Four post-cutoff IPOs are then removed from those 30 firms, leaving 26, seven with incomplete required data are subsequently removed, leaving 19. Each firm is counted once at its first applicable exclusion stage. Table 2 summarizes this sequential screening process. The screening classification is not evidence that excluded firms have intrinsically unrepresentative or poor-quality financial statements. In particular, excluding monitored, smaller, younger, and incompletely reporting firms can omit financially vulnerable companies where accrual choices may be especially relevant. Consequently, the results are conditional on complete-data main board firms and should not be generalized to all 163 sector companies.

Table 2. Sample selection process

No	Sample Selection Criteria	Number of Companies
Inclusion Criteria		
1	Initial population (All Consumer Cyclicals sector companies listed on the Indonesia Stock Exchange in 2022-2025)	163
Exclusion Criteria		
1	Companies assigned to the Acceleration Board in the source register (first screening stage, 15 firms)	(15)
2	Companies assigned to Special Monitoring in the source register (separate first-stage category, exclusion limits coverage of financially vulnerable firms)	(34)
3	Companies assigned to the Development Board in the source register (separate first-stage category, 84 firms)	(84)
4	Post-January 1, 2022 IPOs among the remaining 30 Main Board firms (second screening stage)	(4)
Initial Research Sample (Main Board, Consumer Cyclicals, Indonesia Stock Exchange)		26
5	Among the 26 remaining companies, elimination of incomplete required data (Institutional Ownership and Managerial Ownership not fully available for 2022–2025)	(7)
Final Research Sample		19
Total Panel Data Observations (19 x 4 years)		76 observations

The analytical dataset consists of 19 companies: ACES, BMTR, ERAA, GJTL, GWSA, KPIG, MNCN, MPMX, PANR, SCMA, SMSM, RALS, WOOD, HRTA, MSIN, MAPA, FILM, BOLA, and DRMA, yielding 76 balanced panel data observations (19 companies × 4 years). Quantitative data in the form of annual financial statements were obtained from the Indonesia Stock Exchange e-Reporting system ([Bursa, 2025b](#)), while share ownership data used to measure institutional and managerial ownership were obtained from the AKSes system of the Indonesian Central Securities Depository (*Kustodian Sentral Efek Indonesia/KSEI*). The data were collected using the documentation method from official sources that have been audited by independent public accountants and disclosed through official capital-market sources. Annual financial statements were

chosen because a common annual reporting horizon and external audit provide a more consistent documentary basis; auditing does not independently verify the DA estimates or prove the absence of earnings management ([Ramadhanil et al., 2026](#)), consistent with previous studies that used annual financial statement data ([Mardjono & Chen, 2020](#); [Tandiawan, 2022](#); [Goyal & Gulati, 2024](#)). The operationalization of the variables is presented in Table 3.

Table 3. Operationalization of variables

Variables	Operational Definition	Indicator/Measurement	Data Source
Annual Financial Statement Quality (Y)	A limited accrual-based dimension of financial statement quality is operationalized as the direction of abnormal accrual adjustments. Lower signed DA indicates a downward shift, not necessarily lower manipulation magnitude or better overall reporting quality	Discretionary Accruals (DA) using the Modified Jones Model (Dechow et al., 1995) are calculated in the following stages: total accruals, non-discretionary accruals, and discretionary accruals	Annual financial statements at www.idx.co.id
Independent Commissioners (X_1)	The proportion of independent members of the board of commissioners who have no affiliation	(Number of Independent Commissioners / Total Members of the Board of Commissioners) $\times$ 100% (Tandiawan, 2022)	Annual Report / Sustainability Report
Audit Committee (X_2)	Frequency of audit committee meetings in one fiscal year as an indicator of monitoring effectiveness	Frequency of audit committee meetings in one fiscal year (Almarayeh et al., 2022)	Annual Report / Sustainability Report
Institutional Ownership (X_3)	The proportion of shares owned by financial and non-financial institutions	(Number of Shares Owned by Institutions / Total Shares Outstanding) $\times$ 100% (Elyasiani et al., 2017)	KSEI / Annual Report
Managerial Ownership (X_4)	The proportion of shares owned by the company's board of directors and board of commissioners	(Number of Shares Owned by Management / Total Shares Outstanding) $\times$ 100% (Jensen & Meckling, 1976)	KSEI / Annual Report
Control: Return on Assets (ROA)	The company's ability to generate earnings from its assets; used to control for the effect of performance on accruals and not formulated as a hypothesis	Net Income / Total Assets (Okyere et al., 2021)	Annual Financial Statements

