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CORPORATE GOVERNANCE ATTRIBUTES AND EARNINGS QUALITY: EMPIRICAL STUDY OF INDONESIAN BANKS (2019-2023)

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ABSTRACT

Banking is one of the sectors that commonly attracts investors and is also one of the industries constantly scrutinized for the accuracy of its financial data, particularly profit. Profit helps investors determine whether the companies they are investing in will provide the necessary returns. Therefore, high-quality reported profit enables investors to make informed choices. Companies that understand that profit is a key component for investors often exploit information gaps between the firm and the investors, choosing to distort financial reports when times are tough. Thus, profit manipulation is closely tied to the principles of good corporate governance. Despite numerous cases and studies conducted, adequate information regarding the influence of good corporate governance on profit quality remains lacking. Therefore, further testing is necessary to examine the effect of good corporate governance—including managerial ownership, independent commissioners, audit committees, and the number of directors—as independent variables on profit quality, which serves as the dependent variable. The data was obtained from the financial statements of banking companies listed on the IDX from 2019 to 2023, using a non-probability sampling method specifically the purposive sampling technique. From the final dataset of 127 processed entries, it can be concluded that profit quality is influenced by the number of directors while managerial ownership, independent commissioners, and audit committees do not have an impact on profit quality.

Keywords: *Managerial Ownership, Independent Commissioners, Audit Committee, Number of Board of Directors, Earnings Quality*

1. INTRODUCTION

In the modern era, investing has become one of the most popular financial activities among millennials and Generation Z. According to the data from PT Kustodian Sentral Efek Indonesia (KSEI), the number of capital market investors as of November 29, 2024, grew by 20% from 12.17 million to 14.58 million SID (Aulia Damayanti, 2024). A Jakpat survey, which included 2,088 respondents from across Indonesia, found that 16% began investing before the age of 20, 23% started when they were 20-24 years old, and 20% at ages 25-29 (Yonatan, 2024). Among the young people embarking on investments, JawaPos.Com reported that as of June 2024, approximately 55% of the around 13 million investors on the IDX are young individuals or Generation Z who prefer indirect investments, such as in the stock market due to the relatively affordable capital (Setiawan, 2024). Meanwhile, a 2022 KSEI press release noted that 209,053 young Generation Z investors and 481,197 young millennials favored the financial sector for their investment assets, particularly in banking (Kustodian Sentral Efek Indonesia, 2022). One reason young investors are drawn to the financial industry is that payment activities have embraced digital transactions from various well-known banks and other financial services, providing numerous conveniences and strong support services that help income from the financial sector grow and lead to more stable stock price movements (Kurniawan, 2024).

Investors who opt to invest in a company inherently possess confidence in its potential for long-term success and return generation. Prior to making an investment decision, investors evaluate the company's status, focusing on profits that reflect the firm's sustainability and capabilities, as evidenced in the financial statements provided. Financial statements serve as a critical resource for investment decisions; however, companies frequently aim to present "attractive" financial data. This pursuit can result in diminished transparency, potentially undermining the interests of investors who seek reliable financial information. The case of Bank Bukopin illustrates this issue, as it manipulated credit card data, leading to an improper inflation of its credit position and commission-based income (Banjarnahor, 2018). CNBC Indonesia reports that PT Bank Bukopin Tbk altered credit card data over five years ago, impacting more than 100,000 cards in total. The case was identified in 2017 by Bukopin's internal auditor, leading management to amend its financial statements for the years 2015, 2016, and 2017 (Banjarnahor, 2018). The revisions indicated that the 2016 net profit, originally reported as Rp1.08 trillion, was amended to Rp183.56 billion. The most significant decline was associated with provision and commission income from credit cards, which fell from Rp1.06 trillion to Rp317.88 billion. The financing of the subsidiary Bank Syariah Bukopin (BSB) was revised, leading to an increase in the provision for impairment of financial assets from Rp649.05 billion to Rp797.65 billion. The revision resulted in a notable increase in the company's expenses amounting to Rp148.6 billion.

