



The Supervision Role of Independent Commissioner in Decreasing Risk From Earnings Management and Debt Policy

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ABSTRACT

Purpose : This study examines the effect of earnings management and debt policy on financial distress. In addition, this study examines the role of the independent commissioner as a moderating variable in the relationship between the independent and dependent variables. Financial distress in this study employs the Altman model (1968) modified by Graham et al. (1998) which has a high prediction rate, above 60 percent, and its size has been used in various countries. Earnings management in is study employs the model of Kothari et al. (2005), known as the Performance-Matched Discretionary Accruals model. The advantage of the model is that it can measure earnings management more accurately. Using independent commissioners as a moderating variable in the association between earnings management and debt policies on financial distress is rarely used in previous studies.

Method : This study uses a quantitative method approach. The research data is sourced from consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) financial statements. Research data sourced from www.idx.co.id and www.idnfinancials.com. Based on purposive sampling, the research sample consisted of 138 observations from 46 companies from 2018 to 2020. Hypothesis testing was carried out using multiple linear regression for panel data.

Findings : The results of this study indicate that earnings management has a negative effect on financial distress, while debt policy has a positive effect on financial distress. This study also finds that independent commissioners can attenuate the negative effect of earnings management on financial distress. Still, independent commissioners cannot have a moderating effect on the relationship between debt policy and financial distress.

Novelty : This study places independent commissioners, which have greatly influenced a company's management performance, as a moderating variable in testing earnings management and debt policies on financial distress, which are rarely used in previous studies.

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INTRODUCTION

Every company is founded to generate earnings (Kieso et al., 2018). However, sometimes these companies experience financial distress, the condition that the company is an inability to pay its financial obligations (Ashari, 2018). A company is categorized as financially distressed when the company experiences negative operating profit for two consecutive years (Kusanti & Andayani, 2015). A company can analyze financial distress by analyzing the company's financial statements (Dewi et al., 2019). Financial statements analysis determines the level of profitability and risk or health of a company (Aisyah et al., 2017). Based on the financial ratio analysis, the company can find out the benefits in terms of earnings stability so that it can pay the short and long-term debt and has the effectiveness of company management in managing the company both in terms of finances and performance (Dewi et al., 2019).

Many cases of financial distress in Indonesia occurred in 2020. Several companies closed their outlets because of losses they received, including PT. Hero Supermarket Tbk (Hero) closed its Giant outlets because it was not profitable, so the company was forced to change its business strategy to focus on other trademarks (Kompas,

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2021). In addition, PT. Matahari Department Store Tbk (LPFF) closed 13 outlets in various parts of Indonesia. These outlets' operation has burdened LPFF's finances (Kompas, 2021). The company was experiencing financial distress due to financial burdens; that had to be closed, so it had to change several business strategies. Indonesia's real GDP experienced a very low decline to 2.97% in the first quarter of 2020 and was recorded at minus 5.32% in the second quarter (Wulandari, 2021). It shows that companies in Indonesia are experiencing a decline in economic growth (Wulandari, 2021). The company continues to experience losses, non-performing credit payments, and poor financial management (Wulandari, 2021).

Financial distress in a company is a sign of problems in the company's management performance, which results in hampered company operations, such as bad performance grades and problematic cash flow (Kusanti & Andayani, 2015). In addition, from the outer side, the company also encountered obstacles such as the difficulty of obtaining loan credit due to poor management assessment. The problem factors in the company's management performance are related to the lack of good management policies or internal management problems, such as agency problems. Agency problems arise because of the interests between shareholders and managers because they do not meet the maximum utility between them (Lisa, 2012). Therefore, it is likely that the agent will not always act in the principal's interests (Jensen & Meckling, 1976). Managers as company managers must have more internal information than company owners. In agency theory, Jensen & Meckling (1976) stated that an agency relationship occurs when the company owner employs other people to manage the company and give authority in making company decisions. However, the information provided by the manager does not match the actual conditions of the company. Information asymmetry between managers and shareholders can harm the company, especially in the financial sector. There is no internal transparency in the company, so it is detrimental to some parties, such as the shareholders. With biased information, the policies taken are inefficient and ineffective, causing financial distress for the company. Given the information asymmetry that can impact financial distress in a company, research on financial distress should be investigated further.

Research on financial distress has been carried out in several studies, such as earnings management earnings (Kurniawan, 2017), good corporate governance (Rindiani & Wahyudin, 2015; Chairunesia et al., 2018; and Fatholah, 2017), financial ratios (Widarjo W & D, 2009; Hapsari, 2018; and Sopian & Rahayu, 2017), liquidity (Dewi et al., 2019; Widhiari & Merkusiwati, 2015; and Rohmadini et al., 2018), leverage (Widhiari & Merkusiwati, 2015; Dewi et al., 2019; Saad & Abdillah, 2019; and Idarti & Hasanah, 2018), and earnings management (Tannaya & Lasdi, 2021; Paramita et al., 2017; and Khairunnisa et al., 2020).

