

The Effect of Corporate Governance Mechanisms on Earnings Quality with Company Size as a Moderating Variable: an Empirical Study of Manufacturing Companies Listed on The Indonesian Stock Exchange in 2019-2021.

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ABSTRACT

The purpose of this study is to investigate how managerial ownership, institutional ownership, audit committees, and independent commissioners affect the quality of earnings. Apart from that, this research also examines the role of company size as a moderating variable. This study selected samples using a purposive sampling method. The sample is 44 out of 217 manufacturing companies listed on the Indonesia Stock Exchange (BEI) during 2019 - 2021. The data source in this research is secondary data obtained from the IDX website and company websites. The analytical method used in this research is Moderated Regression Analysis (MRA) in SPSS version 25. The research results show that managerial ownership and institutional ownership have a positive effect on earnings quality, while independent commissioners and audit committees have no effect on earnings quality. Meanwhile, the results of the moderation test show that company size has been proven unable to increase the influence of independent commissioners, audit committees, managerial ownership and institutional ownership on earnings quality.

INTRODUCTION

The development of technology along with the rapid flow of information in a globalized world requires the provision of useful information to information users such as investors and stakeholders. Information from sources such as earnings reports and financial statements are used to analyze and assess management effectiveness. Earnings are often used as an indicator to predict the company's future prospects (Khafid, 2012). Earnings quality, along with the overall quality of financial statements, has an important role for stakeholders, because shareholders in making business decisions usually rely on information from financial statements. For investors, disclosed corporate earnings information is very important and significant because it serves to assess earnings quality, which ultimately aims to mitigate information-related risks. According to Menicucci (2020) in his book, financial statements have become a fundamental source of information for stakeholders, and among all accounting numbers, earnings stand out as the most important number relied on by managers, directors, investors, and other stakeholders for business decision making.

According to some evidence, major companies around the world have been involved in earnings manipulation scandals that have significantly impacted investor confidence in the company's financial statements. Examples of these scandals include the Enron, WorldCom, and Xerox cases. Earnings manipulation has resulted in financial losses for investors, and similar cases of financial statement falsification have also been reported by companies registered with the IDX, including PT Cakra Mineral in 2016 and PT Garuda Indonesia in 2018. According to Obaid & Yasir (2020), earnings quality is a goal that must be achieved. Although it may not be the only determinant of company success or failure, it is still an important factor that must be taken into account to prevent financial distress. In an organization, earnings management is regarded as a business strategy or intentional manipulation, according to Baskaran, *et al.* (2020). Large-scale corporate scandals and failures have highlighted the importance of ensuring reliable and transparent financial reporting.

The development and implementation of corporate governance procedures is becoming increasingly important in an attempt to lower financial scandals and enhance profits quality (Sorensen & Miller, 2017). Corporate governance acts as a guide that controls and guides a company's operations. Wahyudin & Solikhah (2017) assert that the connection among managers, directors, and other stakeholders is a component of corporate governance. Furthermore, the structure suggested to enhance business performance is referred to as good corporate management. This can be accomplished in accordance with the existing legal framework by keeping an eye on management performance and making sure that stakeholders are aware of management's accountability.

Rachmawati & Triatmoko (2007) revealed that the four components of corporate governance that have a significant influence on the quality of corporate earnings are independent commissioners, audit committees,

managerial ownership, and institutional ownership. Independent commissioners are tasked with overseeing the actions of company management. According to Dewi (2017), the existence of independent commissioners is expected to tighten supervision of management. This aims to reduce earnings management practices by effectively monitoring financial reports, so as to improve the quality of earnings generated.

The audit committee has a very important and strategic role in maintaining the credibility of the financial statement preparation process and ensuring an adequate company supervision system and the implementation of good governance mechanisms. Effective supervision of the financial reporting process also has an impact on the quality of earnings information presented by the company, which ultimately improves the quality of the company's earnings. According to Rachmawati & Triatmoko (2007), managerial ownership refers to shares owned by company management, which is measured based on the percentage of total shares owned by management. Puteri & Rohman (2012) states that the greater the portion of managerial ownership in the company, the greater the impetus for management to improve their performance in the interests of shareholders, including their own interests. Therefore, share ownership by management is expected to encourage managers to produce quality earnings reports for shareholders, including themselves.

