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THE EFFECT OF PROFITABILITY AND GOOD CORPORATE GOVERNANCE ON EARNINGS QUALITY

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Abstract

This study aims to examine the effect of profitability and good corporate governance on earnings quality in food and beverage companies listed on Indonesia Stock Exchange (IDX) 2015-2018 period. Profitability is calculated using Return on Assets (ROA). The proxy of Good Corporate Governance are institutional ownership, managerial ownership, audit committee, and independent commissioner. The dependent variable in this study is earnings quality measured by discretionary accrual using Modified Jones Model to detect earning management.

This study used secondary data from the official website of Indonesian Stock Exchange (www.idx.co.id) and the sampling method in this study uses purposive sampling method. The data analysis in this study using multiple linear regression analysis. The results of this study indicate that profitability and audit committee have a positive effect on earnings quality, while the independent commissioner has a negative effect on earnings quality. Other independent variables i.e. institutional ownership and managerial ownership have no significant effect on earnings quality

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A. INTRODUCTION

In the current era of globalization, economic growth in Indonesia is very rapid. The rapid economic growth and technological advancement, creating very tight competition in the world. In this case the company must be able to improve its performance in order to be able to compete and survive in its business. From the amount of information used by external parties in assessing company performance is the financial statements. According to Statement of Financial Accounting Concepts (SFAC) No.1, earnings information is a major concern for assessing how well the management's performance or accountability. Earnings information is an important element used by users of financial statements both internal and external parties in decision making. But it is unfortunate if the earnings displayed on the financial statements do not show actual earnings in other words the company practices earning management, so that the earnings displayed on the financial statements become unqualified (Pratama and Sunarto, 2018).

According to Krismiaji et al. (2013) in Dalimunthe et al. (2015) there are several concepts of earnings quality such as persistence, predictability, variability, ratio of cash from operation to income, changes in total accrual, discretionary accrual, relevance, and reliability. Earnings quality is earnings that correctly and accurately describe the company's operational profitability. Therefore, earnings quality is one of the information most needed by users of financial statements in the investment decision making process. According to Muid (2009) poor quality of earnings can occur because in running a company business, management is not an owner of the company. This separation of ownership will be a conflict in the control and management of the company that causes managers to act not in accordance with desire of the owners. This conflict is often referred to as agency conflict.

Motivation to meet the earnings target can encourage managers or companies to manipulate financial data and earnings. As a result, the earnings quality and financial statement have declined. Some cases of earnings manipulation that occur indirectly indicate that the quality of reported earning is still weak. The phenomenon that researcher took from various news sources indicated that there were several cases of companies that manipulated financial statement that had occurred both domestically and abroad such as cases of General Electric Company in 2019, Nissan in 2018, PT Garuda Indonesia Tbk (GIAA) in 2018, Toshiba Corp. in 2015, and so on.

Profitability is one of the factors that affect the quality of earnings that should get important attention because a company must be in a profitable condition to be able to establish its life. Furthermore, following Jensen and Meckling's seminal work (1976), the traditional agency approach to corporate governance attempts to address the conflicts of interest between shareholders and management (Xu, 2015). Corporate governance consists of five important elements, i.e. transparency, accountability, responsibility, independence and fairness which are expected to be a way to reduce agency conflict. In this research, corporate governance mechanisms used are institutional ownership, managerial ownership, audit committee, and independent commissioner.

The existence of institutional ownership will also increase the disclosure of financial statement information widely and describe the actual situation so that it will affect the quality of earnings presented. Managerial ownership is the proportion of shareholders from the management and company directors at the end of the year for each observation period. High managerial ownership can make earnings quality better. The audit committee plays an important role in realizing Good Corporate Governance because it is the "eyes" and "ears" of the board of commissioners in order to oversee the running of the company (Effendi, 2016: 63). According to Nadirsyah and Muharram (2015) in carrying out its role in conducting supervisory function, the composition of the board can affect the management in preparing financial statements, so that a quality income statement can be obtained.

