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THE EFFECT OF EARNINGS MANAGEMENT, GOOD CORPORATE GOVERNANCE (GCG) AND DISCLOSURE OF SUSTAINABILITY REPORTS ON FINANCIAL PERFORMANCE IN COMPANIES LISTED IN LQ45 ON INDONESIA STOCK EXCHANGE FOR THE 2019-2023 PERIOD

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Abstract:
The purpose of this study is to determine the effect of earning management, good corporate governance (GCG) and disclosure of sustainability report on financial performance, as proxied by ROA, in companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The data used in this study are secondary data, namely annual reports and sustainability reports of companies listed on the LQ45 for 5 periods, obtained from the company's official website and the official website of the Indonesia Stock Exchange. This study was processed using Eviews 12 software with a multiple regression analysis method. The population of this study was all 19 companies listed on the LQ45 in the Indonesia Stock Exchange (IDX) in 2019-2023, with 12 companies being sampled using a purposive sampling technique. The results of this study concluded that earnings management had a significant positive effect on financial performance. GCG, as proxied by institutional ownership, had a positive effect on financial performance, independent commissioners did not have a significant positive effect on financial performance, and the audit committee did not have a significant positive effect on financial performance. Disclosure of sustainability report does not have a significant positive effect on financial performance. Earnings management, GCG, and sustainability report disclosure simultaneously have a significant positive effect on financial performance. The GCG mechanism can monitor earnings management practices so that it can influence improvements in financial performance and improve the quality of sustainability report disclosures.

Keywords: Earnings Management, Good Corporate Governance (GCG), Disclosure of Sustainability Report, Financial Performance, ROA

BACKGROUND

Indonesia's economic growth rate fluctuates from year to year, reflected in patterns of increases and decreases in various economic indicators. This was particularly true in 2020, the year the COVID-19 pandemic struck Indonesia and, indeed, the world. According to the Indonesian Central Bureau of Statistics (BPS), Indonesia's economic growth has experienced both increases and decreases over the past five years, from 2019 to 2023. For example, in 2018, Indonesia's economic growth reached 5.17%, then in 2019 it reached 5.02%, lower than the 2018 figure. However, during the COVID-19 pandemic, Indonesia's economic growth declined by 2.07% in 2020. It then increased again in 2021 to 3.70%, higher than the 2020 figure. In 2022, economic growth increased to 5.31%. In 2023, Indonesia's economic growth declined slightly to 5.05%. The increase or decrease in economic growth in a country will also impact its economic stability. Therefore, based on the above data, efforts that can be made to encourage economic growth in Indonesia include increasing productivity and competitiveness. Therefore,

companies play a crucial role in the country's economic growth, particularly the LQ45 companies.

The companies included in the LQ45 index are 45 issuers in Indonesia selected based on their high liquidity, large market capitalization, and solid fundamental performance. Companies listed in the LQ45 stock index are the 45 best companies with the highest market capacity, regular market transaction value, financial condition, and growth prospects on the Indonesia Stock Exchange (Yanto & Frymaruwah, 2021). The stock index for these 45 companies is adjusted every six months, namely in February and August. A company's ability to meet liquidity, market capitalization, and global economic needs can also boost the country's economic growth. This ability is reflected in the company's financial condition, which can be measured by the company's performance in managing revenue and operating expenses. This financial condition can be explained through the information presented in the financial statements.In minimizing agency conflicts, institutional ownership plays a crucial role in driving improved corporate financial performance through more optimal oversight mechanisms. This aligns with the opinion of Hermiyetti & Katlanis (2017), who stated that a high level of institutional ownership can contribute to an increased oversight function by institutional investors. Thus, the corporate governance system will be reliable and motivate company managers in the decision-making process and improve financial performance. Consistent with this, research by Hartati (2020) and Lontoh et al. (2019) shows a significant positive effect between institutional ownership and corporate financial performance, as measured by Return on Assets (ROA).

An independent board of commissioners also plays a crucial role in a company, overseeing and advising company directors to effectively implement corporate governance. Sembiring & Saragih (2019) state that the presence of independent commissioners aims to create balance in the decision-making process and oversee management policies. Research by Intia & Azizah (2021) supports this view by demonstrating the influence of an independent board of commissioners on financial performance. These findings suggest that increasing the number of independent commissioners can strengthen oversight mechanisms, curb practices that favor management interests, and encourage improved financial performance.

Furthermore, the audit committee also plays a crucial role in the corporate governance structure, supporting the board of commissioners in carrying out its oversight function over management performance. According to Sembiring & Saragih (2019), increasing the number of independent commissioners and audit committee members can increase the effectiveness of oversight, which has implications for improved financial performance. This finding is supported by research by Shanti (2020), which demonstrated a positive influence of the audit committee on financial performance, as proxied by ROA. However, a different finding was found in research by Hartati (2020), which found no influence between the board of commissioners and the audit committee on financial performance. These findings indicated that the number of board of commissioners and audit committee members, whether large or small, did not significantly differ in the effectiveness of oversight of a company's financial performance.

The failure to disclose sustainability reports can be another factor contributing to declining corporate financial performance. In addition to disclosing periodic financial reports, companies have a responsibility to disclose sustainability reports to the public and the

surrounding environment. The Global Reporting Initiative (GRI) defines a sustainability report as a reporting process aimed at measuring, recording, and communicating various company activities, demonstrating accountability to internal and external stakeholders, regarding the organization's performance in supporting the achievement of sustainable development goals (Mulpiani, 2019). As time goes by, the Triple-P Bottom Line concept needs to be adopted as a business objective in the sustainability development process, encompassing profit, people, and planet. People relates to society, where business activities conducted by a company must be fair and beneficial to the workforce, the community, and the region where the company operates. Planet relates to the earth or the environment, where business activities conducted by a company must maintain a focus on the natural order or surrounding environment, at least without causing harmful impacts. Profit relates to the company's profits or earnings. Therefore, financial performance will be influenced by sustainability report disclosure. This statement aligns with Anna & R.T. (2019) which showed a positive and significant relationship between the influence of sustainability report disclosure on financial performance using the ROA method.

