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THE EFFECT OF CORPORATE GOVERNANCE, COMPANY CHARACTERISTICS, AND FINANCIAL DISTRESS ON EARNINGS MANAGEMENT IN INDUSTRIAL COMPANIES (2022–2024)

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Abstract

This study aims to examine and analyze the influence of corporate governance mechanisms proxied by institutional ownership, audit committee meetings, independent commissioners, audit gender, and commissioner gender and financial characteristics proxied by Debt to Equity Ratio (DER) and Return on Assets (ROA) along with financial distress on earnings management practices. The population of this research consists of industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. Using a purposive sampling method, a sample of 62 companies was selected, yielding a total of 186 panel data observations analyzed using multiple linear regression via EViews software. The partial empirical results demonstrate that all independent variables have no significant effect on earnings management, except for Return on Assets (ROA), which has a significant negative effect on earnings management. The limitation of this study lies in its narrow focus on the industrial sector for the 2022-2024 period, the reliance on a single discretionary accrual proxy, and corporate governance indicators that are still structurally quantity-oriented. Therefore, future research is suggested to expand the multi-sector scope of listed companies, utilize a Real Earnings Management (REM) proxy, and integrate aspects of quality competence in educational backgrounds as well as the personal integrity of supervisors.

Keywords: Corporate Governance, Financial Characteristics, Financial Distress, Earnings Management.

INTRODUCTION

Financial statements are an instrument of the company to convey information about financial conditions and responsibilities to stakeholders. The listed profit information is often used as an indicator in investment decision-making, credit, and management performance assessment. Based on agency theory, the difference in interest between the owner (principal) and the manager (agent) can trigger an information asymmetry. This condition can create a gap for management to carry out profit management practices by overcoming bookkeeping manipulation to achieve certain profit targets for the benefit of management (Handoyo & Kusumaningrum, 2022). Structurally, corporate governance (*Good Corporate Governance*) can be used as a defense in limiting the space for profit manipulation practices. One of them is institutional ownership which acts as an external monitoring in encouraging supervision of managers' accounting policies, however, research shows that institutional ownership is significantly able to suppress profit management practices. Meanwhile, studies conducted by and share show different results where institutional ownership does not have an effect or even positively correlates on profit management practices. (Sososutiksno et al., 2024). Reindivtia & Wirama, (2025) Minarti & Suwarno, (2024) Hidayah et al., (2025). In addition to the ownership structure, internal staffing such as audit committee meetings reflect a level of commitment in overseeing the financial reporting process to avoid material misrepresentation. However, this effectiveness is often questioned empirically if the meeting is only conducted as a formality of administrative regulations without any supervisory (Jameel et al., 2024). (Minarti & Suwarno, 2024). substanceThis internal supervision is strengthened by the next variable, namely the proportion of independent commissioners who function as neutral parties not affiliated with operations or controlling shareholders. However, this effectiveness still triggers inconsistencies as suggested by the fact that the existence of independent commissioners does not have a significant impact on the decline in profit management. (Handoyo & Kusumaningrum, 2022) Guidance and al. , (2025) The development of modern

governance began to focus on the diversity of democracy, especially women's leadership through the gender of the audit committee and the board of commissioners. Based on a behavioral psychological perspective, women tend to have the characteristics of being cautious, ethically adherent, and high-risk avoidance. emphasizes that gender diversification in audit committees can strengthen oversight and minimize profit manipulation. Rudyanto & Kusnadi, (2025). In addition to governance factors, the fundamental characteristics and financial governance of a company are no less important in triggering profit management practices. The next variable *is the Debt to Equity Ratio* (DER), which measures the level of *leverage* or operational dependence of the company on external debt financing. When the DER ratio soars, companies face the risk of debt *covenant restrictions*. This condition encourages managers to engineer income *increasing* to avoid penalties or unilateral withdrawal of funds by creditors. Whereas the characteristics of profitability measured by (Hanum and al. 2024) *Return on Assets* (ROA) reflect efficiency in the utilization of profit assets, the level of ROA that is too low or too high has a correlation with profit management. Managers have the potential to manipulate profitability figures in order to pursue the fulfillment of annual bonus targets or even lower current profits to be saved as reserves for future periods (Utami & Amelia, 2024).

Referring to situations where a company is experiencing severe liquidity difficulties and is approaching the brink of bankruptcy, financial distress acts as the biggest pressure stimulant for management. asserts that companies in this financial danger zone have a very strong tendency to aggressively manipulate their financial statements as a defensive effort to maintain their reputation in the capital markets and deceive external investors, although research from the survey indicates that there is a variation in which not all companies under financial pressure choose the path of manipulation depending on the tightness of corporate supervision. Utami & Amelia, (2024) Minarti & Suwarno, (2024) Although the relationship between governance, company characteristics, financial distress, and profit management has been extensively researched, the literature still shows inconsistencies in the *research findings*. Moreover, the unique dynamics that hit the manufacturing industry post-global crisis in the 2022-2024 time frame provide an urgent context of novelty to be researched. Therefore, this study aims to re-examine the influence of these variables on industrial sector companies listed on the Indonesia Stock Exchange.