This research chooses food and beverage companies as the object of research because stocks of the food and beverage companies are the most resistant stocks to the monetary or economic crisis compared with other sectors. Companies with this category will continue to grow and develop into large and have high attractiveness for investors. And also this is because the food and beverage sub-sector company is one of the competitive business sectors that continue to experience the good profit growth, therefore this company is interesting to be researched. Based on the background the author is interested in conducting research “The Effect of Profitability and Good Corporate Governance on Earnings Quality (Empirical Study of Food and Beverage Companies Listed on Indonesia Stock Exchange 2015-2018 Period)”.

B. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Jensen and Meckling (1976) defined the agency relationship as a contract between one or more people (principal) to ask other people (agent) to do work in accordance with the principal's interest, which includes delegation of decision making authority to agent. According to Paulus (2012) agency theory assumes that all individuals act on their own behalf. The shareholders as principals are assumed to only be interested in the increased financial results or their investments in the company. Meanwhile, the agents are assumed to receive the satisfaction in the form of financial compensation and terms that accompany the relationship. Agency theory pressures companies to get the maximum profit with the cost as efficiently as possible. Jensen and Meckling (1976) stated that there are two steps taken to reduce the actions of managers who harm external investors. The first step is external investors must do monitoring and the second is the manager itself does the limitation on bonding.

Earnings Quality

Dechow *et al.* (2010) defined earnings quality as the ability of earnings to explain the information contained in it that can help decision making by decision maker. Earnings quality refers to the ability of reported earnings to reflect the truth of a company's earning, as well as the usefulness of reported earnings to predict the future earnings (Bellovary *et al*., 2005). Earnings quality is an assessment of the company’s earning can be obtained repeatedly, can be controlled, and eligible to apply for credit / loans to bank, among other factors (Paulus, 2012). According to Subramanyam and Wild (2014: 144) earnings quality refers to the relevance of earnings in measuring the level of company performance. Determinants of earnings quality include the company's business environment and accounting principles selected and applied by the company.

Profitability

Profitability is defined as the company's ability to generate profits in an effort to increase shareholder value (Marsela and Maryono, 2017). According to Kieso (2010) in Anjelica and Prasetyawan

(2014) profitability ratios are used to measure the revenue or success of a company's operations in a certain period. Profitability ratio reflects the final outcome of all financial policies and operational decisions. Profitability ratios in this research is proxy by Return on Assets (ROA). ROA serves to measure the effectiveness of the company in generating profits and utilizing its assets. This ratio is more attractive to investors as a basis for investment decision. Investors tend to invest their capital in companies that have a high level of earnings compared to companies that have a low level of earnings.

Good Corporate Governance

Corporate Governance is a company's system of internal control that has as its principal aiming at the management of risks that are significant to the fulfillment of its business objectives, with a view to safeguarding the company's assets and enhancing over time the value of the shareholders investment (Effendi, 2016: 2). The objective of corporate governance is to create the value-added for all stakeholders. Bistrova and Lace (2012) stated that companies that have good corporate governance will minimize the manipulation of financial statement. Looking at the four steps of the CGPI rating assessment and the five GCG principles, i.e. transparency, accountability, responsibility, independency, fairness. The implementation of good corporate governance is expected to improve the earnings quality of company and can be trusted by the users of financial statement.

Institutional Ownership

Institutional ownership is a concentration of company shares owned by institutions (Puspitowati and Mulya, 2014). According to Irawati and Sudirman (2017) concentration of institutional ownership is a shares of companies owned by institutions such as insurance companies, investment companies and ownership of other institutions. Institution is an institution that has a major interest in investment which is conducted including stock investment, so usually the institution hands over responsibilities to certain divisions to manage the company's investment. Due to institution monitors its investment professionally, the level of control over management actions is very high so that the potential for fraud can be pressed.