Several factors considered to influence a company's financial performance include the effectiveness of asset management to generate profits, earnings management practices, the implementation of Good Corporate Governance (GCG) to address agency conflicts, and the disclosure of sustainability reports as a form of social and environmental responsibility. Based on this, the main objective of this study is to analyze the extent to which these factors contribute to a company's financial performance. The background presented, coupled with the differences in results from previous studies and the limited number of studies examining these three independent variables in companies indexed by the LQ45 on the Stock Exchange, makes this research difficult to analyze. The Indonesian effect formed the basis for selecting this research topic. Furthermore, several previous studies have demonstrated a significant relationship between the independent and dependent variables examined in this study. For example, studies by Oktariyani et al. (2015) and Sochib (2018) revealed an influence between earnings management and a company's financial performance. Meanwhile, Hartati (2020) revealed that institutional ownership significantly impacts financial performance.

Research by Farida (2021) indicates the influence of independent commissioners on financial performance. Similar findings were also presented by Shanti (2020), who found an influence of audit committees on financial performance. Furthermore, research by Anna & R.T. (2019) indicated that sustainability report disclosure impacts financial performance. However, several previous studies also found insignificant results regarding the influence of these independent variables on financial performance. Furthermore, studies on the influence of sustainability report disclosure on financial performance are still relatively limited in the previous literature, thus further research is needed to broaden our understanding in this area.

THEORETICAL FRAMEWORK

Agency Theory

Agency theory is a conceptual framework that describes the contractual relationship between a company owner (principal) and a manager (agent), in which the manager is authorized to manage and carry out the company's operational activities on behalf of and in the owner's interest. According to Jensen and Meckling (1976), in research conducted by Ramdhaningsih (2013), agency theory is a contract between the owner or shareholder (principal) and the

manager (agent), in which the owner assigns the manager to perform a task based on their decision-making authority. Based on the tasks assigned to the management, the management is accountable for all its work to the owners or shareholders.

Agency theory provides insight into analyzing and assessing the impact of agent-principal or principal-principal relationships. Within the agency theory framework, the interaction between company owners and managers is known as an agency relationship, characterized by a separation of roles between the ownership function (principal/investor) and the control or management function (agent/manager). This separation is intended to optimize profits for the owner-manager as a professional who is given direction to utilize company resources effectively and efficiently.

Signalling Theory

Signaling theory is an approach that explains that companies intentionally convey positive signals through annual reports, particularly those with strong financial performance, with the aim of enabling the market to distinguish between high-quality and low-quality companies. Companies will voluntarily provide important information to external parties, especially investors, so that it can be used as a reference in decision-making (Ramdhaningsih, 2013). This is due to the fact that higher profits, the company's value and financial performance will increase. This situation has the potential to attract investors to invest in the company.

To support corporate sustainability and obtain managerial compensation, managers typically use sustainability reports to signal the company's profitability to investors. A sustainability report is a report containing a company's financial and non-financial statements related to social, economic, and environmental issues. Signaling theory suggests that a company must be transparent and open in reporting all information related to its operations (Fatchan & Trisnawati, 2018).

Financial Performance

One way to determine whether a company is making a profit or loss and running its business effectively is through its financial performance. According to the Online Big Indonesian Dictionary (KBBI Online), performance is something achieved or a desired achievement. It can be defined as the accomplishments achieved by an individual or group based on their abilities. Individual or group performance can be measured by their level of success in carrying out their duties, functions, and responsibilities based on established goals and regulations. Therefore, financial performance describes a company's financial condition, analyzed using various financial analysis instruments to assess the quality of that condition and to reflect the company's performance achievements over a specific period (Sianturi, 2020). Meanwhile, according to Sucipto (2003), in research conducted by Epi (2017), financial performance is defined as the process of determining specific indicators to measure a company's success in generating profits.

Financial performance is used by companies as a form of corporate accountability and as a determinant of a company's viability or sustainability. This is because, in making decisions, stakeholders require information related to company performance to measure the company's efficiency and effectiveness (Mulpiani, 2019). Meanwhile, for investors, financial performance is used as a benchmark for making investment decisions. Financial performance is closely related to the company's financial statements (such as assets, liabilities, equity, expenses, revenue, and profitability) and sustainability reports, making disclosure of both reports crucial

for companies to attract investors. Measuring a company's financial performance is intended to compare performance with the previous period to enable improvements for the company in the future. These improvements can relate to the company's profits, shareholder value, and so on. This financial performance measurement can also assess management's ability to manage the company's assets. Financial performance is measured through financial ratio analysis, which aims to assess the effectiveness and efficiency of a company's performance over a specific period. According to Sudana (2011) and research conducted by Harahap et al. (2021), financial ratio analysis is conducted to identify a company's strengths and weaknesses and provides crucial information for management to evaluate past performance and prepare future corporate plans. Financial ratio analysis comprises five ratio dimensions: liquidity ratios, profitability ratios, solvency ratios, activity ratios, and investment ratios. Liquidity ratios measure a company's ability to meet its short-term obligations in a timely manner. Profitability ratios illustrate the extent to which a company generates profits from its operational activities. Solvency ratios reflect a company's ability to manage its funding sources and meet long-term obligations. Meanwhile, activity ratios measure a company's efficiency in managing and utilizing all available resources to support operations and achieve its goals. Investment ratios measure the extent to which a company is able to provide returns to investors in the capital market over a specific period. The financial performance measurement used is the profitability ratio (ROA).

$$\text{ROA} = \frac{Net\ Income\ (\text{Laba Bersih})}{Total\ Assets\ (\text{Total Aset})}\ x\ 100\%$$

Earnings Management

Earnings management can be defined as a strategy implemented by company management to manage or modify earnings reports, either through specific accounting policies or estimates, to create a profitable financial performance presentation that aligns with specific company objectives (Epi, 2017, p. 3). Earnings management can also be defined as the behavior of managers to increase (decrease) the current profits of the company they manage without causing an increase (decrease) in the company's long-term economic profit (Sochib, 2018). The earnings management implemented by these managers is within the limits permitted by accounting principles and standards. Earnings management practices by company management are used as a means to attract the attention of external parties or investors that the company has good financial performance prospects (Adryanti, 2019, p. 50). Earnings management practices implemented by company managers have various advantages and disadvantages. Earnings management is not always related to attempts to manipulate existing data or financial reports, but rather to the selection of accounting models or methods used to manage profits in accordance with targets and accounting standards. Therefore, company managers have a significant responsibility in carrying out this activity, which, if carried out excessively or too extensively, can reduce the financial report's value to investors (Adryanti, 2019). According to Ahmad Abbas et al., in their book "Earnings Management: An Islamic Perspective and Empirical Evidence," earnings management is defined as a planned activity carried out by management to influence reported earnings through the application of specific accounting policies, thereby achieving the desired benefits for the company (Abbas et al., 2019).

