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Does Good Corporate Governance Improve Earnings Quality?

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Abstract : *Earnings quality reflects a company's actual financial condition and serves as a guide for investors, creditors, and external parties in assessing the company's performance. Low earnings quality can undermine investor confidence and potentially lead to erroneous investment decisions. This study aims to analyze the effect of Good Corporate Governance mechanisms-namely, independent commissioners, audit committees, institutional ownership, managerial ownership, and audit quality-on earnings quality in energy sector companies listed on the Indonesia Stock Exchange. This study employs an explanatory quantitative approach using purposive sampling. Data were analyzed using panel data regression with the aid of EViews 13. Earnings quality was measured using discretionary accruals via the Modified Jones Model. The results indicate that institutional ownership and managerial ownership have a positive and significant effect on earnings quality, whereas independent directors, audit committees, and audit quality do not have a significant effect. These findings confirm that ownership structure plays a more dominant role than formal oversight mechanisms in improving earnings quality. The novelty of this study lies in the simultaneous testing of all five GCG mechanisms in the energy sector-a capital-intensive and high-risk sector that has not been extensively examined in previous earnings quality studies. The limitations of this study include an observation period of only five years and a sample restricted to the energy sector; therefore, the results may not necessarily be generalizable to other sectors.*

INTRODUCTION

The increasingly competitive business environment requires companies to be able to present high-quality, relevant, and reliable financial information. Financial statements it serves as one of the primary sources of information for investors, creditors, the government, and other external parties in assessing a company's condition and performance. In financial statements, earnings are one of the key components that receive significant attention from external parties.

Companies with high profit margins or those showing a significant increase in earnings are typically more attractive to investors Napitu et al. (2024). Earnings quality can serve as an important guide for stakeholders. Therefore, earnings quality is a crucial aspect in reflecting a company's true economic condition.

Profit quality describes the extent to which the profits reported by a company accurately reflect its actual operational performance and can be used to accurately predict future profits. High-quality profits are prepared in accordance with generally accepted accounting principles and reflect the company's actual economic condition, rather than merely figures presented to meet the expectations of certain parties. Conversely, low-quality earnings tend to contain elements of distortion or manipulation of accounting information, thereby failing to reflect the company's actual economic condition and potentially misleading users of financial statements. This situation leads to a decline in investor confidence and may result in suboptimal investment decisions.

This issue is becoming increasingly relevant in the energy sector, which plays a strategic role in the national economy, faces significant dynamics during the 2020-2024 period, and generally involves large assets and high risks; thus, assessing profit quality is crucial to maintaining investor confidence in this sector. The energy sector's capital-intensive nature, its high susceptibility to fluctuations in global commodity prices, and its complex accounting estimates such as exploration costs, depletion of natural resources, and depreciation of long-lived productive assets-create greater opportunities for management to exercise discretion in the accrual recognition process when preparing financial statements. These conditions make testing the quality of earnings in the energy sector increasingly relevant, as investors and creditors rely heavily on the reliability of earnings information to assess the sustainability of a company's performance amid the uncertainty of global energy prices

To minimize such conflicts, companies need to implement sound Good Corporate Governance (GCG). Good Corporate Governance (GCG) is a system that governs the interactions and relationships among various stakeholders within a company, including shareholders, management, the board of commissioners, and other external parties Ramadina & Hidayah (2025). he implementation of GCG is believed to enhance transparency, accountability, responsibility, independence, and fairness in corporate management. Through effective oversight mechanisms, the practice of financial statement manipulation can be minimized, thereby improving the quality of a company's earnings.

Several Good Corporate Governance mechanisms frequently used in research include independent commissioners, audit committees, institutional ownership, managerial ownership, and audit quality. The presence of independent commissioners and audit committees plays a role in enhancing the effectiveness of oversight over the financial reporting process. Institutional ownership is considered capable of strengthening oversight of management because institutional investors possess better monitoring capabilities. Managerial ownership can align management's interests with those of shareholders, thereby reducing opportunistic behavior. Additionally, audit quality is crucial for maintaining the credibility of financial statements, as qualified auditors can detect errors and profit manipulation practices, ensuring that the reported profit information is more reliable and trustworthy.

