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THE EFFECT OF GOOD CORPORATE GOVERNANCE (GCG) IMPLEMENTATION ON EARNINGS QUALITY AND ITS IMPACT ON CORPORATE SUSTAINABILITY (AN EMPIRICAL STUDY OF INFRASTRUCTURE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE, 2019–2022)

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Abstract. *This study was prompted by phenomena observed at PT. Waskita Karya (Persero) Tbk and PT Wijaya Karya (Persero) Tbk. The study aims to examine the effect of implementing good corporate governance mechanisms on earnings quality and its impact on corporate sustainability. The population consists of infrastructure companies listed on the Indonesia Stock Exchange from 2019 to 2022. The data used is secondary data, with a sampling technique employing purposive sampling; 27 samples were obtained from 65 sample criteria. The analysis in this study uses a panel data regression model with the assistance of the EViews 10 program. The results of the study indicate that institutional ownership, managerial ownership, independent directors, audit committees, and auditor quality do not have a significant effect on earnings quality. The results of this study also indicate that institutional ownership, managerial ownership, and independent directors have a significant effect on earnings quality, whereas audit committees, auditor quality, and earnings quality do not have a significant effect on firm sustainability. Earnings quality was also found not to be a mediating variable between institutional ownership, managerial ownership, independent directors, audit committees, and auditor quality on corporate sustainability.*

Keywords: *Good Corporate Governance, Earnings Quality, Corporate Sustainability*

Abstrak. Penelitian ini diawali dengan adanya fenomena yang terjadi di PT.Waskita Karya (Persero) Tbk dan PT Wijaya Karya (Persero) Tbk. Penelitian ini bertujuan untuk menguji pengaruh penerapan mekanisme good corporate governance terhadap kualitas laba dan dampaknya pada corporate sustainability. Populasi perusahaan infrastruktur di Bursa Efek Indonesia 2019-2022. Data yang digunakan data sekunder dengan teknik pengambilan sampel menggunakan purposive sampling, diperoleh 27 sampel dari 65 kriteria sampel. Analisis pada penelitian ini menggunakan model regresi data panel dengan bantuan program EViews10. Hasil penelitian menunjukkan bahwa kepemilikan institusional, kepemilikan manajerial, komisaris independen, komite audit, dan kualitas auditor tidak memiliki pengaruh yang signifikan terhadap kualitas laba. Hasil penelitian ini juga menunjukkan bahwa kepemilikan institusional, kepemilikan manajerial, dan komisaris independen memiliki pengaruh yang signifikan terhadap kualitas laba, sedangkan komite audit, kualitas auditor, dan kualitas laba tidak memiliki pengaruh yang signifikan terhadap keberlanjutan perusahaan. Kualitas laba juga terbukti bukan merupakan variabel perantara antara kepemilikan institusional, kepemilikan manajerial, komisaris independen, komite audit, dan kualitas auditor terhadap keberlanjutan perusahaan.

Kata Kunci: Good Corporate Governance, Kualitas Laba, corporate sustainability.

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INTRODUCTION

The implementation of Good Corporate Governance (GCG) is touted as the key to business success in the 21st century. "Good corporate governance is said to be successfully achieved when a company can ensure the sustainability of its business," said Rapee Sucharitakul, Secretary General of the Securities and Exchange Commission of Thailand, in Bangkok, Thailand, on Friday, June 2, 2017. This means, Rapee continued, that companies, as corporations, should not merely capitalize on economic opportunities to generate profits. Corporations, he said, must also bear social and environmental responsibilities so that their operations can remain sustainable.

Financial statements are crucial for reflecting the quality of earnings, as they provide a reliable, relevant, and transparent picture of a company's financial condition. Financial statements are also used by external parties (investors) to make economic decisions. Furthermore, financial statements serve as a means for management to account for the management of resources entrusted to them by the owners. A complete set of financial statements typically includes a balance sheet, income statement, statement of changes in equity, cash flow statement, and notes to the financial statements, as stipulated by the Indonesian Institute of Certified Public Accountants (IAPI) in Financial Accounting Standards No.1, P7.

Within a company, there are often conflicting interests between management, which prepares financial statements, and investors, who will use those statements. This conflict of interest between managers (principals) and investors (agents) aligns with agency theory. In agency theory, an agency relationship arises when one or more owners hire an agent to provide a service and delegate authority to the manager (Jensen and Meckling, 1976). In such an agency relationship, a conflict of interest may arise between the agent (manager) and the principal (owner), as both parties have differing interests. As managers, they are morally responsible for maximizing owners' profits; however, on the other hand, managers have an interest in maximizing their own well-being, so they do not always act in the best interest of the owners.

Given the conflicts of interest that arise within a company, the quality of the company's profits often serves as a benchmark for owners (principals) in evaluating management's (agents') performance. Therefore, one strategy implemented by management is to adopt good corporate governance. Information asymmetry and flexibility in selecting accounting policies

for financial reporting can be minimized by implementing good corporate governance mechanisms, as reflected through institutional ownership, managerial ownership, an independent board of commissioners, the existence of an audit committee, and the quality of auditors.

METHOD

This study is a causal study, which is designed to demonstrate the cause-and-effect relationship among several variables. This study will test the hypothesis regarding the influence of Institutional Ownership (X_1), Managerial Ownership (X_2), Independent Commissioners (X_3), Audit Committee (X_4), and Auditor Quality (X_5) on Earnings Quality (Y) and its impact on Corporate Sustainability (Z).

The variables in this study were measured using a ratio scale. The operational definitions of the variables and their respective indicators, as well as the study population and sample, are presented in the following table:

Table 1. Operationalization of Variables

No.	Variabel	Proxy	Indicator	Scale
1.	Institutional Ownership (X_1) Rr.Shanti A.R. & Andi K. (2021)	Proportion of Institutional Shareholdings	$IO = \frac{\text{Number of shares held by institutional investors}}{\text{Number of shares outstanding}} x\ 100\%$	**Ratio**
2.	Managerial Ownership (X_2) Faisal RW dan Komar D (2020)	Percentage of Management Share Ownership	$MO = \frac{\text{Number of shares held by management}}{\text{Number of shares outstanding}} x100\%$	**Ratio**
3.	Independent Commissioner (X_3)Mayang M. & Noorlailie S. (2018)	Composition of the Board of Commissioners	$IC = \frac{\text{Number of independent members of the board of commissioners}}{\text{Number of members of the board of commissioners}} x\ 100\%$	**Ratio**
4.	Audit Committee (X_4) Ferina N. & Nur Aini H.P., (2022)	Number of Meetings	The number of audit committee meetings during the period t	**Nominal**
5.	Quality of Auditors (X_5) Arfan Ikhsan dkk (2023)	Variabel Dummy	1 If audited by a Big Four accounting firm 0 If audited by a non-Big Four accounting firm	**Nominal**
6.	Quality of Earnings (Y) Yohan An (2017)	Earnings Persistence	$\frac{Earnings_{i,t}}{Total\ Asset_{i,t-1}} = \alpha + \beta_1 \frac{Earnings_{i,t-1}}{Total\ Asset_{i,t-1}} + \varepsilon_{i,t}$	**Ratio**
7.	***Corporate Sustainability* (Z) Tangke & Habbe (2017)**	**Tobins's Q**	$\mathbf{BVEi,tQi,t = \frac{BVAi,t + MVEi,t - BVAi,t}{BVAi,t}}$ **Where:** **Qi,t = Enterprise Value** **BVA = Book Value of Total Assets** **BVE = Book Value of Equity** **MVE = Closing Price of Common Stock × Number of Shares Outstanding**	**Ratio**

Source: Adapted from a literature review

Table 2. Sample Selection Criteria

No.	Sample Selection Criteria	Total
1.	Population (infrastructure companies listed on the Indonesia Stock Exchange).	65
2.	Infrastructure companies that have not published annual financial reports for consecutive years	(20)
3.	Companies whose financial statements are not denominated in Indonesian rupiah.	(4)
4.	The company has reported consecutive losses for four years in its commercial and fiscal financial statements	(1)
5.	A company in which neither management nor institutional investors hold ownership stakes.	(13)
6.	Companies that do not include the composition of the audit committee	(0)
Total number of samples used		**27**
Number of years of research		**4**
Number of Research Observations		**108**

Source: https://www.idxchannel.com/market-news/65-perusahaan-infrastruktur-yang-terdaftar-di-bei-sudah-tahu

Table 3. List of Sample Companies in the Property, Real Estate, and Building Construction Sectors

