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Research Article

Earnings Management Detection: The Effect of Good Corporate Governance and Executive Compensation (Comparison of Jones Model with Dechow Model)

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ABSTRACT

The purpose of this study is to analyze the effect of the Independent Board of Commissioners, Independent Audit Committee, Managerial Ownership, and Executive Compensation on earnings management in the company, by comparing the effectiveness of the Jones Model and the Dechow Model in detecting discretionary accruals because there are inconsistencies between the two models. The population of this study are food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023. The sample selection was carried out using a purposive sampling method, namely sampling based on predetermined criteria, including companies that are consistently listed on the IDX, have complete annual reports, are not from the financial sector, and have complete data on the independent board of commissioners, independent audit committee, and executive compensation. The method used is a quantitative method that focuses on collecting and analyzing numerical data to explain certain phenomena. The results showed that Good Corporate Governance (GCG) and Executive Compensation have no significant effect on Earnings Management. This study also compares the ability of the two models to identify discretionary accruals that reflect earnings manipulation practices by management. The results of the analysis show that the Dechow Model, which modifies the Jones Model approach by considering changes in accounts receivable, provides more accurate and consistent results in detecting earnings management than the Jones Model. Therefore, companies need to strengthen governance by increasing the proportion of independent commissioners, audit committees, and managerial ownership, and designing executive compensation structures that reduce incentives to perform earnings management.

Keywords: Independent commissioner, independent audit committee, executive compensation, Managerial ownership, Profit management, companies.

INTRODUCTION

Investors and creditors are among the many external parties that can view financial statements, which are indicators of overall conditions and performance including cash flow and management of entity funds. Earnings information is particularly important for these parties because it helps with decision-making. The profit and loss statement is a key component of financial reporting. (Dharma et al., 2023). Profit is believed to be one of the important indicators in determining company performance. A rise in the bottom line is a sign that things are looking up for the business. Profit is also an indicator of the effectiveness of the company's management in doing their job. This is why the majority of managers and business executives work to inflate the profit numbers in the financial accounts to make themselves seem good.

In this case, to display profits well, management can carry out activities called earnings management. According to Schipper (2007), "earnings management refers to the practice of influencing financial reporting for personal gain". Management steps in because they know that the reported transaction counts are manipulated to provide external parties with good financial reporting. However, certain stakeholders may be misled in evaluating the Company's success due to its management's manipulation of financial statements.

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Consequently, a tool that can analyze financial data and identify earnings management is crucial. To overcome this challenge, the Jones Model (1991) and Modified (Dharma et al., 2023) Are often used as analytical tools in detecting earnings management practices. The Dechow Modification addresses the shortcomings of the Jones model by taking into consideration changes in accounts receivable, revenue, and fixed assets, while the former model only measures discretionary accruals to represent earnings management. The combined use of these two models allows for a more precise examination of the company's financial performance through revealing instances of probable earnings manipulation. Financial reporting should be more open and accountable as a consequence of this research, and stakeholders should be able to make better choices as a result.

Research on earnings management as a phenomenon has attracted the attention of several specialists in the industry. In 2019, it was revealed that PT Tiga Pilar Sejahtera Food Tbk (AISA) was involved in earnings management, among other things. There is speculation that the company falsified financial statements by exaggerating the value of fixed assets, accounts receivable, and inventory while understating sales and cash. The 2018 Garuda Indonesia case was also heavily covered in the media because of allegations of profit manipulation in the company's financial reports. In 2018, Garuda Indonesia generated a net profit of $809k, up from a deficit of $216.58m in 2017, however, it was still losing $114,000 up until September of that year. The reason for this anomaly is that Garuda improperly recorded income from a collaboration deal with PT Mahata Aero Teknologi, even though no money had been received. After an inquiry, the Financial Services Authority (OJK) ordered Garuda and the auditors to restate their financial accounts and imposed sanctions on them. Good profit quality and the avoidance of earnings management are highlighted in this case as crucial to preserving the credibility of financial statements.

Both cases highlight the problem with earnings management and how it undermines trust in the company's financial statements. The reason is, that tampering with a company's results can have far-reaching effects on its financial reporting, which impacts the decisions made by stakeholders like creditors and investors. This, in turn, can reduce investor confidence and ultimately harm the company's bottom line. This is why it's so important to understand the motivations behind profit management strategies in the corporate sector. Reducing profit-management strategies may be achieved via the implementation of GCG. Optimal corporate governance seeks to grow a company's worthwhile regulating and controlling it to protect its stakeholders' interests. The Indonesian government and the International Monetary Fund (IMF) have implemented good corporate governance, a mechanism for healthy corporate governance. According to Octavia (2011) To ensure that a firm's activities meet the expectations of its stakeholders, good corporate governance establishes a framework for directing and controlling the organization. Good corporate governance is crucial in this setting, and independent commissioner boards, audit committees, and management ownership all play key roles in this regard.