Financial statement quality is operationalized through signed Discretionary Accruals (DA) estimated using the Modified Jones Model ([Dechow et al., 1995](#)), a model-based proxy used in the earnings quality literature ([Man, 2021](#)). Positive values indicate income-increasing abnormal accrual adjustments, whereas negative values indicate income-decreasing abnormal accrual adjustments. They do not establish managerial intent, and a positive coefficient may represent either a move from negative DA toward zero or a move toward more-positive DA. Accordingly, a lower signed value is interpreted only as a reduced income-increasing tendency in directional hypotheses and not as a monotonic improvement in reporting quality ([Türegün, 2020](#)). Large negative values also reflect earnings management. Net income and operating cash flow may carry different information, whereas abnormal accruals may reflect both signaling and opportunistic reporting ([Pham et al., 2019](#)). Therefore, this study explicitly reports the signs of DA and reserves broader quality claims for evidence from additional measures. The DA was estimated in three stages in Formula 1, Formula 2, Formula 3, and Formula 4.

$$TAC_{it} = NI_{it} - CFO_{it} \quad (1)$$

$$TAC_{it}/TA_{it} - 1 = a_1(1/TA_{it} - 1) + a_2((\Delta REV_{it} - \Delta REC_{it})/TA_{it} - 1) + a_3(PPE_{it}/TA_{it} - 1) + \varepsilon_{it} \quad (2)$$

$$NDA_{it} = a_1(1/TA_{it} - 1) + a_2((\Delta REV_{it} - \Delta REC_{it})/TA_{it} - 1) + a_3(PPE_{it}/TA_{it} - 1) \quad (3)$$

$$DA_{it} = TAC_{it}/TA_{it} - 1 - NDA_{it} \quad (4)$$

TAC denotes total accruals, NI denotes net income, CFO denotes cash flow from operations, $TA_{it}-1$ denotes total assets of the previous year, ΔREV denotes the change in revenue, ΔREC denotes the change in accounts receivable, Property, Plant, and Equipment (PPE) fixed assets, a_1 – a_3 the regression coefficients, Non-Discretionary Accruals (NDA) as the predicted value of the regression equation, and ε the error term. The regression coefficients in Formula 2 are estimated cross-sectionally for each observation year (2022, 2023, 2024, and 2025) and then used to predict the NDA of each company observation in the corresponding year. The data were analyzed using panel data regression in EViews 14. Panel data combine time series and cross-sectional data, providing more complete information and allowing unobserved individual heterogeneity to be controlled. The research regression model is formulated as follows Formula 5:

$$DA_{it} = \alpha + \beta_1 KI_{it} + \beta_2 KA_{it} + \beta_3 KLn_{sit} + \beta_4 KMan_{it} + \beta_5 ROA_{it} + \varepsilon_{it} \quad (5)$$

DA denotes signed discretionary accruals as the directional accrual proxy, α denotes the constant, β denotes the regression coefficients, KI denotes independent commissioners, KA denotes the audit committee, KLn_s denotes institutional ownership, KMan denotes managerial ownership, ROA denotes Return on Assets as the control variable, i denotes the company, t denotes the year, and ε denotes the error term. The ROA coefficient (β_5) is reported in the estimation results but is not tested as a hypothesis; therefore, decisions on H_1 to H_4 are based on β_1 to β_4 . In the selected Fixed Effect Model (FEM), company-specific intercepts are included in addition to the common intercept shown in Formula 5. H_5 concerns only the joint restriction on β_1 – β_4 , retaining ROA and the company intercepts in both the restricted and unrestricted specifications.

The analysis begins with descriptive statistics, including minimum, maximum, mean, and standard deviation. Panel regression models are selected using the Chow test (CEM versus FEM), Hausman test (FEM versus REM), and Lagrange Multiplier test (CEM versus REM), with a significance threshold of 0.05. Classical assumption tests include the Jarque–Bera normality test ($p > 0.05$), interpreted alongside the central limit theorem given 76 observations, multicollinearity assessment using a correlation threshold of 0.85, the Glejser heteroscedasticity test ($p > 0.05$), and the Durbin–Watson autocorrelation test using dU and $4 - dU$. The final Fixed-Effects Model (FEM) applies heteroscedasticity-robust HC1 standard errors with the correction $N/(N - K)$, where $N = 76$ and $K = 24$, comprising 19 company intercepts and five slope coefficients, leaving 52 residual degrees of freedom. However, HC1 does not address within-company serial correlation, which remains a limitation given the four-year observation period (MacKinnon et al., 2023).