Managerial Ownership

Managerial ownership is the proportion of shareholders from management who participates actively in corporate decision making (directors and commissioners). Managerial ownership creates equality between manager side and the shareholders, because the manager not only has an interest as an agent but also as a principal. Not only that, managerial ownership is also able to motivate managers to improve managerial performance and company performance (Puspitowati and Mulya, 2014). According to Paulus (2012) pressure from the capital market causes companies with low managerial ownership will choose accounting methods that increase reported earnings, which actually do not reflect the economic situation of the company concerned.

Audit Committee

Ikatan Komite Audit Indonesia (IKAI) defined the audit committee as a committee that works professionally and independently that is formed by the board of commissioners, thus its task is to assist and strengthen the function of the board of commissioners (supervisory board) in carrying out the oversight function of the financial reporting process, risk management, audit implementation, and implementation of corporate governance in companies (Effendi, 2016: 48). According to Irawati and Sudirman (2017) an effective audit committee is needed in the achievement of good corporate governance. And with the functioning of the audit committee effectively, the control of the company will be better so that agency conflicts that occur due to management's desire to improve their own welfare can be minimized.

Independent Commissioners

Independent commissioner according to the explanation of Article 120 section (2) of *UU No. 40 Tahun 2007* concerning *Perseoran Terbatas (UUPT)* is "Commissioners of external parties". Article 120 section (2) *UUPT* also governs that independent commissioners are appointed from unaffiliated parties with a major shareholders, member of the board of directors and/or other member of the board of commissioners. The role of the commissioner is expected to minimize agency issues that arise between the board of directors and shareholders. Regulation of *Otoritas Jasa Keuangan No.33/POJK.04/2014* regarding Directors and Board of Commissioners of Issuers or Public Companies explained that an independent commissioner is a member of the board of commissioners from external of company and has fulfilled the requirement as an appointed independent commissioner. The regulation is stipulated that at least 30% of independent commissioners are from the total members of the board of commissioners.

International Financial Reporting Standards

International Financial Reporting Standards (IFRS) is an international standard published by International Acconting Standards Board (IASB). In Indonesia, the IFRS implementation is published by *Ikatan Akuntansi Indonesia* (IAI), as an organization which is the place for accountants in Indonesia. IFRS implementation is conducted for all business sectors for companies that Go Public. In the food and beverage industry sector that has been Go Pulic, it is required to implement IFRS-based reports so that the company has very high competitiveness and will become a widely considered industry by domestic investors and international investors (Putra, 2017). The objective of IFRS is to ensure that the company's interim financial statements for the periods are included in the annual financial statements, contains high-quality information that is transparent to users and can be compared throughout the period presented, provides an adequate starting point for accounting based on IFRS, and provide benefits to users who are greater than the costs incurred (Herawati, 2011).

Hypothesis Development

The Effect of Profitability on Earnings Quality

Profitability is the company's ability to generate profits in its operations (Reyhan, 2014). In relation to earnings quality, profitability can affect managers to do earnings management, thereby affecting the earnings quality of a company. The level of profitability can be used as a basis for making investment decisions. Return on Assets (ROA) is the company's financial ratio related to aspects of earnings or profitability. ROA functions to measure the effectiveness of a company in generating profits and utilizing its assets. So that the higher level of company profitability, the better signal for investors to keep their shares in the company.

This is in line with research conducted by Reyhan (2014) show that profitability has a significant and positive effect on earnings quality. Research by Risdawaty and Subowo (2015) stated that profitability affects earnings quality. The higher of company profitability, then the earnings quality will be stronger. Based on the description above, the hypothesis made is:

H_1 : Profitability has a significant positive effect on earnings quality

The Effect of Institutional Ownership on Earnings Quality

Institutional ownership will oversee management performance. According to Irawati and Sudirman (2017) a high level of institutional ownership will lead to greater oversight efforts by institutional investors, so that it can hinder managers' opportunistic behavior. Access to institutional investors that is faster and relevant to earnings management, can be used to anticipate all forms of deviant actions (Dalimunthe, 2015). Because institutions will monitor professionally the development of its investment, the level of control over management actions is very high so that the potential for fraud can be pressed.