According to Law No. 40 of 2007 on Independent Wealth (UUPT), the company's external management is considered an independent entity (Article 120(2)). The agreement specifies that outside directors are the only ones eligible to serve as independent directors under good corporate governance standards. Board members who are not actively engaged with the committee, the trust fund, the board of directors, or any commercial or other alliance that could compromise the independence of operation are all considered to be part of this category. The board of commissioners is in charge of overseeing the choices that are to be made. Thus, it can be concluded that company policies will become stricter with the approval of the board of commissioners. Cahyono & Saraswati (2022). Moreover, according to Apriwandi, Hidayat & Christine (2024) A company's business decisions will also be taken with more consideration of existing standards, such as legal standards that must be obeyed so that the company's business decisions will have a lower risk of failure. Research by Puspitasari Puji, and Emy (2019) Demonstrates that an impartial board of commissioners improves the management of profits. Meanwhile, research by Amya Yulia Sari, Yulia Sari & Hasnawati (2020) Proves that the impartial board of commissioners has a detrimental effect on profit management.

Another indicator that is considered to influence earnings management actions is audit quality. Based on Amalia dan Paulus (2023), “The audit committee is in charge of overseeing the performance of directors and management by organizing groups that collaborate and work together”. In addition, the rule specifies that no more than two individuals from outside the company may serve on an audit committee; however, if the board of commissioners is confronted with a particularly difficult or burdensome case, the minister may approve a larger committee. Assisting with the company's organizational safeguards is one of the audit committee's obligations in guaranteeing that stakeholders, including investors, obtain correct information. Every piece of information that the issuer makes public, including financial records and predictions, must be reviewed by the audit committee (Paerunan & Lastastanti, 2022). The audit committee is assigned to help the board of directors enhance the efficacy and quality of financial statements. The results of Nasution et al., (2020) Prove the worth of overseeing profit management by an audit committee. The firm's ownership of a significant number of audit committee members suggests that the organization will likely manage its revenues better. At the same time, studies undertaken by Tahmidi et al. (2022) Validate the negative influence of audit committees on profit management. There may be less earnings management if there are a lot of company-owned audit committee members.

Managerial ownership is essential to good corporate governance, as is the audit committee's work to improve financial statement quality and supervisory efficacy. According to Bakhtiar et al. (2020), “managerial ownership is the proportion

or quantity of shares held by management". Management is there to run the show, but they may also take on the role of shareholder if they so choose. Contracting parties, including those responsible for selecting the audit committee, will look at managers who own shares in the firm. This puts pressure on managers to provide accurate financial reports to creditors, shareholders, and anybody else who uses financial statements. (Arthawan & Wirasedana, 2018). As a result, top brass will be incentivized to provide accurate financial reports. According to Jensend and Meckling (1976) in Panjaitan & Muslih (2019) Increasing managerial ownership may help resolve the conflict of interest between agents and principals in the firm. This will strengthen oversight of the company and lower the risk of profit management.

The compensation of executives is one factor that may affect earnings management. According to Sucipto & Zulfa (2021), "executive compensation is an award given to employees in return for the contributions they make to the company". Compensation can be financial or non-financial. According to Scott (1998) in Lako (2019), Management and executives may be incentivized to prevent moral hazard and boost the firm's worth via executive compensation schemes that are based on salary payments or payoffs delivered by the business, such as net income and share price. In addition to maintaining and enhancing executives' commercial abilities and competitive advantages, pay schemes also motivate responsible executive behavior, which has social benefits.

The purpose of this analysis is to identify manufacturing businesses trading on the Indonesia Stock Exchange between 2020 and 2023 and to determine if and how corporate governance procedures may help reduce profit management strategies. This analysis aims to support the management and accounting literature by investigating the impact of organizational policies and structures on profit management. There will be a thorough investigation of the audit committee, executive compensation, management ownership, and the impartial board of commissioners. A clearer picture of how these factors affect the reliability of financial reports will emerge.

LITERATURE STUDY

Literature Review

Agency Theory

According to Jensen and Meckling (1976) in Nugroho & Darsono (2015) In agency theory, a relationship may develop when two parties enter into a legally binding contract to use one another's services as agents to achieve their respective goals. In the first, management has an obligation to the shareholders; in the second, they have an obligation to the lenders (bondholders). In actuality, for the contractual relationship to function properly, the principal will provide the agent with decision-making power. The overarching goal of agency theory is to help principals and agents better understand their environments and the outcomes of their actions and to make it easier to divide up the spoils according to the terms of their agreement.

According to Ross (1973), agency theory, a connection between two or more parties may develop when one party is designated as an agent to represent the interests of another party, in this case, a shareholder. Organizational dynamics, including agency costs and conflicts of interest, may be better understood with the help of agency theory, which also offers a framework for identifying these issues.