Hypothesis testing includes R-Squared, Adjusted R-Squared, the overall FEM F-statistic, individual coefficient tests (H_1 – H_4), and a separate HC1 Wald test (H_5) at $\alpha = 0.05$. H_1 – H_4 are supported only when coefficients are negative and their two-sided p -values are below 0.05. Nonsignificant results indicate insufficient statistical evidence rather than the absence of an underlying relationship. For H_5 , the Wald test jointly evaluates $\beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$ while leaving

ROA and company intercepts unrestricted. The test incorporates the complete HC1 covariance submatrix, including off-diagonal elements, and reports the Wald statistic divided by four against $F(4,52)$, alongside its asymptotic chi-square equivalent. This joint test assesses statistical significance rather than governance synergy or whether all mechanisms reduce earnings manipulation.

4. RESULTS AND DISCUSSION

The research data consist of 76 balanced panel data observations from 19 companies during 2022–2025 and were processed using the EViews 14 software. The research variables are coded as Y_KLK for financial statement quality (DA), X_1_KI for independent commissioners, X_2_KA for the audit committee, X_3_KLns for institutional ownership, X_4_KMan for managerial ownership, and Return on Assets (ROA) for the control variable. The descriptive statistics are shown in Table 4.

Table 4. Descriptive statistics

Statistic	Y_KLK (DA)	X_1_KI	X_2_KA	X_3_KLns	X_4_KMan	ROA
Mean	-0.002723	0.417325	4.710526	0.661349	0.044527	0.067110
Maximum	0.155317	0.750000	8.000000	0.923422	0.288942	0.236351
Minimum	-0.164644	0.166667	4.000000	0.076347	0.000057	-0.084115
Std. Dev.	0.056707	0.103044	1.241674	0.194016	0.073272	0.061781
Observations	76	76	76	76	76	76

Table 4 shows that independent commissioners (X_1_KI) have a mean of 0.417325 or 41.73%, with a minimum of 0.166667 (16.67%) and a maximum of 0.750000 (75.00%). This mean exceeds the minimum threshold of 30% required by POJK No. 33/POJK.04/2014, although some companies still fall below this requirement. The audit committee (X_2_KA) has a mean meeting frequency of 4.710526 times per fiscal year, ranging from 4 to 8 times, with a standard deviation of 1.241674, indicating that audit committee meetings are held at least four times a year in accordance with POJK No. 55/POJK.04/2015 and that the variation in monitoring intensity across companies is relatively small. Institutional ownership (X_3_KLns) has a mean of 0.661349 or 66.13%, with a minimum of 0.076347 and a maximum of 0.923422, indicating that the ownership structure of the sample companies is dominated by institutional investors. Managerial ownership (X_4_KMan) has a mean of 0.044527 or 4.45%, with a minimum of 0.000057 and a maximum of 0.288942 (28.89%); the standard deviation of 0.073272, which is greater than the mean, indicates heterogeneous data dispersion, and in most sample companies, management holds only a very small portion of shares.

ROA has a mean of 0.067110 or 6.71%, with a minimum of -0.084115 and a maximum of 0.236351, indicating that the sample companies were generally able to generate profits, although some companies incurred losses during certain periods. DA (Y_KLK) has a mean of -0.002723, a minimum of -0.164644, a maximum of 0.155317, and a standard deviation of 0.056707. The mean close to zero occurs because the positive and negative DA offset each other. Because signed DA is the residual of an accrual model that, by construction, tends to be centered around zero, the mean is not used as a basis for judging whether the financial statement quality is good or poor. The spread indicates variations in the estimated abnormal accrual adjustments across firm-years but does not establish the prevalence or magnitude of intentional manipulation. The mean and spread of signed DA cannot substitute for the mean absolute DA or separate analyses of positive and negative observations. The results of the panel data regression model selection are shown in Table 5.