The prior scenario demonstrates that profit quality is significantly associated with the function of Good Corporate Governance (GCG), which supervises the management and execution of the company. Corporate governance functions as a framework that effectively directs a company's management in accordance with the principles of equality, fairness, independence, accountability, and transparency (Bursa Efek Indonesia). The Forum for Corporate Governance Indonesia (FCGI) (2001, in Polimpung, 2020, p. 217) defines corporate governance as a framework of regulations that delineates the relationships among stakeholders, including company managers, creditors, government entities, employees, and other relevant parties, regarding their rights and responsibilities in the management or control of the firm. A strong corporate governance structure is crucial as it guarantees that management efficiently employs resources for the owners' benefit and delivers precise financial reporting and operational activities aligned with prevailing conditions (Polimpung, 2020, p. 217). One approach to mitigate agency conflicts involves internal factors, including managerial ownership, an independent board of commissioners, the number of directors, and the presence of an audit committee within the organizational structure (Lins & Warnock, in Utami et al., 2012, quoted by Polimpung, 2020, p. 220).

Managerial ownership is thought to influence earnings quality because managers with a stake in the company's ownership are expected to minimize information asymmetry and feel a sense of belonging to the organization. They can act in the interests of both the owners and the company itself. This aligns with research conducted by Nugraha and Setiany (2020) and Yasa et al. (2020), but contradicts to Handayani and Ersyafdi (2024), Ramadhan et al. (2023), and Alvin and Susanto (2022). Furthermore, independent commissions are also viewed as capable of influencing earnings quality due to their role in overseeing and advising managers when issues arise, rather than manipulating earnings. This is supported by studies from Abdullah et al. (2024), Putri and Imron (2022), and Zabrina and Widiatmoko (2022), yet contrasts with research by Istianingsih (2021), Yolifiandri, Perkasa, and Parashakti (2024), and Siagian et al. (2022). The audit committee is also seen as influential in earnings quality, as it assists independent commissioners in supervising managerial actions that could lead to earnings manipulation. This is consistent with the findings of Abdullah et al. (2024), Yolifiandri et al.

(2024), and Polimpung (2020), but opposes the results of Maharani and Utami (2024), Handayani and Ersyafdi (2024), and Alvin and Susanto (2022). The number of directors is considered to impact earnings quality due to their ability to influence the company's strategic decisions, including potential earnings manipulation. This is in agreement with research conducted by Kangea et al. (2022), Ebiowei and Umobong (2024), and Jiayao et al. (2023), but contrasts with findings from Handayani and Ersyafdi (2024) and Siahainenia (2022).

Agency Theory

First proposed by Alchian and Demsetz in 1972, and later expanded by Jensen and Meckling in 1976, agency theory explains that an agency relationship exists when an individual or group, called the principal, hires another individual, known as the agent, to perform services and grants them decision-making authority (Sutisna et al., 2024, p. 4806). Conflicts can arise in the relationship between the principal and agent, particularly regarding differing interests; the capital owner prioritizes their desires for the company's continuity under going concern conditions, while the agent is more focused on personal welfare in managing the company (Endiana & Suryandari, 2017, in Sutisna et al., 2024, p. 4804). Agency theory also addresses information asymmetry, where the agent has more information about the company, such as financial reports-one of the benchmarks of the company's value-compared to the principal (Fitriani et al., 2023, in Sutisna et al., 2024, p. 4806). As a result, differences in interests, along with the unequal distribution of information between the principal and the agent, can create opportunities for fraud, which may manifest as manipulation of financial reports due to the agent's inability to satisfy the principal's demands for a substantial profit increase (Endiana & Suryandari, 2017, in Sutisna et al., 2024, p. 4805). To ensure that the agent fulfills their duties and responsibilities, agency costs inevitably arise (Sutisna et al., 2024, p. 4806). One approach to mitigate information asymmetry and reduce agency costs is to implement a GCG system based on the principles of transparency, accountability, responsibility, independence, and fairness, which can enhance income quality and serve as a reference for investment (Istianingsih, 2021, p. 292).

Earnings Quality

According to PSAK No. 1, profit serves as a measure of the company's ability to manage controllable financial resources in the future and helps project cash flow from existing resources, thereby assessing the effectiveness of the company's resource use (Polimpung, 2020, p. 216). The quality of profit is defined by several key characteristics: 1) the ability to accurately reflect the company's current operational performance; 2) the ability to provide a solid indication of the company's future performance; and 3) the ability to serve as a reliable measure for evaluating the company's overall performance (Warianto, 2016, in Ramadhan et al., 2023, p. 137). Investors rely on earnings information to forecast the company's future condition for making investment decisions, making it crucial to ensure high earnings quality (Panjaitan & Muslih, 2019, in Polimpung, 2020, p. 216). Beyond investors, quality earnings are also significant for creditors assessing the company's financial health and for company management in predicting future performance and enhancing the company's reputation, as well as that of the management itself (Al-Othman & Al-Zoubi, 2019, p. 5). Therefore, earnings quality is a vital aspect for various stakeholders in evaluating and supporting the sustainability of company performance.