This is in line with research conducted by Budianto *et al.*, (2018) states that institutional ownership affects the earnings quality. Research by Setianingsih (2016) also states that institutional ownership has a significant effect on the corporate earnings quality. Based on the description above, the hypothesis made is:

H_2 : Institutional Ownership has a significant positive effect on earnings quality

The Effect of Managerial Ownership on Earnings Quality

Managerial ownership is the level or proportion of ownership owned by managers in the company. Jensen and Meckling (1976) stated that managerial ownership has become a mechanism to reduce the agency issues of managers by aligning the interests of managers with shareholders. Because of manager has the same position as other owners, then the manager's views will be the same as other stakeholders and managers also want information that is far from manipulation.

The proportion of managerial ownership in the principles of corporate governance is mentioned to have an influence to improve the quality of the corporate earnings. Large managerial ownership in the company will unite the interests between managers and other shareholders (Dalimunthe, 2015). Research conducted by Lestari and Cahyati (2017) states that managerial ownership has a positive and significant effect on earnings quality. Based on the description above, the hypothesis made is:

H_3 : Managerial Ownership has a significant positive effect on earnings quality

The Effect of Audit Committee on Earnings Quality

Audit committee perception is needed by investors. Investors cannot directly supervise and observe the quality of information submitted by the company. Earnings quality as important information for investors, requires the role of an audit committee that provides perceptions and assessments of financial information through the results of supervision conducted (Dalimunthe, 2015).

The audit committee is ideally able to prevent the practice of earnings management because the audit committee has a fairly high role in order to maintain the quality of financial statements. Research conducted by Pertiwi *et al.* (2017) audit committee has a significant positive effect on earnings quality. This gives evidence that the existence of an audit committee can improve the effectiveness of company performance. Based on the explanation above, the hypotheses made is:

H4 : Audit Committee has a significant positive effect on earnings quality

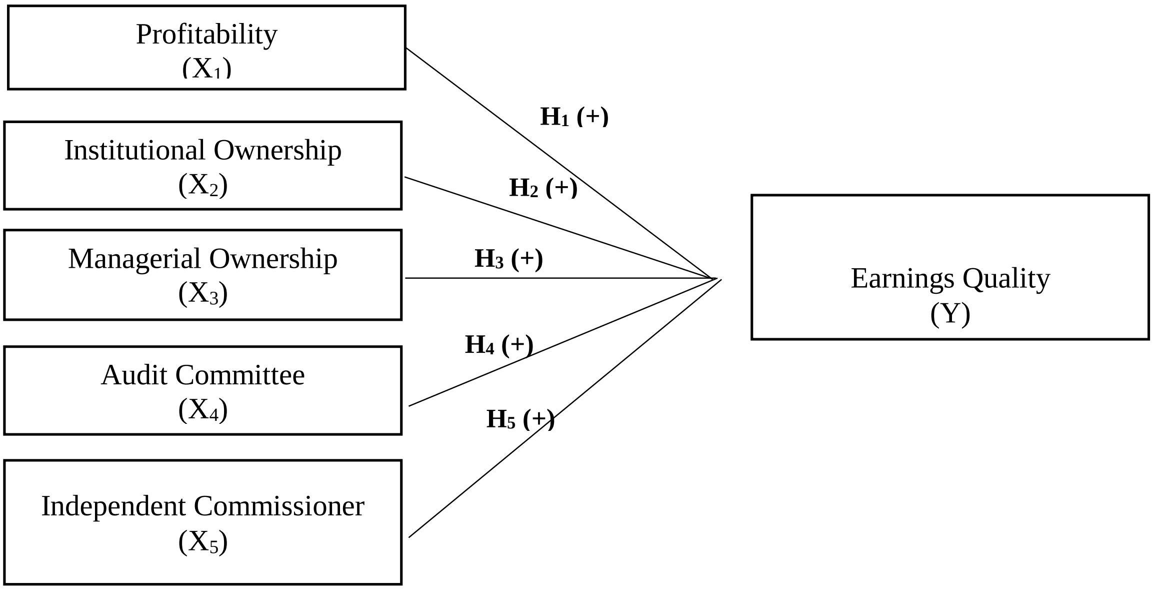
The Effect of Independent Commissioners on Earnings Quality

Independent commissioners are the best position to carry out monitoring functions in order to create a company that is corporate governance (Taruno, 2013). Independent commissioner has an objective oversight function of the company's operations without the intervention of any party's interests due to its independent nature. The existence of an independent board of commissioners who carry out their duties properly, will reduce the management fraud in the disclosure of financial information.