Table 5. Panel data regression model selection test results

Test	Effects Test	Statistic	df	Prob.	Decision
Chow test	Cross-section F	3.025787	(18,52)	0.0009	FEM preferred over CEM
	Cross-section Chi-square	54.458921	18	0.0000	FEM preferred over CEM
Hausman test	Cross-section random	19.177994	5	0.0018	FEM preferred over REM
LM test	Breusch-Pagan: Cross-section	1.889623	–	0.1692	CEM preferred over REM
	Breusch-Pagan: Time	0.683394	–	0.4084	CEM preferred over REM
	Breusch-Pagan: Both	2.573017	–	0.1087	CEM preferred over REM

Table 5 shows a cross-section F probability of 0.0009 and a cross-section Chi-square probability of 0.0000 (< 0.05), thus, the FEM is more appropriate than the Common Effect Model (CEM), and there are differences in characteristics across companies that cannot be ignored. The Hausman test yields a probability of 0.0018 (< 0.05), thus, FEM is more appropriate than the Random Effect Model (REM) because the individual effects across companies are correlated with the independent variables. The LM (Breusch-Pagan) test yields probabilities of 0.1692 for cross-section, 0.4084 for time, and 0.1087 for both (> 0.05), thus, CEM is considered better than REM. However, because the Chow test rejected CEM and the Hausman test rejected REM, the LM test serves only as a complement. Accordingly, the FEM estimated using the Least Squares Dummy Variable approach is established as the final model. The normality test in Figure 2 yields a Jarque-Bera value of 3.846803 with a probability of 0.146109. This probability is greater than 0.05, thus, the residuals of the regression model are normally distributed.

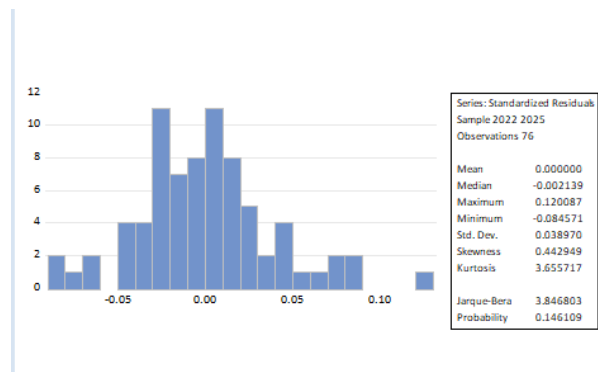


Figure 2. Normality test results

The multicollinearity test in Table 6 shows that the highest correlation occurs between managerial ownership (X_4 _KMan) and ROA at 0.393754, followed by the audit committee and ROA at 0.283324, and independent commissioners and managerial ownership at -0.263771. All correlation values are well below the threshold of 0.85, thus, the model is free from multicollinearity, including after ROA is included as a control variable.

Table 6. Multicollinearity test results (correlation matrix)

Variables	X_1 _KI	X_2 _KA	X_3 _KLns	X_4 _KMan	ROA
X_1 _KI	1.000000	0.116139	-0.102333	-0.263771	-0.182144
X_2 _KA	0.116139	1.000000	0.042738	0.038327	0.283324
X_3 _KLns	-0.102333	0.042738	1.000000	-0.126335	0.034987
X_4 _KMan	-0.263771	0.038327	-0.126335	1.000000	0.393754
ROA	-0.182144	0.283324	0.034987	0.393754	1.000000

Table 7. Heteroskedasticity test results (Glejser test)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	0.015546	0.019633	0.791858	0.4311
X_1 _KI	-0.031273	0.029756	-1.050977	0.2969
X_2 _KA	0.001224	0.002461	0.497308	0.6205
X_3 _KLns	0.025926	0.015168	1.709292	0.0918
X_4 _KMan	0.023380	0.044459	0.525885	0.6006
ROA	0.044241	0.053559	0.826024	0.4116

The Glejser test in Table 7 yields probabilities of 0.2969 for independent commissioners (X_1 _KI), 0.6205 for the audit committee (X_2 _KA), 0.0918 for institutional ownership (X_3 _KLns), 0.6006 for managerial ownership (X_4 _KMan), and 0.4116 for ROA. All values are greater than 0.05, thus, the regression model shows no symptoms of heteroscedasticity. The Durbin-Watson value of