Financial distress can be led by manager policies that are detrimental to the company. It is conducted by making decisions for personal interests or making inefficient policies, both in policies in the financial department and other sections. The accrual policy and funding policy cause this condition. Managers can use the accrual policy for personal interests (Purwanti, 2018). This policy was carried out to make some accounts in the financial statements appear overstated (Guenther et al., 1997). In the end, the amended financial statements do not reflect the actual conditions. This term is known as earnings management.

Meanwhile, the company's funding policy can be carried out through several sources, such as internal and external funding (Purnianti & Putra, 2016). Companies usually prefer internal funding over external funding (Kardenez et al., 2011). However, the company takes external funding through debt if the internal funding runs out. This debt financing can benefit the company where debt can reduce the amount of tax on the company (Purnianti & Putra, 2016). In addition, companies can also take large amounts of debt if they have a large size (Purnianti & Putra, 2016). However, debt financing must also be controlled so as not to harm the company because it may not be able to pay its debts (Purnianti & Putra, 2016). Therefore, debt policy on company management must be carried out efficiently.

Management performance problems in a company can cause financial distress, such as the practice of earnings management. According to Schipper (1989), Earnings management is an intervention with a specific purpose to the external financial reporting process intentionally to obtain some personal gain. Earnings management usually aims for personal interests such as maximizing the welfare of managers (Lisa, 2012). It is related to the asymmetry of information provided by the manager to the principal. In addition, a debt policy can also have a bad impact if the company takes a policy without thinking about how the company can pay the interest. If the company takes this policy wrong, then the impact can result in bankruptcy because the company is not liquid.

Earnings management describes financial reports as manipulated quality (Saragih, 2017). Ardekani et al. (2012) stated that earnings management could be defined into three concepts of earnings management. First, earnings management is a tool for the flexibility of accounting information applied as a signal of complete information they have as company managers to other shareholders (Ardekani et al., 2012). Second, earnings management is a tool in accounting for both opportunists and optimists (Ardekani et al., 2012). Third, earnings management is data manipulation that benefits managers (Ardekani et al., 2012).

Managers who carry out earnings management can worsen the company's performance because managers continue to cover up the financial statements of companies with poor revenue and earnings growth. An example of earnings management is when a company loses competitiveness with other companies. When the manager wants to manipulate the financial statements, it can be said that the company manager is hiding that the company is experiencing declining profit growth. If this is not followed up, the company may go bankrupt due to continuous losses.

Several studies on earnings management have been conducted before. Research related to earnings management conducted by Chairunesia et al. (2018), Sari (2017), and Paramita et al. (2017) found that earnings management has a positive effect on financial distress. The results of this study contradicted the results of Khairunnisa et al. (2020), who found that earnings management did not affect financial distress. With the inconsistency of test results in previous studies, further investigation of earnings management and re-examining financial distress is necessary.

Debt policy in a company is one of the important but risky aspects because it can provide large profits or losses to the company. A debt policy is a policy the company takes to finance through debt (Kieso et al., 2018). The company must know whether the company itself can pay its debts in the future. If the company does not implement policies properly, the company may experience financial distress. A company is considered risky if it has a large portion of debt in its capital structure (Hanafi, 2004). Still, the company cannot take advantage of additional external capital if it only uses small debt or does not use it.

Research on debt policy has been carried out before, namely by Idarti & Hasanah (2018), Amna et al. (2021), and Indarti & Sapari (2020), that debt policy has a positive effect on financial distress. While, Aisyah et al. (2017), Dewi et al. (2019), and Widhiari & Merkusiwati (2015) found that there is no association between leverage and financial distress. In addition, Akmalia (2020) and Fauza (2015) found no association between capital structure and financial distress. Therefore, further investigation is needed on the effect of debt policy on financial distress.

This study aims to analyze the effect of earnings management and debt policy on financial distress. Financial distress in Putri & Rachmawati's research (2018) employed the Springate model (1978), and Tannaya & Lasdi's research (2021) used the Zmijewski model (1984), while this study employed the Altman model (1968) modified by Graham et al. (1998). The model has a high prediction rate, above 60 percent, and its size has been used in various countries (Nugroho & Firmansyah, 2017). Earnings management in the research of Putri & Rachmawati (2018) uses the conditional revenue model, and the research of Tannaya & Lasdi (2021) uses the Jones model (1991), while this study employs the model of Kothari et al. (2005) known as the Performance-Matched Discretionary Accruals model. The model added changes in return on assets (ROA) to control performance (Suyono, 2017). This model argues that including the ROA element in calculating discretionary accruals can minimize specification errors. The advantage of the model is that it can measure earnings management more accurately (Suyono, 2017).