No.	Company Name	Company Code
1.	Adhi Karya (Persero) Tbk.	**ADHI**
2.	Bali Towerindo Sentra Tbk.	**BALI**
3.	Bukaka Teknik Utama Tbk.	**BUKK**
4.	Cardig Aero Services Tbk.	**CASS**
5.	Citra Marga Nusaphala Persada	**CMNP**
6.	XL Axiata Tbk.	**EXCL**
7.	Smartfren Telecom Tbk.	**FREN**
8.	Gihon Telekomunikasi Indonesia	**GHON**
9.	Visi Telekomunikasi Infrastruk	**GOLD**
10.	Inti Bangun Sejahtera Tbk.	**IBST**
11.	Jaya Konstruksi Manggala Prata	**JKON**
12.	Jasa Marga (Persero) Tbk.	**JSMR**
13.	LCK Global Kedaton Tbk.	**LCKM**
14.	Nusantara Infrastructure Tbk.	**META**
15.	Megapower Makmur Tbk.	**MPOW**
16.	Nusa Raya Cipta Tbk.	**NRCA**
17.	Maharaksa Biru Energi Tbk.	**OASA**
18.	PP Presisi Tbk.	**PPRE**

8.		
1	PP (Persero) Tbk.	**PTPP**
9.		
2	Pratama Widya Tbk.	**PTPW**
0.		
2	Solusi Tunas Pratama Tbk.	**SUPR**
1.		
2	Tower Bersama Infrastructure T	**TBIG**
2.		
2	Terregra Asia Energy Tbk.	**TGRA**
3.		
2	Telkom Indonesia (Persero) Tbk	**TLKM**
4.		
2	Sarana Menara Nusantara Tbk.	**TOWR**
5.		
2	Wijaya Karya (Persero) Tbk.	**WIKA**
6.		
2	**Waskita Karya (Persero) Tbk.**	**WSKT**
7.		

Source: www.idx.co.id/data-pasar/data-saham/daftar-saham/

The Eviews 10 software was used to conduct the analysis and test the hypotheses. The analytical method employed in this study was panel data regression. The panel data regression model used to test the effect of the implementation of Good Corporate Governance (GCG) mechanisms on earnings quality, both partially and simultaneously, is as follows:

$$Y = \alpha + \beta1.X1 + \beta2.X2 + \beta3.X3 + \beta4.X4 + \beta5.X5 + \varepsilon$$

The panel data regression model used to test the effect of the implementation of Good Corporate Governance (GCG) mechanisms on corporate sustainability, both partially and simultaneously, is as follows:

$$Z = \alpha + \beta1.X1 + \beta2.X2 + \beta3.X3 + \beta4.X4 + \beta5.X5 + \beta6.Y + \varepsilon$$

Descriptive Statistical Analysis

Used to present and analyze data, accompanied by calculations, in order to clarify the state or characteristics of the data in question.

Panel Data Regression Estimation

- *Common Effect Model* → $Y_{it} = \alpha + \beta_j X^j_{it} + \varepsilon_{it}$
- *Fixed Effect Model* → $Y_{it} = \alpha_i + \beta_j X^j_{it} + \Sigma^n \quad \alpha D_i + \varepsilon_{it}$
- *Random Effect Model* → $Y_{it} = \alpha + \beta_j X^j + \varepsilon_{it}$

$\varepsilon_{it} = u_i = v_t + w_{it}$

Panel Data Selection Methods

- Chow Test
- Hausman Test
- LM Test

Tests of Classical Assumptions

- Normality Test
- Multicollinearity Test

Path Analysis

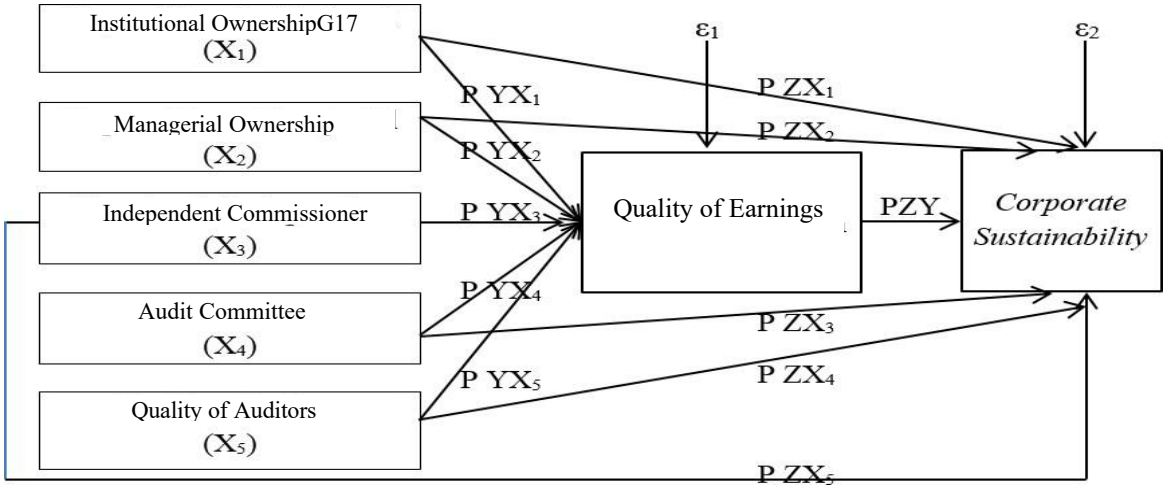


Figure 1. Path Analysis

Hypothesis Testing

- Coefficient of Determination
- F-Test
- t-Test

RESULTS

Description of the Research Object

The data used in this study consists of financial statements from infrastructure companies listed on the Indonesia Stock Exchange (IDX) that published annual reports from 2019 to 2022. The population of infrastructure companies listed on the IDX during the 2019–2022 period consisted of 65 companies, and 27 companies met the criteria for this study with an observation period of 4 years and 5 years for profit persistence, resulting in a total of 108 data points.

Testing of Assumptions and Research Instrument Quality

1. Descriptive Statistics

To provide an overview and information regarding the variable data in this study, descriptive statistical tables were used. The descriptive statistical table includes the mean, maximum, and minimum values of the five independent variables, namely Institutional Ownership (IO), Managerial Ownership (MO), Independent Commissioners (IC), Audit Committee (AC), and Auditor Quality (AQ), as variables influencing earnings quality (Y). The results of the descriptive statistical analysis are shown in Table 4 as follows:

	IO	MO	IC	AC	QA	Y
Mean	7131.500	298.9914	4099.269	10.85185	0.212963	2.975741
Maximum	9996.000	7928.830	7500.000	54.00000	1.000000	17.05000
Minimum	0.000000	0.000000	25.00000	2.000000	0.000000	-29.12000

Observations	108	108	108	108	108	108

Table 4. Descriptive Statistics for Model I

Source: Data processed using EViews10 (2026)

Table 7 shows that the dataset used in this study consists of 108 observations and presents the descriptive statistics for each variable as follows:

a. The Institutional Ownership variable is defined as the percentage of shares held by institutional investors relative to the company's total outstanding share capital. Based on Table 7, Institutional Ownership has a mean value of 71.31%, the highest among the other variables, with a minimum value of 0.00% and a maximum value of 99.96%.
b. The Managerial Ownership variable is defined as the percentage of shares held by management relative to the company's total outstanding share capital. Managerial Ownership has a mean value of 29.90% with a minimum value of 0.00%, meaning that share ownership by management is quite low, so theoretically, concern for the company is smaller, and a maximum value of 79.29%.
c. The Independent Commissioner variable is proxied by the percentage of independent board members out of the total number of board members. Independent Commissioners have a mean value of 40.99%, with a minimum value of 25% and a maximum value of 75%.
d. The Audit Committee variable is measured using the number of audit committee meetings during period t. The Audit Committee has a mean of 10.85 meetings, with a minimum of 2 meetings and a maximum of 54 meetings.
e. The Auditor Quality variable is measured using a dummy variable, where a value of 1 is assigned to companies that use a Big Four accounting firm and 0 to companies that do not use a Big Four accounting firm to audit their financial statements. Auditor Quality has a mean value of 0.21, with a minimum value of 0.00 and a maximum value of 1.00.
f. The Profit Quality variable is proxied using profit persistence, with a mean of 2.98%, a minimum of -29.12%, and a maximum of 17.05%.

The descriptive statistics for the variables Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committee, Auditor Quality, and Earnings Quality in relation to Corporate Sustainability in Model II are presented in Table 8 below. In principle, the descriptive statistics in Model II are nearly identical to those in Model I.

Table 5. Descriptive Statistics for Model II

	IO	MO	IC	AC	QA	Y	Q
Mean	71.31500	298.9914	40.99269	10.85185	0.212963	2.975741	27.28120
Maximum	99.96000	7928.830	75.00000	54.00000	1.000000	17.05000	403.3500
Minimum	0.000000	0.000000	25.00000	2.000000	0.000000	-29.12000	0.280000
Observations	108	108	108	108	108	108	108

Source: Data processed using EViews10 (2026)

Table 5 shows the difference between the variables in Model I and those in Model II, namely the inclusion of the Corporate Sustainability variable as the dependent variable. The Corporate Sustainability variable is proxied using Tobin's Q. According to Table 8, the Corporate Sustainability variable has a mean value of 27.28%, with a minimum value of 0.28% and a maximum value of 403.35%.