According to Adryanti (2019), discretionary revenue is a disclosure model for earnings management practices based on a comparison of revenue and accruals to determine the extent

of earnings management through revenue. Discretionary accruals, on the other hand, are accrual activities undertaken by company managers, allowing them to choose the policies to be used by the company, which consist of total accruals, receivables, revenue, and plan, property, and equipment (PPE). Discretionary accruals in the Modified Jones Model (modified Jones Model) have the smallest standard error in the regression results of total accruals and are better able to detect earnings management compared to other models (Ghazali & Irwanto, 2019). Therefore, referring to research by Sochib (2018) and Riswandi & Yuniarti (2020), the authors chose the Discretionary Accruals calculation model to calculate earnings management in this study. The model is as follows:

$$DA_{it} = \left(\frac{TA_{it}}{A_{it-1}}\right) - NDA_{it}$$

Good Corporate Governance (GCG)

The concept of Good Corporate Governance (GCG) has undergone significant development over time. Today, the implementation of GCG is essential in assessing the quality of relationships between owners, shareholders, management, government, employees, and various internal and external parties. Consequently, Good Corporate Governance (GCG) has numerous definitions, both from individuals and institutions. The Forum for Corporate Governance in Indonesia (FCGI) (2015) defines corporate governance as a set of mechanisms that regulate the distribution of rights and responsibilities between shareholders, management, creditors, government, employees, and all relevant stakeholders (Gustiana et al., 2019). The Organization for Economic Cooperation and Development (OECD), as cited in Kurniawan (2012), defines Good Corporate Governance as a structure that regulates, oversees, and balances the roles of shareholders, management, and the board of commissioners in setting company goals, determining strategies for achieving them, and monitoring company performance.

According to Article 1 of the Minister of State-Owned Enterprises Regulation Number PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises, Good Corporate Governance (GCG) is defined as a set of principles that serve as the basis for implementing company management processes and mechanisms based on laws and business ethics. Sedarmayanti (2012) describes corporate governance as a system, process, and set of rules that govern the relationships between various stakeholders, particularly those narrowly encompassing shareholders, the board of commissioners, and the board of directors, with the aim of achieving organizational goals (Situmorang & Simanjuntak, 2019). Based on the various definitions presented, Good Corporate Governance (GCG) can be summarized as a system consisting of a set of rules, mechanisms, and structured processes that function to manage, direct, and control the running of a company, with the primary goal of increasing the company's value and optimizing its performance in a sustainable manner. The implementation of GCG will run smoothly if the company adheres to the GCG principles as outlined by the National Committee for National Development Planning (KNKG) and Article 3 of the Minister of State-Owned Enterprises Regulation Number Per-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises. These principles are necessary to maintain the company's business continuity (TARIF). The GCG principles consist of five principles, also known as TARIF. Implementing GCG principles requires an appropriate mechanism. Good Corporate Governance mechanisms consist of external and

internal mechanisms. External mechanisms refer to the influence of parties outside the company, such as investors, public accountants, creditors, and authorized institutions for legal approval. Meanwhile, internal mechanisms are influenced by factors within the company, including the presence of institutional ownership, the existence of an independent board of commissioners, and an audit committee (Hartati, 2020).

Institutional Ownership

Institutional ownership is a form of share ownership by external parties with institutional status, such as financial institutions, government agencies, legal institutions, or other organizations. According to Subagyo et al. (2018) in a study conducted by Nabila Putri, Astrie K. & Rr. Sri S. (2012), institutional ownership plays a crucial role in driving financial performance and monitoring a company because it can be a source of strength that supports a company's management performance. This oversight plays a role in ensuring the welfare of shareholders, as institutional ownership acts as a controlling agent with power through the substantial investments they make in the capital market. Furthermore, institutional ownership plays a significant role in mitigating agency conflicts that may arise between employees, managers, and shareholders. In general, according to Haryono (2005) in Petta & Tarigan (2017), institutional shareholders hold a high position or ownership within a company. Therefore, this will influence the decision-making process for the company and its performance. Institutional ownership has several advantages, including: Analytical expertise to verify the reliability of company information; Significant motivation to implement more intensive oversight of all operational activities within the company. Increasing the proportion of institutional ownership in a company implies strengthening oversight mechanisms for managerial activities, which in turn supports the achievement of optimal financial performance. This condition also plays a role in preventing opportunistic actions by management and supporting more effective decision-making (Lontoh et al., 2019). Institutional ownership can be measured through the ratio between the number of shares owned by institutions and the total outstanding shares in the company, which refers to the formula contained in the research by Lontoh et al. (2019), Monica & Dewi (2019), and Petta & Tarigan (2017) are as follows:

Institutional Ownership = (Number of Institutional Shares)/(Number of Outstanding Shares) x 100%

Independent Board of Commissioners

The board of commissioners is a company organ with authority within the company, with the primary task of supervising and providing direction or advice to management, to ensure that corporate governance mechanisms operate effectively and in accordance with applicable principles. In Wahyu Kurniawan's book, "Corporate Governance: In the Legal Aspects of Companies," the duties and responsibilities of the board of commissioners are outlined. The duties of the board of commissioners include ensuring the effective implementation of company strategies, overseeing management performance in managing company operations, and ensuring the application of accountability principles throughout all business processes. Furthermore, the board of commissioners serves as a key pillar in maintaining the company's stability, resilience, and success in achieving both short-term and long-term goals (Kurniawan, 2012). An independent commissioner is a member of the board of commissioners who is free from affiliations with management, other commissioners, or controlling shareholders, and has

no relationships that could compromise their objectivity in making decisions in the best interests of the company (KNKG, 2006).