Research on the effect of Good Corporate Governance on earnings quality has been conducted by several previous researchers, with mixed results. Azizah & Khairudin (2022) found that independent directors had no effect on earnings quality at companies in the real estate and property sectors listed on the Indonesia Stock Exchange during the 2018-2020 period. Polimpung (2020) found that audit committees had an effect on earnings quality in companies in the

consumer goods sector listed on the Indonesia Stock Exchange during the 2016-2018 period. Benarda & Desmita (2022) Found that institutional ownership and managerial ownership had no effect on earnings quality in companies in the property, real estate, and building construction subsectors listed on the Indonesia Stock Exchange during the 2015-2019 period. Kasmita et al. (2026) found that audit quality did not have a significant effect on earnings quality in companies in the food and beverage subsector during the 2022-2024 period. These four studies indicate that research examining the mechanisms of Good Corporate Governance on earnings quality remains limited to the real estate and property, consumer goods, and food and beverage sectors, and has not yet addressed the energy sector, particularly during the 2020-2024 period. Therefore, this study was conducted to fill this gap by simultaneously testing the five Good Corporate Governance mechanisms-independent directors, audit committees, institutional ownership, managerial ownership, and audit quality on earnings quality in the energy sector during the 2020-2024 period.

THEORETICAL FOUNDATION

Agency Theory

Agency theory, proposed by Michael C. Jensen and William H. Meckling, explains the relationship between company owners (principals) and management (agents). In this relationship, management is granted the authority to manage the company on behalf of shareholders. However, differences in interests between principals and agents can lead to agency conflicts. These conflicts arise because management possesses more information than shareholders (information asymmetry), meaning management has the potential to engage in opportunistic actions such as earnings manipulation for personal gain. Therefore, oversight mechanisms through the implementation of Good Corporate Governance are necessary to control management's actions and ensure the quality of the company's earnings is maintained Jensen & Meckling (1976).

Signaling Theory

Signaling theory explains that companies send signals to external parties through the information presented in their financial statements Spence (1973). High-quality earnings information can serve as a positive signal to investors regarding the company's current condition and future prospects. Companies that effectively implement Good Corporate Governance tend to produce more transparent and reliable financial statements. Conversely, low earnings quality can send a negative signal to investors because it suggests the possibility of financial statement manipulation. Therefore, the implementation of Good Corporate Governance is expected to improve a company's earnings quality and strengthen investor confidence.

Earnings Quality

Earnings quality reflects the extent to which reported earnings accurately depict a company's financial condition and performance Ramadina & Hidayah (2025). High-quality earnings indicate that earnings information is presented honestly, is relevant, and is free from manipulation. Earnings quality is crucial for stakeholders-investors, prospective investors, and other users of financial information-given their recognition of its crucial role. Low profit quality can lead to errors in assessing a company's performance and reduce the level of trust in financial statements.

In this study, earnings quality is measured using discretionary accruals as a proxy-that is, the portion of accruals arising from management policies or interventions in the financial statement preparation process Dechow et al. (1995). Accruals themselves consist of two components: non-discretionary accruals, which arise naturally from a company's operational

activities, and discretionary accruals, which reflect management's policies or subjective considerations. The higher a company's discretionary accruals, the stronger the indication of management intervention in earnings reporting, and thus the lower the quality of the reported earnings tends to be. Conversely, a value of discretionary accruals approaching zero indicates that reported earnings more accurately reflect the company's actual financial condition, suggesting that earnings quality is higher. The Modified Jones Model Dechow et al. (1995) is a widely used model for measuring discretionary accruals in previous research. Independent Directors

Independent Commissioners

Independent commissioner are members of the board of commissioners who come from outside the company and have no conflicts of interest with management or controlling shareholders. Based on agency theory, independent commissioner are tasked with overseeing the company's management to ensure it operates in accordance with the principles of Good Corporate Governance. The higher the proportion of independent directors, the more effective the monitoring function becomes, thereby minimizing profit manipulation and improving profit quality. Research conducted by Benarda & Desmita, (2022) and Fazrel et al., (2025) also found that independent commissioner have a positive effect on earnings quality. Based on this discussion, the hypotheses in this study are:

H1 : Independent commissioner have a positive effect on earnings quality.