METHODS

Dependent Variable

Profit management is projected using *the value of Discretionary Accruals* (DA) calculated through the Modified Jones Model. This model was chosen because it is considered to have the lowest standard error rate in detecting accrual manipulation compared to other models. The calculation steps include:

1. Calculating *Total Accruals* (TAC)

Total accruals are the difference between net income minus operating cash flow, formulated as follows:

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

2. Calculating *total Accruals* by looking for coefficient values

The value *of accruals* is estimated through regression equations.

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{TA_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_{it}}{TA_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right) + e$$

3. Calculating *Non-Discretionary Accruals* (NDAs)

The value of a coefficient after regression is then entered into the following equation:

$$NDA_{it} = \beta_1 \left(\frac{1}{TA_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right)$$

4. Calculating *Discretionary Accruals* (DA)

Discretionary Accruals is the difference between *Total Accruals* (TAC) and *Non-Discretionary Accruals* (NDA)

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

Description:

TACit	= Total Company Accrual in year t
LITTLE	= The company's net profit in year t
CFOit	= Company's operating cash flow in year t
TAit-1	= Total assets of the company in the previous year
ΔREVit	= Change in total revenue year t with previous year
PPEit	= the company's fixed assets in year t

ΔRECit = change in total receivables in year t with the previous year

Independent Variables
Institutional Ownership
Measured through the percentage ratio of the number of shares owned by an external agency or institution to the total outstanding shares of the company

$$KpI = \frac{Total\ saham\ instansi}{Total\ saham\ beredar} x\ 100\%$$

Audit Committee Meeting
Measured using the frequency or number of formal meetings held by the audit committee within a single fiscal year.

$$RKA = Total\ rapat\ komite\ dalam\ satu\ tahun\ fiskal$$

Independent Commissioner
It is calculated based on the percentage of comparison of the number of members of the independent board of commissioners to the total number of members of the company's board of commissioners.

$$KoI = \frac{Total\ komisaris\ independen}{Total\ komisaris\ di\ perusahaan} x\ 100\%$$

Gender Audit
It is measured through the percentage ratio of the number of female audit committee members to the total audit committee members

$$GA = \frac{Total\ anggota\ komite\ audit\ perempuan}{Total\ anggota\ komite\ audit} x\ 100\%$$

Gender Commissioner
Measured through the percentage ratio of the number of female commissioners to the total number of commissioners

$$GK = \frac{Total\ anggota\ komisaris\ perempuan}{Total\ komisaris\ di\ perusahaan} x\ 100\%$$

THE ER
Reflects the company's leverage level, which is calculated by dividing the company's total liabilities by the company's total capital

$$DER = \frac{Total\ utang}{Total\ modal}$$

LONG
Measuring profitability, obtained from the result of the division of net profit after tax (*net income*) with the total assets of the company

$$ROA = \frac{Total\ laba\ bersih}{Total\ aset}$$

Financial Distress
It is measured using the Grover Model (*G-Score*) indicator. This score is formulated through:

$$G - Score = 1{,}650X_1 + 3{,}404X_3 - 0{,}016\ \text{ROA} + 0{,}057$$

Description:
X1 = Working capital / Total assets
X3 = Earnings before interest and taxes/total assets

Data Collection Techniques

The data in this study was obtained through audited annual financial reports from 62 industrial sector companies during the period 2022-2024, resulting in a total of 186 observation units (samples). All financial statement data is officially downloaded through the website of each company and the official website of the Indonesia Stock Exchange (IDX) through www.idx.co.id.

Research Hypothesis

Based on agency theory, the presence of investors in ownership structures serves as an effective external monitoring mechanism. Saputra & Yuniarta (2021) stated in his panel's data analysis that institutional ownership is significantly able to limit the space for profit manipulation in manufacturing companies. This is also supported by state-owned companies and journals that affirm that share ownership by institutions effectively suppresses asymmetric information in financial statements. Through this statement, the hypothesis is formulated that institutional ownership has a negative effect on profit management. Hutagaol & Napitupulu, (2024) Widagdo et al., (2021)

H1 : Institutional Ownership has a negative effect on profit management

The audit committee plays an independent body that assists the board of commissioners in ensuring the transparency of financial statements. Intensive meetings allow for an in-depth review of potential accounting misstatements before the *audited* report is published. The journal Hutagaol & Napitupulu, (2024) shows that the audit committee can significantly reduce the opportunistic nature of profit management. This is also in line with the journal regarding the importance of optimizing internal corporate organs to ensure the quality of profits reported to the public. Through this statement, the hypothesis is formulated that the audit committee meeting has a negative effect on profit management. Zirman et al., (2023)