2. Analysis and Discussion of Research Model I

The analysis and discussion of Model I pertain to Hypotheses 1 through 5, which aim to test whether the implementation of Good Corporate Governance (GCG) mechanisms has a significant effect on earnings quality.

2.1. Regression Estimation for Empirical Research: Model I

As mentioned above, the regression equation for the panel data model used to test the effect of the implementation of Good Corporate Governance (GCG) mechanisms on financial performance both partially and simultaneously is formulated as follows:

$$\mathbf{Y = \alpha + \beta 1.X1 + \beta 2.X2 + \beta 3.X3 + \beta 4.X4 + \beta 5.X5 + \varepsilon}$$

Regression analysis of the above Model I was performed using regression analysis:

a. Regression Estimation Using the Common Effect Model I

To estimate a panel data model by combining cross-sectional and time-series data using the Ordinary Least Squares (OLS) method. To determine the common-effects regression estimates for the variables Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committee, and Auditor Quality on the dependent variable, Profit Quality, using the EViews 10 data analysis software, with the resulting common-effects output shown in Table 9 as follows:

Tabel 6. Output Using the Common Effect Model I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.575619	2.635590	-0.218402	0.8276
IO	0.005873	0.031324	0.187495	0.8516
MO	0.001149	0.000458	2.505990	0.0138
IC	0.064005	0.055696	1.149182	0.2532
AC	-0.044806	0.050203	-0.892482	0.3742
QA	3.059488	1.562021	1.958673	0.0529
Adjusted R-squared	0.092488			

Source: Data processed using EViews10 (2026)

Table 6 shows that the probability statistics for Institutional Ownership (0.8516), Managerial Ownership (0.0138), Independent Commissioners (0.2532), Audit Committee (0.3742), and Auditor Quality (0.0529) with an Adjusted R-squared value of 0.092488.

b. Regression Estimation Using the Fixed-Effects Model I

To determine the fixed-effects regression estimates for the independent variables Institutional Ownership, Managerial Ownership, Independent Directors, Audit Committee, and Auditor Quality on the dependent variable, Earnings Quality, using the EViews 10 data analysis software, the resulting fixed-effects output is presented in Table 10 as follows:

Tabel 7. Output Using the Fixed Effect Model I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-31.09178	41.05816	-0.757262	0.4512
IO	0.095888	0.085860	1.116798	0.2676
MO	0.084176	0.124860	0.674164	0.5023
IC	0.035714	0.075193	0.474967	0.6362
AC	0.151675	0.107568	1.410040	0.1626
QA	-4.924365	4.582822	-1.074527	0.2860
Adjusted R-squared	0.532306			

Source: Data processed using EViews10 (2026)

Table 7 shows that the probability statistics for Institutional Ownership (0.2676), Managerial Ownership (0.5023), Independent Commissioners (0.6362), Audit Committee (0.1626), and Auditor Quality (0.2860) with an adjusted r-squared value of 0.532306 are higher than the adjusted r-squared values in Table 6.

c. Regression Estimation Using the *Random Effect* Model I

The Random Effects Model (REM) is used to address the limitations of fixed-effects models that use dummy variables, which introduce uncertainty into the model. The use of dummy variables reduces the degrees of freedom, which ultimately reduces the efficiency of the estimated parameters. The REM assumes that residuals exhibit both

within-time and between-individual relationships. Consequently, the REM assumes that each individual has a distinct intercept, which is treated as a random variable. This model is also known as the Error Component Model (ECM) and employs the Generalized Least Squares (GLS) method as its estimator, which serves to enhance the efficiency of the least squares estimation.

The results of the random-effects model estimation are shown in Table 8 below:

Tabel 8. Output Using the *Random Effect* Model I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.664364	3.483555	-0.477777	0.6338
IO	0.027773	0.036765	0.755419	0.4517
MO	0.001323	0.000676	1.956468	0.0531
IC	0.045018	0.055661	0.808780	0.4205
AC	0.019361	0.067894	0.285157	0.7761
QA	0.977969	2.167330	0.451232	0.6528
Adjusted R-squared	0.003770			

Source: Data processed using EViews10 (2026)

Table 8 shows that the probability statistics for Institutional Ownership (0.4517), Managerial Ownership (0.0531), Independent Commissioners (0.4205), Audit Committee (0.7761), and Auditor Quality (0.6528) with an adjusted r-squared value of 0.003770 are lower than the adjusted r-squared value in the fixed-effects model of 0.513710. To determine which model to use, the Chow Test and Hausman Test were conducted to identify the best model.

2.2.Model Selection

a. Chow Test Model I

The Chow test is used to determine which model is better: the common-effects model or the fixed-effects model. The results of the Chow test are shown in Table 9 below:

Tabel 9. Results of the Chow Test, Model I

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.689240	(26,76)	0.0000
Cross-section Chi-square	103.370130	26	0.0000

Source: Data processed using EViews10 (2026)

Table 9 above shows that the cross-sectional $F_{statistic}$ value of 0.0000 is less than 0.05, so the selected model is the fixed-effects model. Next, the Hausman test was conducted to determine the best model between the fixed-effects model and the random-effects model.

b. Hausman Test Model I

The Hausman test was conducted to determine the best choice between a fixed-effects model and a random-effects model. The results of the Hausman test are shown in Table

10 below:

Tabel 10. Results of the Hausman Test, Model I

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.786862	5	0.3275

Source: Data processed using EViews10 (2026)

Table 10 above shows that the probability value for the random cross-section is 0.3275, which is greater than 0.05; this means that H_0 is accepted, so it can be concluded that the random-effects model is superior to the fixed-effects model.

c. Regression Estimation Results Using the Random Effects Model I

Based on the two model selection tests—the Chow test and the Hausman test—it can be concluded that the random-effects panel data model performs better than the common-effects model and the fixed-effects model, as shown in Table 11 below:

Tabel 11. Regression Using the Random Effects Model I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.664364	3.483555	-0.477777	0.6338
IO	0.027773	0.036765	0.755419	0.4517
MO	0.001323	0.000676	1.956468	0.0531
IC	0.045018	0.055661	0.808780	0.4205
AC	0.019361	0.067894	0.285157	0.7761
QA	0.977969	2.167330	0.451232	0.6528
Adjusted R-squared	0.003770			

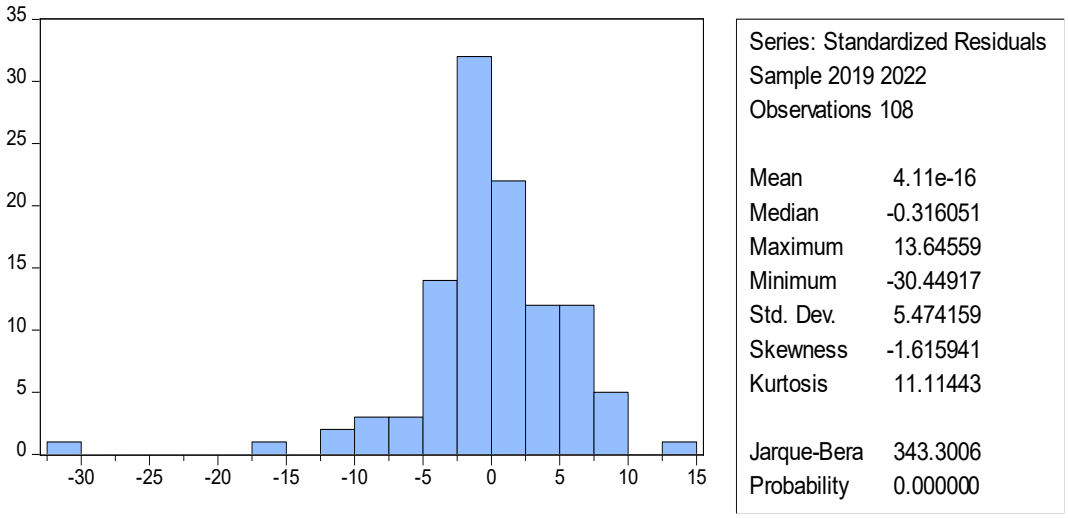
Source: Data processed using EViews10 (2026)

Table 10 shows that the probability statistics for Institutional Ownership (0.4517), Managerial Ownership (0.0531), Independent Commissioners (0.4205), Audit Committee (0.7761), and Auditor Quality (0.6528) with an adjusted R-squared value of 0.003770, meaning these results indicate that no single variable has a significant effect on earnings quality with a probability value >0.05.