Strengthening the independence of boards by appointing more independent board members is a positive step toward improving earnings quality (Alves, 2014). Research conducted by Pertiwi *et al*. (2017) independent commissioners have a significant positive effect on earnings quality. Based on the description above, the hypothesis made is:

H5 : Independent Commissioners has a significant positive effect on earnings quality

Figure 1.
The Framework



C. RESEARCH METHODOLOGY

Population and Sample

The populations in this research are food and beverage companies that have gone public listed on Indonesia Stock Exchange 2015-2018 period. The samples in this research were selected based on the purposive sampling method with the following criteria: (1) The selected sample is food and beverage companies listed on Indonesia Stock Exchange in 2015-2018. (2) The company issued the financial statements for the period ended 31 December and during the observation period in 2015-2018. (3) The financial statements are reported in Rupiah. (4) The company has complete data for the measurement of all variables.

Method of Collecting Data

Type of this research data is secondary data in the form of data on companies included in the 2015 to 2018 samples obtained from the company's annual financial statements published on the Indonesia Stock

Exchange website that is www.idx.co.id and also through the official website of each company, as well as from other sources that support and can be justified.

Variable Operational Definition

Dependent Variable

Dependent variable in this research is earnings quality measured by discretionary accrual using Modified Jones Model. To obtain the value of discretionary accruals, the calculation steps are performed as follows (Dechow *et al.*, 1995) in (Prastiti and Meiranto, 2013).

a) Calculating total accruals:

$$TACC_{it} = NI_{it} - OCF_{it}$$

b) Calculating the value of accruals with a simple linear regression equation or Ordinary Least Square (OLS):

$$\frac{TACC_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_t}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_t}{A_{it-1}}\right) + e$$

c) By using the regression coefficients above, the non-discretionary accrual (NDA) value can be calculated by the formula:

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_t}{A_{it-1}} - \frac{\Delta REC_t}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_t}{A_{it-1}}\right) + e$$

d) Furthermore, discretionary accrual (DA) can be calculated as follows:

$$DACC_{it} = \frac{TACC_{it}}{A_{it-1}} - NDA_{it}$$

Where:

$TACC_{it}$	: Total Accruals for *i* company in *t* period
NI_{it}	: Net Income of *i* company in *t* period
OCF_{it}	: Operating Cash Flow of *i* company in *t* period
A_{it-1}	: Total assets of *i* company in *t-1* period
ΔREV_t	: Changes in sales of *i* company in *t* period
PPE_t	: Fixed assets of *i* company in *t* period
$\beta_1, \beta_2, \beta_3$	: Regression coefficient
ΔREC_t	: Change in receivables of *i* company in *t* period
NDA_{it}	: Non- discretionary accruals of *i* company in *t* period
$DACC_{it}$	: Discretionary Accruals of *i* company in *t* period
e	: error

Independent Variables

Profitability

In this research the profitability is calculated using Return on Assets (ROA) which is the ratio between earnings after tax and total assets. The formula used to calculate ROA as follows (Reyhan, 2014):

$$ROA = \frac{Earning\ After\ Tax}{Total\ Assets} x\ 100\%$$

Institutional Ownership

Institutional Ownership measured using an indicator of the percentage of the number of shares owned by the institution of all outstanding share capital (Beiner *et al.*, 2003) in (Irawati and Sudirman, 2017):

$$Institutional\ Ownership = \frac{\sum institutional\ shares}{\sum outstanding\ shares} x100\%$$

Managerial Ownership

The measurement of managerial ownership variables in this research is calculated based on the value of the shares owned by the company's management (Puspita, 2018).