Audit Committee

The audit committee is a committee formed by the board of commissioners to assist in overseeing the financial reporting process, the internal control system, and the conduct of audits within the company. Based on agency theory, the audit committee plays a crucial role in ensuring that financial statements are prepared fairly and in accordance with applicable accounting standards. The more effective the audit committee is in carrying out its oversight duties, the better the company's earnings quality is expected to be. Research conducted by Oktapiani & Ruhiyat (2019) and Ilham et al. (2022) also found that the number of audit committee members has a positive effect on a company's earnings quality. Based on this discussion, the hypotheses of this study are:

H2 : The audit committee has a positive effect on earnings quality.

Institutional Ownership

Institutional ownership refers to the ownership of shares held by a company or another entity outside the company. Institutional investors are considered to be better able to utilize company information to predict future earnings compared to non-institutional investors Jumanti (2025). Based on agency theory, institutional ownership can enhance the effectiveness of oversight over management, thereby reducing agency conflicts and limiting earnings manipulation. This more effective oversight promotes the presentation of financial statements that are more transparent and reliable financial reporting, thereby improving a company's earnings quality. Research conducted by Napitu et al. (2024) also found that institutional ownership has a positive effect on a company's earnings quality. Based on the above discussion, the hypotheses of this study are as follows:

H3 : Institutional ownership has a positive effect on earnings quality.

Managerial Ownership

Managerial ownership refers to the portion of a company's shares held by management. The larger the proportion of shares held by management, the higher their motivation to act in the best interests of shareholders Benarda & Desmita (2022). Based on agency theory, managerial ownership can align the interests of management and shareholders, thereby reducing agency

conflicts. The greater the shareholding by management, the higher their responsibility to increase corporate value and maintain the credibility of financial statements. These conditions encourage management to reduce profit manipulation practices and present more reliable financial information, thereby improving the company's earnings quality. Research conducted by Martinus & Kusumawati (2021) also found that managerial ownership has a positive effect on a company's earnings quality. Based on this discussion, the hypotheses of this study are:

H4 : Managerial Ownership Has a Positive Effect on Earnings Quality

Audit Quality

Audit quality refers to an auditor's ability to examine a company's financial statements so that they are presented fairly in accordance with applicable standards. Based on agency theory, high-quality audits are believed to enhance confidence in financial statements and minimize the likelihood of earnings manipulation. Auditors who possess competence, independence, and apply audit procedures appropriately are better able to detect material misstatements and earnings management practices in financial statements. Therefore, the higher the audit quality implemented by a company, the higher the earnings quality produced, as the reported earnings information is more reliable and reflects the company's actual financial condition. Research conducted by (Hartoko & Astuti (2021) also found that audit quality has a positive effect on a company's earnings quality. Based on this discussion, the hypothesis of this study is:

H5 : Audit quality has a positive effect on earnings quality

RESEARCH METHODOLOGY

This study employs a quantitative approach using explanatory research methods, which aim to test the causal relationship between independent and dependent variables through hypothesis testing using statistical analysis. This study aims to analyze the effect of Good Corporate Governance (GCG) mechanisms comprising independent commissioners, audit committees, institutional ownership, managerial ownership, and audit quality on earnings quality in energy sector companies listed on the Indonesia Stock Exchange during the 2020-2024 period.

Table 1. Research Sample Criteria

No	Criteria	Number
1.	Energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020-2024	91
2.	Excluding companies that conducted an IPO after 2020	(25)
3.	Excluding companies that did not provide the required data	(20)
Number of companies meeting the sample criteria		46
Observation period		5 years
Number of observations (46 × 5)		230

Based on the sample selection process using purposive sampling, 46 companies in the energy sector were identified that met all the research criteria. With an observation period of five years 2020-2024 the number of observations used in this study was 230. Subsequently, the data were analyzed using EViews 13 software for descriptive statistical analysis, selection of a panel data regression model, testing of classical assumptions, and hypothesis testing.