Managerial Ownership

Enggar and Akhmat (2013, in Ramadhan et al., 2023, p. 137) define managerial ownership as the shares of a company owned by its management. Putra (2012, in Nugraha & Setiany, 2020, p. 77) indicates that integrating managers into business ownership is one of the governance

tools that can be utilized to align actions with the objectives of the company owners. This aligns with agency theory, which suggests that when managers are also shareholders, they tend to act in accordance with the interests of other shareholders to achieve organizational goals (Oyebamiji, 2021, p. 23). Thus, by having the managerial ranks as owners of the company, it is anticipated that management will be able to improve the company's financial performance and generate good profits, in line with the definition of profit quality (Oktaviani, 2015, in Zabrina & Widiatmoko, 2022, p. 2011). Companies with a larger proportion of management ownership often excel at making decisions, managing the business more responsibly, and accurately reporting financial data to maintain high integrity (Nugraha & Setiany, 2020, p. 77). Based on this, a hypothesis can be formulated in the form of:
H1: Managerial Ownership has a significant positive effect on earnings quality

This aligns with the findings of research by Nugraha and Setiany (2020) and Yasa et al. (2020), but contrasts with the research conducted by Handayani and Ersyafdi (2024), Ramadhan et al. (2023), and Alvin and Susanto (2022), who argued that managerial ownership does not impact earnings quality. One reason is that the small proportion of managerial ownership limits the ability of the managerial ranks to exert sufficient control over the company's operations (Listyaningsih, 2020, in Alvin & Susanto, 2022, p. 152). Low managerial ownership tends to lead to manipulation of financial reports to preserve performance image, resulting in lower quality profits due to decreased relevance (Handayani & Ersyafdi, 2024, p. 44). Another reason, as noted by Nanang and Tanusdjaja (2019, in Handayani & Ersyafdi, 2024, p. 44), is that managerial ownership cannot affect earnings quality because it often involves familial relationships, and the company's organizational structure typically occupies a strategic and high position, creating opportunities for earnings management practices that inflate profits and deviate the quality of earnings from reality.

Independent Commissioner
According to the National Committee on Corporate Governance Policy, An independent commissioner is a member of the board of commissioners who has no ties to the board of directors or other board members (Dahlia, 2018, in Abdullah et al., 2024, p. 13). The National Committee on Governance Policy (KNKG) (2004, in Siagian et al., 2022, p. 55) states that independent commissioners have a responsibility to conduct special or general supervision and provide advice. The role of independent commissioners in executing the supervisory function can significantly influence the integrity of management in preparing financial reports, ensuring that a quality profit report is produced while protecting the rights of specific parties (Wawo, 2010, in Siagian et al., 2022, p. 55; Zabrina & Widiatmoko, 2022, p. 2009). This aligns with agency theory, which posits that the presence of a board of commissioners aids shareholders in monitoring their managers' behavior, discouraging managers from acting freely for their own benefit (Zabrina & Widiatmoko, 2022, p. 2009). With independent commissioners acting as neutral parties overseeing the management function, performance will be regulated, allowing financial statement information, including earnings quality, to be accurately represented based on the actual circumstances (Firnanti, 2018, in Abdullah et al., 2024, p. 13; Handayani & Ersyafdi, 2024, p. 39). From this, a hypothesis can be formulated, which states:
H1: Independent Commissioners have a significant positive effect on earnings quality

The hypothesis statement aligns with research conducted by Abdullah et al. (2024), Putri and Imron (2022), and Zabrina and Widiatmoko (2022), but it contrasts with the findings of Istianingsih (2021), Yolifiandri et al. (2024), and Siagian et al. (2022). According to Istianingsih (2021, p. 297), an inadequate proportion of independent board members hampers proper oversight of management performance, significantly contributing to ineffective

supervision of a company's management. Furthermore, poor communication between independent commissioners and company management obstructs the commissioners' understanding of the company's business processes and financial policies, thereby limiting their ability to supervise profit quality (Yolifiandri et al., 2024, p. 522). Another point raised by Siagian et al. (2022, p. 58) is that independent commissioners cannot ensure good company performance, as a majority shareholder vote determines the appointment of board members. Moreover, having a large number of independent commissioners does not guarantee that they will effectively fulfill their duties and supervise, as they are constrained by the rules and policies of the majority shareholders. If the majority shareholders are also the company's managers, they cannot promote optimal corporate governance to minimize or prevent earnings management (Lestari & Cahyati, 2017, in Siagian et al., 2022, p. 58).