In line with that, there is an element that affects earnings quality is company size. According to Ginting (2017), the size of a company shows the scope of its activities. The size of a company can be determined by a number of factors, including the shares owned by the company, the number of workers, and the value of the company. The total assets of a company can be used to calculate its size, the more assets it has, the larger the company is considered, and vice versa. Larger businesses usually perform better and generate better revenue and quality, which helps them avoid profit manipulation tactics.

THEORETICAL REVIEW

Agency Theory

Agency theory reveals that shareholders and management who function as agents and principals in a company have a working relationship. According to Jensen & Meckling (1976), an agency relationship is an agreement between shareholders who act as principals and managers who function as agents. In their capacity as agents, managers have a moral obligation to optimize profits for shareholders, but they also have personal incentives to optimize their own welfare. As a result, it is possible that agents do not always prioritize the interests of the principal, which can result in agency problems. Conflicts of interest between agents and principals lead to agency problems that affect the accuracy of reported earnings. Conflicts arise because shareholders aim to increase and accelerate the return on their investment, while managers seek to fulfill their interests by securing maximum compensation for their performance in running the company.

Legitimacy Theory

Legitimacy is important for organizations because it contains boundaries that are emphasized by social norms and values. Reactions to these limits encourage the importance of analyzing organizational behavior by considering the environment (Dowling & Pfeffer, 1975). Legitimacy theory describes a social contract between society and the company, in which the company's goals are directed to achieve targets without causing harm to society or the company itself. With the existence of legitimacy theory, companies seek to improve financial performance to get the attention of society. In accordance with the principles of legitimacy theory, it is advisable for companies to disclose their performance through the provision of annual financial reports (Permatasari & Trisnawati, 2019).

Corporate Governance

Legally binding rules for both the company's management and its shareholders are called corporate governance mechanisms. This set of rules aims to enable the company to determine the direction of performance to be achieved and generate additional value for other stakeholders. With the implementation of corporate governance mechanisms, it is hoped that managers can run the company properly and be able to make decisions and actions that benefit the company, including decision making that can improve earnings quality. The implementation of corporate governance mechanisms is one of the important factors so that companies can achieve their goals and operate for a long time.

Earnings Quality

According to SFAC No. 1, financial statements focus on providing information about earnings and its elements. Meanwhile, PSAK No. 1 explains in more detail the importance of earnings information in assessing how well the company uses its resources, forecasting how the company will be able to generate cash flows from its assets, and evaluating the prospects for changes in economic resources that management can make in the future (IAI, 2004). Given the significance of financial data, stakeholders also focus on the nominal amount of profit reported and on the profit earned (Yulianda, 2017). According to Spiceland (2015), earnings quality is the ability to predict future profits based on currently reported earnings. Next, Dechow & Schrand (2010) explains that quality earnings are characterized by several criteria: (i) earnings information has high relevance in the decision-making process, (ii) the amount or value of earnings must accurately reflect the financial situation of the company, and (iii) the accounting system used must be effective in measuring financial performance, this is important so that decisions can be made in accordance with the company's financial performance.

Company Size

Company size refers to the large or small scale of a company, which can be categorized based on several parameters, such as revenue, total assets, and total equity (Brigham & Houston, 2001). Basically, company size can be divided into three categories, namely large companies, medium companies, and small companies. The Indonesian National Standards Agency (BSNI) classifies company size based on the level of net worth in accordance with the provisions stipulated in Law No. 20 of 2008.