2.3.Test of Classical Assumptions for Model I

a. Normality Test for Model I

The results of the normality test are shown in Figure 5 below:



Source: Data processed using EViews10 (2026)

Figure 3: Normality Test for Model I

Based on the results of the normality test, the Jarque-Bera probability value is 0.05, which is greater than 0.05; therefore, it can be concluded that the regression model satisfies the assumption of normality.

b. Multicollinearity Test for Model I

To test whether there is significant correlation or a significant relationship among the independent variables in a regression model since in a good regression model, there should be no correlation among the independent variables—the results of the multicollinearity test are presented in Table 12 below:

Tabel 12. Multicollinearity Test Model I

Correlation Test:

	IO	MO	IC	AC	QA
IO	1.000000	-0.545811	0.082056	0.266803	0.450329
MO	-0.545811	1.000000	0.169828	-0.025934	-0.103858
IC	0.082056	0.169828	1.000000	-0.002437	-0.173237
AC	0.266803	-0.025934	-0.002437	1.000000	0.253239
QA	0.450329	-0.103858	-0.173237	0.253239	1.000000

Source: Data processed using EViews10 (2026)

As shown in Table 12 above, the correlation test results for the regression of Model I indicate that none of the matrix values exceed 1; thus, Model I is free from multicollinearity.

3. Analysis and Discussion of Research Model II

3.1. Regression Estimation for Empirical Research: Model II

As discussed in Chapter III, the equation for Model II is formulated as follows:

$$Z = \alpha + \beta_1.X_1 + \beta_2.X_2 + \beta_3.X_3 + \beta_4.X_4 + \beta_5.X_5 + \beta_6.Y + \varepsilon$$

Regression analysis of Model II was conducted using the following regression analysis:

a. Regression Estimation Using the Common Effect Model II

To determine the common-effects regression estimates for the variables Institutional Ownership, Managerial Ownership, Independent Directors, Audit Committee, Auditor Quality, and Earnings Quality on Corporate Sustainability using the Eviews 10 data analysis software, the resulting common-effects output can be seen in Table 13 below:

Tabel 13. Output Using the Common Effect Model II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	64.25822	32.52903	1.975411	0.0510
IO	-0.331852	0.386582	-0.858427	0.3927
MO	-0.010322	0.005828	-1.771133	0.0796
IC	-0.131432	0.691684	-0.190018	0.8497
AC	-0.848476	0.621890	-1.364349	0.1755
QA	-21.63726	19.63343	-1.102062	0.2731
Y	3.017208	1.221776	2.469526	0.0152
Adjusted R-squared	0.065492			

Source: Data processed using EViews10 (2026)

Table 13 shows that the probability statistics for Institutional Ownership (0.3927), Managerial Ownership (0.0796), Independent Directors (0.8497), Audit Committee (0.1755), Auditor Quality (0.2731), and Earnings Quality (0.0152) have an Adjusted R-squared value of 0.065492 with a total of 108 observations.

b. Regression Estimation Using the Fixed-Effects Model II

To determine the fixed-effects regression estimates for the variables Institutional Ownership, Managerial Ownership, Independent Directors, Audit Committee, Auditor Quality, and Earnings Quality on Corporate Sustainability using the EViews 10 data analysis software, the resulting fixed-effects output can be seen in Table 14 below:

Tabel 14. Output Using the Fixed Effect Model II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1040.502	314.7834	-3.305455	0.0015
IO	3.115280	0.661157	4.711862	0.0000
MO	2.629986	0.956532	2.749501	0.0075
IC	1.400393	0.575174	2.434730	0.0173
AC	0.063961	0.832280	0.076851	0.9389
QA	-5.448258	35.26851	-0.154479	0.8776
Y	0.784541	0.876139	0.895452	0.3734
Adjusted R-squared	0.815469			

Source: Data processed using EViews10 (2026)

Table 14 shows that the p-values for Institutional Ownership (0.0000), Managerial Ownership (0.0075), Independent Directors (0.0173), Audit Committee (0.9389), Auditor Quality (0.8776), and Earnings Quality (0.3734) have an Adjusted R-squared value of 0.815469 with a total of 108 observations.

c. Regression Estimation Using the *Random Effect* Model II

The Random Effects Model (REM) is used to address the limitations of fixed-effects models that use dummy variables, which introduce uncertainty into the model. The use of dummy variables reduces the degrees of freedom, which ultimately reduces the efficiency of the estimated parameters. The REM assumes that residuals exhibit both within-time and between-individual relationships. Consequently, the REM assumes that each individual has a distinct intercept, which is treated as a random variable. This model is also known as the Error Component Model (ECM) or the Generalized Least Squares (GLS) method. The results of the random effects model estimation are presented in Table 15 as follows:

Tabel 15. Output Using the *Random Effect* Model II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-97.43213	36.01486	-2.705332	0.0080
IO	0.958281	0.346644	2.764453	0.0068
MO	0.001325	0.009105	0.145502	0.8846
IC	1.545539	0.476307	3.244839	0.0016
AC	-0.590613	0.687507	-0.859065	0.3923
QA	-23.19835	24.22472	-0.957631	0.3405
Y	1.334550	0.827627	1.612502	0.1100
Adjusted R-squared	0.107547			

Source: Data processed using EViews10 (2026)

Table 15 shows that the probability statistics for Institutional Ownership (0.0068), Managerial Ownership (0.8846), Independent Commissioners (0.0016), Audit Committee (0.3923), Auditor Quality (0.3405), and Earnings Quality (0.1100), with an Adjusted R-squared value of 0.107547 and a total of 108 observations, are lower than the Adjusted R-squared value in the Fixed Effects Model.

3.2.Model Selection

a. Chow Test Model II

The Chow test is used to determine which model is better: the common-effects model or the fixed-effects model. The results of the Chow test are shown in Table 16:

Tabel 16. Results of the Chow Test, Model II

Effects Test	Statistic	d.f.	Prob.
Cross-section F	16.787984	(26,75)	0.0000
Cross-section Chi-square	207.342200	26	0.0000

Source: Data processed using EViews10 (2026)

Table 16 above shows that the cross-sectional $F_{\text{-statistic}}$ is 0.0000, which is less than 0.05; therefore, it can be concluded that the fixed-effects model is more appropriate than the random-effects model. Next, a Hausman test was conducted to determine the best model between the fixed-effects model and the random-effects model.

b. Hausman Test Model II

Uji Hausman dilakukan untuk menentukan pilihan yang terbaik antara fixed effect model dengan random effect model. Hasil Uji Hausman dapat dilihat pada tabel 17 dibawah ini:

Tabel 17. Results of the Hausman Test, Model II

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	22.616200	6	0.0009

Source: Data processed using EViews10 (2026)

Table 17 shows that the probability value for the random cross-section is 0.0009, which is less than 0.05; this means that H0 is rejected, so it can be concluded that the fixed-effects model is superior to the random-effects model.

c. Regression Estimation Results Using the Random Effects Model II

Based on the two model selection tests—the Chow test and the Hausman test—it can be concluded that, for panel data, the fixed-effects model is superior to the common-effects model or the random-effects model, as shown in Table 18 below:

Tabel 18. Regression Using the Fixed Effects Model II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1040.502	314.7834	-3.305455	0.0015
IO	3.115280	0.661157	4.711862	0.0000
MO	2.629986	0.956532	2.749501	0.0075
IC	1.400393	0.575174	2.434730	0.0173
AC	0.063961	0.832280	0.076851	0.9389
QA	-5.448258	35.26851	-0.154479	0.8776
Y	0.784541	0.876139	0.895452	0.3734
Adjusted R-squared	0.815469			

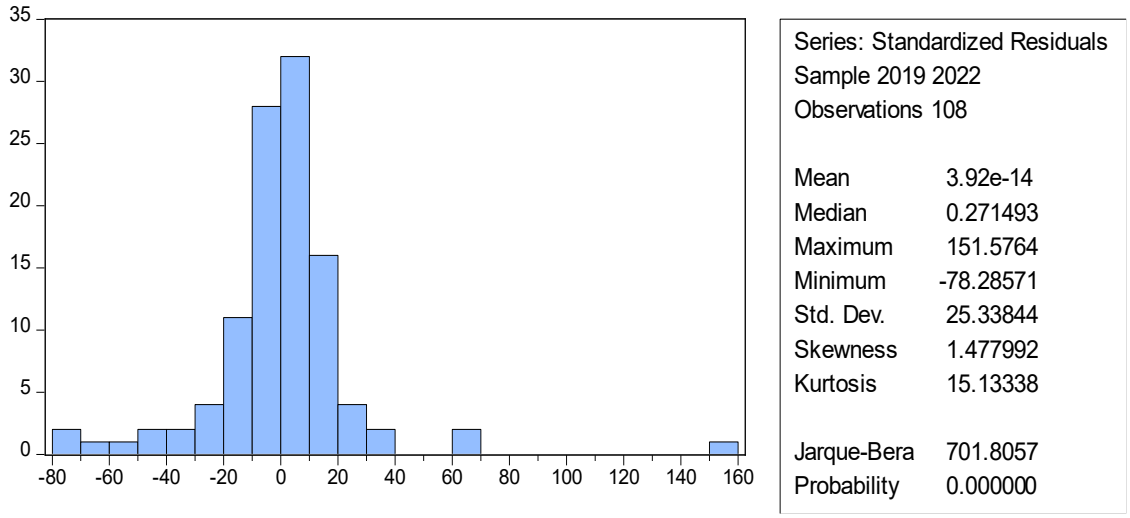
Source: Data processed using EViews10 (2026)

Table 18 shows that the p-values for Institutional Ownership (0.0000), Managerial Ownership (0.0075), Independent Directors (0.0173), Audit Committee (0.9389), Auditor Quality (0.8776), and Earnings Quality (0.3734) with an Adjusted R-squared value of 0.815469, meaning that these results indicate that only Institutional Ownership, Managerial Ownership, and Independent Commissioners have a significant effect on Corporate Sustainability with probability values of 0.0000, 0.0075, and 0.0173 < 0.05.