The purpose of an independent commissioner is to balance the board of commissioners' decision-making process. This position is considered the most ideal for carrying out the oversight function in order to realize the implementation of good corporate governance principles. Independent commissioners, who come from outside the company, play a strategic role in influencing financial performance. This role includes acting as a mediator in resolving internal management conflicts, overseeing management policies, and providing constructive input that can support effective decision-making (Sembiring & Saragih, 2019). Based on Listing Regulation Number IA concerning General Provisions for Listing Equity Securities on the Stock Exchange, as cited in research by Sembiring & Saragih (2019), the provisions regarding the composition of independent commissioners require that they constitute a minimum of 30% of the total board of commissioners. This percentage is calculated based on the ratio of the number of independent commissioners to the total number of board members within the company. According to Fadillah (2017) and Monica & Dewi (2019), the independent commissioner ratio is as follows:

Independent Commissioners = (Number of Independent Commissioners)/(Number of Board of Commissioners)

Audit Committee

According to POJK Number 55/POJK.04/2015, and research conducted by Hartati (2020), the audit committee is an instrument established by the board of commissioners with the primary purpose of supporting the implementation of its oversight function regarding the performance of company management. This role includes oversight of the preparation and presentation of financial statements, risk management and mitigation, and the implementation of audit activities, both internally and by external auditors, to ensure regulatory compliance and the implementation of good corporate governance principles. This committee plays a crucial role as a bridge between investors, the board of commissioners, and management, particularly when addressing issues related to internal control. Therefore, the audit committee is considered a key element in the implementation of GCG in a company. The audit committee's primary duties encompass internal oversight, encompassing the audit process, risk management, financial reporting, and the implementation of GCG principles within the company.

According to Article 4 of POJK No. 55/POJK.04/2015, the audit committee must consist of at least three members, including one independent commissioner serving as the audit committee chair, and other members from external parties (Financial Services Authority, 2015). The greater the proportion of independent audit committee members, the greater the effectiveness of the oversight function of the company's operations. Improving the quality of oversight has the potential to drive improved company performance and produce more reliable financial reports that align with transparency principles (Sembiring & Saragih, 2019). Referring to studies conducted by Hartati (2020) and Shanti (2020), the audit committee's measurements are as follows:

$$Audit\ Committee = \sum Audit\ Committee\ Members$$

Sustainability Report Disclosure

Generally, companies' primary goal is to maximize profits, requiring them to submit accounting reports each period as a form of corporate accountability. These reports not only relate to the company's finances but also to the company's accountability to the community and the surrounding environment. These reports examine whether, during the course of its business activities, the company has had a significant impact on environmental sustainability and the well-being of the surrounding community. With the changing times, the goal of a business or enterprise is no longer solely focused on achieving profit, but also encompasses social responsibility towards the community (people) and environmental sustainability (planet). These three aspects are known as the Triple Bottom Line concept, introduced by John Elkington in 1997 (Fatchan & Trisnawati, 2018). According to Fuadah et al. (2018) in their book entitled "Sustainability Reporting Disclosures in Indonesia," Triple-P (People, Planet, and Profit). Information related to a company's social and environmental responsibilities can be conveyed through a sustainability report. The Global Reporting Initiative (GRI) defines sustainability reporting as a reporting practice aimed at assessing and conveying information about a company's activities as a form of accountability to stakeholders for the company's performance in supporting the achievement of sustainable development goals (Mulpiani, 2019). Meanwhile, according to Gunawan and Sekar (2015), in research conducted by Gustiana et al. (2019), a sustainability report is a report containing information on a company's financial and non-financial performance, including social and environmental aspects, aimed at supporting the company's sustainable growth. Meanwhile, according to the Brundtland Report published by Oxford University Press (1987) and in research by Janggu et al. (2014), sustainable development is a development process that seeks to meet the needs of the present without compromising the ability of future generations to meet their own needs. The report must address three fundamental components of sustainable development: environmental protection, economic growth, and social justice. The implementation of sustainability reporting in Indonesia is supported by government regulations, namely Article 74 of Law Number 40 of 2007 concerning Social and Environmental Responsibility. In addition, the Financial Services Authority (OJK) also issued Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Based on this regulation, all financial institutions and public companies are required to prepare a sustainability report to complement their annual financial statements. This sustainability report must adhere to the standards established by the Global Reporting Initiative (GRI). The Global Reporting Initiative (GRI) is an international organization responsible for developing and disseminating globally applicable Sustainability Reporting Standards and Guidelines. In Indonesia, the introduction and development of sustainability reports is carried out by the National Center of Sustainability Reporting (NCSR), an organization appointed by GRI as the Official GRI Training Partner for Southeast Asia.

In accordance with the Global Reporting Initiative (GRI) guidelines, sustainability report disclosure is measured using the Sustainability Report Disclosure Index (SRDI). The Sustainability Report Disclosure Index (SRDI) is an index used to assess a company's responsibility in disclosing its performance according to the GRI aspects, namely economic, environmental, and social (Maskat, 2018). According to Maskat (2018), Pujiningsih (2020), and Tarigan & Semuel (2015), the Sustainability Report Disclosure Index (SRDI) is measured using a binary scoring method, where each item of information disclosed in the report is given

a score of 1, while items not disclosed are given a score of 0. After scoring, the scores are added together to obtain an overall score for each dimension. The formula is as follows:

$$\text{SRDI} = \frac{n}{k}$$

METHOD

This research was conducted on companies listed on the Indonesia Stock Exchange's LQ45 index from 2019 to 2023. The research process took place from January 2025 to May 2025, covering planning and data collection, as well as the preparation of the thesis proposal and thesis report. This research used secondary data obtained from the annual reports and sustainability reports of LQ45-listed companies for five periods, published on the Indonesia Stock Exchange website (www.idx.co.id) and the companies' official websites.

The researchers employed a causal research approach. Causal research is a type of study that aims to examine the causal relationship between independent and dependent variables. In this study, a causal approach was used to analyze the relationship between earnings management, the implementation of good corporate governance (GCG), and sustainability report disclosure (as independent variables) and financial performance (as dependent variables).

The approach employed was a quantitative approach, emphasizing the collection and analysis of numerical data. This approach relies on measurement techniques and statistical calculations to explain the phenomena under study, necessitating the use of valid and reliable instruments or measuring tools to collect data from a defined population or sample. The fully collected data is then analyzed statistically to test whether the established hypotheses are related to the variables used. The collected data can be in the form of numbers, tabulations, or calculations using various statistical analysis methods, the results of which can be used as a benchmark for making decisions or conclusions (Zaluchu, 2020).