Earnings management

Octavia (2017) Asserts that earnings management may be described as the practice of manipulating financial statements to accomplish predetermined objectives, such as satisfying individual desires or boosting the company's stock price. The result is financial reporting that is either not accurate or doesn't reflect reality, all to enrich the individuals involved.

External developments that place a greater emphasis on earnings data as a measure of firm success could provide the impetus for earnings management. This sets the stage for earnings management, in which management tinkers with the numbers to make them seem better. Panjaitan & Muslih (2019) Describe earnings management as an act of engineering financial statements, specifically to engineer company profits to match the desired results.

According to the previous definition, earnings management is when a company's management makes decisions that affect the financial statements, particularly reported profits, to achieve certain goals, such as satisfying internal targets or external expectations. According to Scott (2015), managers engage in earnings management when they intentionally choose accounting procedures to achieve certain goals, such as satisfying their interests or enhancing the market value of their firm. Managers engage in significant intervention to achieve personal gains, such as enhancing the company's market value and demonstrating strong performance, leading to non-neutral financial reporting. To boost a company's market value and provide the impression of high performance, some companies engage in this practice of using manipulative and often flexible accounting practices to alter reported profits. Additionally, income smoothing and window dressing are two forms of earnings management that aim to improve financial statements by reducing the impact of short-term changes in profits.

The discretionary accruals (DA) metric, as evaluated by the Jones Model, is often used to assess earnings management (1991) (Costa & Soares, 2022). The Jones Model is to determine whether managers can manipulate

profitability in order to manipulate accounting numbers in order to get favorable regulatory relief. The context dictates its use in differentiating total accruals from discretionary accruals. Since managers employ a number of accrual-based choices to limit reported profits, he contends that pre-tax earnings are the relevant earnings variable. Equation 1 provides a model for the total accruals:

$$\boldsymbol{TAit} = \Delta \boldsymbol{CurrentAssetsit} - \Delta \boldsymbol{Cashit} - \Delta \boldsymbol{CurrentLiabilitiesit} - \Delta \boldsymbol{DAEit}$$

Description:

TAit = total accruals in year t for company i

CurrentAssetsit = current assets in year t minus current assets in year t - 1 for company i

ΔCashit = cash in year t minus cash in year t - 1 for company i

ΔCurrentLiabilitiesit = current liabilities in year t minus current liabilities in year t - 1 for company i

DAEit = depreciation and amortization expense in year t for company i.

The Dechow Model's (1995) earnings management algorithm is also used to assess this research. In 1995. Dechow et al., (1995) Used empirical analysis to create a Jones Model with certain tweaks. When management discretizes revenue, the Jones Model may make a mistake when measuring discretionary accruals. This change tries to fix that. The updated model takes into account the event period the time when management is considered to have made earnings when estimating nondiscretionary accruals.

The full formula of the Modified Jones Model is as follows. Dechow et al., (1995) :

TAt =(ΔCAt - ΔCLt - ΔCasht –ΔSTDt - ΔDept)/(At-1)

ΔCAt = Change in Current Assets in year t

ΔCLt = Change in Current Liabilities in year t

ΔCasht = Change in Cash in year t

ΔSTDt = Change in Short-Term Debt in year t

Deptt = Depreciation and Amortization in year t

At-1 = Total Assets

Independent Board of Commissioners

Bakhtiar et al., (2020) State that "members of the board who do not have any familial ties to other commissioners are considered independent". In addition to making decisions autonomously, it is their job to make sure the business is open and accountable and follows all the rules of good corporate governance.

An independent commissioner is one who has no ties to the company's management, other commissioners, or controlling shareholders. To further ensure they are serving the company's best interests, they should not be in any relationships that might influence their impartiality or create a conflict of interest. (Apriwandi & Christine, 2023).

The proportion of the IBC adopted from Lestari (2021) Is calculated using the formula:

$$\text{IBC} = \frac{number\ of\ independent\ commissioners}{total\ board\ of\ commissioners}$$

Audit Committee

Nominations and removals of audit committee members are made by the corporation's board of commissioners, which also forms the committee. By Decree Number Kep-643/BL/2012, issued by the Chairman of BAPEPAM, the audit committee is assigned the responsibility of counseling the board of commissioners on reports or subjects presented by the board of directors and identifying concerns necessitating the attention of the commissioners. The committee is also responsible for handling other Board of Commissioners-related tasks.

Under the Indonesian General Guidelines for Good Corporate Governance (KNKG, 2006), an audit committee is described as follows by the National Committee on Governance Policy: "An audit committee is a group of people selected by a larger group to do certain work or to perform specific tasks or several members of the board of commissioners of the client company who are responsible for assisting the auditor in maintaining its independence from management."