Also, this study includes independent commissioners as a moderating variable in testing earnings management and debt policies on financial distress, which are rarely used in previous studies. The role of independent commissioners in the company greatly influences a company's management performance (Amelia & Hernawati, 2016). Independent commissioners are tasked with supervising managers in carrying out their duties in a company. Rahmawati (2012) revealed that an independent commissioner is someone who does not have any relationship that can affect his function as a supervisor. With this role, independent commissioners are expected to prevent the occurrence of earnings management in a company.

In a company that employs an independent commissioner, it will cost more. It is known as agency cost. Pratiwi & Yulianto (2016) stated that agency costs indicate agency problems that will impact decreasing firm value. A company does not need to incur more costs if there are no problems between the agent and the principal. Companies are required to keep agency costs to a minimum not to reduce the firm value (Pratiwi & Yulianto, 2016). However, some companies still employ independent commissioners to ensure that managers' performance can be monitored and reduce the influence of earnings management. Research on the effect of independent commissioners on financial distress has been carried out by Amelia & Hernawati (2016) and Nabila & Daljono (2013) with the conclusion that independent commissioners have a negative influence on earnings management. With the strong influence of the supervisory role of independent commissioners on management in a company, the independent commissioner can be used as a moderating variable in this study.

This research is expected to contribute to the literature on financial accounting research related to financial distress and governance implementation in Indonesia. In addition, this research can also help companies implement good corporate governance standards through independent commissioners to avoid earnings management practices that can harm a company and its investors due to the manipulation of financial statements. This research is also expected to be useful for the Financial Services Authority (OJK) in preparing regulations regarding investor protection and supervision of companies that are the object of its supervision. For the Indonesian Accounting Association (IAI), improve accounting standards related to disclosing financial information and accounting policies in Indonesian companies.

Literature Review and Hypothesis Development

Agency theory explains conflicts of interest between shareholders and managers due to asymmetric information (Jensen & Meckling, 1976). It illustrates that managers have much information concerning the company unknown to shareholders, so they utilize it to maximize personal interests (Khairunnisa et al., 2020). This condition is an opportunity for the managers to carry out policies that benefit them, such as earnings management practice. The managers will report higher earnings by manipulating them (Putri & Rachmawati, 2018). It can be detrimental to investors because investors use earnings for decision-making. In addition, the earnings management practice is also carried out to show the performance of company managers. When earnings are valued high, the manager's per-

formance is also considered good, and he can maintain his position as manager. Profits in the company's financial statements are important in making company decisions (Putri & Rachmawati, 2018). The rise or fall of earnings must take a policy under the company's conditions. This earnings management practice illustrates that a company's profits are manipulated. As a result, the company can experience financial distress because the policies are not under the actual conditions. This condition will make it difficult for the company to fulfill its obligations and costs or losses in the operational process, the risk of which will result in the company going bankrupt (Tannaya & Lasdi, 2021). Thus, when the managers continue to carry out earnings management, the company can experience financial distress. Putri & Rachmawati (2018), Tannaya & Lasdi (2021), and Paramita et al. (2017) found that earnings management has a positive effect on financial distress. Earnings management can affect the financial reporting in the company so that it cannot describe the actual condition. This problem will affect the company's difficulty in indicating the initial cause when experiencing financial distress because earnings management can bias the initial indications in financial reporting. Thus, the first hypothesis in this study is:

H₁: Earnings management is positively associated with financial distress

Agency theory states that conflicts occur between shareholders and managers caused by managers having more internal information than shareholders, so company policies in their operations depend on decisions from managers (Chairunesia et al., 2018). However, sometimes managers cannot decide on a good policy in the company. For example, they are making decisions for the company's funding sources. The company's capital can derive from equity or debt. Debt funding is considered easier and faster than equity, such as shares. However, the company will be risky if it has a large portion of debt in its capital structure (Idarti & Hasanah, 2018).

When the company has a large portion of debt and cannot fulfill its obligations, this condition can result in financial distress. This statement is supported by research conducted by Idarti & Hasanah (2018), Amna et al. (2021), and Indarti & Sapari (2020) that debt policy has a positive effect on financial distress. The company's debt policy creates an obligation in the future to repay the principal and interest. This condition can result in the potential for the company to bear a fairly large liability. The debt obtained by the company is directly proportional to the cost of debt borne by the company. If the company cannot pay its obligations, it can experience financial distress and bankruptcy. Thus, the second hypothesis in this study is:

H₂: Debt policy is positively associated with financial distress

In agency theory, managers can maximize their profits because of the company's information asymmetry in the relationship between management and shareholders (Tannaya & Lasdi, 2021). It can have an impact on the losses experienced by the company due to irregularities in the manager's performance. With that, the company will usually carry out good corporate governance. However, it raises a new problem where in implementing good corporate governance, the company must pay more for the services of agents in supervising the company's performance. This problem is known as agency costs. This agency cost indicates that the company indicates agency problems that impact decreasing the company's value (Pratiwi & Yulianto, 2016). However, companies usually still add agency costs and place an independent board of commissioners to oversee a company's performance.