This study uses the total asset approach as a method of measuring company size. The size of the company is proportional to the total assets it has, the bigger the assets, the bigger the company. Companies that have large assets indicate that the company is relatively stronger and can generate higher profits than companies that have small or low assets. Companies that are relatively large in performance will be monitored by the public so that the company will present financial reports more carefully, the information in them is more meaningful and clearer so that the company will be less likely to manipulate profits (Suryani, 2010).

Hypotheses Development

1. The Influence of Independent Commissioners on Earning Quality

The company's internal control mechanism rests on the important role of independent commissioners who show that the company is well supervised. By improving the quality of monitoring, the company can improve its financial reporting and improve the quality of its profits. Agency theory states that independent commissioners play an important role in improving the quality of the company's profits. According to Solikhah, *et al.* (2022), the presence of independent commissioners can contribute to increasing accountability and transparency of financial reporting, thereby increasing stakeholder and investor confidence in the company's financial statements. The explanation above is supported by the findings of Tita & Pohan (2022) which show that independent commissioners can encourage supervision so that companies can reveal increasing profit quality. From the explanation given, the following hypothesis can be made:

H1: Independent commissioners have a positive impact on earnings quality.

2. The Influence of the Audit Committee on Earnings Quality

Audit committee according to Khalid (2012), the board of commissioners creates this committee with the aim of facilitating the process of its responsibilities. As part of the corporate governance component, the audit committee has a crucial role to ensure the integrity of the financial reporting system and act to prevent potential manipulation in financial reports. The presence of an audit committee is expected to enable monitoring and control of managerial decisions, thereby aligning the interests of all stakeholders. The

above argument is supported by the findings of Supomo & Amanah (2019) according to the statement, the audit committee can support the effectiveness and integrity of the company's financial reports by overseeing internal controls and the company's compliance with related laws and regulations. This in turn has a good influence on profit quality. Based on the explanation given, the following hypothesis can be made:

H2: The audit committee has a positive impact on profit quality.

3. The Effect of Managerial Ownership on Earnings Quality

According to Hunjra, *et al.* (2020), the legitimacy of a company's financial statements can be weakened by earnings management practices. This alignment is seen as a mechanism to maintain a balance of interests within the company, fostering harmony between company management and shareholders. The reasons above are in accordance with the findings of Safira, *et al.* (2022) shows that managerial ownership improves earnings quality. These results prove that management will be more motivated to meet the needs of shareholders who are basically themselves along with the increasing percentage of ownership in a company. This is expected to improve the quality of income reports. Based on the explanation given, the following hypothesis can be made:

H3: Managerial ownership has a positive impact on earnings quality.

4. The Effect of Institutional Ownership on Earnings Quality

Institutional ownership refers to the proportion of shares in a company that can be traded that are owned by external entities or institutions, including insurance companies, banks, private foundations, investment companies or other similar organizations. Institutional ownership is expected to result in stronger management control of the company, making the business more productive and efficient. Owners who come from institutions are seen as being able to monitor everything that happens in the company and react more quickly if there is a change in the company. This explanation is in line with the findings by Budianto & Samrotun (2018) who revealed that institutional ownership has a significant effect on earnings quality. From the explanation given, the following hypothesis can be made:

H4: Institutional ownership has a positive impact on earnings quality.

5. Company Size Moderates the Effect of Independent Commissioners on Earnings Quality

Prior research has examined the connection between independent commissioners and earnings quality, with varying degrees of success. Hidayatul, *et al.* (2022) explained that independent commissioners can improve earnings quality. The results showed that the first cluster companies (the largest) had the largest proportion of independent commissioners. Agency theory explains that large companies tend to experience agency problems compared to smaller companies. As a solution, the presence of independent commissioners is considered effective in minimizing this problem. From this explanation, the following hypothesis can be made:

H5: The size of the company significantly moderates the influence of independent commissioners on profit quality.