Earnings Quality (Y)

In this study, earnings quality is measured using the discretionary accruals approach

through the Modified Jones Model. Discretionary accruals are components of accruals that can be controlled by management and reflect the existence of earnings management practices. Based on agency theory, management, as an agent, has the opportunity to use certain accounting policies in preparing financial statements to serve its own interests, so that reported earnings may not accurately reflect the company's actual financial condition. Therefore, discretionary accruals are used as a proxy to detect the level of earnings management practiced by a company. The smaller the absolute value of discretionary accruals, the lower the level of earnings management and the higher the quality of the resulting earnings. Conversely, the larger the absolute value of discretionary accruals, the stronger the indication of earnings management practices, and thus the lower the quality of the company's earnings. The measurement of earnings quality employs a subsequent-period approach, as used in the study conducted by Hartoko & Astuti (2021) with the following formula:

The first step is to calculate Total Accruals

$TAC_{it} = NI_{it} - CFO_{it}$

The second step is to estimate the modified Jones equation

$TAC_{it}/A_{it}\text{-}1 = \beta 1 \quad (1 / A_{it}\text{-}1) + \beta 2 \quad (\Delta REV_{it} / A_{it}\text{-}1) + \beta 3\ (PPE_{it} / A_{it}\text{-}1) + \varepsilon$

The third step calculates non-discretionary accruals (NDA)

$NDAC_{it} = \beta 1\ (1 / A_{it}\text{-}1) + \beta 2 \quad ((\Delta REV_{it} - \Delta REC_{it}) / A_{it}\text{-}1) + \beta 3\ (PPE_{it} / A_{it}\text{-}1)$

The fourth step calculates discretionary accruals (DA)

$DAC_{it} = (TAC_{it} / A_{it}\text{-}1) - NDAC_{it}$

Table 2. Operational Definitions of Variables

Variable	Operational Definition	Indikator/Measurement	Source
Earings Quality (Y)	Earnings quality is the ability of reported earnings to reflect a company's tue economic performance and to be free form earnings management practices.	It is measured using Dicretionary Accruals (DA) with the modified Jones Model. The smaller the absolute value of DA, the higher the quality	Hartoko & Astuti (2021)
Independent Commisioner (X1)	The proportion of board members who are external to the company and have no affiliation with management or controlling shareholder.	*KI = (Number of Independent Commissioners / Total Member of the Board of Commissioners) × 100%*	Rebbeca et al. (2025)
Audit Committee (X2)	A Committee formed by the board of commissioners to assist in overseeing finansial reporting, internal controls, and audits.	*KA = Number of Audit Committee Members*	Ramadina & Hidayah (2025)
Institutional Ownership (X3)	Percentage of the company's shares held by institusions such as banks, insurance companies, pension funds, and investment firms	*INST = (Number of Shares Institutions / Total Outstanding Shares) × 100%*	Minarti & Suwarno (2024)

Managerial Ownership (X4)	Percentage of shares owned by management, namely the board of directors and the board of commissioners	*MAN = (Number of Shares Held by Management / Total Outstanding Shares) × 100%*	Lestari & Murtanto (2017)
Audit Quality (X5)	Auditors ability to detect and report material misstatement in financial statements	*Dummy variabel : 1 = audited by a Big Four firm, 0 = audited by a non Big Four firm.*	Hartoko & Astuti (2021)

RESULT AND DISCUSSION

Descriptive Statistical Test

Table 3. Descriptive Statistics

Description	Earnings Quality (Y)	Independent Commisioner (X1)	Audit Committee (X2)	Institussional Ownership (X3)	Managerial Ownership (X4)	Audit Quality (X5)
Mean	0.0244	8.3655	1.4296	8.8999	8.9176	0.2562
Maximum	0.0682	9.2104	1.9459	9.2104	82.1949	0.6931
Minimum	0.0009	7.6014	1.0968	6.9088	0.0000	0.0000
Std. Deviation	0.0136	0.2582	0.1267	0.4453	16.6334	0.3353
Obervation	230	230	230	230	230	230