According to Putri & Rachmawati (2018), the board of commissioners is the party that can play an effective and important role for the company in corporate governance. An independent board of commissioners can carry out their duties, such as supervising and controlling the company's management. The board of commissioners has better supervision of managers, which can affect the possibility of deviations made by managers. The independent board of commissioners can also detect whether problems in the performance of managers or management can lead to financial distress so that before financial distress occurs, the board of commissioners can provide an evaluation of the company's performance. This research is supported by Rahmawati (2012) and Fathonah (2017). The independent board of commissioners has the task of supervising the occurrence of deviations in the performance of managers in the company without being on other parties (Yuliani & Rahmatiasari, 2021). The placement of independent commissioners can reduce the practice of earnings management and evaluate the company's performance to avoid financial distress. Thus, the third hypothesis in this study is:

H₃: Independent commissioner weakens the positive association between earnings management and financial distress

The company's management must have personal interests different from those of the shareholders. By maximizing their interests, sometimes corporate governance will be bad, such as debt policy in corporate funding. The greater the company's debt, the more likely it is that it will not be able to pay its obligations (Sofyaningsih & Hardiningsih, 2011). This condition can cause the company to experience financial distress. The solution to this problem is that the company can increase agency costs by placing an independent commissioner overseeing the company's performance. According to Pratiwi & Yulianto (2016), companies are required to reduce agency costs, not the company's value.

Independent commissioners are trusted to oversee managers' performance in their company's operations, especially in debt policy decisions, because the decision-making system becomes transparent (Kusumo & Hadiprajitno, 2017). The board of commissioners can properly evaluate the company's performance, regardless of the

proportion of debt. The independent board of commissioners can provide recommendations on whether funding through debt can impact the company’s financial distress because the greater the proportion of debt taken up, the impact on the company experiencing a large burden in paying off its obligations. The greater the proportion of independent commissioners, the company can be monitored to prevent financial distress in debt policy-making (Yuliani & Rahmatiasari, 2021). Independent commissioners can supervise and control the performance of managers or company management so that it remains under the company’s wishes. When the company’s policies are not in line with the interests of shareholders, independent commissioners are expected to provide the best evaluation in determining debt policy. Thus, the fourth hypothesis in this study is:

H₄: Independent commissioner weakens the positive association between debt policy and financial distress

RESEARCH METHODS

This study employs a quantitative method approach. The type of data used in this study is secondary data in the form of annual financial statements of consumption sub-sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. The data is downloaded from the IDX and IDNFinancials websites, www.idx.co.id and www.idnfinancials.com. Indonesia’s consumption sector companies are more resilient to macroeconomic conditions (Suryahadi, 2020). When Indonesia experienced the COVID-19 pandemic, the consumption sector stocks were not significantly corrected (Suryahadi, 2020). Thus, using research data for consumption sector companies is not a problem for both data before and after the COVID-19 pandemic. The summary of the research sample based on purposive sampling is shown by table 1.

The dependent variable employed in this study is financial distress, while the independent variables used are earnings management and debt policy. The control variables used in this study are leverage, firm size, and liquidity. Financial distress occurs because the company is experiencing high financial difficulties (Nugroho & Firmansyah, 2017). Some companies experience financial distress, which does not end and cannot even afford it anymore maintain their going concern status because it suffers continuous losses, has a very large debt, and lacks the cash to pay the debt (Nugroho & Firmansyah, 2017). This study measures financial distress using the Altman (1968) model modified by Graham et al. (1998). This study’s model is in line with Nugroho & Firmansyah (2018). The model has a high prediction rate, above 60 percent, and its size has been used in various countries (Nugroho & Firmansyah, 2017). The model is shown by formula 1.

$$Z = 1.2 \frac{\text{(Working Capital)}}{\text{Total Asset}} + 1.4 \frac{\text{(Retained Earnings)}}{\text{Total Asset}} + 3.3 \frac{\text{(Income Before Tax + Interest Expenses)}}{\text{Total Assets}} + 0.999 \frac{\text{(Sales)}}{\text{Total Assets}} \dots\dots\dots 1$$

From the proxy model 1, the larger Z will indicate the lower the level of financial distress experienced by the company. In this study, Z will be transformed by multiplying the Z value by -1 so that the Z value of the transformation will show an increase in the value of financial distress (Nugroho & Firmansyah, 2017).