Audit Committee

The board of commissioners establishes the audit committee primarily to supervise the company's management, ensuring the accuracy of prepared financial reports (Maharani & Utami, 2024, p. 94). The audit committee serves a crucial role in corporate governance by monitoring, reviewing, and assessing company activities to mitigate information asymmetry between agents and principals, as described in agency theory (Khalid & Arief, 2017; Sae-Lim et al., 2019, in Alvin & Susanto, 2022, p. 148). In the framework of agency theory, a competent and independent audit committee is essential for safeguarding the interests of the company's owners, particularly regarding the accuracy of profit information, against potential distortions by managers (Isynuwardhana & Rahmawati, 2023, in Maharani & Utami, 2024, p. 94). This corresponds with the main duty of the audit committee, which is to support the board of commissioners in executing its oversight function, ensuring that the financial reports generated by management accurately reflect the company's financial status, and assessing the adherence of internal and external audits to applicable auditing standards (Abdullah et al., 2024, p. 13). The audit committee's thorough monitoring should guarantee that the reported profit data correctly reflects the company's performance and financial status, yielding high-quality earnings (Maharani & Utami, 2024, p. 94). A strong audit committee can enhance internal oversight within the organization and provide effective protection for stakeholders and shareholders (Kartika et al., 2023, in Abdullah et al., 2024, p. 13). From this discussion, the subsequent hypothesis can be formulated:

H1: The Audit Committee has a significant positive effect on profit quality.

The hypothesis presented aligns with the findings of research conducted by Abdullah et al. (2024), Yolifiandri et al. (2024), and Polimpung (2020), yet contrasts with the results obtained by Maharani and Utami (2024), Handayani and Ersyafdi (2024), and Alvin and Susanto (2022). The audit committee may have an insignificant influence, as it is often established merely to comply with regulatory requirements without ensuring improved oversight, potentially hindering its ability to detect earnings management practices (Razani & Xia, 2017, in Alvin & Susanto, 2022, p. 152). Furthermore, the audit committee is not actively engaged in the company's operations concerning the compilation of financial statements, internal control systems, or external audit visits, which can heighten the risk of earnings management practices and diminish earnings quality (Handayani & Ersyafdi, 2024, p. 40).

Number of Directors

According to Adewumi (2020, in Kangea et al., 2022, p. 42), the size of a board of directors plays a crucial role in determining how a company operates by selecting the right strategies to enhance its performance regarding earnings quality. The board's size is defined as the number of directors responsible for ensuring that management activities align with stakeholder interests

(Isik & Ince, 2016, in Kangea et al., 2022, p. 42). Huang and Zhang (2020, in Jiayao et al., 2023, p. 86) discovered that board size positively influences the achievement of corporate performance goals. A larger board offers more effective guidance for corporate decision-making, fostering growth and improving performance (Jiayao et al., 2023, p. 86). According to agency theory, a larger board provides advantages in addressing agency problems, as a greater number of experienced directors can be appointed to oversee and evaluate management actions (Kiel & Nicholson, 2003, in Kangea et al., 2022, p. 42). Moreover, having more directors benefits large companies with diverse functions, facilitating better oversight to ensure smooth operations. A larger board encourages the exchange of ideas and generates more strategies aimed at increasing company profits. Based on this, the following hypothesis can be proposed:
H1: The number of directors has a significant positive effect on profit quality

The stated hypothesis aligns with the findings of research conducted by Kangea et al. (2022), Ebiowei and Umobong (2024), and Jiayao et al. (2023). However, it contrasts with the results reported by Handayani and Ersyafdi (2024) and Siahainenia (2022), which indicate that the number of board members does not impact the quality of earnings. According to Handayani and Ersyafdi (2024, p. 46), the board of directors is part of the management team that aims to enhance the company's profits to maintain its performance competency. To meet shareholder demands, a larger number of board members sometimes engages in earnings management to present more favorable financial statements, although this may obscure the true financial condition of the company. Furthermore, other findings suggest that an excessively large board of directors does not necessarily improve the quality of the company's earnings. According to Anderson et al. (2004, in Kangea et al., 2022, p. 42), a smaller board increases the efficiency of corporate governance, while a larger board may experience delays in decision-making. This is supported by Valeas (2000, in Kangea et al., 2022, p. 42), which states that a smaller board facilitates the easier exchange of ideas among directors, thus streamlining decision-making time.