6. Company Size Moderates the Effect of Audit Committees on Earnings Quality

The relationship between committees and earnings quality has been studied previously, with varying degrees of success. Audit committees have been found by Ilham, *et al.* (2022) to improve earnings quality. On the other hand, Kartika, *et al.* (2023) confirmed that audit committees affect earnings quality, while Zabrina & Widiatmoko (2022) showed a negative relationship between the two. Based on this explanation, the following hypothesis can be made:

H6: Company size significantly moderates the effect of the audit committee on earnings quality.

7. Company Size Moderates the Effect of Managerial Ownership on Earnings Quality

Previous research findings related to the relationship between managerial ownership and earnings quality are still contradictory. According to Ramadhani, *et al.* (2022), managerial ownership increases earnings quality. Nisa & Rahmawati (2023) emphasized that managerial ownership has nothing to do with earnings quality, in contrast to Puspitowati & Mulya (2017) who found a negative correlation between managerial ownership and earnings quality. According to agency theory, agency problems are more likely to occur in large companies than small companies. The explanation given above is consistent with the results presented by Solikhah, *et al.* (2022) which proves that company size moderates the effect of managerial ownership on earnings quality. The explanation given allows the following hypothesis to be formulated:

H8: Company size significantly moderates the effect of managerial ownership on earnings quality.

8. Company Size Moderates the Effect of Institutional Ownership on Earnings Quality

Previous research findings related to the relationship between institutional ownership and earnings quality are still contradictory. According to research by Dewi & Fachrurrozie (2021), institutional ownership increases earnings quality. According to agency theory, large companies are more susceptible to agency conflicts. However, the presence of institutions as shareholders can mitigate agency conflicts. Institutions, acting as supervisors, closely monitor all actions taken by management, putting pressure on management to produce more credible financial reports that contribute to increasingly high-quality reported earnings. The above argument is consistent with the results put forward by Solikhah, *et al.* (2022), which proves that company size greatly increases the impact of institutional ownership on

earnings quality. This explanation allows the following hypothesis to be formulated:

H8: Company size significantly moderates the effect of institutional ownership on earnings quality.

METHODOLOGY

This research focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2021. The manufacturing sector in Indonesia was chosen as the focus of the study because it is a rapidly growing industry and contributes significantly to the country's economy. As the industry with the most manufacturing companies listed on the IDX, it can represent the performance of publicly listed companies in Indonesia. A purposive sampling approach was used in the sample selection process, where samples were chosen based on considerations that meet certain criteria. These criteria include:

1. Manufacturing companies listed on the IDX from 2019-2021.
2. Manufacturing companies that published financial reports during 2019-2021.
3. Manufacturing companies that recorded profits in 2019-2021.
4. Manufacturing companies with managerial and institutional ownership.

The research data were obtained from the annual reports of manufacturing companies listed on the IDX in 2019-2021. The sources for obtaining the data include the official website of the Indonesia Stock Exchange, the respective company websites, and Bloomberg at Diponegoro University. This study involved a series of statistical tests to process the collected data, including descriptive analysis and logistic regression. SPSS version 25 was used as the statistical tool for the analysis and testing in this research.

Table 1: Variables Measurement

Variabel	Definition	Measurement
Earnings Quality	Earnings that accurately and precisely reflect the profitability of the company's operations.	$\frac{\textit{Operating Cash Flow}}{\textit{EBIT}}$
Independent Commissioner	A party not affiliated with the major shareholders, members of the board of directors, or other members of the board of commissioners	$\frac{\Sigma \textit{Independent Commissioner}}{\Sigma \textit{Board of Commissioners Member}}$
Audit Committee	A committee formed by the board of commissioners to assist in carrying out its duties and	$\Sigma \textit{Company Audit Committee}$

Variabel	Definition	Measurement
	functions	
Managerial Ownership	The number of shares owned by the company's management and directors.	$\frac{\Sigma \text{Shares Owned by Managers}}{\Sigma \text{Shares Outstanding}}$
Institutional Ownership	The number of shares owned by other business entities/external institutions, such as banks, insurance companies, investment companies, private foundations, and other institutions	$\frac{\Sigma \text{Shares Owned by Institutions}}{\Sigma \text{Shares Outstanding}}$
Company Size	A comparison between large and small companies, one way of which can be seen from the size of the assets owned	$Ln (\text{Total Asstes})$

Source: Taken from previous research (Solikhah & Winarsih, 2016; Wahyudin & Solikhah, 2017; Solikhah, Firmansyah, & Pirzada, 2017).