Earnings management is a manager’s effort to intervene in information in financial statements to bias the level of performance and condition of the company (Scott, 2015). Earnings management is also a management action during the financial reporting process so that management can increase or decrease accounting profit according to its interests (Scott, 2015). The model of the earnings management variable used in this study uses the model developed by Kothari et al. (2005). This research refers to the research conducted by Pamungkas et al. (2021), Wi-rayudah & Sudarsani (2021), and Widhiwaluya & Faisal (2016), that is shown by formula 2 is tested every year.

$$\frac{TACC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{TA_{it-1}} \right) + \beta_3 (ROA_{it-1}) + \epsilon \dots\dots\dots 2$$

Where:

- TACC_{it} : Total accruals of the company i in year t (NI_{it}-CFO_{it})
- NI_{it} : Net profit of company i in period t
- CFO_{it} : Cash flow from operating activities in company i year t
- TA_{it-1} : Total assets of the company i at the end of year t-1
- REV_{it} : Change in profit of company i in year t
- PPE_{it} : Property, plant and equipment of company i in year t
- ROA_{it-1} : Return on assets of the company i at the end of year t-1
- E : the value of discretionary accruals which

Regression testing for the above model using annual data. The residual from the above equation can be negative, indicating that the manager is decreasing the actual earnings (downwards), and a positive value indicates that the manager is increasing the actual earnings (upwards). This study does not distinguish between downwards and upwards earnings management activities, so the residual value of the above equation is absolute (Pamungkas et al., 2021).

In determining financing through debt, companies must manage debt policies well, so they do not exceed

Table 1. Research Sample

Criteria	Jumlah
Consumer sector companies listed on the IDX as of May 2022	73
Companies listed on the IDX before January 1, 2018	(26)
Companies that have complete data regarding the variables studied for the 2018-2020 period	(1)
Number of companies sampled	46
Year of Observation	3
Total Sample observed	138

Source: Processed

capital. If this happens, the company will face a default situation where it cannot fulfill its debt payment obligations on time (Mayogi & Fidiana, 2016). The company will be considered risky if it has a large portion of debt in the capital structure, but if it only uses small debt, it is considered unable to take advantage of additional external capital to improve company operations (Brigham & Houston, 2019). The debt policy variable in this study refers to research conducted by Prasetyorini (2013), OgoImagai (2013), and Sambora et al. (2014). The formula 3 show of the DER model.

According to IDX regulations, every company that has independent commissioners of at least thirty percent of the total members of the board of commissioners has complied with corporate governance guidelines (Eksandy,

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}} \dots\dots\dots 3$$

2017). This study refers to research conducted by Suhendi & Firmansyah (2022), Nugroho & Firmansyah (2018), and Amelia & Hernawati (2016). The formula used by Richardson et al. (2015) is shown by formula 4.

Profitability measures the company's net profit from each total asset (Idarti & Hasanah, 2018). This variable refers to the research of Amna et al. (2021), Indarti & Sapari (2020), and Akmalia (2020) on the formula to measure

$$\text{IndCom} = \frac{\text{Number of Independent Commissioners}}{\text{Member of Independent Commissioners}} \dots\dots\dots 4$$

ROA is shown by formula 5.

Firm size is the company's size based on the number of assets owned by the company (Prasetyorini, 2013). This research refers to research by Saragih (2017), Saad & Abdillah (2019), and Prasetyorini (2013). In this study,

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \dots\dots\dots 5$$

firm size was measured based on the formula 6.

Liquidity is the company's ability to pay off the company's current liabilities (Widhiari & Merkusiwati, 2015). This study refers to the research of Aisyah et al. (2017), Abbas (2019), and Idarti & Hasanah (2018). Liqui-

$$\text{Size} = \text{Log Total Assets} \dots\dots\dots 6$$

dity model is shown by formula 7.

This study uses multiple linear regression analysis for panel data in the test. In selecting the best regression model, this study carried out three tests: the Chow test, the Hausman test, and the Lagrange multiplier test. Model

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \dots\dots\dots 7$$

8 is used to test hypotheses 1 and 2; model 9 to test hypotheses 3 and 4.