Based on table 3, which presents the result of the descriptive statistical analysis, the following findings were obtained:

1. The earning quality variable (Y) has 230 observations, with a minimum value of 0,0009 and a maximum value of 0,0682. The mean value of earnings quality or energy sector companies during the study period was 0.0244, with a standard deviation of 0,0136. This indicates that the dispersion of earnings quality data is relatively low because the standard deviation is smaller than the mean, meaning the data tends to be concentrated around the mean.
2. The independent commissioner variable (X1) has 230 observations, with a minimum value of 7,6014 and a maximum value of 9,2104. The mean value for independent commissioners is 8,3655, with a standard deviation of 0,2582. A standard deviation smaller than the mean indicates that the independent commissioner data has a relatively low level of dispersion and is fairly homogeneous.
3. The audit committee variable (X2) has 230 observations, with a minimum value of 1,0968 and a maximum value of 1,9459. The mean value for the audit committee is 1,4296, with a standard deviation of 0,1267. This indicates that the variation in audit committee data across companies is relatively small, so most of the data cluster around the mean.
4. The institutional ownership variable (X3) has 230 observations, with a minimum value of 6,9088 and a maximum value of 9,2104. The mean value of institutional ownership is 8,8999, with a standard deviation of 0,4453. A standard deviation smaller than the mean indicates that the dispersion of institutional ownership data is relatively low and the data tends to be

homogeneous.

5. The managerial ownership variable (X4) has 230 observations, with a minimum value of 0,0000 and a maximum value of 82,1949. The mean value of managerial ownership is 8,9176 with a standard deviation of 16,6334. A standard deviation larger than the mean value indicates that the managerial ownership data exhibit a high level of variation across companies, resulting in significant differences in the proportion of shares owned by management.
6. The audit quality variable (X5) has 230 observations, with a minimum value of 0,0000 and a maximum value of 0,6931. The mean value for audit quality is 0,2562, with a standard deviation of 0,3353. A standard deviation value greater than the mean indicates that the audit quality data exhibits a relatively high degree of dispersion, suggesting variations in audit quality among the companies in the study sample.

Model Test

Chow Test

Table 2: Results of the Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.473000	(45,179)	0.0000
Cross-section Chi-square	111.199795	45	0.0000

Based on the result of the Chow test, the cross-section F probability value is 0,0000, which is less than the significance level of 0,05. Therefore, the selected model is FEM.

Hauman Test

Table 3: Results of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.374174	5	0.2715

Based on results of Haussman test, a Prob. Value of 0,2715 was obtained, which is greater than significance level of 0,05. Therefore, the selected model is REM.

LM Test

Table 4: Results of the LM Test

	Test Hypothesis Cross-section	Time	Both
Breusch-Pagan	18.52130 (0.0000)	3.466577 (0.0626)	21.98787 (0.0000)
Honda	4.303638 (0.0000)	1.861875 (0.0313)	4.359675 (0.0000)
King-Wu	4.303638	1.861875	3.013873

	(0.0000)	(0.0313)	(0.0013)
Standardized Honda	4.927331 (0.0000)	2.371767 (0.0089)	-0.040319 (0.5161)
Standardized King-Wu	4.927331 (0.0000)	2.371767 (0.0089)	0.402016 (0.3438)
Gourieroux, et al.	--	--	21.98787 (0.0000)

Based on the Lagrange Multiplier (LM) test, the probability value Breusch-Pagan cross-section probability value of 0,0000, which is smaller than the significance level of 0,05. Thus, the selected model is REM.

Based on the result of the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test, the most appropriate panel data regression mode for this study is the Random Effects Model (REM). This is indicated by the results of the Hausman test, which yielded a p-value of 0,2715 greater than the significance level of 0,05 and the Lagrange Multiplier (LM) test, which yielded a p-value of 0,0000 less than the significance level of 0,05. Thus, the panel data regression analysis in this study employs the Random Effects Model (REM).