The data used is secondary data, including total company assets and net income, number of board members, total outstanding shares, number of audit committee members, and the value of sustainability report disclosures. In research, secondary data is data obtained indirectly by the researcher, either through intermediaries or previously published sources. Secondary data collection is carried out through the documentation method, a data collection technique based on recording and reviewing existing documents or archives relevant to the research topic. Data collection techniques were taken from the official website of the Indonesia Stock Exchange (http://idx.co.id) and the official websites of companies included in the LQ45 list.

A sample, as defined by Purwohedi (2022, p. 99), is a small group that represents a population and is selected because it possesses certain characteristics that align with the research needs. The sampling method used was non-probability sampling, specifically purposive sampling, which is a sampling method based on criteria and considerations determined by the researcher. These criteria can be based on a predetermined research design or on previous research (Purwohedi, 2022).

RESULT

The type of data used in this study is panel data, a combination of cross-section and time-series data. Panel data analysis can be performed using three regression model approaches: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). Among the three regression models above, selecting the best model is necessary to

determine which regression model is best for testing the research hypothesis. The selection tests for regression models on panel data consist of the Chow Test, the Haussman Test, and the Lagrange-Multiplier Test (LM Test). This regression model selection was performed using Eviews 12 software. The results of the regression model selection test for the research data are as follows:

Table 1 The Result of Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.482013	(11,43)	0.0002
Cross-section Chi-square	45.832037	11	0.0000

Table 2 The Result of Haussman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.815474	5	0.0806

Table 3 The Result of Langrange-Multiplier Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	6.671309 (0.0098)	3.740873 (0.0531)	10.41218 (0.0013)
Honda	2.582888 (0.0049)	1.934134 (0.0265)	3.194016 (0.0007)
King-Wu	2.582888 (0.0049)	1.934134 (0.0265)	2.990091 (0.0014)
Standardized Honda	4.147652 (0.0000)	2.509777 (0.0060)	1.103516 (0.1349)
Standardized King-Wu	4.147652 (0.0000)	2.509777 (0.0060)	1.026450 (0.1523)
Gourieroux, et al.	--	--	10.41218 (0.0020)

Based on the results of the regression model testing using the Chow Test, shown in Table 4.7, the Prob. value (p-value) and chi-square test were smaller than the 0.05 significance level. A

p-value of 0.0000, which is below 0.05, indicates that, according to the decision-making criteria in the Chow Test, H0 is rejected. Therefore, the appropriate regression model at this stage is the Fixed Effects Model (FEM). Next, a Haussman Test is required to determine the appropriate regression model between the Fixed Effects Model and the Random Effects Model.

Based on the Haussman Test results in the table above, the Prob. value is 0.0806. The Prob. value obtained indicates that it is above the 0.05 significance level, so H0 is accepted and the selected regression model is the Random Effects Model (REM). Therefore, a further test, the Lagrange-Multiplier (LM) Test, is necessary to determine the appropriate regression model between the Common Effects Model and the Random Effects Model.

Based on the Lagrange-Multiplier (LM) Test results table above, the Prob. value is 0.0806. The Breusch-Pagan test value of 0.0013 is below the significance value of 0.05. Therefore, the decision in this test is to reject H0 and the best regression model selected to test the hypothesis is the Random Effect Model (REM).

Table 4 Random Effect Model (REM)

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 07/06/25 Time: 12:43
Sample: 2019 2023
Periods included: 5
Cross-sections included: 12
Total panel (balanced) observations: 60
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.241114	3.061062	-1.385504	0.1716
LABA	20.69522	5.118880	4.042920	0.0002
KI	4.585598	1.370707	3.345425	0.0015
KIN	0.329399	3.100409	0.106244	0.9158
KA	0.188587	0.270760	0.696509	0.4891
PSR	5.380319	3.073737	1.750416	0.0857

Effects Specification	S.D.	Rho
Cross-section random	1.290933	0.4326
Idiosyncratic random	1.478375	0.5674

Weighted Statistics			
R-squared	0.340259	Mean dependent var	1.597569
Adjusted R-squared	0.279172	S.D. dependent var	1.817264
S.E. of regression	1.542885	Sum squared resid	128.5467
F-statistic	5.570072	Durbin-Watson stat	1.249255
Prob(F-statistic)	0.000330		

Unweighted Statistics			
R-squared	0.487300	Mean dependent var	3.504646
Sum squared resid	225.9278	Durbin-Watson stat	0.710792

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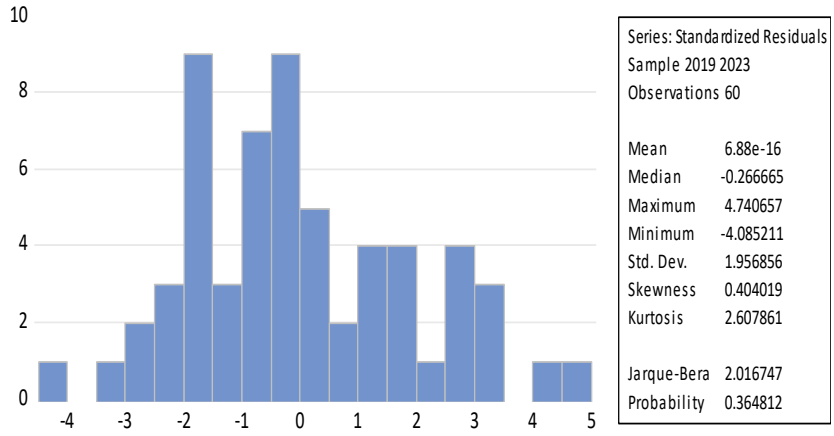
So the multiple linear regression equation model for this study is as follows:

$$Y_{it} = a + \beta_1 X_{1_{it}} + \beta_{2A} X_{2A_{it}} + \beta_{2B} X_{2B_{it}} + \beta_{2C} X_{2C_{it}} + \beta_3 X_{3_{it}} + e_{it}$$

$$\boldsymbol{ROA_{it} = -4.24 + 20.70 Laba_{it} + 4.59 KI_{it} + 0.33 KIn_{it} + 0.19 KA_{it} + 5.38 PSR_{it} + e_{it}}$$

In this study, the results of the first normality test, conducted with a sample of 95 companies from 19 companies, showed non-normally distributed data with a probability value of 0.000000. Then, an outlier test was performed using eViews and a significance level of 0.05, revealing four outlier companies. In the second normality test, with a sample of 15 companies, the resulting data was non-normally distributed, with a value of 0.001435. To address the non-normal distribution, the authors performed another outlier test. The results of the test after the outlier test are shown in Figure below, with three outliers. Therefore, the sample size used in this study for the normality test was changed to 12 companies with a total of 60 observations.