Where:

Findis_{it} : Financial distress of the company i in year t

$$\text{FINDIS}_{it} = \beta_0 + \beta_1 \text{DA}_{it} + \beta_2 \text{DER}_{it} + \beta_3 \text{ROA}_{it} + \beta_4 \text{SIZE}_{it} + \beta_5 \text{CR}_{it} + \epsilon_{it} \dots\dots\dots 8$$

$$\text{FINDIS}_{it} = \beta_0 + \beta_1 \text{DA}_{it} + \beta_2 \text{DER}_{it} + \beta_3 \text{ROA}_{it} + \beta_4 \text{SIZE}_{it} + \beta_5 \text{CR}_{it} + \beta_6 \text{INDCOM}_{it} + \beta_7 \text{INDCOM}_{it} * \text{DA}_{it} + \beta_7 \text{INDCOM}_{it} * \text{DER}_{it} + \epsilon_{it} \dots\dots\dots 9$$

DA_{it}	: Earnings Management of the company i in year t
DER_{it}	: Company i's debt policy in year t
ROA_{it}	: Profitability of company i in year t
$Size_{it}$: Size of the company i in year t
CR_{it}	: Liquidity Current Ratio of the company i in year t
$IndCom_{it}$: Independent Board of Commissioners of the company i in year t
ϵ_{it}	: Residual value of the regression equation

RESULTS AND DISCUSSIONS

Table 2 shows a summary of descriptive statistics of the variables used in this study. Based on table 2, FinDis mean is -1.8599, and the median is -1.8104 with a standard deviation value of 1.3914, with a maximum value of 4.0164 by AISA in 2018 and a minimum value of -4.9439 by CEKA in 2018. The mean value of DA is 0.1497, the median is 0.1347, and the standard deviation is 0.1141. The maximum DA value was 0.5981 by MLBI in 2018, and the minimum was 0.0039 by KICI in 2019. The mean value of DER is 0.8694, the median is 0.6314, and the standard deviation is 0.8239. The maximum value for the DER was 5.3701 by PSDN in 2020, and the minimum value was -2.1273 by AISA in 2019. The mean value of the IndCom variable is 0.3931, the median value is 0.38, and the standard deviation is 0.1304. The maximum value of IndCom was 0.67 by INAF and RMBA in 2018, and the minimum value of 0, namely AISA in 2019, STTP, and UNVR in 2020. The mean value of ROA is 0.0903, the median is 0.0646, and the standard deviation is 0.1734, indicating a high data variation level above the mean value. The maximum value of the ROA was 0.9210 by BRAND in 2018, which indicates that the ROA is close to 100%. The minimum value was -0.4079 by IIKP in 2020. The mean of SIZE is 28.6125; the median is 28.2459; the standard deviation is 1.6042. The maximum SIZE was 32.7256 by INDF in 2020, and the minimum was 25.3614 by PCAR in 2020. The mean value of the CR is 3.6240, and the median is 2.2508; the standard deviation is 8.5271. The maximum value of CR was 98.6343 by IIKP in 2020; the minimum value was 0.1524 by AISA in 2018. The summary of the results of hypothesis testing is in table 3 after performing multiple regression analysis for the fixed-effect model as the fittest model.

Discussion of The Association Between Earnings Management and Financial Distress

The result of hypothesis testing suggests that earnings management is negatively associated with financial distress. This finding is in line with Clarissa (2021). However, this result is not in line with Tjandra (2012), Paramita et al. (2017), Khairunnisa et al. (2020), Sari (2017), and Chairunesia et al. (2018), where earnings management is positively associated with financial distress. The result of this study stem from several factors such as differences in the proxies used to measure earnings management and proxies for calculating financial distress, differences in the characteristics of the research sample, differences in data analysis methods and differences in the research period.

This financial distress can occur because of the policies taken by the company's management that are at risk. The policies taken by managers have the purpose of personal benefits, such as the practice of earnings management. Earnings management shows that the company's financial statements are incorrect or manipulated (Saragih, 2017). However, earnings management is not always related to opportunistic actions but can also be an efficiency measure (Scott, 2015). The company's shareholders must desire that the company always obtains high earnings. When the company's earnings are judged not to be under shareholders' wishes, then the company's management can be replaced. Thus, managers can carry out earnings management so that it is under shareholders' wishes.

Earnings management is considered to have a good side where earnings management provides efficient action in corporate profits (Siregar & Utama, 2008). Companies are also considered to be better at reporting small profits continuously than high ones, but there is no guarantee of high profits in the following year (Scott, 2015). This becomes the company's strategy in maintaining the company in the following year because the company can perform a taking a bathing technique where the company writes off assets that can cause costs in the following year (Scott, 2015). In other words, the company can lower profits to save future earnings reserves. In addition, manage-

Table 2. Descriptive Statistics

Variable	Obs.	Min.	Max.	Med.	Mean	Std. Dev
FINDIS	138	-4.9439	4.0164	-1.8104	-1.8599	1.3914
DA	138	0.0039	0.5981	0.1347	0.1497	0.1141
DER	138	-2.1273	5.3701	0.6314	0.8694	0.8239
INDCOM	138	0.0000	0.6700	0.3800	0.3931	0.1304
ROA	138	-0.4079	0.9210	0.0646	0.0903	0.1734
SIZE	138	25.3614	32.7256	28.2459	28.6125	1.6042
CR	138	0.1524	98.6343	2.2508	3.6240	8.5271