$$Managerial\ Ownership = \frac{\sum manager's\ shares}{\sum outstanding\ shares} x100\%$$

Audit Committee

In accordance with research by Pertiwi *et al.* (2017), this variable is measured by divide the number of audit committee members by the minimum number of audit committee members based on standards such as the following equation:

$$Audit\ Committee = \sum member\ of\ audit\ committee$$

Independent Commissioners

The measurement of independent commissioner variable in this research is by counting the number of independent commissioners divided by the number of commissioners in the company's board of commissioners composition, such as the following equation (Petiwi *et al.*, (2017):

$$Independent\ Commissioners = \frac{\sum \begin{matrix} independent \\ commissioners \end{matrix}}{\sum \begin{matrix} member\ of \\ the\ board\ of\ commissioners \end{matrix}} x100\%$$

D. RESULTS AND DISCUSSION

Table 1. Population and Sample Selection

No.	Criteria	Total
1	Food and Beverage companies listed on Indonesia Stock Exchange in 2015-2018 period	26
2	Companies that do not publish the financial statements for the period ended 31 December and during the observation period in 2015-2018	(11)
3	The financial statements of companies are not reported in Rupiah	(0)
4	Companies that do not have complete data for the measurement of several variables	(2)
Total of company samples that fulfill the criteria		13
Total of Observation (4 years)		52

Source: Data processed, 2020

Descriptive Statistics

Descriptive statistics are used to provide an overview of the variables in the research. This data description includes the minimum, maximum, mean and standard deviation values. The following presented data processed IBM SPSS Statistics 26 regarding descriptive statistics.

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Quality	52	-,64	,12	-,0401	,10841
Profitability	52	-2,64	,53	,0425	,39769
Institutional Ownership	52	,33	,96	,7153	,18527
Managerial Ownership	52	,00	,35	,0566	,10368
Audit Committee	52	,00	4,00	3,0000	,48507
Independent Commissioner	52	,00	,57	,3744	,08719
Valid N (listwise)	52				

Source: Data processed with IBM SPSS 26 Program, 2020

The results of descriptive statistics show the mean value of Earning Quality (DA) of -0.0401; minimum value of -0.64; the maximum value of 0.12. The mean value of Profitability is 0.0425; minimum value of -2.64; the maximum value of 0.53. The mean value of Institutional Ownership is 0.7153; minimum value of 0.33; the maximum value of 0.96. The mean value of Managerial Ownership is 0.0566; minimum value of 0.00; the maximum value of 0.35. The mean value of the Audit Committee is 3.0000; minimum value of 0.00; maximum value of 4.00. The mean value of the Independent Commissioners is 0.3744; minimum value of 0.00; the maximum value of 0.57.

Discussion of Research Results

Before testing the hypothesis, in this study used data analysis using multiple regression analysis. Multiple regression analysis was chosen because in this study there is one dependent variable and more than two independent variables with the level of measurement of the variables used in the form of ratio data. After that in order to model feasible as a good parameter, then the classic assumption test is carried out. Classical assumptions consist of: normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. This research model has qualified the feasibility of the model because it has passed all the classic assumption tests, so that regression analysis and hypothesis testing can be performed. Based on the regression analysis output, the regression model is obtained as follows:

$$Y = -0{,}171 + 0{,}233\ ROA + 0{,}019\ IO + 0{,}129\ MO + 0{,}082\ AC - 0{,}388\ IC$$

Determination Coefficient Test (Adjusted R^2)

Table 3. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,812[a]	,660	,623	,06657

Source: Data processed with IBM SPSS 26 Program, 2020

Adjusted R Square value of 0,623 which means that Profitability and Good Corporate Governance is able to explain the Earnings Quality variable of 62,3% and the remaining 37,7% is explained by other variables not included in this research model.