H2 : Audit Committee Meeting has a negative effect on profit management

Based on agency theory, the role of independent commissioners is to act objectively as an intermediary to protect minority shareholders from hoarding or transfer of wealth by management (Handoyo & Kusumaningrum, 2022) . In the journal, empirically confirms that the existence of an independent board of commissioners has been proven to be significantly able to suppress the occurrence of opportunistic actions in profit management. This negative direction reinforces the balancing function of the board of commissioners, although in certain market environments its influence is often tested by internal policy clashes. Through this statement, the hypothesis is formulated that independent commissioners have a negative influence on profit management. Irmasari H et al., (2025)

H3 : Independent Commissioners have a negative effect on profit management

The development of contemporary governance theory through upper echelons theory emphasizes that demographic characteristics, including gender diversity, influence the value orientation and quality of financial statement supervision decisions. Gender audit committees bring a different approach to behavioral psychology, where women can naturally identify as having higher levels of ethical sensitivity, more compliant with regulations, and more likely to avoid risk (*risk-averse*). The journal Rudyanto & Kusnadi, (2025) stated that the presence of female members in the audit committee structure significantly strengthens the quality of monitoring of financial statements and reduces profit management practices. Through this statement, the hypothesis is formulated that gender audits have a negative effect on profit management.

H4 : Gender Audit has a negative effect on profit management

Women's representation at the board of commissioners level has a direct impact on the improvement of the quality of corporate financial reporting. The presence of female commissioners stimulates more transparent, objective, and disciplined discussions, and makes it difficult for the board of directors to report biased (Maulida & Setiawati, 2024) profits. Then in the journal and strongly supports the view that gender diversification is one of the indicators in managing moral hazard and information asymmetry in the emerging capital market. The prudent character brought by women at the commissioner level proxies the quality of profits more credible. Through this statement, the hypothesis is formulated that the gender of commissioners has a negative effect on profit management. Nguyen et al., 2024) Jameel et al., (2024)

H5 : Gender of Commissioners has a negative effect on profit management

The Debt to Equity Ratio (DER) reflects the characteristics of the leverage and capital structure that underlie a company's financial risk. Based on *the debt covenant hypothesis*, managers in companies with high debt ratios face great pressure to meet principal and interest payment obligations to creditors to avoid default. This stressful condition motivates managers to engineer earnings *increasing* to display a prospective-looking solvency performance. In the journal, , as well as showing significant positive correlation results between the level of Oktaviana & Rivandi, (2023) Nurhaliza et al., (2025) Koeshardjono et al., (2025) *leverage* and the increase in the intensity of profit management. Through this statement, the hypothesis is formulated that DER has a negative effect on profit management.

H6 : DER has a positive effect on profit management

Return on Assets (ROA) measures an entity's profitability in evaluating the operational efficiency of the use of total assets to make a profit. Based on the bonus *scheme hypothesis*, the rate of profit achievement (ROA) is often used as the main indicator in determining the amount of compensation and financial incentives that executives will receive. This selfish impulse triggers managers to take opportunistic actions by raising profitability figures to exceed the market's visual targets, or conversely, to perform income *smoothing* when the ROA is too high in order to secure future profit reserves. Research also shows that profitability has a significant positive influence in encouraging profit management. Siwi et al., (2025) Nurhaliza et al., (2025) Through this statement, the hypothesis is formulated that ROA has a negative effect on profit management.

H7 : ROA has a positive effect on profit management

Financial distress is an indicator of financial failure where the company's operating cash flow is no longer adequate to cover its maturing debt obligations, thus approaching the brink of bankruptcy. Referring to *signaling theory* and positive accounting theory, this financial crisis situation puts management under the greatest psychological pressure. In order to deceive the market, maintain credit ratings, and avoid unilateral dismissal by controlling shareholders, managers are forced to exploit the flexibility of accounting standards to polish the loss statements to make them appear more stable. The journal presented by , also gave results that Distress's financial condition had a significant positive effect on profit management. Hanum et al., (2024) Aljughaiman et al., (2023) (Pricillia et al., (2025) Through this statement, a hypothesis was formulated that Financial Distress has a negative effect on profit management.

H8 : Financial Distress has a positive effect on profit management

Conceptual framework

Based on previous research, this framework was compiled with 8 (eight) independent variables and 1 (one) dependent variable that was studied. Independent variables include Institutional Ownership (X1), Audit Committee Meetings (X2), Independent Commissioners (X3), Audit Gender (X4), Commissioner Gender (X5), DER (X6), ROA (X7), Financial Distress (X8), and Profit Management dependent variables (Y). For each variable X is directly connected to the variable Y which can be described in figure 1.