3.3.Test of Classical Assumptions for Model II

a. Normality Test for Model II

The results of the normality test for Model II are shown in Figure 4:



Source: Data processed using EViews10 (2026)

Figure 4: Normality Test for Model II

Based on the results of the normality test, the Jarque-Bera probability value is 607,701.8057, which is greater than 0.05; therefore, it can be concluded that the regression model satisfies the assumption of normality.

b. Multicollinearity Test for Model II

To test whether there is significant correlation or a significant relationship among the independent variables in a regression model since in a good regression model, there should be no correlation among the independent variables the results of the multicollinearity test are presented in Table 19 below:

Tabel 19. Multicollinearity Test Model II

Correlation Test:

	IO	MO	IC	AC	QA	Y	Q
IO	1.000000	-0.545811	0.082056	0.266803	0.450329	-0.053304	-0.105374
MO	-0.545811	1.000000	0.169828	-0.025934	-0.103858	0.283508	-0.072320
IC	0.082056	0.169828	1.000000	-0.002437	-0.173237	0.130534	-0.011925
AC	0.266803	-0.025934	-0.002437	1.000000	0.253239	-0.033265	-0.201404
QA	0.450329	-0.103858	-0.173237	0.253239	1.000000	0.155642	-0.148785
Y	-0.053304	0.283508	0.130534	-0.033265	0.155642	1.000000	0.174269
Q	-0.105374	-0.072320	-0.011925	-0.201404	-0.148785	0.174269	1.000000

Source: Data processed using EViews10 (2026)

As shown in Table 22 above, the correlation test results for the regression of Model II indicate that none of the matrix values exceed 1; thus, the Model II that was constructed is free from multicollinearity.

4. Path Analysis

Path analysis involves comparing the magnitude of direct and indirect effects by examining the coefficients. The coefficients from Table 11 and Table 18 can be visualized as shown in the figure below:

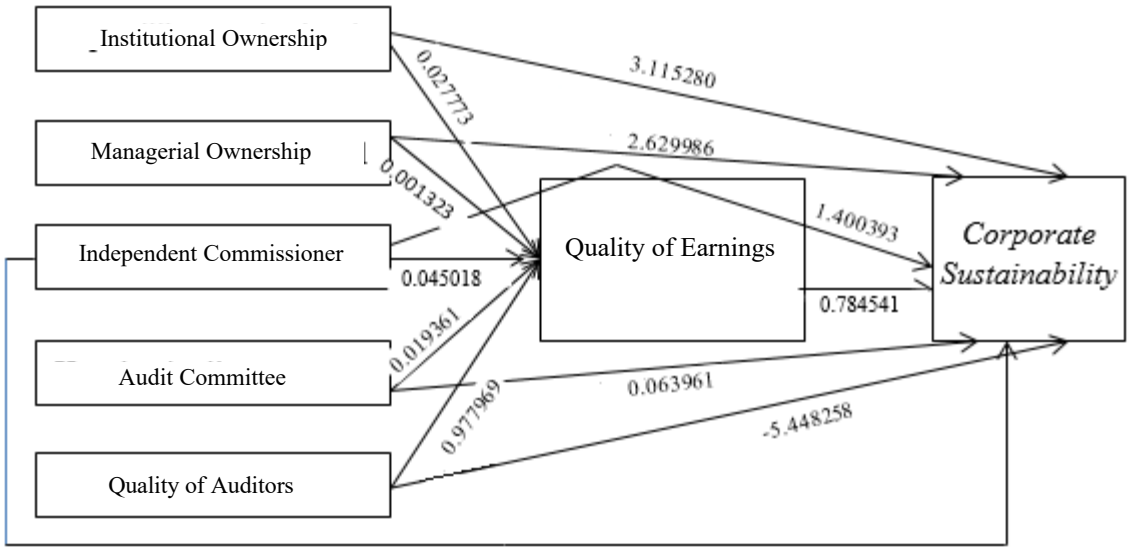


Figure 7: Direct and Indirect Effects of Independent Variables on Corporate Sustainability

This allows us to calculate the direct and indirect effects of Institutional Ownership, Managerial Ownership, Independent Commissioners, the Audit Committee, and Auditor Quality on Corporate Sustainability, and to determine whether Earnings Quality acts as an intervening variable or not.

a. The direct and indirect effects of institutional ownership on corporate sustainability.
   - Direct coefficient of institutional ownership on corporate sustainability: 3.115280
   - Direct coefficient of institutional ownership on earnings quality: 0.027773
   - Direct coefficient of earnings quality on corporate sustainability: 0.784541
   - Indirect coefficient of institutional ownership on earnings quality and corporate sustainability (0.027773 × 0.784541) = 0.021789.

b. The direct and indirect effects of managerial ownership on corporate sustainability.
   - Direct coefficient of managerial ownership on corporate sustainability: 2.629986
   - Direct coefficient of managerial ownership on earnings quality: 0.001323
   - Direct coefficient of earnings quality on corporate sustainability: 0.784541
   - Indirect coefficient of managerial ownership on earnings quality and corporate sustainability (0.001323 x 0.784541) = 0.001038

c. The direct and indirect effects of independent directors on corporate sustainability.
   - Direct coefficient of independent directors on corporate sustainability: 1.400393
   - Direct coefficient of independent directors on earnings quality: 0.045018
   - Direct coefficient of earnings quality on corporate sustainability: 0.784541
   - Indirect coefficient of independent commissioners on earnings quality and corporate sustainability (0.045018 x 0.784541) = 0.035318

d. The direct and indirect effects of the audit committee on corporate sustainability.
   - Direct coefficient of the audit committee on corporate sustainability: 0.063961
   - Direct coefficient of the audit committee on earnings quality: 0.019361
   - Direct coefficient of earnings quality on corporate sustainability: 0.784541
   - Indirect coefficient of the audit committee on earnings quality and corporate sustainability (0.019361 × 0.784541): 0.015189

e. The direct and indirect effects of auditor quality on corporate sustainability.
   - Direct coefficient of auditor quality on corporate sustainability: -5.448258
   - Direct coefficient of auditor quality on earnings quality: 0.977969
   - Direct coefficient of earnings quality on corporate sustainability: 0.784541

- Indirect coefficient of auditor quality on earnings quality and corporate sustainability (0.977969 × 0.784541) = 0.767257

Based on the results above, all direct coefficients from Institutional Ownership to Corporate Sustainability, Managerial Ownership to Corporate Sustainability, Independent Commissioners to Corporate Sustainability, and Audit Committee to Corporate Sustainability, are greater than their indirect coefficients, except for Auditor Quality to Corporate Sustainability; thus, it can be concluded that Earnings Quality is not an intervening variable between Institutional Ownership and Corporate Sustainability, Managerial Ownership and Corporate Sustainability, Independent Commissioners and Corporate Sustainability, Audit Committee and Corporate Sustainability, and Auditor Quality and Corporate Sustainability.

Hypothesis Testing

1. Hypothesis Testing Model I

1.1. Test of the Coefficient of Determination for Model I

The coefficient of determination for Model I is shown in the table below:

Tabel 20. Coefficient of Determination for Model I

Weighted Statistics			
R-squared	0.050322	Mean dependent var	1.282131
Adjusted R-squared	0.003770	S.D. dependent var	3.985198
S.E. of regression	3.977680	Sum squared resid	1613.838
F-statistic	1.080975	Durbin-Watson stat	1.147228
Prob(F-statistic)	0.375444		

Source: Data processed using EViews10 (2026)

Based on Table 20 for Model I, the R-squared value is 0.050322 and the adjusted R-squared is 0.003770, which means that the dependent variable earnings quality can be explained by the five independent variables institutional ownership, managerial ownership, independent directors, audit committee, and auditor quality by 0.37%, while the remaining 99.63% is explained by other independent variables outside the model used in this study.