Goodness of Fit Test (F-test)

Table 4. Result of Goodness of Fit Test (F-test)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,395	5	,079	17,846	,000[b]
	Residual	,204	46	,004		
	Total	,599	51			

Source: Data processed with IBM SPSS 26 Program, 2020

Based on table above, the significance value is less than the α value i.e. 0,000 < 0,05 which means that the regression model is feasible to be used to predict earnings quality.

Hypothesis Test (t-test)

Table 5. Result of Hypothesis Test (t-test)

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	-,171	,070		-2,431	,019
	Profitability	,233	,026	,854	8,807	,000
	Institutional Ownership	,019	,060	,033	,317	,753
	Managerial Ownership	,129	,107	,123	1,201	,236
	Audit Committee	,082	,026	,366	3,089	,003
	Independent Commissioner	-,388	,144	-,312	-2,695	,010

a. Dependent Variable: Earnings Quality

Source: Data processed with IBM SPSS 26 Program, 2020

The Effect of Profitability on Earnings Quality

Based on testing results of profitability variable on earnings quality in table 10, it can be seen that t_{count} of 8,807 and t_{table} of 2,01290 so that t_{count} greater than t_{table} with a significance value of 0,000 smaller than 0,05. Thus, the results of hypothesis testing indicate that profitability has a significant positive effect on earnings quality. Results of testing the first hypothesis indicate that the first hypothesis is supported. The results of this study supported the research results of Reyhan (2014) states that profitability has significant effect on earnings quality with a significant value of 0,030. And research by Ardianti (2018) states that profitability has a positive effect on earnings quality in manufacturing companies listed on the Indonesia Stock Exchange in 2012-2016 with a significant value of 0,001. These results reflect the greater profitability of a company as indicated by the high of ROA, the greater the earnings quality of corporate.

The company's profitability is measured by the success and ability of the company to use its assets productively, thus the profitability of a company can be determined by comparing the profits gained in a period with the total assets or capital of the company. Investors tend to invest in companies that have a fairly high level of profit. Management is encouraged to carry out earnings management to obtain a stable profitability value from year to year so that this will affect the quality of the company's earnings information used by investors. So that the higher the profitability (ROA) value, the higher the investors will join the company.

The Effect of Institutional Ownership on Earnings Quality

Based on testing results of institutional ownership variable on earnings quality in table 10, can be known that t_{count} of 0,317 and t_{table} of 2,01290 so that t_{count} smaller than t_{table} with a significance value of 0,753 greater than 0,05. Thus, the results of hypothesis testing indicate that institutional ownership has no significant effect on earnings quality. Results of testing the second hypothesis indicate that the second hypothesis is unsupported. The results of this study supported the research results of Dalimunthe *et al.* (2015) in his research which stated that institutional ownership has no significant effect on earnings quality with a probability value of 0,713 ($p > 0.05$). This is also in line with research conducted by Wijayanti (2018) states that institutional ownership has no effect on earnings quality.

Based on descriptive statistics, the average institutional ownership amounted to 71.53% so that food and beverage companies have a large number of institutional shareholders. In reality the high institutional ownership cannot reduce the risk of earning management practices. Institutional investors act as transient investors who are more focused on current earnings. Therefore, the presence of high institutional ownership will not necessarily have an effect on improving the control process which results in reduced management practices in manipulating earnings.

The Effect of Managerial Ownership on Earnings Quality

Based on testing results of managerial ownership variable on earnings quality in table 10, it can be seen that t_{count} of 1,201 and t_{table} of 2,01290 so that t_{count} smaller than t_{table} with a significance value of 0,236 greater than 0,05. Thus, the results of hypothesis testing indicate that managerial ownership has no significant effect on earnings quality. Results of testing the third hypothesis indicate that the third hypothesis is unsupported. The results of this study supported the research conducted by Setianingsih (2016) which states that managerial ownership has no effect on earnings quality. This is also in line with research conducted by Dalimunthe *et al.* (2015) which proves that managerial ownership has no significant effect on earnings quality.

Based on descriptive statistics in this research, the average managerial ownership on food and beverage companies in 2015-2018 period is only 5,66%. Because many companies that do not have managerial ownership can be the cause that managerial ownership have no effect on earnings quality. So that the management is less able to influence decision making in carrying out company operations.