Source: Processed

Tabel 3. Summary of Hypothesis Test Results

Variable	Model 1			Model 2		
	Coef	t-stat	Prob	Coef	t-Stat	Prob
C	-26.1850	-7.9820	0.0000 ***	28.5252	-8.9821	0.0000 ***
DA	-0.2826	-1.3828	0.0851 *	-1.6805	-2.0367	0.0224 **
DER	0.2971	5.3940	0.0000 ***	0.3584	2.9872	0.0018 ***
ROA	-2.0259	-6.7275	0.0000 ***	-2.0527	-6.5270	0.0000 ***
SIZE	0.8504	7.3473	0.0000 ***	0.9467	8.3549	0.0000 ***
CR	-0.0110	-1.3514	0.0900 *	-0.0118	-1.3980	0.0000 ***
IndCom				-1.0643	-2.4952	0.0072 ***
DA*IndCom				3.7765	1.7785	0.0394 **
DER*IndCom				-0.1201	-0.4559	
R ²		0.9878			0.9879	
Adj. R ²		0.9810			0.9803	
F-stat		142.9693			129.6476	
Prob (F-stat)		0.0000			0.0000	

Information:

***) affects the significance level of 1% or 0.01

**) affects the significance level of 5% or 0.05

*) affects the significance level of 10% or 0.1

Source: Processed

ment has the discretion to achieve profit stability from time to time to meet shareholder expectations (Firmansyah et al., 2020).

Based on the results of this study, the possibility of financial distress when the company carries out earnings management tends to be small. When viewed from the condition of the Covid-19 pandemic, many companies in the consumption sector are experiencing financial distress. Companies in the consumption sector are more resilient in dealing with uncertain macroeconomic conditions such as the COVID-19 pandemic (Suryahadi, 2020). This condition is supported by the strategy carried out by managers to maintain the company's financial condition. Efficiency earnings management actions are one of the managers' strategies in maintaining the company's condition in the future. This action taken by managers can reduce costs in the future by removing company assets that are considered to cause costs so that earnings management tends to reduce the possibility of the company's financial distress.

Discussion of The Association Between Debt Policy and Financial Distress

The second hypothesis test finds that debt policy is positively associated with financial distress. Thus, when the debt policy increases, financial distress tends to increase because the greater the debt owed by the company, the impact on the burden of obligations that must be paid off by the company so that the company may not be able to pay off its obligations. The results of this hypothesis are supported by research conducted by Indarti & Sapari (2020) and Amna et al. (2021), where high debt policies affect the occurrence of financial distress in a company. However, this hypothesis contradicts research conducted by Widhiari & Merkusiwati (2015), Dewi et al. (2019), Aisyah et al. (2017), and Sopian & Rahayu (2017), where the leverage ratio does not affect financial distress. It is because of the differences in the sample and period in the research used.

Management should consider debt policy because of the risk of financial distress or bankruptcy caused by the company's inability to pay off its obligations (Hidayat, 2013). Debt is part of a large enough funding for the company to run the company's operations and is part of the company's capital structure. This debt policy is considered difficult because the company must be able to balance whether it can pay off its obligations or not. This company is considered risky if it has a large portion of debt in its capital structure. Still, if the company only uses small debt, it is also considered unable to take advantage of additional external capital to improve company operations (Hanafi, 2004). Some companies also consider that the use of debt in funding is considered safer than issuing new shares (Nasution, 2020). The higher the debt policy, the higher the value of the company.

The risk of a large portion of the debt impacts the company's financial distress. This is due to the difficulty of the company paying off its debts. The management must take effective policies so that the company can maximize its operations with its funding, but also have to consider paying off debt and interest. The greater the use of debt in the company's capital structure can increase the payment of installments and interest on the debt, which can result in the company experiencing financial distress due to the inability to fulfill its obligations (Irawan & Kusuma, 2019). From the creditor's point of view, the higher the company's current ratio, the higher the protection. It can be considered directly from the creditors when the company cannot pay off on time. Then the company can be said to

have entered the criteria for financial distress (Indarti & Sapari, 2020). This study indicates that companies in the consumption sector will be healthier when using internal company funding than debt. Consumption sector companies should have the optimal performance to generate greater profits. Bigger profits are not only to pay dividends to shareholders but can also be used to develop the company's business.