1.2. F-Test for Model I

The results of the F-test for Model I are as follows:

Tabel 21. Results of the F-Test for Model I

Weighted Statistics			
R-squared	0.050322	Mean dependent var	1.282131
Adjusted R-squared	0.003770	S.D. dependent var	3.985198
S.E. of regression	3.977680	Sum squared resid	1613.838
F-statistic	1.080975	Durbin-Watson stat	1.147228
Prob(F-statistic)	0.375444		0.375444

Source: Data processed using EViews10 (2026)

Based on Table 21, the calculated F_{value} is 1.080975, while the critical F_{value} at a significance level of $\alpha = 5\%$ is 3.977680. Thus, the calculated F_{value} is less than the critical

F_{value} (1.080975 < 3.977680), and since the probability value of 0.375444 is greater than α = 0.05, H0 is accepted and H_1 is rejected. This means that, collectively, the independent variables (institutional ownership, managerial ownership, independent commissioners, audit committee, and auditor quality) do not have a statistically significant effect on earnings quality (Y).

1.3. t-Test for Model I

The results of the t-test for Model I are shown in the table below, addressing Hypotheses 1 through 5:

Tabel 22. Results of the t-Test for Model I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.664364	3.483555	-0.477777	0.6338
IO	0.027773	0.036765	0.755419	0.4517
MO	0.001323	0.000676	1.956468	0.0531
IC	0.045018	0.055661	0.808780	0.4205
AC	0.019361	0.067894	0.285157	0.7761
QA	0.977969	2.167330	0.451232	0.6528

Source: Data processed using EViews10 (2026)

Based on Table 22, the results of the t-test indicate that none of the independent variables have a probability value of t < 0.05, which statistically means they do not significantly influence the firm's earnings quality. The following are the details of the t-test results for Model I regarding the effects of each variable institutional ownership, managerial ownership, independent directors, audit committee, and auditor quality on earnings quality:

a. The probability of the t-statistic for the Institutional Ownership variable, which is 0.4517, is greater than α = 0.05; therefore, H0 is accepted, and it can be concluded that, statistically, the Institutional Ownership variable does not have a significant effect on Earnings Quality.
b. The probability of the t-statistic for the Managerial Ownership variable is 0.0531, which is greater than α = 0.05; therefore, H0 is accepted, and it can be concluded that, statistically, the Managerial Ownership variable does not have a significant effect on Earnings Quality.
c. The probability of the t-statistic for the Independent Commissioners variable is 0.4205, which is greater than α = 0.05; therefore, H0 is accepted, and it can be concluded that, statistically, the Independent Commissioners variable does not have a significant effect on Earnings Quality.
d. The probability of the t-statistic for the Audit Committee variable is 0.7761, which is greater than α = 0.05; therefore, H0 is accepted, and it can be concluded that, statistically, the Audit Committee variable does not have a significant effect on Earnings Quality.
e. The probability of the t-statistic for the Auditor Quality variable is 0.6528, which is greater than α = 0.05; therefore, H0 is accepted, and it can be concluded that, statistically, the Auditor Quality variable does not have a significant effect on Earnings Quality.

2. Hypothesis Testing Model II

2.1. Test of the Coefficient of Determination for Model II

The coefficient of determination for Model II is shown in the table below:

Tabel 23. Coefficient of Determination for Model II

Cross-section fixed (dummy variables)			
R-squared	0.870656	Mean dependent var	27.28120
Adjusted R-squared	0.815469	S.D. dependent var	70.45413
S.E. of regression	30.26503	Akaike info criterion	9.904331
Sum squared resid	68697.91	Schwarz criterion	10.72387
Log likelihood	-501.8339	Hannan-Quinn criter.	10.23662
F-statistic	15.77651	Durbin-Watson stat	1.513448
Prob(F-statistic)	0.000000		

Source: Data processed using EViews10 (2026)

Based on Table 23 for Model II, the R-squared value is 0.870656 and the adjusted R-squared is 0.815469, which means that the dependent variable of corporate sustainability can be explained by the six independent variables, namely institutional ownership, managerial ownership, independent commissioners, audit committee, auditor quality, and earnings quality, by 81.55%, while the remaining 18.45% is explained by other independent variables outside the model used in this study.

2.2. F-Test for Model II

The results of the F-test for Model II are as follows:

Tabel 24. Results of the F-Test for Model II

Cross-section fixed (dummy variables)			
R-squared	0.870656	Mean dependent var	27.28120
Adjusted R-squared	0.815469	S.D. dependent var	70.45413
S.E. of regression	30.26503	Akaike info criterion	9.904331
Sum squared resid	68697.91	Schwarz criterion	10.72387
Log likelihood	-501.8339	Hannan-Quinn criter.	10.23662
F-statistic	15.77651	Durbin-Watson stat	1.513448
Prob(F-statistic)	0.000000		

Source: Data processed using EViews10 (2026)

Based on Table 24, the calculated F-value is 15.77651, while the critical F_{value} at a significance level of $\alpha = 5\%$ is 30.26503. Thus, the calculated F_{value} is less than the critical F_{value} (15.77651 < 30.26503), and since the probability value of 0.000000 is smaller than $\alpha = 0.05$, H0 is rejected and the alternative hypothesis is accepted, namely that at least one independent variable (Institutional Ownership, Managerial Ownership, and Independent Commissioners) has a statistically significant effect on Corporate Sustainability; therefore, the regression model can be used to predict the dependent variable.

2.3. t-Test for Model II

The results of the t-test for Model II are shown in the table below to address hypotheses

6 through 11:

Tabel 25. Results of the t-Test for Model II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1040.502	314.7834	-3.305455	0.0015
IO	3.115280	0.661157	4.711862	0.0000
MO	2.629986	0.956532	2.749501	0.0075
IC	1.400393	0.575174	2.434730	0.0173
AC	0.063961	0.832280	0.076851	0.9389
QA	-5.448258	35.26851	-0.154479	0.8776
Y	0.784541	0.876139	0.895452	0.3734
Adjusted R-squared	0.815469			

Source: Data processed using EViews10 (2026)

Based on Table 25, the results of the t-test indicate that there are three variables with a probability value of $t < 0.05$, which statistically significantly influence the Corporate Sustainability variable: Institutional Ownership, Managerial Ownership, and Independent Commissioners. The following are the details of the t-test results for Model II for each variable institutional ownership, managerial ownership, independent commissioners, audit committee, auditor quality, and earnings quality in relation to corporate sustainability.

a. The probability of the t-statistic for the Institutional Ownership variable is 0.0000, which is less than $\alpha = 0.05$; therefore, H0 is rejected, and it can be concluded that the Institutional Ownership variable has a statistically significant effect on Corporate Sustainability.
b. The probability of the t-statistic for the Managerial Ownership variable is 0.0075, which is less than $\alpha = 0.05$; therefore, H0 is rejected, and it can be concluded that the Managerial Ownership variable has a statistically significant effect on Corporate Sustainability.
c. The probability of the t-statistic for the Independent Commissioners variable is 0.0173, which is less than $\alpha = 0.05$; therefore, H0 is rejected, and it can be concluded that the Independent Commissioners variable has a statistically significant effect on Corporate Sustainability.
d. The probability of the t-statistic for the Audit Committee variable is 0.9389, which is greater than $\alpha = 0.05$; therefore, H0 is accepted, and it can be concluded that, statistically, the Audit Committee variable does not have a significant effect on Corporate Sustainability.
e. The probability of the t-statistic for the Auditor Quality variable is 0.8776, which is greater than $\alpha = 0.05$; therefore, H0 is accepted, and it can be concluded that, statistically, the Auditor Quality variable does not have a significant effect on Corporate Sustainability.
f. The probability of the t-statistic for the Profit Quality variable is 0.3734, which is greater than $\alpha = 0.05$; therefore, H0 is accepted, and it can be concluded that, statistically, the Profit Quality variable does not have a significant effect on Corporate Sustainability.

3. Multiple Linear Regression Analysis

In this study, multiple linear regression analysis was conducted to determine whether there is an influence among the independent variables on the dependent variable. Based on the data analysis in Table 11, with profit quality as the dependent variable, the following regression equation was obtained:

$$\mathbf{Y = \beta_0 + \beta_1 KI + \beta_2 KM + \beta_3 KIND + \beta_3 KA + \beta_3 KAUD + \varepsilon}$$

$$\mathbf{Y = - 1.664364 + 0.027773KI + 0.001323KM + 0.045018KIND + 0.019361KA + 0.977969KAUD + \varepsilon}$$

Notes:

IO	: Institutional Ownership	AC	: Audit Committee
MO	: Managerial Ownership	AQ	: Auditor Quality
IC	: Independent Commissioner	Y	: Earnings Quality.

The interpretation of the results of the above regression for Model I (hypotheses 1–5) is as follows:

a. The constant value indicates that if Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committee, and Auditor Quality all have a value of 0 (zero), then Profit Quality is -1.664364.
b. The coefficient value for Institutional Ownership of 0.027773 indicates that a 1% increase in Institutional Ownership is associated with a 0.027773 increase in Earnings Quality, assuming all other coefficients remain constant.
c. The coefficient value for Managerial Ownership of 0.001323 indicates that a 1% increase in Managerial Ownership is associated with a 0.001323 increase in Profit Quality, assuming all other coefficients remain constant.
d. The coefficient value for Independent Commissioners of 0.045018 indicates that a 1% increase in Independent Commissioners is associated with a 0.045018 increase in Profit Quality, assuming all other coefficients remain constant.
e. The coefficient value for the Audit Committee of 0.019361 indicates that a 1% increase in the Audit Committee is associated with a 0.019361 increase in Profit Quality, assuming all other coefficients remain constant.
f. The coefficient value for Auditor Quality of 0.977969 indicates that a 1% increase in Auditor Quality is associated with a 0.977969 increase in Profit Quality, assuming all other coefficients remain constant.