2.856977 is above 2 and indicates a tendency toward negative autocorrelation. However, in panel data with a short period ($T = 4$) and a fixed effect model, the Durbin-Watson statistic is only indicative, therefore, it is not treated as a conclusive test of within-company serial independence. The reported HC1 standard errors address heteroscedasticity but do not establish robustness to serial correlation. The significance results are consequently conditional on this inferential limitation, a panel-specific serial-correlation assessment and suitable firm-clustered sensitivity analysis would strengthen them. Hypothesis testing uses FEM with HC1 heteroscedasticity-robust standard errors. The estimation results are presented in Table 8 and the resulting panel data regression equation is as follows Formula 6:

Table 8. Fixed effect model panel data regression and hypothesis testing results

Variables	Coefficient	Std. Error	t-Statistic	Prob.	Decision
C (Constant)	-0.028504	0.136333	-0.209080	0.8352	–
X_1 _KI	0.047787	0.133930	0.356808	0.7227	Not significant, H_1 rejected
X_2 _KA	-0.010318	0.014493	-0.711905	0.4797	Not significant, H_2 rejected
X_3 _KLns	-0.003788	0.070508	-0.053721	0.9574	Not significant, H_3 rejected
X_4 _KMan	0.430569	0.189348	2.273954	0.0271	Significant, positive direction, H_4 rejected
ROA (Control)	0.562850	0.182156	3.089924	0.0032	Significant, positive direction
R-squared	0.527732				
Adjusted R-squared	0.318844				
F-statistic	2.526388				
Prob (F-statistic)	0.002878	Overall model test, not H_5			
Durbin-Watson stat	2.856977				

$$DAit = -0.028504 + 0.047787KIit - 0.010318KAit - 0.003788KLnsit + 0.430569KManit + 0.562850ROAit + \varepsilon it \quad (6)$$

The constant of -0.028504 indicates the value of DA when all independent variables and the control variable equal zero. The coefficients of independent commissioners (0.047787), managerial ownership (0.430569), and ROA (0.562850) are positive; thus, an increase in these three variables is followed by an increase in DA, assuming that other variables remain constant. An increase in managerial ownership of 1 percentage point (0.01) is followed by an increase in DA of approximately 0.0043, and an increase in ROA of 1 percentage point is followed by an increase in DA of approximately 0.0056. Conversely, the coefficients of the audit committee (-0.010318) and institutional ownership (-0.003788) are negative, indicating downward point estimates for signed DA. These coefficients are not statistically significant and cannot establish improved reporting quality. The estimated slopes describe within-company conditional associations under the FEM; the constant is a normalization-dependent intercept, not an observed firm outcome when every regressor equals zero.

The R-squared of 0.527732 indicates that the complete specification, including governance variables, ROA, and company fixed effects, accounts for 52.77% of the sample variation in signed DA; 47.23% remains in the residual component. The adjusted R-squared of 0.318844 penalizes the number of estimated parameters and is not a direct allocation of explained and unexplained variance among causal factors. These statistics do not identify the separate contribution of governance, profitability, or fixed effects. The reported overall F-statistic is 2.526388 with $p = 0.002878$, testing the nonconstant terms in the complete specification rather than the four governance slopes alone. It therefore cannot support H_5 . The governance-only HC1 Wald result is $F(4,52) = 1.486887$ with $p = 0.219619$, therefore, the joint null is not rejected, and H_5 is not supported. The individual tests provide insufficient evidence for H_1 , H_2 , and H_3 , while the significant positive managerial ownership coefficient contradicts H_4 . ROA remains positive and significant as a control variable, without a separate hypothesis. These conclusions distinguish coefficient direction, individual significance, joint governance significance, and overall model fit.

4.1 The Effect of Independent Commissioners on Financial Statement Quality

Independent commissioners have a regression coefficient of 0.047787 ($p = 0.7227$), indicating no statistically significant association with signed discretionary accruals (DA), therefore, H_1 is not supported. The positive coefficient does not establish that independent commissioners increase earnings management, nor does the nonsignificant result demonstrate ineffective monitoring. Agency theory emphasizes their role in limiting managerial opportunism ([Panda & Leepsa, 2017](#)), but board composition reflects structural independence rather than actual monitoring effectiveness. Factors such as accounting expertise, information access, and the ability to challenge managerial decisions may influence oversight quality ([Marra, 2021](#)), although these mechanisms were not directly examined. The average proportion of independent commissioners was 41.73%, exceeding the regulatory benchmark, but this does not establish compliance or effective monitoring across all firms. Limited within-company variation, sampling restrictions, and statistical imprecision may also contribute to the insignificant finding.