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics is one of the analytical methods that can provide a summary of data related to the uniqueness of each variable. In this study, the variables examined include independent commissioners, audit committees, managerial ownership, institutional ownership, firm size, and earnings quality. The uniqueness of each variable is reflected in the minimum value, maximum value, average value, and standard deviation. This analysis is presented in Table 2.

Table 2: Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Independent Commissioner	112	0,3	0,6	0,39	0,092

Audit Committee	112	2	3	2,99	0,094
Managerial Ownership	112	0,0002	0,7231	0,092435	0,1334552
Institutional Ownership	112	0,0155	0,8811	0,580435	0,2399757
Firm Size	112	24,9583	33,5372	28,801414	1,8346731
Earnings Quality	112	-1,8164	4,1360	0,854258	0,9703907
Valid N (listwise)	112				

Source: Output SPSS 25, 2024

The results of the descriptive statistical analysis are shown in Table 2, which indicates that a total of 112 data points were used in this study. This information was obtained from the financial statements of manufacturing companies registered on the Indonesia Stock Exchange (IDX) during the years 2019–2021.

To calculate the number of independent commissioners in this study, the number of members of the board of commissioners was divided by the number of independent commissioners. Based on the data in the table, the minimum value for independent commissioners is 0.3, while the maximum value is 0.6. This indicates that the proportion of independent commissioners in the sample companies varies between 0.3 and 0.6. The average proportion of independent commissioners is 0.39, with a standard deviation of 0.092. This means that, on average, the sample companies have 39.02% independent commissioners, in line with the PJOK Regulation No. 33/PJOK.04/2014, which mandates that at least thirty percent of the board of commissioners should consist of independent commissioners.

The audit committee of a company is identified in this study based on its membership size. The minimum value is 2, and the maximum value is 3, as shown in the previous table. This indicates that the largest sample company has three audit committee members, while the smallest has two audit committee members. The average size of the audit committee is 2.99, with a standard deviation of 0.094.

Managerial ownership in this study is determined by dividing managerial ownership by the total number of outstanding shares. Managerial ownership ranges from 0.002 to 0.7231, as shown in the table above. This indicates that the percentage of managerial ownership in the organizations studied ranges from 0.002% to 72.31%. The average managerial ownership is 0.0924, with a standard deviation of 0.13334552. This indicates that the

percentage of managerial ownership in the companies tested is 9.24%, which is considered low.

In this study, institutional ownership is determined by calculating the ratio of institutional ownership, which is the comparison between the total number of outstanding shares and the number of shares owned by institutions. Based on the data, institutional ownership has a minimum value of 0.0155 and a maximum value of 0.8811. This shows that institutional ownership ranges from at least 1.55% to a maximum of 88.11% among the sample companies. The average institutional ownership is 0.580435, with a standard deviation of 0.2399757. This indicates that institutions have a substantial shareholding in the sample companies, with an average ownership percentage of 58.04%.

In this study, firm size is measured by the natural logarithm (Ln) of the company's total assets. Based on the table above, the minimum firm size is 24.9583, and the maximum is 33.5372. This indicates that the firm size in the sample companies ranges from a low of 24.9538 to a high of 33.5372. The average firm size is 28.801414, with a standard deviation of 1.8346731.

In this study, operating cash flow is divided by EBIT to determine earnings quality. According to the table, the minimum earnings quality value is -1.8164, while the maximum value is 4.136. This indicates that among the sample companies, -1.8164 represents the lowest earnings quality, and 4.136 is the highest. The average earnings quality is 0.854258, with a standard deviation of 0.9703907.