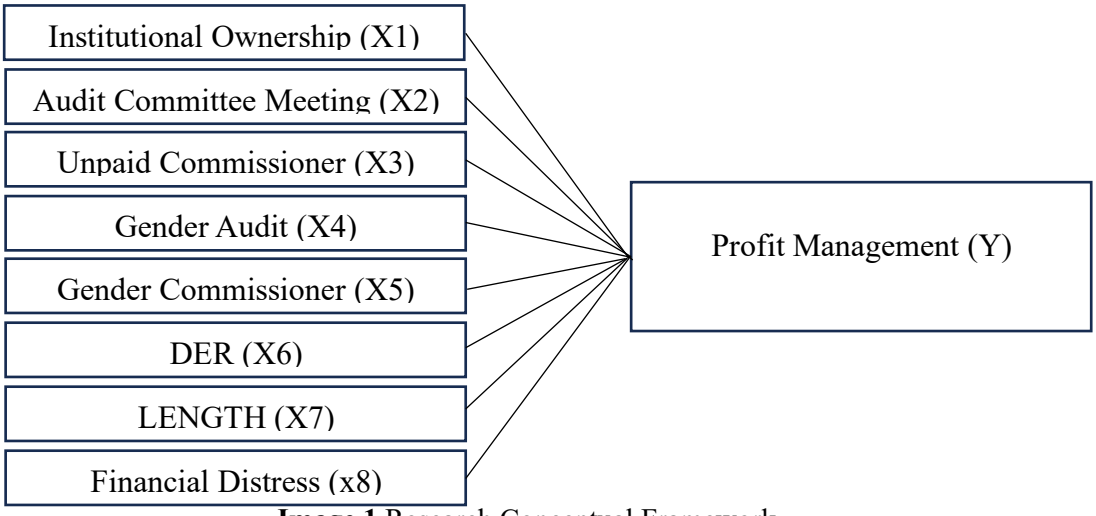

Image 1 Research Conceptual Framework.

Data Analysis Techniques

The data analysis technique used in this study uses panel data regression with *balance sheet characteristics.* All data testing is performed using *Eviews* software version 13. To produce valid conclusions, the data analysis is carried out through several stages of analysis. The stage starts with descriptive statistics, followed by a model feasibility test (*Model Specification Test*) to determine the best estimate among *Common Effect Models* (CEM), *Fixed Effect Models* (FEM), or *Random Effect Models* (REM). Next, a classical assumption test was carried out which focused on the multicollinearity test and the heteroscedasticity test. Once the model is declared feasible, the test proceeds to the regression analysis of the core panel data as well as a comprehensive hypothesis test, which includes partial tests (t-test), simultaneous tests (F tests), and evaluation of the explanatory power of the model through a determination coefficient (R2) test.

RESULTS AND DISCUSSION

Test Results

Descriptive analysis

Descriptive analysis was used to determine the minimum value, maximum value, median (middle value of data), mean value, and also standard deviation of each variable studied. The independent variables include Institutional Ownership (X1), Audit Committee Meeting (X2), Independent Commissioners (X3), Gender Audit (X4), Gender Commissioner (X5), DER (X6), ROA (X7), Financial Distress (X8) and Profit Management dependent variables (Y). More details about the variables being tested are shown in the following table.

Table 1 Descriptive Analysis Results

	X1	X2	X3	X4	X5	X6	X7	X8	Y
Mean	0.404435	5.715054	0.403115	0.284946	0.161500	0.808582	0.047113	0.518199	8.27E-06
Median	0.422587	4.000000	0.400000	0.333333	0.000000	0.559054	0.036105	0.651226	6.15E-06
Maximum	1.000000	26.00000	1.000000	7.000000	0.750000	41.48005	1.189444	16.70229	0.000104
Minimum	0.000000	1.000000	0.000000	0.000000	0.000000	-21.58993	-0.270325	-25.55852	-0.000273
Std. Dev.	0.338065	3.457775	0.114537	0.565834	0.208590	3.789973	0.120485	2.345015	2.96E-05

Based on the results of table 1, the dependent variable Y shows an average value of 0.00000827 with a median value of 0.00000615. Then for the highest value of the Y variable of 0.00010400, while the lowest value is -0.00027300 with a standard deviation of 0.00002960. For Variable X1 it has an average of 0.40 with a median of 0.42, as well as a minimum limit of 0.00 to a maximum of 1.00 with a standard deviation of 0.34. The X2 variable has an average of 5.72 with a median of 4.00, as well as a data range from 1.00 to 26.00 with a standard deviation of 3.46. For the X3 variable, the mean and median values were at 0.40, with data fluctuations ranging from 0.00 to 1.00 and a standard deviation of 0.11. The X4 variable recorded an average value of 0.28 with a median of 0.33, where the distribution of values was from 0.00 to 7.00 with a standard deviation of 0.57. Meanwhile, the X5 variable had an average of 0.16 with a median value of 0.00, ranging from the range of 0.00 to 0.75 with a standard deviation of 0.21. Fairly high data fluctuations were seen in the X6 variable which had an average of 0.81 and a median of 0.56, but had a range of contrast data ranging from a minimum value of -21.59 to a maximum value of 41.48 with a standard deviation of 3.79. For the X7 variable, the resulting average is 0.05 with a median of 0.04, where the lowest value is -0.27 to the highest value is 1.19 with a standard deviation of 0.12. Finally, the X8 variable showed an average value of 0.52 with a median value of 0.65, and a minimum value of -25.56 to a maximum value of 16.70 with a standard deviation of 2.35.