Classical Assumption Tests

The classical assumption tests commonly used in linear regression with the Ordinary Least Squares (OLS) approach include the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. However, not all of these classical assumption tests are required for every panel data regression model; this depends on the chosen estimation model Basuki (2021). Since the model selected in this study is the Random Effects Model, which is estimated using the Generalized Least Squares (GLS) method rather than standard OLS, some of the classical assumption tests are no longer relevant to perform.

A normality test is not required in the REM model because it is not a mandatory condition for the Best Linear Unbiased Estimator (BLUE) Basuki (2021). A heteroscedasticity test is also no longer necessary, as one of the advantages of the Random Effects Model is its ability to eliminate heteroscedasticity issues through the Generalized Least Squares (GLS) approach used in its estimation Basuki (2021); Gujarati & Porter (2009). The same applies to the autocorrelation test, which is essentially more relevant for time-series dap, whereas panel data more closely resemble the characteristics of cross-sectional data Basuki, (2021). Furthermore, the GLS approach in the REM automatically accounts for intertemporal correlation in its error term Gujarati & Porter (2009); Wooldridge (2010). Therefore, an additional autocorrelation test is not required for the REM.

Multicollinearity Test

Table 5: Multicollinearity Test Result

	DKI	KA	KI	KM	KUA
DKI	1.000000	0.096274	-0.026939	0.070810	-0.033486
KA	0.096274	1.000000	-0.173418	0.085107	0.354238

KI	-0.026939	-0.173418	1.000000	-0.559678	0.045302
KM	0.070810	0.085107	-0.559678	1.000000	-0.058554
KUA	-0.033486	0.354238	0.045302	-0.058554	1.000000

The results of the multicollinearity test show that all correlation coefficients between independent variables are below 0.80 in terms of their absolute values. The highest correlation coefficient was found between the KI and KM variables at 0,559678 with a negative relationship, where the negative sign merely indicates an opposite direction of the relationship, not that the value is smaller. Thus, the regression model in this study does not contain multicollinearity issues.

Hypothesis Test

Table 6: Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.163114	0.042496	3.838325	0.0002
Independent Commissioner (X1)	-0.004180	0.003721	-1.123528	0.2624
Audit Committee (X2)	-0.009408	0.009106	-1.033170	0.3026
Institutional Ownership (X3)	-0.010089	0.002898	-3.481108	0.0006
Managerial Ownership (X4)	-0.000160	7.61E-05	-2.103952	0.0365
Audit Quality (X5)	0.003504	0.003564	0.983192	0.3266
	Weighted Statistics			
R-squared	0.061116	Mean dependent var		0.015180
Adjusted R-squared	0.040159	S.D. dependent var		0.011661
S.E. of regression	0.011424	Sum squared resid		0.029236
F-statistic	2.916229	Durbin-Watson stat		2.003936
Prob(F-statistic)	0.014270			

Coefficient of Determination ($R^{2)}$

the adjusted R-squared value of 0,040159 indicates that Based on Table 6, independent commissioners, the audit committee, institutional ownership, managerial ownership, and audit quality together account for 4,02% of the variation in earnings quality, while the remaining 95,98% is explained by other factors outside the scope of this study.

F Test

Based on Table 6, the F-statistic value is 2,916229 with a probability of 0,014270 which is less than 0,05. This indicates that, simultaneously, all five independent variables (independent commissioners, audit committee, institutional ownership, managerial ownership, and audit quality) have a significant effect on earnings quality. Thus, it can be concluded that the regression model in this study is suitable for predicting the effect of independent variables on the dependent variable.

t Test

Based on the results of the t-test analysis presented in Table 6, several key findings regarding the influence of independent variables on earnings quality, as follows:

1. The independent commissioner variable (XI) shows a negative coefficient of -0,004180 with a p-value of 0,2624, which is greater than 0,05; therefore, it does not have a significant effect on discretionary accruals. Consequently, independent directors also do not have a significant effect on earnings quality.
2. The audit committee variable (X2) also shows similar results, with a coefficient of -0,000408 and a p-value of 0,3026, which is greater than 0,05, meaning it has no significant effect on discretionary accruals. Consequently, the audit committee also has no significant effect on earnings quality.
3. The institutional ownership variable (X3), which has a coefficient of -0,010089 with a p value of 0,0006 which is less than 0,05, indicates a negative and significant effect on discretionary accruals. This indicates that the higher the level of institutional ownership, the lower the level of discretionary accruals, thus, institutional ownership has a positive and significant effect on earnings quality.
4. The managerial ownership variable (X4), with a coefficient of -0,000160 and a p-value of 0,0365 which is less than 0,05, also has a negative and significant effect on discretionary accruals. This indicates that the higher the managerial ownership, the lower the level of discretionary accruals, meaning that managerial ownership has a positive and significant effect on earnings quality.
5. The audit quality variable (X5) shows a positive coefficient of 0,003504 with a p-value of 0,3266, which is greater than 0,05, thus, it has no significant effect on discretionary accruals. Consequently, audit quality also has no significant effect on earnings quality.

The Effect of Independent Directors on Earnings Quality

Based on the results of the hypothesis testing, the independent director variable shows a negative coefficient of -0,004180 with a probability value of 0,2624, which is greater than 0,05. Thus, it does not have a significant effect on discretionary accruals and, consequently, does not have a significant effect on earnings quality. These results do not align with the research hypothesis, which predicted a positive effect. From an agency theory perspective, the presence of independent directors should function as a monitoring mechanism that reduces information asymmetry and conflicts of interest between principals (shareholders) and agents (management), thereby curbing managers' opportunistic behavior in manipulating earnings. However, the lack of a significant effect is likely due to the fact that, in practice, the appointment of independent directors is still influenced by controlling shareholders; consequently, their independence tends to be merely formal and they are not yet fully capable of objectively performing their oversight function over management. As a result, the oversight mechanism expected under agency theory does not function effectively. These findings are consistent with those of Azizah & Khairudin (2022) who also found that independent directors to not affect earnings quality. Thus, it can be concluded that the proportion of independent directors is not a primary factor determining the level of earnings quality in the companies included in this study.

The Effect of the Audit Committee on Earnings Quality

Based on the results of the hypothesis testing, the audit committee variable yielded a coefficient of -0,000408 with a p-value of 0,3026, which is greater than 0,05. Thus, it has no significant effect on discretionary accruals and, consequently, no significant effect on earnings quality. These results do not align with the research hypothesis, which posited a positive effect. According to agency theory, audit committees are established as a monitoring mechanism to

reduce agency costs arising from conflicts of interest between management and shareholders, particularly in maintaining the quality of financial reporting. However, the lack of an effect of audit committees on earnings quality is likely due to the fact that the audit committees in the sample companies have not been fully effective in carrying out their oversight functions. One reason for this is the still-limited frequency of meetings, which results in a less-than-optimal oversight process for financial reporting; consequently, the function of reducing information asymmetry, as expected in agency theory, has not been achieved. The results of this study are consistent with those of Ramadina & Hidayah (2025) who also found that audit committees have no effect on earnings quality. Thus, it can be concluded that the existence of an audit committee is not a primary factor determining the level of earnings quality in the companies in this study's sample.

The Effect of Institutional Ownership on Earnings Quality

Based on the results of the hypothesis testing, the institutional ownership variable showed a coefficient of -0,010089 with a p-value of 0,0006, which is less than 0,05, indicating a negative and significant effect on discretionary accruals. This indicates that the higher the level of institutional ownership, the lower the level of discretionary accruals; thus, institutional ownership has a positive and significant effect on earnings quality, consistent with the research hypothesis proposed. This finding supports agency theory, which states that institutional ownership acts as an effective external oversight mechanism in reducing conflicts of interest between agents and principals, as institutional investors possess greater resources and access to information compared to individual investors, thereby enabling them to exercise stricter oversight over management performance and limit managers' leeway in engaging in earnings management practices. These research results are consistent with Napitu et al. (2024) who also found that institutional ownership has a positive effect on earnings quality. Thus, it can be concluded that institutional ownership is one of the factors that plays a role in improving earnings quality in the companies in this study's sample by strengthening the monitoring function, as explained in agency theory.