As for the dependent variable "Corporate Sustainability," based on the data analysis in Table 18, the following regression equation can be derived:

$$\mathbf{CS = \beta_0 + \beta_1 KI + \beta_2 KM + \beta_3 KIND + \beta_3 KA + \beta_3 KAUD + DA + \varepsilon}$$

$$\mathbf{CS = -1040.502 + 3.115280KI + 2.629986KM + 1.400393KIND + 0.063961KA – 5.448258KAUD + 0.784541Y + \varepsilon}$$

Notes:

CS	: Corporate Sustainability	IC	: Independent Commissioner
Y	: Earnings Quality	AC	: Audit Committee
IO	: Institutional Ownership	AQ	: Auditor Quality
MO	: Managerial Ownership		

The interpretation of the results of the above regression for Model II (hypotheses 6–11) is as follows:

a. The constant value indicates that if Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committee, Auditor Quality, and Earnings Quality all have a value of 0 (zero), then Corporate Sustainability is -1040.502.
b. The coefficient value for Institutional Ownership of 3.115280 indicates that a 1% increase

in Institutional Ownership is associated with a 3.115280-point increase in Corporate Sustainability, assuming all other coefficients remain constant.

c. The coefficient value for Managerial Ownership is 2.629986, indicating that a 1% increase in Managerial Ownership is associated with a 2.629986-unit increase in Corporate Sustainability, assuming all other coefficients remain constant.
d. The coefficient value for Independent Commissioners of 1.400393 indicates that a 1% increase in Independent Commissioners is associated with a 1.400393-point increase in Corporate Sustainability, assuming all other coefficients remain constant.
e. The coefficient value for the Audit Committee of 0.063961 indicates that a 1% increase in the Audit Committee is associated with a 0.063961 increase in Corporate Sustainability, assuming all other coefficients remain constant.
f. The coefficient value for Auditor Quality of -5.448258 indicates that a 1% increase in Auditor Quality is associated with a decrease in Corporate Sustainability of -5.448258, assuming all other coefficients remain constant.
g. The profit quality coefficient of 0.784541 indicates that a 1% increase in profit quality is associated with a 0.784541 increase in corporate sustainability, assuming all other coefficients remain constant.

DISCUSSION

1. The Effect of Institutional Ownership on Earnings Quality

   The hypothesis testing indicates that institutional ownership does not have a significant effect on earnings quality. The results of this study indicate that institutional ownership has not yet been able to function as an effective oversight mechanism in improving earnings quality. This may be due to the passive nature of institutional investors, conflicts of interest, and the dominance of other factors in determining earnings quality. These findings are also consistent with several previous studies showing no significant effect or even a negative effect of institutional ownership on earnings quality.

   These findings align with the studies by Anggraeni et al. (2024), Muslih & Tamma (2024), and Mergia et al. (2020), which found that institutional ownership has a negative effect on earnings quality. Although statistically significant, the negative direction indicates that the presence of institutions does not improve earnings quality; in fact, it may even reduce it. Meanwhile, the results of studies by Aini et al. (2024) and Tsania et al. (2025) found the opposite, stating that institutional ownership has a significant effect on earnings quality on the grounds that institutional ownership is capable of improving monitoring and transparency functions regarding management, thereby resulting in higher-quality earnings reports.

2. The Effect of Managerial Ownership on Earnings Quality

   Managerial ownership does not affect earnings quality. In theory, high managerial ownership increases concern for the company, whereas low managerial ownership results

in decreased concern for the company. The results of this study are consistent with the overall very low level of managerial ownership in the research sample, meaning that when management's share ownership is low, awareness of the company decreases, thereby affecting earnings quality because managers tend to engage in self-enriching and opportunistic actions that benefit their personal interests.

The results of this study are consistent with the research by Dewi & Fachrurrozie (2021) and Mergia et al. (2020), which found that managerial ownership does not affect earnings quality; that is, managers' stock ownership is not strong enough to influence a company's earnings quality. This suggests that even though managers hold shares, they do not necessarily improve the quality of earnings reporting due to their relatively small ownership stakes. Meanwhile, the findings of Sari & Putri (2023) and Khafid & Arief (2017) indicate the opposite, showing that managerial ownership does indeed influence earnings quality. This suggests that when managers also hold equity in the company, an alignment of interests occurs between management and shareholders. This condition encourages managers to act more cautiously and transparently in financial reporting, thereby improving the quality of the reported earnings.

3. The Effect of Independent Directors on Earnings Quality

   Independent commissioners do not influence earnings quality. Theoretically, independent commissioners who are not affiliated with management are expected to effectively perform their monitoring functions, thereby improving earnings quality. However, the results of this study indicate that although the proportion of independent commissioners is relatively high, this has not yet led to an improvement in earnings quality. This condition is suspected to be caused by coordination constraints among board members that hinder the effectiveness of the monitoring process. Consequently, the monitoring function, which is the responsibility of independent commissioners, does not function optimally and thus has no impact on improving earnings quality.

   The results of this study are consistent with the research by Istianingsih (2021) and Puspitasari et al. (2024), which found that independent commissioners do not affect financial performance; this may be because companies appoint independent commissioners solely to comply with regulations. Meanwhile, the findings of Khasanah & Kartika (2022) and Marlinah et al. (2016) found the opposite, stating that independent commissioners were proven to influence earnings quality.

4. The Effect of the Audit Committee on Earnings Quality

   Hypothesis testing indicates that audit committees do not have a significant impact on

earnings quality. The results of this study show that audit committees are not always effective in improving earnings quality due to oversight functions that are merely a formality (compliance-based), a lack of expertise or competence among members, suboptimal coordination and independence, and the fact that the role of the audit committee is more symbolic than substantive.

The results of this study are consistent with the findings of Suwito et al. (2021), who found that audit committees do not have a significant effect on earnings quality. Meanwhile, the findings of Alhaq & Muslim (2024) suggest the opposite, stating that audit committees have a significant effect on earnings quality, arguing that companies establish audit committees not merely to comply with regulations but to uphold good corporate governance within the organization.

5. The Effect of Auditor Quality on Earnings Quality

   Auditor quality does not affect earnings quality. This is consistent with the data from the study sample, which shows that only 6 companies were audited by Big Four firms, while the remaining 21 companies were not audited by Big Four firms. In this study, auditor quality is measured by the size of the public accounting firm, where Big Four and non-Big Four firms are generally classified not by revenue but by the number of auditors. Big Four firms have over 400 professional staff, while non-Big Four firms have fewer than 400 professional staff; thus, Big Four firms better represent the auditor quality variable.

   The findings of this study are consistent with those of Saraswati & Puteri (2023) and Sumiadji et al. (2019), who found that auditor quality does not affect earnings quality. In contrast, Caroline et al. (2025) found the opposite, concluding that audit quality does indeed affect earnings quality.

6. The Effect of Institutional Ownership on Corporate Sustainability

   Institutional ownership has a significant impact on corporate sustainability. The results of this study align with the theory that states: the higher the level of institutional ownership, the stronger the external control over the company, thereby reducing agency costs within the company and enhancing corporate sustainability. This demonstrates that institutional ownership with a sufficiently high average value can ensure stronger control by institutional stakeholders over the company.

   The results of this study are consistent with those of Rahmawati & Hermanto (2017), Wulanda & Aziza (2019), and Lasmanah & Yuniar (2017), which demonstrate that institutional ownership can enhance corporate sustainability through the oversight provided by institutional investors. This differs from the findings of Kamaliah & Taufik (2017) and

Eka Dila (2018), who demonstrated that the extent of institutional ownership does not affect corporate sustainability.

7. The Effect of Managerial Ownership on Corporate Sustainability

   Managerial ownership has a significant impact on corporate sustainability. In theory, the presence of managerial ownership encourages managers to act cautiously because they share the consequences of the decisions they make. They are more motivated to improve their performance in managing the company, thereby enhancing corporate sustainability.

   These findings are supported by the research of Djamaluddin et al. (2018) and Kamaliah & Taufik (2017), who state that corporate governance specifically managerial ownership has an impact on corporate sustainability. This contrasts with the findings of Rahmawati & Hermanto (2017) and Eka Dila (2018), who found no relationship between corporate governance specifically managerial ownership—and corporate sustainability.