1. Classical Assumption Test

This test is used to verify that the prerequisites of multiple linear analysis have been met. Autocorrelation, normality, heteroscedasticity, multicollinearity tests are examples of classical assumption tests used in research. This table shows the results of the classical assumption test:

Table 4: Classical Assumption Test Results

Variabel Independen	Multikolinearitas		Heteroskedastisitas
	Tolerance	VIF	Sig.
Independent Commissioner	0,900	1,111	0,227
Audit Committee	0,985	1,015	0,161
Managerial Ownership	0,806	1,241	0,989
Institutional Ownership	0,795	1,258	0,273
Firm Size	0,960	1,042	0,876
Normality (<i>One-Sample Kolmogorov-</i>	0,061		

Smirnov Test):	2,133
Asymp. Sig. (2-tailed)	
Autocorrelation:	
Durbin-Watson	
a. Dependent Variable: Earnings Quality	

Source: Output SPSS 25, 2024

Normality Test

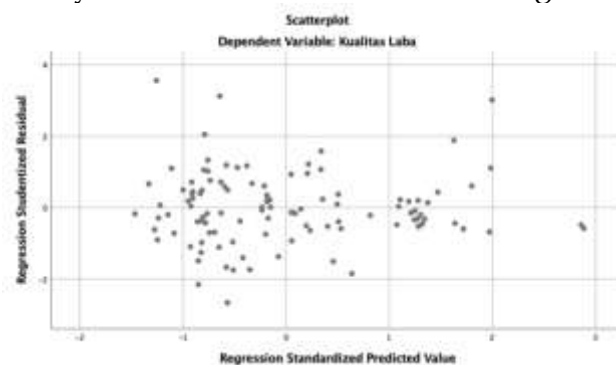
This test is used in this study to assess the normality of the data. The sig. (Asymp.Sig) value of 0.061 proves that the value exceeds 0.05 based on the findings in Table 4 above. Thus, the distribution of research data can be declared normal.

Multicollinearity Test

This test aims to determine whether the independent variables in a regression model have a correlation. If there is no correlation between independent variables, the regression model is declared very good. Based on the results of the multicollinearity test in table 4 above, it can be understood that each independent variable has a tolerance value ≥ 10 and a VIF value ≤ 0.1 . So it can be concluded that the data in this study does not have a multicollinearity problem.

Heteroscedasticity Test

This test is used to understand the difference in residual variance between observations in the regression model. A good regression model is a model where the residual variance between observations is not the same. The results of the heteroscedasticity test can be observed in the image below:



Source: Output SPSS 25, 2024

Figure. 1 The results of the heteroscedasticity test

From the scatterplot graph results displayed in Figure 1, it can be seen that the distribution of data points is random and does not show any particular

pattern. This indicates that the problem of heteroscedasticity does not appear in the study.

The Glejser test can be used to test heteroscedasticity in addition to the scatterplot graph. The Glejser test involves the regression of absolute residuals (AbsUt) on other independent variables to see if a regression model shows indicators of heteroscedasticity. The regression model can be concluded not to experience heteroscedasticity if the probability of significance exceeds 0.05. The results of the Glejser test can be observed in table 4. The results of the Glejser test show that each independent variable has a significant probability value exceeding 0.05. So it can be concluded that the data in this study does not have a heteroscedasticity problem.

Autocorrelation Test

This test is carried out to determine whether there is a correlation between the error in the linear regression model in period t and the error in period t-1. The Durbin-Watson method is used in this study to determine the existence of autocorrelation.