Based on the hypothesis written above, a thinking framework can be created in the form of:

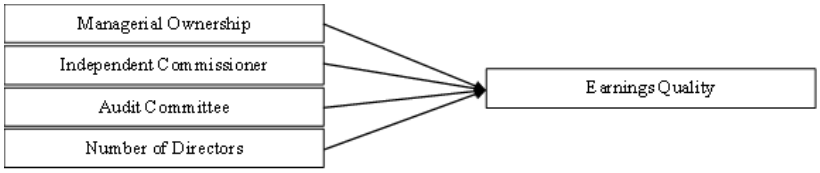

Figure 1. Thinking Framework

2. RESEARCH METHOD

This study employs a quantitative descriptive method to identify the empirical relationship between the formulated variables. The data being analyzed is panel data, as it encompasses several banking companies listed on the Indonesia Stock Exchange (IDX) over five years, from 2019 to 2023. The research population consists of all banking companies listed on the IDX during 2019-2023, totaling 46 companies. From this population, sampling was performed using a non-probability sampling method, specifically the purposive sampling technique. The criteria outlined in Table 1 serve as the basis for the sample selection process. Based on these criteria, 230 data points were collected from 46 companies over the five-year period. Given the availability of data throughout the research period and its suitability for supporting optimal estimation model testing without resulting in significant inequality, 103 data points were excluded due to notable disparities. Consequently, in this study, 127 data points will be further tested to assess the impact of each independent variable on the dependent variable.

Table 1. Sampling Criteria

No	Criteria	Total
1.	Banking companies listed on the IDX	46
2.	Reporting its complete annual report from 2019-2023 using Rupiah Currency	46
3.	**Total data obtained**	**46 x 5 = 230**
	Data excluded due to significant inequality	103
4.	**Total data used for further investigation**	**127**

This study employs independent variables such as managerial ownership, independent commissioners, audit committees, and boards of directors. The dependent variable examined is earnings quality. Each variable is measured using a ratio scale, with the approach outlined in Table 2. The research data consists of secondary data obtained from the financial statements of each company, which was the study's object.

Table 2. Operational Variable

Variable	Measurement	Scale	Source
Manajerial Ownership	$\frac{Number\ of\ shares\ owned\ by\ management}{Number\ of\ shares\ outstanding}$	Ratio	Ramadhan, et al. (2023)
Independent Commissioner	$\frac{Number\ of\ Independent\ Commissioner}{Number\ of\ board\ of\ commissioners}$	Ratio	Istianingsih (2021)
Audit Committee	$Number\ of\ personnel\ in\ the\ audit\ committee$	Ratio	Alvin & Susanto (2022)
Number of Directors	$Number\ of\ personnel\ in\ the\ board\ of\ directors$	Ratio	Jiayao et al. (2023)
Earnings Quality	$EQ = \frac{Cash\ Flow\ from\ Operation}{Net\ Income}$	Ratio	Zabrina & Widiatmoko (2022)

The collected data will be analyzed descriptively, followed by classical assumption testing including tests for normality, heteroscedasticity, multicollinearity, and autocorrelation. Next, a feasibility test for the model will be conducted to assess the validity of the regression model formulated in Equation 1 as a prediction tool using SPSS statistical software version 25.

$\widehat{EQ} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$.....Equation. 1

Where, EQ = *Earnings Quality*; $\beta_1 - \beta_4$ = *Regression Coefficient*; X_1 = *Managerial Ownership*; X_2 = *Independent Commissioner*; X_3 = *Audit Committee*; X_4 = *Number of Directors*; ε = *Error*.

3. RESULTS AND DISCUSSIONS

Table 3. Descriptive Statistics of Variable

Variables	N	Minimum	Maximum	Sum	Mean	Std. Deviation
Managerial Ownership	127	.00	33.33	177.44	1.3972	6.50844
Independent Commissioner	127	.00	1.00	73.46	.5784	.13141
Audit Committee	127	2.00	8.00	477.00	3.7559	1.21313
Number of Director	127	3.00	12.00	805.00	6.3386	2.77237
Earnings Quality	127	-9.91	11.96	260.86	2.0540	4.19403
Valid N (listwise)	127					