The Effect of Audit Committee on Earnings Quality

Based on testing results of audit committee variable on earnings quality in table 10, it can be seen that t_{count} of 3,089 and t_{table} of 2,01290 so that t_{count} greater than t_{table} with a significance value of 0,003 smaller than 0,05. Thus, the results of hypothesis testing indicate that audit committee has a significant positive effect on earnings quality. Results of testing the fourth hypothesis indicate that the fourth hypothesis is supported. The results of this study supported the research results of Irawati and Sudirman (2017) in their research which stated that the audit committee has a positive and significant effect on earnings quality. This is also in line with research conducted by Pertiwi *et al.* (2017) which found that the audit committee has a significant positive effect on earnings quality.

Perception of the audit committee is indispensable for investors, because investors cannot directly supervise and observe the quality of information submitted by the company. The existence of audit committee can affect the corporate earnings quality. The higher the number of audit committees then the discretionary accrual value is lower, so that the corporate earnings will be more qualified.

The Effect of Independent Commissioner on Earnings Quality

Based on testing results of independent commissioners variable on earnings quality in table 10, it can be seen that t_{count} have negative value of -2,695 with a significance value of 0,010 smaller than 0,05. Thus, the results of hypothesis testing indicate that independent commissioner has a significant negative effect on earnings quality. Results of testing the fifth hypothesis indicate that the fifth hypothesis is unsupported. The results of this study supported the research conducted by Pratama and Sunarto (2018) which states that independent commissioners have a negative and significant effect on earnings quality. It is also in line with research conducted by Laily (2017) which states that independent commissioners have a significant negative effect on the value of discretionary accruals.

Based on this research data, the proportion of independent commissioners is only a minority. Therefore, it cannot maximize the function of the independent commissioners in supervising the performance of the directors produced whether it is in accordance with the interests of shareholders or not. This causes independent commissioners have a negative effect on earnings quality.

E. CONCLUSION AND RECOMMENDATION

Conclusion

Based on the results of hypothesis testing from the independent variable i.e. profitability and good corporate governance (institutional ownership, managerial ownership, audit committee, and independent commissioners), then it can be concluded as follows:

1. Profitability has a positive effect on earnings quality in food and beverage companies listed on Indonesia Stock Exchange 2015-2018 period.
2. Institutional ownership has no significant effect on earnings quality in food and beverage companies listed on Indonesia Stock Exchange 2015-2018 period.
3. Managerial ownership has no significant effect on earnings quality in food and beverage companies listed on Indonesia Stock Exchange 2015-2018 period.
4. Audit committee has a positive effect on earnings quality in food and beverage companies listed on Indonesia Stock Exchange 2015-2018 period.
5. Independent commissioner has a negative effect on earnings quality in food and beverage companies listed on Indonesia Stock Exchange 2015-2018 period.

Limitation

Limitations contained in this study are as follows:

1. The sample of research is limited only to food and beverage industry sector in the Indonesia Stock Exchange. Thus, the research result cannot be generalized in the cases of other companies or other sectors on the Indonesia Stock Exchange (IDX).
2. This research measures earnings quality using only proxy for earnings management through discretionary accruals. The proxy is not necessarily the best proxy for measuring earnings quality.

3. This research uses good corporate governance measurements consists of only four mechanisms as a proxy for good corporate governance. Other mechanisms have not been implicitly incorporated in this research.

Recommendation

Based on the conclusions and limitations, the researcher proposes some recommendations:

1. For further research is expected to expand research by adding samples not only focused on the food and beverage industry sector, so that research results can be obtained with a higher and better generalization level.
2. The accrual estimation method used in subsequent research can use other models besides the Modified Jones Model. Other accrual models that can be used e.g. Kothari or Dechow and Dichev which are modified by McNichols and so on.
3. Further research can also add other mechanisms as proxies for measuring good corporate governance variables in order to explain the complete and comprehensive good corporate governance characteristics.

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