8. The Effect of Independent Directors on Corporate Sustainability

   Independent directors have a significant impact on corporate sustainability. This aligns with the theory that independent directors in companies who have no business ties or family relationships with shareholders or the board of directors can align the interests of management and shareholders, as they represent the primary internal mechanism for monitoring behavior that exploits short-term opportunities or profits while neglecting management's long-term benefits, thereby ensuring the company's sustainability is well-maintained. This is evident in the sample companies, which have an average proportion of independent board members exceeding 41% of the total number of board members, indicating that these companies have a high percentage of independent board members. The results of this study indicate that the board of commissioners is effective in aligning the interests of managers and shareholders, thereby ensuring the company's sustainability is well-maintained.

   These findings are supported by the research of Djamaluddin et al. (2018) and Wulanda & Aziza (2019), which indicates that corporate governance specifically independent commissioners influences corporate sustainability. This contrasts with the findings of Kamaliah & Taufik (2017) and Eka Dila (2018), who found no significant relationship between independent commissioners and corporate sustainability.

9. The Effect of the Audit Committee on Corporate Sustainability

   The Audit Committee does not have a significant impact on corporate sustainability. The results of this study do not align with the theory that suggests that a higher number of audit committee meetings within a company will enhance corporate sustainability, or that more

frequent meetings will lead the committee to address existing issues more often, thereby resulting in continuously improving corporate sustainability. This was not evident in the sample companies, which held an average of 11 meetings per year. The results of this study indicate that audit committees are ineffective in overseeing companies and thus cannot improve corporate sustainability.

The results of this study are consistent with the research by Eka Dila (2018), which found no significant relationship between audit committees and corporate sustainability. This differs from the findings of Lasmanah & Yuniar (2017), Kamaliah & Taufik (2017), and Rahmawati & Hermanto (2017), who found that audit committees have a positive effect on corporate sustainability because they are effective in monitoring companies, thereby enhancing corporate sustainability.

10. The Effect of Auditor Quality on Corporate Sustainability

    Auditor quality does not affect corporate sustainability. In theory, auditor quality can enhance corporate sustainability through the information disclosed in the company's annual report. Since auditor quality in this study is measured by the size of the Public Accounting Firm (PAF), where Big-Four and non-Big-Four PAFs are distinguished by the number of auditors with Big-Four PAFs having over 400 professional staff and non-Big-Four PAFs having fewer than 400—Big-Four PAFs are considered to better represent the auditor quality variable. However, the results of this study contradict this assumption, suggesting that even though the Big Four firms (PwC, Deloitte, Ernst & Young, KPMG) were not used, nearly all samples employed external auditors with high audit quality; consequently, the market is not influenced by whether or not a Big Four firm is used as the external auditor.

    The findings of this study are consistent with the research by Emylia Y. et al. (2017), which demonstrated that external auditors do not influence corporate sustainability. This contrasts with the findings of Lasmanah & Yuniar (2017) and Rahmawati & Hermanto (2017), who demonstrated that corporate governance mechanisms specifically auditor quality can enhance corporate sustainability.

11. The Effect of Earnings Quality on Corporate Sustainability

    Earnings quality does not affect corporate sustainability. This indicates that earnings quality is not always a primary factor in determining a company's value; investors tend to disregard it. The earnings quality generated by a company is not a primary consideration for investors when purchasing the company's stock. Investors often consider other factors such as profitability, dividend policy, and corporate governance; therefore, an improvement in a company's earnings quality does not impact its corporate sustainability.

The findings of this study are consistent with those of Kang (2023) and Cristina & Yasa (2024), who found that earnings quality does not affect corporate sustainability. This contrasts with the findings of Intara et al. (2024) and Lukman et al. (2024), who found that earnings quality does affect corporate sustainability.

12. The mediating role of profit quality between corporate governance mechanisms specifically institutional ownership, managerial ownership, independent commissioners, audit committees, and auditor quality and corporate sustainability.

    Based on the results of the path analysis—which compared the direct and indirect effects of institutional ownership on corporate sustainability, managerial ownership on corporate sustainability, independent directors on corporate sustainability, the audit committee on corporate sustainability, and auditor quality on corporate sustainability—it can be concluded that corporate earnings quality does not act as an intervening variable between corporate governance mechanisms and corporate sustainability.

    This indicates that earnings quality does not mediate the relationship between GCG mechanisms and corporate sustainability. This test of indirect effects also contradicts signaling theory, as earnings quality cannot influence the relationship between GCG mechanisms and corporate sustainability through management's signaling of the company's condition to financial statement users. This implies that GCG mechanisms aimed at enhancing corporate sustainability do not need to account for earnings quality, especially since earnings quality in the sample is very low—averaging 2.98%—and investors tend to view reported earnings in financial statements as not reflecting overall earnings quality, so there are other factors that investors consider when evaluating a company, such as the industry outlook, the quality of the workforce or human resources, the innovations implemented by the company, and other factors that can ensure the company's sustainability.

CONCLUSION

Based on the research question, hypothesis testing, and discussion presented earlier, the following conclusions can be drawn:

1. Institutional ownership does not have a significant effect on earnings quality. This means that institutional ownership has not yet been able to function as an effective oversight mechanism in improving earnings quality, proving that the existing ownership structure and transparency within a company as indicators of good corporate governance have not yet been able to improve earnings quality.

2. Managerial ownership does not have a significant effect on earnings quality. This means that the greater the share ownership by management, the greater the tendency for management to optimize the use of resources; conversely, when share ownership by management is low, awareness of the company decreases, leading to a tendency toward opportunistic behavior that is, actions that enrich oneself and benefit personal interests.
3. Independent commissioners do not have a significant impact on earnings quality. This means that the presence of independent commissioners in a company—as an indicator of good corporate governance—is unable to improve the company's earnings quality. This situation may be due to difficulties in coordination among members of the board of commissioners, which act as an obstacle to the monitoring process that is the responsibility of independent commissioners.
4. The Audit Committee does not have a significant impact on earnings quality. This implies that the existence of an audit committee fails to improve a company's earnings quality. This is because companies appoint audit committees merely to comply with regulations rather than to genuinely uphold good corporate governance and ensure the committee's competence and independence.
5. Auditor quality does not have a significant impact on earnings quality. This demonstrates that the size of a public accounting firm does not always result in high audit quality; additionally, in this study, only 6 of the 21 companies audited were audited by a Big 4 firm.
6. Institutional ownership has a significant impact on corporate sustainability. This demonstrates that institutional ownership with a sufficiently high average value can ensure stronger control by institutional investors over the company.
7. Managerial ownership has a significant impact on corporate sustainability. This occurs because managerial ownership causes managers to act cautiously since they share the consequences of the decisions made. They are more motivated to improve their performance in managing the company, thereby enhancing corporate sustainability.
8. Independent directors have a significant impact on corporate sustainability. This demonstrates that independent directors within a company have no business ties or family relationships with shareholders or the board of directors, thereby enabling them to align the interests of management and shareholders, as they serve as the primary internal mechanism to monitor behavior that exploits short-term opportunities or profits while neglecting long-term benefits, thereby ensuring the company's sustainability is well-maintained.
9. The Audit Committee does not have a significant impact on corporate sustainability. This means that a higher number of audit committees within a company does not necessarily

improve corporate sustainability, or that the audit committee is ineffective in overseeing the company and therefore cannot improve corporate sustainability.

10. Auditor quality does not have a significant effect on corporate sustainability. This indicates that the hypothesis regarding the positive effect of auditor quality on corporate sustainability is rejected and cannot be supported; therefore, auditor quality does not have a significant effect.
11. Earnings quality does not have a significant impact on corporate sustainability. This suggests that while the market may be able to detect earnings quality, investors may be ignoring it.
12. Earnings quality was found not to be an intervening variable between institutional ownership, managerial ownership, independent directors, audit committees, and auditor quality and corporate sustainability.

RECOMMENDATIONS

Based on the results of the discussion and conclusions above, the researcher offers the following recommendations:

1. Companies need to substantively optimize the implementation of good corporate governance (GCG), rather than merely complying with regulations. The effectiveness of internal oversight mechanisms—such as institutional ownership, independent commissioners, and audit committees—needs to be strengthened by enhancing competence, independence, and the quality of coordination, so that they can contribute to improving the quality of financial reporting and corporate sustainability.
2. Management is expected to align interests with shareholders by strengthening managerial ownership mechanisms, thereby minimizing opportunistic behavior and encouraging long-term oriented decision-making.
3. The research findings indicate that earnings quality does not have a significant impact on corporate sustainability; therefore, investors are advised to adopt a more comprehensive approach that takes into account non-financial indicators, such as sustainability and corporate governance.
4. Regulators need to evaluate the effectiveness of policies related to corporate governance, particularly in ensuring that the existence of audit committees and independent commissioners is not merely symbolic but has a tangible impact on corporate performance and sustainability.
5. Future research is advised to: use alternative measures of corporate sustainability (e.g.,

ESG-based), test other moderating or mediating variables besides earnings quality, and expand the sample scope across sectors or countries to enhance the generalizability of the findings.

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