Figure 1 The Result of the Normality Test



Looking at Figure, the results of the normality test conducted after data outliers using Eviews 12 show a probability value of 0.364812 with a sample size of 60 from 12 companies. This value is greater than the significance value of 0.05, indicating that the data is normally distributed.

Table 5 The Result of Multicollinearity Test

	LABA	KI	KIN	KA	PSR
LABA	1.000000				
KI	-0.004165	1.000000			
KIN	-0.245016	-0.549020	1.000000		
KA	-0.245797	-0.595070	0.568725	1.000000	
PSR	0.339096	-0.224963	0.093336	0.145416	1.000000

The conclusion is that there are no signs of multicollinearity among the independent variables in this research's regression model. This could also mean that there is no strong or perfect correlation between the independent variables.

Based on the results of previous model testing, the selected regression model was the Random Effects Model (REM). This REM model is a Generalized Least Squares (GLS) estimation method. The GLS method produces an estimator that meets the Best Linear Unbiased Estimation (BLUE) properties, which is a treatment method for addressing violations of the homoscedasticity and autocorrelation assumptions. Furthermore, this method prevents heteroscedasticity to ensure unbiased, consistent, and efficient estimates (Setyawan et al., 2019).

The conclusion from the classical assumption tests, including normality and multicollinearity tests, indicates that the regression model passes the classical assumptions. Therefore, the next stage of testing, namely hypothesis testing, can be conducted, consisting of Partial Tests (T-Tests), Simultaneous Tests (F-Tests), and the Coefficient of Determination.

Based on the results shown in Table 4, the description of the results for each variable can be described as follows:

Table 4 displays a probability value of 0.0002 and a coefficient value of 20.6952 for the earnings management variable. If the probability value is above the 0.05 significance level, H1 is rejected based on the criteria discussed previously. Therefore, it can be concluded that the Earnings Management variable has an effect on Financial Performance, as proxied by ROA. Accepting H1 indicates a positive relationship or influence between earnings management and financial performance (ROA). **Therefore, it can be concluded that Earnings Management has a significant positive effect on Financial Performance (ROA). Therefore, H1 is accepted.**

Institutional Ownership has a coefficient value of 4.5856 and a probability value of 0.0015, as shown in Table 4. This probability value is below the 0.05 significance level determined based on the criteria above, so H1 is accepted. Therefore, it can be concluded that Institutional Ownership influences Financial Performance, as proxied by ROA. With H1 accepted, the coefficient value of the institutional ownership variable is positive, indicating a positive relationship between institutional ownership and return on assets (ROA). **Therefore, it can be concluded that Institutional Ownership significantly and positively influences Financial Performance (ROA). Therefore, H2A is accepted.**

Table 4 shows the probability and coefficient values for the Independent Commissioner variable, which are 0.9158 and 0.3294, respectively. The resulting probability values are greater than the specified significance level of 0.05. Based on these results, H1 is rejected, indicating that Financial Performance, as proxied by ROA, is not influenced by Independent Commissioners. **Therefore, Independent Commissioners do not significantly influence Financial Performance (ROA). Therefore, H2B is rejected.**

The Audit Committee has a probability value of 0.4891 and a variable coefficient value of 0.1886, as shown in Table 4. The probability value for the audit committee variable is above the significance value determined in the criteria above, which is 0.05. Therefore, it can be concluded that the Audit Committee has no influence on Financial Performance, as proxied by ROA. Therefore, H1 is rejected. Therefore, it can be concluded that the Audit Committee variable has no influence on Financial Performance, as measured by ROA. The rejection of H1 indicates that there is no positive relationship or influence between the audit committee and

financial performance (ROA). **Therefore, it can be concluded that the Audit Committee does not significantly influence Financial Performance (ROA). Therefore, H2C is rejected.**

Table 4 shows that the probability and coefficient values for the Sustainability Report Disclosure variable are 0.0857 and 5.3803, respectively. According to these results, the probability value is above the significance level determined by the predetermined criteria, which is 0.05. Therefore, it can be concluded that Sustainability Report Disclosure has no effect on Financial Performance, as proxied by ROA. Therefore, H1 is rejected. Therefore, it can be concluded that the Sustainability Report Disclosure variable has no effect on Financial Performance, as proxied by ROA. This also indicates that there is no positive relationship or influence between the audit committee and financial performance (ROA). **Therefore, it can be concluded that Sustainability Report Disclosure does not significantly affect Financial Performance (ROA). Therefore, H3 is rejected.**

Table 4 shows a probability (F-statistic) value of 0.000330. Based on the criteria outlined previously, if the probability (F-statistic) value is below the 0.05 significance level, then H1 is accepted. It can be concluded that the independent variables, namely Earnings Management, Institutional Ownership, Independent Commissioners, Audit Committee, and Sustainability Report Disclosure, have a simultaneous or joint influence on Financial Performance, as proxied by ROA.

As seen in Table 4, the Adjusted R-squared value is 0.279172. This means that the independent variables, namely Earnings Management, Institutional Ownership, Independent Commissioners, Audit Committee, and Sustainability Report Disclosure, can only explain 27.92% of Financial Performance (ROA).