The proportion of the AC adopted from Abdillah et al (2016) Is calculated by the formula:

$$\text{AC} = \frac{number\ of\ audit\ members}{total\ audit\ committee\ members}$$

Managerial Ownership

Jensen and Meckling (1976) in Nugroho & Darsono (2015) "explain that share ownership, owned by managers can balance the interests of shareholders with managers so that managers will feel every decision taken". Managerial ownership exists when a management is also a shareholder in the firm, or when the manager owns a portion of the company's shares.

Agatha Bella Riantiarta, Nurlaela Siti (2018) Managerial owners are executives who have a say in how the company runs daily. Since the manager in this model simultaneously serves as a shareholder, stakeholder theory portrays the connection between shareholders and managers as weak but equal. The ownership of shares by managers equalizes their position to that of stakeholders. Company performance may be impacted by management ownership, among other factors. Managers are more likely to put in extra effort for the company if they have a bigger financial interest in its success.

The proportion of Managerial Ownership (MO) adopted by Yola (2021) Is calculated using the formula:

$$\text{MO} = \frac{number\ of\ managerial\ shares}{total\ outstanding\ shares} X100\%$$

Executive Compensation

All monetary and non-monetary benefits obtained by workers from the Company as remuneration for services rendered to the Business are collectively referred to as compensation. (Noviarty et al., 2019). According to Scott (2003), executive compensation plans are contracts between businesses and their managers that aim to harmonize the interests of owners and managers via the use of performance-based remuneration.

Based on the understanding of compensation above, it can be concluded that recompense is a service offered by the owner (principal) to the company that has been determined, with three reasons, namely (1) This compensation program is related to the interests of management who have a role and influence on company performance; (2) The company's management is the party that makes financial reports; (3) Intended to reduce conflicts of interest between investors and management.

The proportion of Executive Compensation (EC) adopted from (Noviarty et al., 2019) Is calculated using the formula:

$$EC = \frac{total\ executive\ compensation}{total\ company\ net\ income}$$

Hypothesis Development

Anandha Sartika Putri's (2020) "The Effect of Good Corporate Governance on Corporate Earnings Management Practices", shows that independent commissioners significantly reduce the likelihood of profit management methods in a corporation. This suggests that the presence of additional independent commissioners has this impact. Perhaps because audit committees enhance profitability management, the current number of committees does not seem to be sufficient to prohibit earnings management strategies. Earnings management strategies are positively and statistically significantly impacted by managerial ownership, meaning that the likelihood of managers engaging in these procedures grows in direct proportion to the degree of ownership that managers own. (Putri, 2021).

The results of research by Khoirun Nisa Intan Nurani (2021) "The Effect of Good Corporate Governance, Company Size and Audit Quality on Earnings Management". The findings disproved a hypothesis that institutional ownership had any influence on earnings management. Managerial ownership has a significant and detrimental impact on earnings management. The effectiveness of earnings management is unaffected by the independence, breadth, or subjectness of the board of commissioners to audit committee supervision. Poor audit quality negatively impacts earnings management. (Nurani, 2021).

Andria Referli, Irvan Zainudin, Yunita Niqrisah Dwi P (2022) "The Effect of Good Corporate Governance on Earnings Management". Based on the findings, a nonpartisan commission might enhance oversight and decrease earnings management practices, in line with Good Corporate Governance standards. This is a result of the board's statistically substantial and favorable impact on earnings management. The audit committee and management ownership have little influence over earnings management. This means that these two factors have no bearing on or impact on the earnings management practices of the organization. According to Zainudin et al. (2023), "There is mounting evidence, supported by this new information, that the independent board of commissioners must approve the company's financial statements if they are open and accountable".

Nadia Fransiska Dewi, Mukhamad Sholikudin, Hanum Cheffi Ambarwati (2023). "The Effect of Managerial Ownership on Earnings Management". Management control has a considerable impact on profit manipulation, as shown by the findings, which indicate that earnings management techniques are reduced as management ownership increases. Results management is unaffected by institutional ownership. Management ownership can help reduce conflicts of interest by making financial statements more transparent and making it harder to manipulate earnings to fit company goals. (Fransiska et al., 2022)

Elisa Anggita Hesmalani and Denies Priantinah (2020). "The Effect of Audit Committee, Executive Compensation, and Auditor Quality on Earnings Management through Manipulation of Real Activities in Manufacturing Companies Listed on the Indonesia Stock Exchange". There was no correlation between earnings management and audit committee size, financial and accounting competence, or meeting frequency, according to the data. Alternatively, earnings management is negatively and significantly impacted by executive compensation, suggesting that as executive pay rises, earnings management strategies are scaled down. Using KAP as a proxy for auditor quality, There exists a detrimental and statistically significant connection between earnings management and KAP. What this means is that businesses with good auditors may be able to cut down on profit management. Auditors' quality, CEO pay, and the existence of audit committees all have substantial impacts on earnings management. To rein in profit-management tactics, this research shows that Good Corporate Governance standards are necessary. It also advises that organizations should look at more than just profit as a measure of success. (Hesmalani & Priantinah, 2020)

RESEARCH METHOD

Population and Sample

The population of this study includes all companies that were registered on the Indonesia Stock Exchange from 2020 to 2023. This research employed a purposive sampling method for sample selection. In purposeful sampling, certain criteria are used to choose samples, such as:

Companies that remained consistently listed on the IDX throughout the study period.