This result differs from [Goyal and Gulati \(2024\)](#) and [Mardjono and Chen \(2020\)](#), who reported that independent directors or commissioners improve financial reporting quality and reduce earnings management, but aligns with [Tandiawan \(2022\)](#), who found no significant influence on managerial discretion. Such inconsistencies may reflect differences in board characteristics, measurement approaches, samples, and industry contexts. [Marra \(2021\)](#) emphasizes that formal independence may lose explanatory power when directors' busyness, accounting expertise, and appointment by non-controlling shareholders are considered, whereas this study examines only the proportion of independent commissioners. Furthermore, economic fluctuations in the consumer cyclicals sector may influence reporting incentives, although their relative importance was not tested. Future research should examine commissioners' expertise, attendance, tenure, affiliations, and involvement in reviewing accounting estimates to better assess monitoring effectiveness. Consistent with [Feng and Huang \(2021\)](#), these findings suggest that governance effects on earnings management may vary across organizational and market conditions.

4.2 The Effect of the Audit Committee on Financial Statement Quality

The audit committee, measured by meeting frequency, has a regression coefficient of -0.010318 with a probability of 0.4797 (> 0.05), thus, H_2 is not supported. The negative direction of the coefficient is consistent with agency theory and the findings of [Almaqoushi and Powell \(2021\)](#), namely that audit committee quality is inversely related to the level of earnings management, but the effect is not strong enough to be declared significant. The average meeting frequency of 4.71 times per year describes recorded activity, but the non-significant coefficient does not establish that this activity was insufficient or ineffective. Members' competence and financial background, independence, and meeting agendas may matter, but these unmeasured characteristics cannot be ranked as more decisive based on the current regression. The negative point estimate also does not demonstrate lower absolute earnings management or a better overall reporting quality.

This result is consistent with [Almarayeh et al. \(2022\)](#) and [Ngo and Le \(2021\)](#), who found no significant relationship between audit committee meeting frequency and earnings management, and with [Sudarmadi and Lasmana \(2026\)](#), who found no significant partial effect of the audit committee on audit quality, but differs from [Kolev et al. \(2019\)](#), whose review positions the audit committee as a central board committee for overseeing financial reporting. Such a review synthesizes the expected oversight role of board committees rather than testing meeting frequency in a specific sector; therefore, its conclusions describe the ideal role of the audit committee. The difference also stems from the proxy used: this study measures the audit committee through meeting frequency, whereas other studies often use the number of members, the proportion of independent members, or members' financial expertise ([Cheung & Adelopo, 2022](#); [Endrawes et al., 2020](#); [Widyawati et al., 2026](#)). The narrow range of meeting frequency, from 4 to 8 times per year with a standard deviation of 1.241674, may limit statistical power, particularly if meeting frequency changes little within the same company. This possibility requires examining within-company variation rather than inferring ineffective oversight from the pooled range alone.

4.3 The Effect of Institutional Ownership on Financial Statement Quality

Institutional ownership has a regression coefficient of -0.003788 with a probability of 0.9574 (> 0.05), thus, H_3 is rejected. The negative direction of the coefficient is consistent with the hypothesis built on the evidence of [Elyasiani et al. \(2017\)](#) that monitoring institutional investors curb earnings management practices, but its value is very small and not significant. One possible explanation for the nonsignificant estimate involves transient institutional investors, namely short-term-oriented institutional investors who focus more on periodic earnings achievements than on in-depth monitoring of management's accounting policies ([Andreou et al., 2022](#); [Jang & Lee, 2022](#)). Although average institutional ownership is 66.13%, the regression does not establish whether those institutions actively monitor accounting decisions. Investor horizon and monitoring intensity were not measured, therefore, the transient-investor explanation remains untested.

This finding does not support [Elyasiani et al. \(2017\)](#), who found that ownership by monitoring institutions is negatively associated with earnings management, but is consistent with [Tandiawan \(2022\)](#), who found no significant effect, and with [Mokrani and Alami \(2021\)](#), who even found a positive association between institutional ownership and earnings management. The monitoring effectiveness of institutional investors depends heavily on the type of investor that dominates ([Elyasiani et al., 2017](#)). This study measures institutional ownership in aggregate without distinguishing between dedicated investors and transient institutional investors, therefore, the monitoring effect of the former may be obscured by the short-term earnings pressure of the latter. This aggregation could obscure heterogeneous relationships, but it does not demonstrate that short-term investors dominate the sample or explain the nonsignificant coefficient. The result concerns aggregate ownership and signed DA, with limited precision, rather than a confirmed failure of institutional monitoring.