Discussion of The Moderating Role of Independent Commissioners in The Association Between Earnings Management and Financial Distress

The hypothesis testing result suggests that independent commissioners can weaken the negative association between earnings management and financial distress. This result is in line with Tannaya & Lasdi's (2021), where independent commissioners have a role in weakening the relationship between earnings management and financial distress. In agency theory, it is explained that agency relationships arise when company shareholders hire other people to manage the company and delegate authority in making policy to the manager (Jensen & Meckling, 1976). The interests between shareholders and company managers are sometimes not in line, so each individual wants to maximize their interests. However, as the company's manager, the company management must have more information about the company than the shareholders, commonly known as information asymmetry. It is an internal problem where the company's management can practice earnings management for their interests. Companies need outside parties to oversee managers' performance, which requires a company to have an independent commissioner. In Indonesia Financial Services Authority (OJK) Regulation No.33/POJK.04/2014, companies must have at least 30% independent commissioners from all their boards to monitor their performance.

The role of independent commissioners in a company is very important, where the position of independent commissioners is very good in carrying out the monitoring function to create good corporate governance (Nabila & Daljono, 2013). However, not all independent commissioners in a company have the appropriate educational background in their field. The function of an independent commissioner may not run optimally if he does not have more insight into the company's finances and management.

Earnings management can be done for efficiency measures (Siregar & Utama, 2008). This efficiency measure is used because earnings management has the discretion to achieve profit stability from time to time (Firmansyah et al., 2020). This condition is also the expected goal of shareholders. However, independent commissioners as supervisors of company managers' performance sometimes do not have the same thoughts as managers' strategies. Based on Notes to the Financial Statements from the annual reports of consumption sector companies, several companies place independent commissioners with no educational background in their respective fields. If viewed from their educational background, independent commissioners tend only to view earnings management from an opportunistic perspective. This condition can affect the manager's strategy in maintaining his company by efficiently managing earnings. In the end, the function of an independent commissioner in a company does not help maintain the company but brings the company into a state of financial difficulty.

Discussion of The Moderating Role of Independent Commissioners in The Association Between Debt Policy and Financial Distress

In the hypothesis test that has been carried out, this study finds that independent commissioners cannot weaken the relationship between debt policy and financial distress. This study was supported by Aini et al. (2021), where independent commissioners do not influence debt policy. In carrying out the debt policy, the company's management must make decisions effectively and efficiently because it can make the company unable to pay off its obligations. However, the role of independent commissioners cannot help oversee the company's management policy decisions.

The role of the independent commissioner is in a supervisory position with an independent nature so that it does not side with management, other members of the board of commissioners, or shareholders and is free from business relationships that can affect its independent nature (Fathonah, 2017). However, sometimes the role of this independent commissioner tends to be a formality, so his role sometimes does not go well in supervising the performance of company management (Sulistiyowati & Fidiana, 2017). According to FCGI, in Indonesia, independent commissioners are often found who act passively and do not carry out their supervisory function in a company (Suhendi & Firmansyah, 2022). As a result, decisions or policies do not go well. In addition, independent commissioners who come from outside the company only assess the company's management and are not entitled to take the company's debt policy (Aini et al., 2021).

Independent commissioners do not have the right to carry out debt policies in the company through their functions. With that, the function of the independent commissioner in controlling management in carrying out debt policies is less effective because it is in the scope of supervision only. In addition, independent commissioners are often directly elected by management (Astria, 2011). The placement of independent commissioners meets the administrative requirements regulated by the OJK (Saksessia & Firmansyah, 2020).

The function of the independent commissioner becomes less effective because the independent commissioner does not dare to criticize the performance of the company's management. With the lack of functioning of independent commissioners on the company's debt policy, it is difficult to control the performance of management

in decision making. As a result, the company can experience financial distress if its debt policy is not considered because it cannot pay off its obligations.

CONCLUSIONS

This study concludes that earnings management has a negative effect on financial distress. Managers perform earnings management with the aim of efficient contracts in aligning the interests of shareholders. This condition is also carried out to reduce the potential for the company's financial distress. Meanwhile, the manager's policy of using debt in the company's capital structure impacts financial distress. This study also finds that independent commissioners reduce the negative effect of earnings management on financial distress. In addition, independent commissioners do not have a moderating effect on the relationship between debt policy and financial distress. This finding shows that the role of independent commissioners is still not optimal, especially in aligning and disciplining the performance of managers, which has a good impact on the company.

The limitation of this study is the reduced number of samples because several companies do not have data that meet the research criteria. Future research can use a longer period and non-financial companies or manufacturing companies to minimize the low sample size so that further research can produce larger data and more comprehensive test results. The results of this study suggest that the Financial Services Authority increases supervision over the policies of managers in listed companies that are detrimental to the interests of investors. In addition, the Financial Services Authority also needs to improve its corporate governance policies in protecting investors in the Indonesian capital market, including determining more valid criteria for selecting independent commissioners by companies listed in Indonesia.

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