Companies that provided complete annual reports for the entire study period.

Companies not operating in the financial sector (such as banks and insurance), due to differences in financial reporting and governance characteristics.

Companies that have comprehensive data regarding the independent board of commissioners, managerial ownership, audit committee, and executive compensation. Operational Definition of Variables

This study uses four variables as the object under study, which include the following:

Earnings Management (Discretionary Accruals)

This study's dependent variable is based on the Jones Model and the Dechow Model, two widely used approaches to assess discretionary accruals as an indicator of earnings manipulation.

The Jones Model (1991) Earnings Management Formula is as follows:

$$TAit = \Delta CurrentAssetsit - \Delta Cashit - \Delta CurrentLiabilitiesit - \Delta DAEit$$

The Earnings Management Formula of the Modified Jones Model is as follows Dechow Model (1995):

$$TAt = (\Delta CAt - \Delta CLt - \Delta Casht - \Delta STDt - \Delta Dept)/(At-1)$$

Independent Board of Commissioners (IBC)

The ratio of independent board members to the overall number of commissioners serves as the independent variable under investigation.

A formula for the Independent Board of Commissioners' Proportion was derived from Lestari (2021) is as follows

$$\text{IBC} = \frac{number\ of\ independent\ commissioners}{total\ board\ of\ commissioners}$$

Audit Committee (AC)

The independent commissioner is aware of the business's audit committee, which must include at least three members from outside the issuer or public corporation.

The proportion of the Audit Committee adopted from Abdillah et al., (2016), namely:

$$\text{AC} = \frac{number\ of\ audit\ members}{total\ audit\ committee\ members}$$

Managerial Ownership (MO)

A company's managers and executives are considered to have managerial ownership when they possess a percentage of the company's shares. Managers' remuneration packages sometimes include stock options or ordinary stock as a form of ownership. Having managers own a stake in the firm gives them a personal stake in its success and helps bring management's goals in line with those of shareholders.

The proportion of Managerial Ownership adopted by Dewi Sutino & Khoiruddin (2016) Is:

$$\text{MO} = \frac{number\ of\ managerial\ shares}{total\ outstanding\ shares} X100\%$$

Executive Compensation (EC)

Total compensation received by company executives, including salaries, bonuses, and other incentives, expressed in millions of rupiah.

The proportion of Executive Compensation (EC) adopted by Wardani (2012) is,

$$\text{EC} = \frac{total\ executive\ compensation}{total\ company\ net\ income}$$

Data Type

This study makes use of quantitative data, which seeks to explain observable events via the collection and analysis of numerical data. Numbers serve as the foundation for the quantitative information in the business's yearly report.

Data Source

Data for Dimabil's annual reports were sourced from company websites and www.idx.co.id, the website of the Indonesia Stock Exchange.

Data Collection Technique

There is documentation of the data-collecting technique in the firm's published annual report. A great deal of pertinent financial data is gathered, including details on the audit committee, the CEO's salary, and the independent board of commissioners.

Data Analysis Technique

Examining the Details Used to detail the study's sample characteristics, such as the sample size, leverage, sales growth, audit committee composition, management ownership stake, and executive salary.

Classical Assumption Test Verify that the data satisfies the requirements of multiple linear regression by checking for autocorrelation, normalcy, multicollinearity, and heteroscedasticity.

Significance Test

One way to find out how significant a hypothesis is and how strong the inductive evidence is is to utilize the significance test. In this test, evidence that disproves the hypothesis is given a high weight.

Each independent variable's significance may be examined using the t-test.

Use the F-test to see if the regression model is statistically significant as a whole.

Analysis Model

Research Framework for Analysis Following the presentation of many ideas, the researcher constructs a theoretical framework in the form of a chart, as seen below:

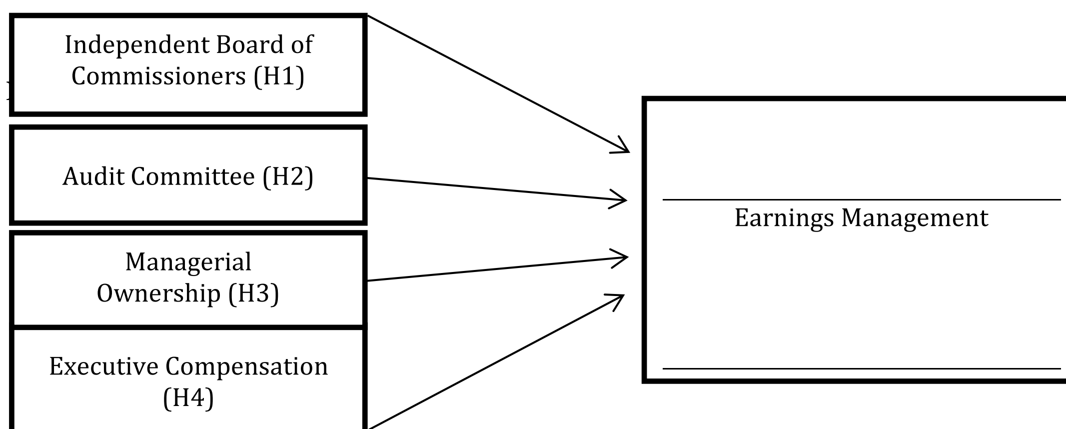

Figure 1. Thinking Framework

H1: Independent Board of Commissioners has a negative effect on earnings management.

H2: The Independent Audit Committee has a negative effect on earnings management.

H3: Managerial Ownership negatively affects earnings management.

H4: Executive Compensation has an effect on earnings management.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics provide a thorough description of a set of variables by documenting their range of values, including average, maximum, minimum, and standard deviation. You can see the statistical descriptions for every variable in Table 1.

Tabel 1. Hasil Statistik Deskriftip model Jones

	X1	X2	X3	X4	Y
Mean	0.365263	0.667263	0.080400	0.291021	-1.60E+11
Median	0.330000	0.670000	0.010875	0.093560	-6.69E+10
Maximum	0.670000	0.750000	0.580454	8.960290	1.08E+13
Minimum	0.330000	0.500000	8.39E-06	-1.106047	-1.18E+13
Std. Dev.	0.064344	0.025989	0.135257	1.196029	2.02E+12
Observations	95	95	95	95	95

Table 2. Results of Dechow Model Descriptive Statistics

	X1	X2	X3	X4	Y
Mean	0.365263	0.667263	0.080401	0.291021	2.22E+11
Median	0.330000	0.670000	0.010875	0.093560	5.78E+09
Maximum	0.670000	0.750000	0.580454	8.960290	5.13E+12
Minimum	0.330000	0.500000	8.39E-06	-1.106047	-7.51E+12
Std. Dev.	0.064344	0.025989	0.135257	1.196029	1.36E+12
Observations	95	95	95	95	95

Source: Secondary data processed by the author

The table displays 95 data observations (N). According to the Jones model, the average earnings management is -1.60E+11, with a range of -1.18E+13 to 1.08E+13. When it comes to earnings management, the Dechow model produces a range of 2.22E+11, -7.51E+12, and 5.13E+12. The results of the two models are quite different from one another.

The Independent Board of Commissioners variable is measured by the proportion of the number of independent commissioners to the total board of commissioners. It starts at 0.330000 and goes up to 0.670000, with a standard deviation of 0.064344 and an average of 0.365263. Data descriptive analysis demonstrates that the Independent Board of Commissioners has performed above average, with a standard deviation of 0.3653 > 0.06434.

The Audit Committee variable is measured by the number of audit committee members owned by the company. The findings showed an average value of 0.667263 with a standard deviation of 0.025989. You may be able to discover the worth anywhere between half a million and 700,000,000. According to descriptive data, the Audit Committee is doing better than average, with a standard deviation of 0.025989 and a mean value of 0.667263.

Using the managerial ownership variable, we can see that the ratio of management to total business shares, or the managerial ownership ratio, ranges from 8.39E-06 to 0.580454, with a standard deviation of 0.135257 and an average of 0.080401. The descriptive analysis's findings reveal that the standard deviation of management ownership surpasses the average value, lying at 0.080401 < 0.135257.

The average executive salary is 0.291021, with a standard deviation of 1.196029. Executive pay is defined as total compensation received by corporate executives divided by total profit. Compensation for executives may vary from -1.106047 to 8.960290. Executive compensation is shown by descriptive statistics to have an average lower than the standard deviation (8.960290> 1.196029).

Classical Assumption Test

This research employs two tests the Heteroscedasticity Test and the Multicollinearity Test as part of the Classical Assumption Test. As for the Multicollinearity Test, the independent variables are below 0.85, indicating no significant multicollinearity. The Heteroscedasticity Test shows no heteroscedasticity because all variables show results above 0.05.

Multicollinearity Test

Finding out whether there is a significant correlation between the independent variables is the goal of the multicollinearity test.