According to Table 3, the lowest level of managerial ownership in banking companies is 0%, while the highest reaches 33.33%. The average overall managerial ownership stands at 1.3972%, suggesting that managerial ownership in banking companies remains relatively low. The data distribution for this variable is represented by a standard deviation of 6.50844, revealing significant variation among organizations. The independent commissioner variable

shows the existence of corporations without independent commissioners, alongside companies that have all independent commissioners. The average proportion of independent commissioners on a board is 0.5784, with a standard deviation of 0.13141, indicating that most corporations maintain a comparable proportion of independent commissioners. The audit committee variable reveals that the number of members in the audit committee ranges from 2 to 8 individuals. The average number of audit committee members in banking companies is approximately four, with a standard deviation of 1.21313, illustrating that there is still limited variation in the number of members across audit committees among banking companies. The number of directors in banking businesses varies from three to twelve. The average number of directors in these companies is around six, with a standard deviation of 2.77237, indicating a considerable variation in the composition of boards of directors within each banking company. The lowest recorded value of earnings quality from the collected data was -9.91, while the highest reached 11.96. The average earnings quality is 2.0540, with a standard deviation of 4.19403, suggesting that few firms exhibit earnings quality below the industry average. However, the majority of banking companies demonstrate strong earnings quality, reflecting a broad range of earnings quality values.

Table 4. Kolmogorov-Smirnov Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		127
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	3.98328445
Most Extreme Differences	Absolute	.077
	Positive	.052
	Negative	-.077
Test Statistic		.077
Asymp. Sig. (2-tailed)		.059[c]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

The normality test aims to evaluate whether the confounding factors or residuals in the regression model adhere to a normal distribution (Wibowo, 2023, p. 341). One crucial premise in regression analysis is that the residuals must be normally distributed since it is believed that this leads to a lower likelihood of prediction errors. There are several methods to perform a normality test, one of which is the One-Sample Kolmogorov-Smirnov Normality Test. According to the criterion, if the significance value exceeds 0.05, the data is considered to be normally distributed (Wibowo, 2023, p. 389). The One-Sample Kolmogorov-Smirnov Normality Test findings, shown in Table 4, reveal a significance value of 0.059, above 0.05, so affirming that the data meets the criteria for normal distribution.

Table 5. Glejser Heteroscedasticity Test

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4.281	1.240		3.452	.001
MO	-.039	.035	-.101	-1.099	.274
KI	-.614	1.793	-.032	-.342	.733
KA	-.116	.233	-.056	-.498	.619
JD	-.054	.101	-.060	-.530	.597
a. Dependent Variable: abs_res					

The heteroscedasticity test is used to determine whether there is equality of variance among the residuals for all observations in the regression model (Zahriyah et al., 2021, p. 89). The main objective of this test is to demonstrate that there is no heteroscedasticity in the data employed as a predictive model. The presence of heteroscedasticity indicates that the residual variance varies, which can result in the model appearing effective for some data while performing poorly for data in other segments (Zahriyah et al., 2021, p. 89). Various methods can be employed to evaluate heteroscedasticity, including the Glejser Test, which consists of regressing the independent variables against the absolute values of the residuals. The decision criteria for the Glejser Test state that if the significance value is above 0.05, the model is considered to have no heteroscedasticity (Zahriyah et al., 2021, p. 100). According to Table 5, the significance value of each variable when regressed against its absolute residual value produces values greater than 0.05, indicating that there are no signs of heteroscedasticity in the data to be used for the regression model.

Table 6. Durbin-Watson Autocorrelation Test

Model Summary[b]					
Model	DL	DU	Durbin-Watson	4-DU	4-DL
1	1.6460	1.7757	1.812[a]	2.2243	2.354
a. Predictors: (Constant), JD, KI, MO, KA					
b. Dependent Variable: EQ					

The autocorrelation test is conducted to ensure that the dependent variable does not affect either the previous variable value or the value of the following period, allowing the prediction model to fully reveal the influence of each independent variable without any relationship from the dependent value in prior or subsequent periods (Satosa & Ashari, 2005, in Diamonalisa et al., 2022, p. 58). Autocorrelation testing can be performed using the Durbin-Watson method, with decision-making criteria as follows: 1) positive autocorrelation occurs when the data is below dL; 2) no conclusions can be drawn if the data falls within the range dL≤dw≤du or 4-dU≤dw≤4-dL; 3) no autocorrelation occurs if it is within the range du≤dw≤4-du; and 4) negative autocorrelation occurs if it exceeds 4-dL (Zahriyah et al., 2021, p. 102). Table 6 shows that the dw value is 1.812, with dL at 1.6460 and dU at 1.7757, indicating that the dw value falls between dU and 4-dU, suggesting that there are no autocorrelation symptoms in the data to be used as a prediction model.