Having a significance of 5%, the number of research samples is 112 (n), and 5 independent variables (k = 5), Table 4 displays a DW value of 2.133. The researcher determines $dL = 1.5999$, $dU = 1.7860$, and the value of $4-dU = 2.214$ using the Durbin-Watson table. The results with a DW value of 2.133 are below the $4-dU$ value of 2.214 ($1.7860 < 2.133 < 2.214$), and exceeds dU by 1.7860. So, it can be stated that the research data does not show any autocorrelation

1. Moderated Regression Analysis

In order to determine the influence between earnings quality as a dependent variable and audit committee, independent commissioners, managerial ownership, institutional ownership as independent variables and company size used as a moderating variable, a Moderated Regression Analysis (MRA) test was conducted. The following table shows the results of the MRA test:

Table 5: Moderated Regression Analysis (MRA) Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-16,564	6,811		-2,432	0,017
	Independent Commissioner	-3,522	2,014	-0,334	-1,749	0,083
	Audit Committee	0,340	1,010	0,033	0,336	0,737

	Managerial Ownership	28,305	11,382	3,893	2,487	0,015
	Institutional Ownership	20,367	8,931	5,037	2,281	0,025
	Company Size	0,645	0,203	1,219	3,183	0,002
	Independent Commissioner*Company Size	2,527	1,312	0,599	1,926	0,057
	Audit Committee*Company Size	-4,351	2,264	-0,667	-1,922	0,057
	Managerial Ownership*Company Size	-0,966	0,383	-4,031	-2,519	0,013
	Institutional Ownership*Company Size	-0,734	0,312	-5,164	-2,352	0,021
a. Dependent Variable: Earnings Quality						

Source: Output SPSS 25, 2024

Based on table 5 above, the following moderated regression equation is obtained:

$$Y = -16,564 - 3,522 X_1 + 0,340 X_2 + 28,305 X_3 + 20,367 X_4 + 0,645 Z + 2,527 X_1.Z - 4,351 X_2.Z - 0,966 X_3.Z - 0,734 X_4.Z + \varepsilon$$

Hypothesis Test

This study uses company size as a moderating variable and Moderated Regression Analysis (MRA) to assess the effect of corporate governance on earnings quality. The analysis tool used is SPSS 25. The t-test, F-test, and coefficient of determination (R²) are used in this study to assess the hypothesis. The following are the results of the hypothesis test:

Table 6: Hypothesis Test Results

	Coefficient	t	Sig.
Constant	-16,564	-2,432	0,017
Independent Commissioner	-3,522	-1,749	0,083
Audit Committee	0,340	0,336	0,737
Managerial Ownership	28,305	2,487	0,015
Institutional Ownership	20,367	2,281	0,025

Firm Size	0,645	3,183	0,002
Independent Commissioner*Firm Size	2,527	1,926	0,057
Audit Committee*Firm Size	-4,351	-1,922	0,057
Managerial Ownership*Firm Size	-0,966	-2,519	0,013
Institutional Ownership*Firm Size	-0,734	-2,352	0,021
<i>Adjusted R²</i>	0,084		
F-Statistic	2,125		
Significance T	0,034		
a. Dependent Variable: Earnings Quality			

Source: Output SPSS 25, 2024

Determination Coefficient Test (R²)

Based on the results of table 6, it can be concluded that the Adjusted R Square has a value of 8.4%. This proves that the independent variables that influence earnings quality, such as independent commissioners, audit committees, institutional ownership, managerial ownership, may vary around 8.4%. As much as 91.6% of the variability cannot be explained by this model, so it may be influenced by other variables that are not included in the four independent variables.

Simultaneous Significance Test (F Statistic Test)

This test is carried out to determine whether the independent variables affect the dependent variable. Based on the research analysis, a model is considered adequate if its significance value is below 0.05. However, if the Sig. value exceeds 0.05, the model is considered unfit to be tested in the study. With the F table value for df1 = 9 and df2 = 102, the F test value is 1.970 at a significance level of a = 5%.

Sig. Value. as much as 0.034 below 0.05, while the calculated F value of 2.125 exceeds the F table value of 1.970. It can be concluded that all variables simultaneously affect the quality of earnings based on the findings of the F test in Table 6.