Table 3. Jones Model Multicollinearity Test Results

NO	X1	X2	X3	X4
1	1.000000	-0.039008	0.283899	-0.056826
2	-0.039008	1.000000	-0.416153	0.010919
3	0.283899	-0.416153	1.000000	-0.059273
4	-0.056823	0.010919	-0.059273	1.000000

Source: Secondary data processed by the author using Eviews 12

Table 4. Multicollinearity Test Results Dechow Model

NO	X1	X2	X3	X4
1	1.000000	-0.039008	0.283899	-0.095253
2	-0.039008	1.000000	-0.416153	0.022389
3	0.283899	-0.416153	1.000000	-0.104079
4	-0.095253	0.022389	-0.104079	1.000000

Source: Secondary data processed by the author using Eviews 12

According to the table above, the dependent variables of the Independent Board of Commissioners (X1), Audit Committee (X2), Managerial Ownership (X3), and Executive Compensation (X4) variables showed multicollinearity testing results below 0.85 for both the Jones and Dechow models of calculation. This research disproves the theory of multicollinearity by demonstrating that it is possible to achieve the maximum.

Heteroscedasticity Test

One way to check the variance of residuals in a regression model is consistent is to perform the heteroscedasticity test.

Table 5. Heteroscedasticity Test Results.

Variable	Multicollinearity Test Results (Jones Model)	Multicollinearity Test Results (Dechow Model)
Independent Board of Commissioners (IBC)	0.6689	0.7591
Audit Committee (AC)	0.9237	0.8569
Managerial Ownership (MO)	0.2634	0.2205
Executive Compensation (EC)	0.6044	0.7296

Source: Secondary data processed by the author using Eviews 12

According to the data in the table, the heteroscedasticity test was successful because the p-values of the independent variables are all more than 0.05. This demonstrates that the dependent and independent variables do not exhibit heteroscedasticity.

Hypothesis Test

T-test

The t-test is a popular statistical tool in regression analysis for assessing relationship intensity between an independent variable and a dependent one. After controlling for other independent factors, the t-test enables one to assess the influence of every independent variable on the dependent variable. Tables 6 and 7 show the outcomes of the regression analyses conducted on the processed data.

Table 6. Results of Multiple Linear Regression Analysis Model Jones

Variable	Koefisien (B)	Std. Error	t-Value	p-Value

Konstanta	- 2.20E+12	6.08E+12	-0.361368	0.7187
IBC	4.25E+11	3.45E+12	0.123172	0.9022
AC	2.68E+12	9.00E+12	0.297610	0.7667
MO	1.15E+12	1.80E+12	0.636373	0.5261
EC	1572.240	11861.58	0.132549	0.8948

Source: Secondary data processed by the author using Eviews 12

Table 7. Multiple Linear Regression Analysis Results Dechow Model

Variable	Koefisien (B)	Std. Error	t-Value	p-Value
Konstanta	8.56E+11	4.10E+12	0.208659	0.8352
IBC	2.07E+11	2.33E+12	0.089020	0.9293
AC	-9.65E+11	6.07E+12	0.159080	0.8740
MO	-5.05E+11	1.22E+12	0.414463	0.6795
EC	-8.73E+10	1.20E+11	0.725170	0.4702

Source: Secondary data processed by the author using Eviews 12

The findings of a multiple linear regression study measuring the impact of numerous independent factors on profit management are illustrated in the aforementioned table.

According to the findings of the data processing, we may say:

According to the Jones model, the t-test results for the Independent Board of Commissioners (X1) variable were obtained. According to these results, the t-value was 0.123172, which is less than the t-table value of 1.985802, and the significance level was 0.9022, which is more than the threshold of 0.05. Additionally, the t-test results obtained from the Dechow model included a significance level of 0.9022> 0.05 and a value of 0.123172 < t table, specifically 1.985802. Because of these two findings, we may rule out Ha and accept Ho, which means that the Board of Commissioners variable does not affect Earnings Management in the Food and Beverage Sector.

The Audit Committee variable (X2)'s t-test results (derived from the Jones model) showed a t-value of 0.297610 < t table, exactly 1.985802, and a significance value of 0.7667 > 0.05. In addition, the t-test results obtained from the Dechow model were -0.159080 < t table, specifically 1.985802, and the significance level was 0.8740> 0.05. By combining these two findings, we may conclude that the audit committee variable does not impact earnings management in the food and beverage sector. Consequently, we can accept Ho and reject Ha.

According to the Jones model, the t-test findings for the Managerial Ownership variable (X3) showed a t-value of 0.636373 < t-table, exactly 1.985802, and a significance value of 0.5261 > 0.05. Furthermore, the t-test results obtained from the Decow model yielded a value of -0.414463 < t-table, exactly 1.985802, and a significance level of 0.6795 > 0.05. Our findings disprove Ha and support Ho, which states that managerial ownership has no impact on earnings management in the food and beverage industry.