4.4 The Effect of Managerial Ownership on Financial Statement Quality

Managerial ownership has a positive and statistically significant association with signed Discretionary Accruals (DA) ($\beta = 0.430569$, $p = 0.0271$), contrary to the predicted negative relationship, therefore, H_4 is not supported. A one-percentage-point increase in managerial ownership corresponds to an estimated 0.0043 increase in signed DA, holding other variables and company effects constant. This indicates a shift toward more income-increasing or less income-decreasing accrual adjustments, rather than evidence of greater earnings manipulation or declining financial reporting quality. The finding contradicts the interest-alignment expectation of agency theory ([Jensen & Meckling, 1976](#)) but is consistent with potential managerial entrenchment, whereby ownership may strengthen managerial discretion ([Saona et al., 2020](#); [Saona & Azad, 2020](#)). However, managerial incentives and entrenchment were not directly measured. The average managerial ownership of 4.45% does not establish a specific ownership threshold or demonstrate ineffective interest alignment. Similarly, [Tika et al. \(2025\)](#) examined earnings persistence rather than signed DA and cannot substantiate such a threshold.

This result differs from [Birkhead \(2024\)](#), who found that broad-based equity ownership reduces accrual-based earnings management, but aligns with [Saona and Azad \(2020\)](#) and [Tandiawan \(2022\)](#), who reported increased managerial discretion associated with insider or managerial ownership. Differences may reflect ownership concentration, managerial incentives, and nonlinear relationships, as suggested by [Saona et al. \(2020\)](#). Although managerial ownership ranges from an average of 4.45% to a maximum of 28.89%, these descriptive statistics do not establish ownership thresholds or explain the underlying mechanism. Future research should examine ownership distributions, nonlinear relationships, and direct indicators of managerial control to distinguish interest alignment from entrenchment. Thus, the positive coefficient represents a conditional directional association rather than evidence of a confirmed managerial incentive mechanism.

4.5 The Simultaneous Effect of Independent Commissioners, Audit Committee, Institutional Ownership, and Managerial Ownership on Financial Statement Quality

The complete FEM has an overall F-statistic of 2.526388 with $p = 0.002878$. This statistic includes the nonconstant terms associated with governance, ROA, and company fixed effects and

cannot establish the joint significance of the four governance coefficients alone. H_5 is evaluated on the same 76 firm-year observations, with the same five slope coefficients, company fixed effects, and HC1 covariance estimator used for the individual tests. The restricted hypothesis $\beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$ was then evaluated using the governance block of the HC1 covariance matrix while retaining ROA and company effects. The resulting Wald statistic is 5.947548, its F form is 1.486887 with 4 and 52 degrees of freedom ($p = 0.219619$). The asymptotic chi-square reference with four degrees of freedom gives $p = 0.203100$. Both reference distributions yield non-rejection at 5%, so H_5 is not supported. This result establishes insufficient joint evidence under the specified covariance estimator; it does not prove that all governance coefficients are zero. It also does not contradict the significant individual managerial ownership coefficient because a four-restriction joint test and a single-coefficient test examine different restrictions and use different critical values. No claim of collective negative effects or governance synergy follows from either test.

The Adjusted R-Squared of 0.318844 indicates the penalized fit of the complete specification, not the share of variation attributable to governance alone. The model does not decompose the contribution of company effects, ROA, and the four governance measures, therefore, overall significance cannot be assigned mainly to one component without an additional comparison. Firm size, leverage, external auditor quality, and changing economic conditions remain possible omitted correlates rather than measured explanations for the residual variation ([Ramadhanil, Ridwansyah, & Rusmianto, 2026](#)). Contextual differences in governance relationships reported by [Feng and Huang \(2021\)](#) and [Almarayeh, Abdullatif, and Aibar-Guzmán \(2022\)](#) provide plausible comparison points. The present contribution is narrower: four structural governance proxies do not show statistically significant joint association with signed DA in this restricted panel, while the managerial ownership coefficient has the opposite sign to the alignment prediction. Agency Theory remains useful for formulating competing monitoring and incentive explanations, but the observed proxies do not independently validate or refute the quality of the underlying monitoring process.