Test chow

The selection of panel data regression was carried out through a series of tests. In this chow test, the aim is to compare between *Common Effect* and *Fixed Effect models*. The decision making in this test is based on the significance value of *the Probability Cross-section F,* if the probability value is less than 0.05, then the null hypothesis is rejected, which indicates that *the Fixed Effect* Model is more appropriate than *the Common Effect Model*.

Table 2 Chow Test Results

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.733358	(61,116)	0.0057
Cross-section Chi-square	120.507920	61	0.0000

The results of the chow test in table 2 show that the probability values of *cross-section F* and *cross section chi-square* are 0.0057 and 0.0000 respectively less than 0.05 which indicates that the model used is a *fixed effect model.*

Hausman Test

This thirst test aims to compare between *the Random Effect* and *Fixed Effect models*. The decision making in this test is based on the significance value of *the Probability Cross-section F,* if the probability value is less than 0.05, then the null hypothesis is rejected, which indicates that *the Fixed Effect* Model is more appropriate than *the Random Effect Model.*

Table 3 Hausman Test Results

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	16.330393	8	0.0379

The results of the thirst test in table 3 show that the *probability value of random cross-section* of 0.0379 is smaller than 0.05 which indicates that the model used is a *fixed effect model.*

Lagrange Multiplier Test

The Lagrange Multiplier Test aims to compare between *Common Effect* and *Random Effect models.* The decision making in this test is based on the significance value of *the Probability Cross-section F,* if the probability value is less than 0.05, then the null hypothesis is rejected, which indicates that *the Random Effect* Model is more appropriate than *the Common Effect Model.*

Table 4 Lagrange Multiplier Test Results

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	3.639233 (0.0564)	0.007733 (0.9299)	3.646966 (0.0562)
Honda	1.907677 (0.0282)	-0.087938 (0.5350)	1.286750 (0.0991)
King-Wu	1.907677 (0.0282)	-0.087938 (0.5350)	0.253368 (0.4000)
Standardized Honda	2.276270 (0.0114)	0.372671 (0.3547)	-4.409395 (1.0000)
Standardized King-Wu	2.276270 (0.0114)	0.372671 (0.3547)	-2.098100 (0.9821)
Gourieroux, et al.	--	--	3.639233 (0.0687)

The results of the Lagrange Multiplier test in table 4 show *that the breush-pagan* of 0.0564 is greater than 0.05 which shows that the common *effect model is used*. However, in the previous test, namely the chow test and the thirst test, the right model to use is *fixed effect* compared to *random effect* and *common effect,* the right model for this study is the *fixed effect model*.

Multicollinearity test

Table 5 Multicollinearity test results

	X1	X2	X3	X4	X5	X6	X7	X8
X1	1.000000	-0.065835	-0.047934	0.017602	0.019002	-0.008628	0.043748	0.080859
X2	-0.065835	1.000000	0.135462	-0.104702	-0.124129	0.004637	0.182075	0.061874
X3	-0.047934	0.135462	1.000000	0.093885	-0.038016	-0.007276	-0.103909	-0.108415
X4	0.017602	-0.104702	0.093885	1.000000	0.214320	0.002231	-0.027446	-0.039181
X5	0.019002	-0.124129	-0.038016	0.214320	1.000000	0.028174	-0.047210	-0.140503
X6	-0.008628	0.004637	-0.007276	0.002231	0.028174	1.000000	-0.035088	0.017085
X7	0.043748	0.182075	-0.103909	-0.027446	-0.047210	-0.035088	1.000000	0.499351
X8	0.080859	0.061874	-0.108415	-0.039181	-0.140503	0.017085	0.499351	1.000000

The results of the multicollinearity test in table 7 show that the correlation of independent variables has a value below 0.85. This shows that it is free from multicollinearity tests. The absence of a high or perfect linear correlation between independent variables ensures that each independent variable is able to explain the dependent variable independently without any overlap of biased information.