The Executive Compensation variable (X4) was subjected to a t-test using the Jones model, which produced a t-value of 0.132549 < t-table, exactly 1.985802, and a significance value of 0.8948 > 0.05. In addition, the Decow model's t-test findings demonstrated a significant value of 0.4702 > 0.05 and a t-value of -0.725170 < t-table, specifically 1.985802. By combining these two findings, we can infer that the Executive Compensation variable does not impact Earnings Management in the Food and Beverage Sector. Therefore, we may dismiss Ha and embrace Ho.

F test

One statistical method for determining whether a set of independent variables has a statistically significant effect on a dependent variable is the F test. The F test verifies whether the dependent variable is significantly affected by each of the independent factors.

Table 8. F Test Results.

Variables	F Test Results (Jones Model)	F Test Results (Dechow Model)
R-squared	0.005713	0.007223
Adjusted R-squared	-0.038477	-0.036901
S.E. of regression	2.05E+12	1.38E+12

Sum squared resid	3.80E+26	1.72E+26
Log-likelihood	-2825.562	-2788.060
F-statistic	0.129287	0.163693
Prob(F-statistic)	0.971388	0.956215

Source: Secondary data processed by the author using Eviews 12

Based on the estimated f values of 2.471791489 from the Jones model (0.129287 < f table) and the Dechow model (0.163693), with sig values of 0.971388> 0.05 and 0.956215> 0.05, respectively, the table indicates that h0 is rejected and h1 is authorized. The earnings management of food and drink makers is unaffected by the independent variables of the Jones and Dechow models, which include the Independent Board of Commissioners (IBC), Audit Committee (AC), Managerial Ownership (MO), and Executive Compensation (EC), according to the F test results. H1 may be rejected in favor of H0 since the computed F-value is less than the F-table value and the significance level is more than 0.05.

DISCUSSION

IBC has little influence on profit management, according to this study's findings. With p-values of 0.9293 and 0.9022, respectively, the Dechow model and the Jones model both have coefficients of 2.07E + 11 and 4.25E + 11, respectively. There is a direct conflict between the results of this research and those of Solihah & Rosdiana (2022) That gives proof that the independent commission board has a positive effect on profit management. As a result, a growing number of independent commissioners leads to less profit control by corporations. This confirms the predictions of agency theory, which states that an unbiased board of commissioners may be able to limit profit management via oversight.

According to the results, the audit committee does not influence profit management. The Dechow model has a KA of -9.65E+11, whereas the Jones model has a KA of 2.68E+12. We have p-values of 0.7667 and 0.8740, and probability values of 0.9022 and 0.9293, respectively. Results from this research also contradict those of Rinta (2021) Whereby the audit committee poses a substantial obstacle to the management of earnings. These results show that an effective audit committee may reduce earnings management by closely monitoring financial reporting, which is in line with agency theory's prediction that audit committees should supervise managers' conduct.

The results of the Jones and Dechow models indicate that managerial ownership does not significantly affect earnings management (p-values of 0.5261 and 0.6795, respectively). -5.05E+11 and 1.15E+12 are the equivalent MO values. That management's efforts to rein in profit-taking via stock ownership have been fruitless is now evident. Contrary to expectations, this discovery Pratomo Dudi (2020) who evaluated the influence of managerial ownership on profit manipulation factors and discovered a positive but statistically insignificant relationship. A decline in earnings management is likely to accompany a rise in managerial ownership.

Findings show that exec remuneration does not significantly impact earnings management, with KE values of 1572.240 and -8.73E+10 for the Joned model and the Dechow Model, respectively, and p-values of 0.8948 and 0.4702. This finding is not in line with Ridwan Muhammad Rafli (2021) who can provide evidence that shows how executive salary positively affects earnings management. A greater level of executive salary is linked to an increased probability of earnings management as a strategy to attain performance goals.

CONCLUSION

Based on the findings, Good Corporate Governance (CGC) does consist of an independent board of commissioners, audit committee and managerial ownership does not affect earnings management. Executive remuneration results do not impact earnings management either. This means that GCG and executive compensation are not effective in reducing earnings management practices.

Several of the studies cited earlier highlight how important it is for firms to have independent boards of commissioners and audit committees to increase transparency, accountability, and honesty. However, they don't always have a major impact on earnings management. Alternatively, managers may feel pressured to engage in earnings management if their executive salary is high enough; after all, they stand to gain from their efforts, even if they alter the financial statements to their advantage. This study's findings highlight the need for companies to develop a compensation system that takes into account ethics, financial statement transparency, and financial performance in addition to GCG and executive compensation in order to effectively reduce earnings management practices.

The research's sample coverage of non-financial firms listed on the IDX is likewise constrained, and the use of purposive sampling procedures raises doubts about its capacity to correctly represent the community at large. Therefore, future research should employ a more random sampling technique and include more industries in the sample to increase the findings' generalizability. Further consideration of other variables that might impact earnings management is advised. These include government policies and external economic factors, as well as factors involving third parties like

independent auditors, financial consultants, or financial institutions, all of which can impact management's capacity to control profits.

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