Table 7. Muticollinearity Test

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	MO	.949	1.053
	KI	.899	1.112
	KA	.626	1.597
	JD	.634	1.576
a. Dependent Variable: EQ			

The multicollinearity test aims to determine whether the relationship between independent variables demonstrates a high or low correlation, indicating mutual influence among independent variables rather than with the dependent variable (Diamonalisa et al., 2022, p. 55). Multicollinearity can be assessed using the Value Inflation Factor (VIF), with the criterion stating that if the VIF value is below 10, then there are no signs of multicollinearity in the independent variables (Wijaya, 2009, in Diamonalisa et al., 2022, p. 56). Table 7 indicates that the VIF value for each independent variable falls below 10, fulfilling the criterion, and it can be concluded that there are no indications of multicollinearity in any of the independent

variables used.

Table 8. Coefficient of Determination

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.313[a]	.098	.068	4.04806
a. Predictors: (Constant), JD, KI, MO, KA				
b. Dependent Variable: EQ				

According to the adjusted R-squared calculation results presented in Table 8, the influence of all independent variables—including managerial ownership, an audit committee, independent commissioners, and the number of directors—on the dependent variable, earnings quality, was 6.8%, while the remaining 93.2% was attributed to other independent variables not included in this study.

Table 9. Simultaneous Test Result

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	217.143	4	54.286	3.313	.013[b]
	Residual	1999.186	122	16.387		
	Total	2216.329	126			
a. Dependent Variable: EQ						
b. Predictors: (Constant), JD, KI, MO, KA						

Simultaneous testing determines the model's viability and assesses the significance of the simultaneous effect of independent variables on the dependent variable (Istianingsih, 2021, p. 297). For the model to demonstrate feasible predictions and show that independent variables significantly influence their dependent variables concurrently, the significance value of the simultaneous test must be less than 0.05 (Istianingsih, 2021, p. 297). According to the ANOVA results used to evaluate the simultaneous test, presented in Table 9, the model is viable for predictive purposes, and each independent variable in this study can significantly impact its dependent variable at the same time, with a significance value of 0.013, which is below 0.05.

Table 10. Partial Test Result

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
Model	Beta	Std. Error	Beta	t	Sig.
1 (Constant)	-.049	2.002		-.024	.981
MO	.004	.057	.006	.065	.948
KI	-.713	2.894	-.022	-.246	.806
KA	-.197	.376	-.057	-.524	.601
JD	.513	.163	.339	3.139	.002
a. Dependent Variable: EQ					

Upon the classical assumption test revealing no issues with the data and the model feasibility test affirming its viability, the subsequent step is to analyze the regression coefficient, which delineates the relationship between each independent variable and the dependent variable within the regression model (Iba & Wardhana, 2024, p. 68). Alongside evaluating the regression coefficient, it is essential to examine its statistical significance to ascertain if the link between the independent and dependent variables is really meaningful or just coincidental (Iba & Wardhana, 2024, p. 68). The regression coefficient can be found in the Unstandardized Coefficients Beta and then formulated into a regression equation as stated in Equation 1. The impact of each independent variable on the dependent variable can be assessed through the

significance value of each variable, with the criterion indicating that an independent variable significantly influences its dependent variable when its significance value is below 0.05. According to Table 10, which displays the computed coefficients and significance of each independent variable in relation to its dependent variable, the multiple linear regression equation may be articulated as follows:

$\widehat{EQ} = -0.049 + 0.04\,X_1 - 0.713\,X_2 - 0.197X_3 + 0.513\,X_4 + \varepsilon$.....
Equation. 2

According to the equation presented in Equation 2, the constant value of -0.049 indicates that if management ownership, independent commissioners, audit committees, and the number of directors are disregarded, the average earnings quality value is -0.049. In other words, when the independent variables in this analysis are overlooked, the typical bank's cash expenses for operations surpass its net profits.

The coefficient value of the managerial ownership variable is 0.04, indicating that managerial ownership has a positive or unidirectional influence on earnings quality. In other words, when the managerial ownership variable increases by 1 unit, earnings quality will also rise by 0.04 units, and vice versa, assuming all other variables remain constant. According to the significance test, the managerial ownership variable has a significance value of 0.948, which exceeds 0.05, suggesting that managerial ownership has an insignificant effect on earnings quality. This aligns with research conducted by Handayani and Ersyafdi (2024), Ramadhan et al. (2023), and Alvin and Susanto (2022). The source of management ownership that yields minimal impacts on earnings quality, as indicated by the data, is the relatively low percentage of managerial ownership, averaging about 1.4%, which makes it less likely to influence the company's strategic decisions. Furthermore, with such small ownership, managers lack sufficient incentives to prioritize the interests of other shareholders. Due to low managerial ownership, managers are unable to prioritize shareholder interests and tend to manipulate financial reports to uphold their performance image, resulting in lower quality profits (Handayani & Ersyafdi, 2024, p. 44).