DISCUSSION

The Effect of Earnings Management on Financial Performance (ROA)

This study reveals the influence of earnings management practices on financial performance. The implementation of earnings management by company management is not always directly related to manipulative activities with financial data or reports. Rather, earnings management practices are more related to the selection of accounting models or methods used to achieve profits according to targets and accounting standards. Company management engages in earnings management practices motivated by the desire to attract investors by creating the impression that the company has good performance prospects through its profits (Adryanti, 2019). Earnings management practices by companies do not reflect the company's true condition. Earnings management can be measured using real earnings management and accrual earnings management. However, in this study, earnings management was measured using discretionary accruals, which is the company's total accruals compared to its total assets, then subtracted from the value of non-discretionary accruals. Therefore, the results of the test conducted showed that the highest ROA value among LQ45 companies from 2019-2023 was held by PT Astra International Tbk (ASII), at 9.98%. ASII engaged in earnings management practices by increasing profits because the resulting DA (earnings management) value was positive at 0.045, or 4.5%. This earnings management value was the highest for PT Astra International Tbk (ASII) between 2019 and 2023. In contrast, in 2020 and 2021, years when Indonesia was hit by the COVID-19 pandemic, the earnings management values at PT Astra International Tbk (ASII) were negative at -0.051 and -0.013, respectively. Therefore, ASII's

financial performance is well-reflected due to its highest financial performance percentage compared to other companies and its earnings management practices, which increased the company's profits in 2023. These findings align with those of Fitriyani (2014), Oktariyani (2015), Prasetya & Suryadi (2020), and Sochib (2018) that found a positive effect of earnings management on a company's financial performance using the ROA method. By implementing earnings management practices, which will also affect a company's profits, it will automatically impact its financial performance. This statement is also supported by research conducted by Shoaib & Siddiqui (2022) that earnings management can influence a company's financial performance. However, these findings are inconsistent with those of Epi (2017), who concluded there was no relationship between earnings management and a company's financial performance. Earnings management practices can be explained through agency theory, which provides a framework for understanding why company management is motivated to engage in earnings management practices. Company management, as agents, possesses a wealth of information about the company as a whole, while shareholders, as principals, possess the opposite. This situation has the potential to encourage company managers to engage in earnings management practices in an effort to improve the company's financial performance and thus enhance positive investor perceptions. Achieving good profits reflects the manager's performance in managing the company. Earnings Management Practicesmust be conducted within reasonable limits and must be monitored by good corporate governance mechanisms to achieve high-quality financial performance.

The Effect of Institutional Ownership on Financial Performance (ROA)

The presence of institutional investors can increase the effectiveness of management oversight, discourage opportunistic behavior from managers, support more objective decision-making processes, and contribute to improved company financial performance. Institutional ownership serves as an effective corporate governance mechanism that minimizes potential agency conflicts between management, employees, and shareholders. According to Hermiyetti & Katlanis (2017), the higher the proportion of institutional ownership within a company, the more optimal the level of oversight by institutional investors. Consequently, the company's institutional mechanisms become reliable and motivate managers to maximize profits, thereby improving financial performance. This finding aligns with findings from Hartati (2020), Lontoh et al. (2019), Monica & Dewi (2019), and Setiawan & Setiadi (2020), which concluded that institutional ownership has a positive effect on financial performance (ROA). The measurement of institutional ownership used is by dividing the number of institutional shares by the total number of shares outstanding. Based on research data related to Institutional Ownership and Return on Assets (ROA), the company with the highest ROA value, PT Astra International Tbk (ASII), in 2023, at 9.98, had a significant Institutional Ownership value of 0.96, or 96%. According to Candradewi & Sedana (2016), a high proportion of institutional ownership in a company can strengthen the oversight function of institutional parties. This mechanism serves to inhibit opportunistic behavior and potential fraud by management, while also facilitating a more optimal decision-making process, which in turn positively contributes to improving the company's financial performance. Therefore, the findings regarding the effect of institutional ownership on financial performance are consistent with agency theory, which emphasizes the urgency of oversight mechanisms in minimizing agency conflicts within the corporate environment. Agency conflicts can be resolved due to the existence of sufficiently strict institutional oversight of financial performance, thus reflecting the effective implementation of one of the mechanisms of good corporate governance (Setiawan & Setiadi, 2020).

The Influence of Independent Commissioners on Financial Performance (ROA)

Independent commissioners are external members of the company's supervisory board and play a role in overseeing and providing input to management to ensure that corporate governance practices are implemented effectively and in accordance with the principles of good corporate governance. Independent commissioners, as an indicator of corporate governance, must act effectively in supervising managers and preventing various types of potential misconduct by managers. The results of this test are in line with Hartati (2020), Monica & Dewi (2019) and Riyandika & Saad (2023) that Independent Commissioners have no impact on Financial Performance, as proxied by ROA. In this study, the measurement of independent commissioners is based on the ratio between the number of independent commissioners and the total number of board members. This approach aligns with the method used by Monica & Dewi (2019). The results of the study indicate that the minimum value of 0.285 was found for Semen Indonesia (Persero) Tbk. in 2019-2022, and the maximum value of 0.70 was found for Bank Negara Indonesia Tbk. in 2021-2022 and Bank Rakyat Indonesia Tbk. in 2020-2023. These low values may be due to the suboptimal supervisory role of independent commissioners, thus incapable of directly influencing ROA. Alternatively, the presence of Independent Commissioners in the company is limited to meeting the minimum requirements set by the Financial Services Authority (OJK). The lack of influence of independent commissioners on financial performance is suspected to be due to the fact that the independent commissioner selection procedure has not been implemented effectively and efficiently. Furthermore, it could be due to the fact that independent commissioners in a company merely complement the structure of the board of commissioners, but their intended role is not fully implemented. The results of this study also contradict agency theory, which suggests that appropriate oversight can reduce tensions between management (agent) and shareholders (principals). The effectiveness of corporate oversight will increase if an impartial board of commissioners is implemented, thus ensuring the effectiveness and compliance of regulatory processes. The greater the number of independent commissioners in a company, the more effective the supervision and monitoring process carried out by the independent commissioners. A company's financial performance will also improve if there is adequate oversight of operational systems, regulations, and compliance with regulations (Afrenza & Dewi, 2024). Therefore, it can be concluded that the good corporate governance (GCG) mechanism, proxied by independent commissioners, is not functioning effectively in overseeing the company's financial performance.

The Influence of the Audit Committee on Financial Performance (ROA)

This study's findings align with the findings of Hartati (2020), Riyandika & Saad (2023), Setiawan & Setiadi (2020), and Tulung et al. (2020) that there is no influence between the Audit Committee and Financial Performance, as measured by ROA. This indicates that increasing the number of audit committee members does not necessarily have a direct impact on improving a company's financial performance. The audit committee is a unit formed by the board of commissioners to support and strengthen the implementation of its oversight function. In this study, the size of the audit committee is determined based on the number of its members. However, the size of the audit committee does not automatically guarantee effective oversight of a company's financial performance. The existence of an audit committee is often viewed merely as fulfilling a formal obligation, namely the minimum requirement of three members on the audit committee as required by applicable regulations. The audit committee is directly responsible to the board of commissioners and plays a role in supporting the implementation

of its own responsibilities and those of the board of commissioners as a whole. Therefore, this study contradicts existing agency theory because the audit committee failed to perform adequate oversight and minimize agent-principal conflict. It can be concluded that the audit committee, as a proxy for measuring good corporate governance mechanisms based on GCG principles, is not functioning effectively in its oversight of financial performance.