The Effect of Managerial Ownership on Earnings Quality

Based on the results of the hypothesis testing, the managerial ownership variable showed a coefficient of -0,000160 with a p-value of 0,0365, which is less than 0,05. Thus, it has a negative and significant effect on discretionary accruals. This indicates that the higher the level of managerial ownership, the lower the level of discretionary accruals; thus, managerial ownership has a positive and significant effect on earnings quality, consistent with the research hypothesis proposed. These results are consistent with the principles of agency theory, which emphasize the importance of interest alignment between managers and shareholders to reduce agency costs, as management's stock ownership aligns managers' interests with those of shareholders, thereby reducing managers' incentives to manipulate earnings for short-term personal gain. These findings are consistent with those of Martinus & Kusumawati (2021) who also found that managerial ownership has a positive effect on earnings quality. Thus, it can be concluded that managerial ownership is one of the factors that plays a role in improving earnings quality in the companies included in this study, serving as a tangible manifestation of the interest alignment mechanism in agency theory.

The Effect of Audit Quality on Earnings Quality

Based on the results of the hypothesis testing, the audit quality variable showed a positive

coefficient of 0,003504 with a p-value of 0,3266, which is greater than 0,05. thus, it does not have a significant effect on discretionally accruals and, consequently, does not have a significant effect on earnings quality. These results do not align with the research hypothesis, which posited a positive effect. Within the agency theory framework, external audits serve as an independent oversight mechanism designed to verify the reliability of financial statements and reduce information asymmetry between management and shareholders, so that theoretically, high-quality auditors are expected to limit managers ability to engage in earnings management. However, the lack of a significant effect of audit quality on earnings quality is likely due to the fact that the audit quality proxy used does not fully reflect the auditors effectiveness in detecting and preventing earnings management practices in the sample companies, meaning that the monitoring function expected under agency theory has not been optimally realized. The results of this study are consistent with Kasmita et al. (2026) who also found that audit quality does not affect earnings quality. Thus, it can be concluded that audit quality is not a major factor determining the level of earnings quality in the companies in this study's sample.

CONCLUSIONs

This study aims to analyze the effect of Good Corporate Governance mechanisms-comprising independent directors, audit committees, institutional ownership, managerial ownership, and audit quality on earnings quality in energy sector companies listed on the Indonesia Stock Exchange during the 2020-2024 period. Based on the results of the hypothesis testing, it can be concluded that, taken together, these five Good Corporate Governance mechanisms have a significant effect on earnings quality. However, when examined individually, only institutional ownership and managerial ownership were found to have a positive and significant effect on earnings quality, while independent directors, audit committees, and audit quality did not have a significant effect on earnings quality.

These findings make a theoretical contribution by reinforcing agency theory, specifically that equity ownership structures both institutional and managerial-have proven to be more effective in aligning the interests of management and shareholders and curbing opportunistic behavior by management than formal oversight mechanisms such as independent directors and audit committees. This also indicates that the presence of independent directors, audit committees, and Big Four auditors in the sample companies has not yet fully and effectively fulfilled their oversight functions in minimizing earnings manipulation practices; thus, these functions are more a matter of regulatory compliance formalities than substantive oversight mechanisms. For companies in the energy sector, the results of this study serve as a recommendation to pay closer attention to the role of institutional and managerial ownership as effective oversight instruments, without neglecting the need to strengthen the independence and effectiveness of independent directors, audit committees, and audit quality so that corporate governance can function more optimally. For investors, these findings can serve as a consideration when assessing the quality of earnings of energy sector companies by taking into account their shareholding structure.

This study has several limitations, including an observation period that spans only five years (2020-2024) and a sample limited to companies in the energy sector; therefore, the findings may not necessarily be generalizable to other sectors. Therefore, future researchers are advised to extend the observation period, broaden the scope of the study to include other sectors, and consider other variables such as firm size, leverage, or profitability as moderator or control variables to obtain a more comprehensive understanding of the factors influencing earnings quality.

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