4.6 The Effect of Return on Assets (ROA) as a Control Variable

ROA has a regression coefficient of 0.562850 with a probability of 0.0032 (< 0.05), thus, it has a positive and significant effect on DA. Companies with higher profitability tend to have higher DA. This positive relationship is partly mechanical because total accruals are calculated as the difference between net income and operating cash flow, thus, net income contributes to both DA and ROA, in addition, because investors respond strongly to realized profitability, highly profitable companies have incentives to sustain reported earnings through accrual choices ([Widyantari et al., 2026](#)). This result is consistent with the rationale for including ROA as a control variable: Jones model-based DA measures are correlated with company performance, so performance is a relevant conditioning variable, although adding ROA does not guarantee that misspecification is eliminated ([Kothari et al., 2005](#); [Okyere et al., 2021](#)), and the modified Jones model has not fully eliminated the effect of performance on DA estimates ([Dechow et al., 1995](#)). The presence of ROA as a control is important for interpreting the finding on managerial ownership. The correlation between ROA and managerial ownership is the highest among all pairs of variables (0.393754), but the effect of managerial ownership remains significant after ROA is controlled for. Thus, the reported ownership association is conditional on the included profitability measure. This does not rule out endogeneity, omitted incentives, or measurement overlap between earnings-based variables and does not identify a causal effect of ownership on reporting quality.

5. CONCLUSIONS

5.1 Conclusion

This study examined the individual and joint associations between Good Corporate Governance (GCG) mechanisms and signed Discretionary Accruals (DA) in Indonesian consumer cyclicals main board companies during 2022–2025. Independent commissioners ($\beta = 0.047787$, $p = 0.7227$), audit committee meeting frequency ($\beta = -0.010318$, $p = 0.4797$), and institutional ownership ($\beta = -0.003788$, $p = 0.9574$) showed no significant associations. Managerial ownership was positively associated with signed DA ($\beta = 0.430569$, $p = 0.0271$), contrary to expectations, while ROA showed a significant positive association ($\beta = 0.562850$, $p = 0.0032$). Thus, H_1 – H_4 were not supported. Although

the overall fixed-effects model was significant ($p = 0.002878$, adjusted $R^2 = 0.318844$), the joint governance test was insignificant ($F(4,52) = 1.486887$, $p = 0.219619$), leaving H_5 unsupported. These findings challenge uniform agency-theory expectations without establishing ineffective monitoring or earnings manipulation. Companies should strengthen substantive governance oversight, regulators should develop qualitative monitoring indicators, and investors should consider financial and industry factors alongside GCG structures.

5.2 Research Limitations

This study is limited to 19 Main Board companies over four years, potentially introducing selection and survivorship bias and restricting generalizability. Signed DA measures accrual direction rather than overall reporting quality, while structural governance indicators do not capture actual monitoring effectiveness. Additionally, HC1 robust standard errors address heteroscedasticity but not within-company serial correlation, requiring cautious interpretation. Potential reverse causality and omitted variables further limit causal conclusions.

5.3 Suggestions and Directions for Future Research

Future studies should expand sample coverage and observation periods while incorporating additional controls, including firm size, leverage, and external auditor quality. Alternative reporting-quality measures, such as the Earnings Response Coefficient (ERC), audit opinions, absolute DA, and separate positive and negative DA analyses, should be considered to capture different reporting dimensions. Researchers should also assess sample-selection effects, alternative accrual specifications, and appropriate panel inference methods to strengthen the robustness and generalizability of findings.

ACKNOWLEDGEMENT

The authors would like to express their gratitude to Politeknik Negeri Lampung for its academic support and research facilities, as well as to the Indonesia Stock Exchange and the Indonesian Central Securities Depository (KSEI) for the publicly accessible financial statements and share ownership data that supported this research.

AUTHOR CONTRIBUTIONS

MD conducted the source thesis research and empirical analysis. R served as the corresponding author and contributing author who participated in manuscript drafting and critical review. DP supervised the study and contributed to the manuscript review and finalization. N contributed to the data validation, manuscript improvement, and final editing. All authors have reviewed and approved the final version of this manuscript.

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