Heteroscedasticity test

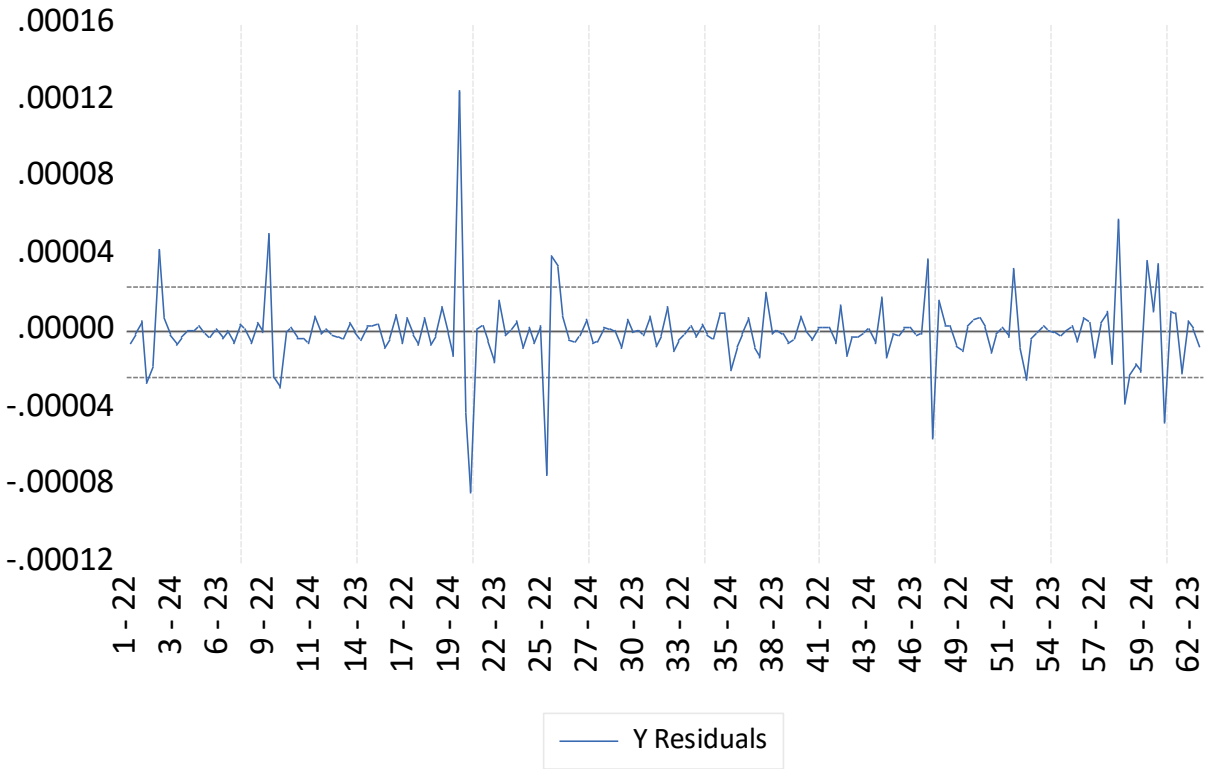

Image 2 Heterokedasticity Test Results

Based on the graphical display in Figure 2, it can be seen that all residual data points are distributed constantly and remain within the upper limit of 500 and the lower limit of -500. This condition shows that this regression model avoids heteroscedasticity disorders. The stable and independent nature of residual variance to changes in independent variables confirms that the use of the *balanced data panel* method has successfully eliminated the risk of unstable residual variance between companies and between observation periods. Success in meeting this classical assumption guarantees the feasibility of the regression model, so that the results of subsequent statistical tests have a high level of credibility for further analysis.

Panel data regression analysis

Table 6 Panel data regression analysis results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.52E-06	2.35E-05	-0.363396	0.7170
X1	2.31E-05	4.08E-05	0.566954	0.5718
X2	2.02E-07	1.24E-06	0.162506	0.8712
X3	2.13E-05	3.35E-05	0.637348	0.5252
X4	-1.40E-06	4.27E-06	-0.328711	0.7430
X5	3.49E-05	3.64E-05	0.958250	0.3399
X6	6.61E-07	4.85E-07	1.362602	0.1756
X7	-0.000171	2.66E-05	-6.424164	0.0000
X8	-4.15E-08	1.12E-06	-0.037075	0.9705
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.603913	Mean dependent var		8.27E-06
Adjusted R-squared	0.368310	S.D. dependent var		2.96E-05
S.E. of regression	2.36E-05	Akaike info criterion		-18.19334
Sum squared resid	6.44E-08	Schwarz criterion		-16.97935
Log likelihood	1761.981	Hannan-Quinn criter.		-17.70139
F-statistic	2.563262	Durbin-Watson stat		2.342721
Prob(F-statistic)	0.000004			

The results of the panel data regression analysis can be formulated as follows.
$Y= -8.52\times10\text{-}6 + 2.31\times10\text{-}5\,X1 + 2.02\times^{10\text{-}7}\,X2 + 2.13\times10\text{-}5\,X3 - 1.40\times10\text{-}6\,X4 + 3.49\times10\text{-}5\,X5 + 6.61\times10\text{-}7\,X6 - 1.71\times10\text{-}4X7 - 4.15 \times 10\text{-}8X8 + \varepsilon$

T test

Based on the results of the T Test in table 6, a hypothesis test with a significance level of alpha = 5% (0.05), it was found that the majority of independent variables did not have a significant influence on the dependent variable Y. In detail, variable X_1 showed a probability value of 0.5718 > 0.05, which indicates no significant influence on Y. The same thing is also true for variable X2 with a probability value of 0.8712 > 0.05, and variable X3 which produces a probability value of 0.5252 > 0.05, both variables do not have a significant effect on Y. Furthermore, variable X4 shows a probability value of 0.7430 > 0.05, variable X5 has a probability value of 0.3399 > 0.05, and variable X6 with a probability value of 0.1756 > 0.05, where all three also do not have a significant influence on variable Y. However, variable X7 shows a coefficient value negative regression of -0.000171 with a probability value of 0.0000 < 0.05, which shows that the X7 variable has a negative and significant influence on the dependent variable Y. Meanwhile, the X8 variable again shows insignificant results with a probability value of 0.9705 > 0.05, which means that the X8 variable does not have a significant impact or influence on the dependent variable Y.