The coefficient value of -0.713 for the independent commissioner variable suggests that independent commissioners exert a non-unidirectional influence on earnings quality. Specifically, a 1-unit increase in the independent commissioner variable is associated with a 0.713-unit decrease in earnings quality, assuming all other variables are held constant. The significance value for the independent commissioner variable, as determined by the partial significance test, is 0.806, which is greater than 0.05. This suggests that independent commissioners exert a negligible influence on earnings quality. This finding aligns with research conducted by Istianingsih (2021), Yolifiandri et al. (2024), and Siagian et al. (2022). Table 3 indicates that the average proportion of independent commissioners in banking companies is 50%. If there are four members on the board of commissioners, then only two will be independent commissioners. Data tracing indicated that the maximum number of commissioners in banking companies is 11, with a corresponding maximum of 6 independent commissioners. This finding aligns with the average number of directors in banking companies, as presented in Table 3. It can be concluded that the proportion of independent commissioners remains inadequate for effective management performance control, as noted by Istianingsih (2021, p. 297).

The coefficient of the audit committee variable is -0.197, suggesting that the audit committee exerts a negative or non-unidirectional effect on earnings quality. Specifically, a 1-unit increase in the audit committee variable results in a 0.197-unit decrease in earnings quality, assuming

all other variables are held constant. The significance value of the audit committee variable, as determined by the partial significance test, is 0.601, exceeding the threshold of 0.05. This indicates that the audit committee exerts a minimal influence on earnings quality. This aligns with the findings of research conducted by Maharani and Utami (2024), Handayani and Ersyafdi (2024), and Alvin and Susanto (2022). It can be inferred that audit committees are frequently formed solely to meet legislative requirements, lacking effective oversight and failing to engage actively in the company's financial statement preparation, internal control systems, or external audits. As a result, management may alter financial statement outcomes, leading to a perception of diminished profit quality (Alvin & Susanto, 2022, p. 152; Handayani & Ersyafdi, 2024, p. 40). Furthermore, the ratio of directors to audit committee members reveals that the average audit committee comprises approximately three members, tasked with overseeing a board of directors that averages six members. This situation seems excessive and undermines the audit committee's authority in overseeing the board of directors. Consequently, it is understandable that management might overlook the recommendations issued by the audit committee, given its limited enforcement authority.

The coefficient for the variable representing the number of directors is 0.513, suggesting a positive influence of the number of directors on earnings quality. Specifically, an increase of one unit in the number of directors correlates with a one unit increase in the quality of earnings, assuming all other variables are held constant. The partial significance test indicates a significance value of 0.002 for the variable representing the number of directors, which is below the 0.05 threshold. The quantity of directors has a substantial impact on earnings quality. This finding aligns with the research conducted by Kangea et al. (2022), Ebiowei and Umobong (2024), and Jiayao et al. (2023). In conclusion, the quality of earnings in banking companies listed on the IDX is influenced by the number of directors. An increased number of directors enhances the oversight of management, facilitating accurate reporting of operational activities and financial decisions. Moreover, a growing number of board members, especially those possessing diverse backgrounds, skills, or experiences, can improve the quality of decision-making. A wider array of perspectives enhances ethical and strategic problem-solving, thereby decreasing the probability of the board engaging in earnings management practices.

4. CONCLUSIONS AND SUGGESTIONS

Based on the previous discussion, the results of this study indicate that the number of boards of directors has the most significant influence on earnings quality. According to this research, firms aiming to enhance the quality of their earnings should prioritize reorganizing their board of directors by increasing the number of directors in alignment with the business's demands and considering their strategic roles in decision-making. The addition of directors can draw from various races, educational backgrounds, and age groups to foster diverse ideas that contribute to developing strategies capable of boosting company profits without manipulation. A competent and cohesive board of directors can accurately reflect the company's actual condition, even when audited by the audit committee and monitored by the board of commissioners or influenced by certain ownership interests. This study has limitations as it was only conducted in the banking sector, uncovering several variables that have insignificant effects on earnings quality. Consequently, future research is expected to explore additional variables and encompass a wider range of industrial sectors to provide a more complete picture of the factors affecting earnings quality.

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