Simultaneous Significance Test (T Statistical Test)

In order to determine whether the independent factor has a significant effect on the dependent variable or not, an individual parameter test (t statistic test) is used. The calculated t value and the t table value are compared to conduct the test. The hypothesis is accepted if the significance value is below 0.05 while the calculated t value exceeds the t table value. Conversely, the hypothesis cannot be accepted if these requirements are not met.

Based on table 6 above, it can be seen that the Independent Commissioner variable obtains a t value of -1.749 with a significance value of

0.083 > 0.05, which means that independent commissioners do not affect the quality of earnings, so H1 is rejected. The Audit Committee variable obtained a t value of 0.336 with a significance value of 0.737 > 0.05, which means that the audit committee has no effect on earnings quality, so H2 is rejected. The Managerial Ownership variable obtained a t value of 2.487 with a significance value of 0.015 < 0.05, which means that managerial ownership has a significant positive effect on earnings quality, so H3 is accepted. The Institutional Ownership variable obtained a t value of 2.281 with a significance value of 0.025 < 0.05, which means that institutional ownership has a significant positive effect on earnings quality, so H4 is accepted. The interaction variable between Independent Commissioners and Company Size obtained a t value of 1.926 with a significance value of 0.057 > 0.05, which means that company size cannot moderate the influence of independent commissioners on earnings quality, so H5 is rejected. The interaction variable between the Audit Committee and Company Size obtained a value of -1.922 with a significance value of 0.057 > 0.05, which means that company size cannot moderate the influence of the audit committee on earnings quality, so that H6 is rejected. The interaction variable between Managerial Ownership and Company Size obtained a t value of -2.519 with a significance value of 0.013 < 0.05, which means that company size significantly negatively moderates the influence of managerial ownership on earnings quality, so that H7 is rejected. The interaction variable between Institutional Ownership and Company Size obtained a t value of -2.352 with a significance value of 0.021 < 0.05, which means that company size significantly negatively moderates the influence of institutional ownership on earnings quality, so that H8 is rejected.

Table 7: Hypothesis Test Results

No	Hypothesis	Coefficien t	t	Sig.	Result
H1	Independent commissioners have a positive effect on earnings quality.	-3,522	-1,749	0,083	Ditolak
H2	Audit committees have a positive effect on earnings quality.	0,340	0,336	0,737	Ditolak
H3	Managerial ownership has a positive effect on earnings quality	28,305	2,487	0,015	Diterima
H4	Institutional ownership has a positive effect on earnings quality.	20,367	2,281	0,025	Diterima

H5	Company size moderates the effect of independent commissioners on earnings quality.	2,527	1,926	0,057	Ditolak
H6	Company size moderates the effect of audit committees on earnings quality.	-4,351	-1,922	0,057	Ditolak
H7	Company size moderates the effect of managerial ownership on earnings quality.	-0,966	-2,519	0,013	Ditolak
H8	Company size moderates the effect of institutional ownership on earnings quality.	-0,734	-2,352	0,021	Ditolak

Source: Output SPSS 25, 2024

CONCLUSIONS AND RECOMMENDATIONS

The study found that earnings quality is not affected by independent commissioners or audit committees, as their roles in monitoring managerial performance are sometimes ineffective. However, managerial ownership has a positive and significant impact on earnings quality by reducing internal conflicts of interest. Institutional ownership also positively and significantly affects earnings quality by curbing managerial opportunism and promoting effective financial management. Company size does not moderate the effect of independent commissioners or audit committees on earnings quality, as their impact remains minimal regardless of the company's size. Conversely, company size negatively and significantly moderates the relationship between managerial ownership and earnings quality, as larger firms tend to reduce managerial ownership, negatively affecting earnings quality. Similarly, institutional ownership increases with firm size, but this often leads to lower earnings quality due to modifications made to satisfy controlling owners.

FURTHER STUDY

Future research is suggested to expand the scope beyond the manufacturing sector, consider additional moderating variables such as ownership structure or leverage, and apply mixed-methods approaches to enrich the analysis. Moreover, utilizing more diverse earnings quality measurement models could enhance the validity of the findings.

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