Test F

The statistical F-test was applied to test whether all independent variables X1 - X8 together (srimultan) had an influence on the dependent variable Y. Based on table 6, an *F-statistic value* of 2.563262 was obtained with a probability value (*Prob F-statistic*) of 0.000004. Since the probability value is much smaller than the significance value of 0.05, it can be concluded that this regression model of independent variables X1 - X8 simultaneously has a significant effect on the dependent variable Y.

Dermination cophysion test (R^2)

The determination coefficient is used to measure how capable a model is in explaining variations from dependent variables. Based on table 6, the value of R2 is 0.603913, while the *value of Adjusted R-squared* is 0.368310. The *Adjusted R-squared* value of 0.3683 shows that 36.83% variation or fluctuation of the dependent variable Y can be explained by the combination of eight independent variables in this study. Meanwhile, the remaining 63.17% (100% - 36.83%) were explained by other variables outside the regression model or were not included in this study

DISCUSSION

The statistical results show that the Institutional Ownership variable has a coefficient of 2.31×10-5 with a probability value of 0.5718 > 0.05, so H1 **is rejected**. These findings indicate that the proportion of shares held by financial institutions or external agencies has not been proven to be able to limit or encourage profit manipulation. Viewed from the perspective of *Agency Theory*, the assumption that institutional investors will act as reliable professional supervisors is not proven in the industrial sector for the 2022-2024 period. This is suspected because institutional investment in the post-pandemic manufacturing sector is more passive or simply focuses on obtaining dividends without intervening or researching more deeply the accrual accounting policies chosen by management. The results of this study reject the findings but support empirical evidence and Saputra & Yuniarta (2021) Hutagaol & Naseptupulu (2024) i Minarti & Suwarno (2024) Ervandy & Sufiyati (2023) state that institutional ownership has no significant influence on profit management actions in Indonesia.

The variables of the Audit Committee Meeting produced a regression coefficient of 2.02×10-7 with a significance value of 0.8712 > 0.05, which means that H2 **was rejected**. The number of formal meetings held by the audit committee in one year proved to have no impact on the cosmetic practice of financial statements. Based on Agency Theory, an audit committee is formed to reduce information asymmetry between agents and principals. However, the insignificance of this variable proves that the quantity of meetings reported in the annual reports of industrial sector issuers is most likely only triggered by the fulfillment of the Financial Services Authority's administrative regulatory formalities (*mandatory compliance*), not reflecting the substance of the quality of supervision (*substance over form*)). The audit committee did not thoroughly dissect potential accounting misstatements. These findings are supported by an empirical analysis of deep banking which concludes that the intensity of audit committee meetings partially has no impact on profit management.Jameel and al.(2024)

The Independent Commissioner variable has a regression coefficient of 2.13×10-5 with a significance level of 0.5252 > 0.05, so H3 **is rejected**. The increase in the proportion of independent commissioners from outside parties has not been proven to strengthen the effectiveness of internal corporate supervision. Theoretically, Agency Theory places independent commissioners as objective intermediaries to protect the interests of minority shareholders from managerial exploitation. However, in sample companies in the industrial sector, the existence of independent commissioners is only a structural complement to the board to comply with regulations. Limited access to internal information makes independent commissioners unable to detect (Handoyo & Kusumaningrum, 2022) *managerial discretionary accounting manipulations.* This insignificant result is in line with research from the Journal which found that independent boards of commissioners are unable to suppress the occurrence of opportunistic actions in profit management independently. Guidance and al. , (2025) I rmasari and al., (2025)

The Gender Audit variable produced a coefficient value of - 1.40×10-6 X4 with a significance of 0.7430 > 0.05, so H4 **was rejected**. The presence of women's representation in audit committee membership has been proven to have not affected the level of profit management in industrial companies. This test uses the foundation of the *Upper Echelons* Theory, which states that the psychological characteristics of supervisors affect the quality of financial reporting. Theoretically, female gender is identified as having higher ethical sensitivity and tends to be *risk-averse*. However, the results of this study show that the nature of prudence does not have a real impact. This is suspected because the number of women in the audit committees of the sample companies is still an absolute minority, so their votes or ethical opinions are less dominant in internal audit decision-making. These findings differ from , but are in line with the Journal's empirical review which shows that gender diversity in functional committees is not always the main determinant in reducing manipulation of financial statements. Rudyanto & Kusnadi (2025) Jameel and al. , (2024)