The Effect of Sustainability Report Disclosure on Financial Performance (ROA)

Based on the third hypothesis test conducted and presented in Table 4, the coefficient value of Sustainability Report Disclosure is positive at 5.38, while its probability value is above the 0.05 significance level, at 0.0857. The results conclude that there is no influence between Sustainability Report Disclosure on Financial Performance using the ROA method. The research results align with those of Fadilla & Yuliandhari (2018), Gaol & Noviyanti (2022), and Hendro Lukman (2019), who stated that sustainability report disclosure had no effect on profitability, as measured by ROA. Conversely, these results contradict the study by Bodhanwala & Bodhanwala (2018), who stated that sustainability report disclosure had a positive effect on financial performance, as measured by ROA. Therefore, these results indicate that sustainability report disclosure using GRI G4 as a research indicator, which comprises economic, social, and environmental aspects, does not always positively impact financial performance. Any one of these three aspects can have a significant negative impact, namely a decline in the company's financial performance (ROA) due to increased expenses, which in turn will impact the company's profits (Anna & R.T., 2019). Sustainability report disclosure is a strategy implemented by companies to convey information regarding economic, environmental, and social performance to investors. Fatchan & Trisnawati (2018) stated that the disclosure of this information aligns with signaling theory, which emphasizes the importance of corporate openness and transparency in providing information to investors and stakeholders, as a manifestation of the company's commitment and performance in the field of sustainability. The sustainability report disclosure scores in this study varied and were quite high, as evidenced by the mean value of this variable in the descriptive statistics section of 0.698901 or 69.89%. However, the quality of sustainability report disclosure in this study was reduced due to the influence of earnings management practices on financial performance through ROA. This influenced the study's findings that sustainability report disclosure had no effect on financial performance using the ROA method.

The Effect of Earnings Management, Good Corporate Governance (GCG), and Sustainability Report Disclosure on Financial Performance

Earnings management within a company is not simply about manipulating earnings or profits. It also involves selecting the appropriate accounting model or method to achieve profits in accordance with targets and accounting standards. This practice generally aims to achieve specific profit targets and create an attractive financial performance image for investors, thereby encouraging their interest in investing in the company. This was particularly true in 2020 and 2021, during the COVID-19 pandemic in Indonesia and even globally, which caused a drastic economic decline in corporate profitability. This prompted companies and their management to engage in earnings management practices. Therefore, the implementation of Good Corporate Governance (GCG) within a company plays a strategic role in overseeing earnings management practices. The combination of significant institutional ownership, the presence of independent commissioners, and an optimally functioning audit committee can

create an effective and complementary oversight mechanism. This can help control earnings management practices by management, thereby minimizing potential losses for stakeholders and the company. Furthermore, agency conflicts within the company will be reduced, and the integrity of financial reports and performance will be maintained. The existence of strong Good Corporate Governance (GCG) mechanisms within a company will also encourage transparency and accountability, which will influence the disclosure of more detailed sustainability reports regarding the company's social and environmental performance. This will enhance the company's credibility and build public trust. However, the presence of earnings management practices will diminish the quality of sustainability report disclosures, as earnings management has the potential to suppress unfavorable information or even manipulate information to achieve short-term financial goals. With strong GCG in place, This will limit companies' earnings management practices, and the quality of sustainability report disclosures will remain unchanged and will continue to positively impact the company's financial performance. Therefore, according to signaling theory, reporting a company's financial performance and sustainability performance can be used as a tool to provide transparent and open information to the market and investors regarding the company's condition. Research conducted by Kepakisan & Budiasih (2022) explains that GCG, sustainability report disclosure, and management can influence each other. GCG quality can influence sustainability report disclosure and earnings management. GCG can amplify the negative impact of sustainability report disclosure on earnings management. However, GCG can also suppress earnings management to ensure corporate accountability, transparency, and responsibility. This, in turn, will impact the company's financial performance.

CONCLUSION

This study aims to analyze the influence of Earnings Management, GCG (proxied by Institutional Ownership), Independent Commissioners and Audit Committees, and Sustainability Report Disclosure on Financial Performance (ROA). The study subjects included companies listed in the LQ45 index from 2019 to 2023. The final sample consisted of 12 companies with a total of 60 observations. This study used E-views 12 to process the data and conduct analysis. Based on the analysis, this study yields the following conclusions:

1. Earnings management has been shown to have a positive effect on financial performance, as measured by return on assets (ROA). These results indicate that the intensity of earnings management practices employed by a company, whether increasing or decreasing, can influence the level of profitability generated from the utilization of its assets.
2. Institutional Ownership has a positive effect on Financial Performance, calculated using ROA. This means that a higher proportion of institutional ownership in a company increases the level of institutional oversight within a company, which in turn improves the company's financial performance.
3. Independent commissioners were not proven to have a significant impact on financial performance, as measured by ROA. The results of the study indicate that a company's ROA is unaffected by the number of independent commissioners within the company. This could be because independent commissioners merely complement the structure of the board of commissioners, but their intended role is not fully implemented.
4. The Audit Committee did not have a significant impact on Financial Performance, as measured by ROA. This indicates that the number of audit committee members does not significantly determine the level of effectiveness of oversight of financial

performance, but rather represents the fulfillment of the minimum requirements for an audit committee within the company.

5. Sustainability Report disclosure did not have a significant impact on Financial Performance, as measured by Return on Assets (ROA). The study findings revealed that a company's ROA, used as a proxy for financial performance, was not affected by the disclosure of sustainability reports, which comprise economic, social, and environmental aspects.
6. Earnings Management, GCG, and Sustainability Report Disclosure simultaneously had a positive effect on Financial Performance, as measured by ROA. So it can be concluded that all independent variables in this study together make a positive contribution to increasing company profitability and can identify or explain the dependent variable.

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