The results of statistical testing for *the leverage* level (DER) resulted in a coefficient of 3.49×10-5 with a probability value of 0.3399 > 0.05, so H6 **was rejected**. This figure proves that the high and low ratio of long-term debt to capital in industrial sector companies for the 2022-2024 period is not a decisive motive for managers to carry out profit management. These findings do not support the *debt covenant hypothesis* scenario in Positive Accounting Theory, which assumes that high-debt managers will raise profits in order to avoid debt contract penalties. In the 2022-2024 period, creditors and banking institutions in Indonesia are suspected of having switched to a stricter supervisory mechanism by focusing on real cash *flow analysis* and the liquidity level of issuers, rather than simply looking at bookkeeping accrual figures that are susceptible to engineering. As a result, managers do not see accrual manipulation as an effective solution to deceive creditors. The results of this test support the findings of the Journal and show that Ervandy & Sufiyati , (2023) Dikko and al., (2022)*leverage* does not have a significant effect on profit management actions.

The profitability variable proxied through the *Return on Assets* (ROA) ratio recorded a negative regression coefficient value of -1.71×10-4 with a probability value of 0.0000 < 0.05. Based on the results of these statistics, partially the ROA variable was proven to have a negative and very significant influence on profit management actions in industrial companies, so that H_7 **was rejected** because the direction of the resulting relationship was contrary to the initial hypothesis that proxied the positive direction. The findings of this significant negative influence provide a complementary perspective for the bonus *scheme hypothesis* in Positive Accounting Theory. This inverse relationship indicates that when the company's operational efficiency is generating high profitability (ROA) and is in a safe zone condition, industrial sector managers in the 2022-2024 period tend to reduce or suppress profit management activities. This is because the visual target of financial performance and the fulfillment of the minimum limit of the annual bonus scheme from the principal have been achieved in real terms through real operational performance efficiency, so that managers no longer face pressure or urgency to take the risk of manipulating the accrual components of accounting that are vulnerable to detection by external auditors. On the other hand, when the value of ROA declines sharply, the tendency of managers to intervene in financial statements upwards (*income-increasing*) actually increases to save the visualization of the agent's work performance in the eyes of investors and avoid cutting financial compensation incentives. The empirical findings regarding the negative influence of profitability on profit management are in line with and supported by research results documented in Journals and Journals which confirm that high profitability (ROA) can reduce the intensity of managers' opportunistic profit management practices due to the company's solid fundamental performance in real terms. Siti Fatimah and al. , (2024) Natasya (2022)

The results of the test analysis on the last variable showed a regression coefficient value of -4.15 × 10-8 with a probability level of 0.9705 > 0.05, so H8 **was rejected**. These latest findings prove that financial *distress* does not affect the intensity of profit management practices in industrial companies in Indonesia. When viewed from the *Signaling Theory*, the assumption that the financial crisis will trigger aggressive defensive profit management is not proven in the 2022-2024 observation sample. This is because industrial sector companies experiencing post-pandemic financial pressure seem to prefer to focus on recovering real operational strategies such as restructuring capital debt, supply chain efficiency, or reducing logistics costs rather than manipulating accounting accrual figures that are at high risk of being detected by external auditors. These insignificant findings are fully empirically supported by the results of research that prove that Wow (2024) *financial distress* has no effect on profit management because the handling of issuers' difficulties in Indonesia tends to be resolved through real restructuring and external capital injections.

CONCLUSION

This study examines the influence of *good corporate governance* proxied through institutional ownership, audit committee meetings, independent commissioners, audit gender, and commissioner gender, as well as financial characteristics through *Debt to Equity Ratio* (DER) and *Return on Assets* (ROA), plus the financial variable distress on profit management practices. Using a sample of 62 industrial sector companies on the Indonesia Stock Exchange (IDX) for the 2022-2024 period (186 observation units), statistical results show that all hypotheses have been rejected, for X 1-X6 there is no significant effect on variable Y, but X7 has a negative effect on variable Y, then for variable X8 again insignificant on variable Y. Although it provides scientific contributions, this study has some inherent limitations. First, the object of research is limited to a single sector, namely the industrial sector with a relative observation year range of 2022-2024, so it cannot yet represent the dynamics of managerial behavior of all sectors on the IDX as a whole. Second, the measurement of dependent variables relies only on a *discretionary accrual approach* through the Modified Jones Model. Finally, the explanatory power of governance variables is still weak because the indicators used are limited to basic structural and demographic quantities, have not touched on the quality aspects of educational background competencies and the actual personal integrity of supervisors. Based on these conclusions and limitations, several suggestions were formulated for future research development. For the next researcher, it is recommended to expand the population by combining multi-sector issuers on the IDX, extending the observation year range, and using other contemporary profit management measurement models such as *Real Earnings Management* (Roychowdhury's model) to detect manipulation of operational transactions. For companies and regulators, it is hoped that management will not make the pillars *of corporate governance* limited to mere structural formalities, and the Financial Services Authority (OJK) together with the IDX need to tighten substantive supervision of the effectiveness of audit committee meetings and the independence of the board of commissioners.

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