Does Earnings Quality Mediate The Effect Of Corporate Governance On Firm Value

Kodriyah[1*], Nana Umdiana[2], Denny Putri Hapsari[3], Santi Octaviani[4]

[1,2,3,4] Universitas Serang Raya
[*] Corresponding author:
Email: kodriyahunsera@gmail.com

Abstract
This study aims to examine the influence of corporate governance factors on firm value and earnings quality as mediating variables. Research Methodology Using Purposive Sampling techniques, so as to obtain a data of 102. The analysis technique used was to use multiple regression and path analysis. Indicator of corporate governance has effect on firm value are managerial ownership and audit committee. Indicator of corporate governance has effect on earnings quality are Institutional ownership and audit committee. The earnings quality has no significant effect on the value of the company and has not been able to mediate the influence of managerial ownership, institutional ownership and committee on the value of the company. The corporate governance indicator is used 3 while there are other indicators such as the proportion of the independent commissioners board and the proportion of the board of directors. Investors do not only look at the financial aspects but can also see other information such as the implementation of corporate governance mechanisms as one of the considerations for investment decisions

Keywords: *Managerial Ownership, Institutional Ownership, audit Committee, earnings Quality, Firm Value*

I. INTRODUCTION

The more strict development of the business world requires companies to have a competitive strategy to avoid bankruptcy by implementing good corporate governance. According to Manurung, (2019), good corporate governance is one of the company's successes and can be profitable for a long time. The goal of the company is basically to earn profits. In the long-term, the goal is to provide prosperity for the company owner or shareholders and maximize the firm value reflected in the company's stock price (Isti'adah, 2015) Investors can evaluate and observe the company through the current share prices on the stock exchange. Investors are willing to pay a high price for the company's shares if the company has good business prospects and can provide profitable returns as the amount of their investment. In fact, many investors cannot predict firm value as a reference for making investment decisions. This is because the stock price of a company is dynamic. This can be due to several factors.

Internally, the factors are such as the information on the increase in net income and expansion plans while external factors (systemic risk) are such as government policies, interest rates, IDR exchange rates, stock index, and the influence of foreign exchange. Investors must have the knowledge, ability and foresight in assessing the company to appropriately value the stock prices. The firm value is expected to increase continuously. In fact, some companies still have a low firm value that will have a negative impact on the company, such as losing their attractiveness in the capital market. Low firm value can be caused by the low profit obtained by the company. As a result, the company may suffer huge losses, even bankruptcy.The current business climate in Indonesia is still not good. As in the Doing Business index ranking 2016 published by the World Bank, Indonesia was in 109th position out of 164 countries listed in the report (Negara, 2019). This was due to a decline in shareholders' prosperity, poor corporate governance, and also the many frauds, and even corruption.

The next problem is fraud, as well as corruption, which makes the public and stakeholders see a bad firm value. This is detrimental to the company and the government as the companies have to fulfill social responsibility. Moreover, if the companies only prioritize the interests of shareholders, it can be social inequality and damage the environment. Therefore, the firm value must be completely good.The increase in company value is influenced by many factors such as good corporate governance. Good Corporate Governance reflects good company management that protects the interests of shareholders (public) as company owners and creditors as external funders. This mechanism will increase supervision for the company that is hoped to improve the firm performance and thereby increase the firm value. Corporate governance develops and refers to agency theory that managing a company must be controlled and supervised to ensure that the management is carried out in full compliance with applicable regulations. Corporate governance consisting of four elements of interest: justice, transparency, responsibility, and accountability is expected to reduce agency conflicts.

Some mechanisms often used in various studies on Good Corporate Governance are managerial ownership, institutional ownership and audit committees. Poor corporate governance is one of the factors of the financial crisis in Indonesia, as well as an indication of fail financial reports in conveying real facts about the real economic conditions of the company, especially information on profits. (Solla, 2010). In a study conducted by Pricewaterhouse Coopers published in the Report on Institutional Investor Survey (2002), Indonesia was at the lowest rank along with China and India with a score of 1.96 for transparency and openness. Meanwhile, the report on GCG by CLSA (2003) placed Indonesia at the lowest rank with a score of 1.5 for law enforcement issues; 2.5 for institutional mechanisms; 3.2 for corporate governance. Another factor affecting firm value is earnings quality. The quality of a company's earnings can be interpreted as the company's ability to report actual earnings to predict the company's future earnings. That the smaller the discretionary accrual, the higher the firm value. Low discretionary accruals indicate low opportunistic management practices (Siallagan, 2009)

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

Agency theory concerns the contractual relationship between members of the company. Jensen & Meckling, (1976) explain that the concept of agency theory is the relationship between principals and agents. In this case, the principal is the owner or shareholder; the agent is the management of the company. Agency theory emphasizes the importance of separating interests between principal and agent. For the principal, this aims to obtain the maximum possible profit at the most efficient cost possible when an agent manages the company.

Stakeholder Theory

According to Freeman, (2010), stakeholder helps managers to increase firm value as much as possible and minimize losses for stakeholders. All stakeholders' interests must be fairly balanced by managers because all stakeholders will act in their own interests. In brief, stakeholder theory focuses on the relationship between organizations and stakeholders.

Firm Value

The value of a company is reflected in its stock price. The higher the stock price, the higher the value of the company. Firm value indicated by Tobin's Q ratio usually has a strong company brand image. The greater the value of Tobin's Q ratio, the better the company's growth prospects and intangible assets (Isti'adah, 2015).

Corporate Governance

Jensen & Meckling, (1976) explain state that managerial stock ownership is a solution to agency problems that can help unify interests between shareholders and managers. Institutional ownership can control management through an effective monitoring process so as to reduce earnings management (Karuniadi & Hartono, 2017).According to Isti'adah (2015), the audit committee is responsible for maintaining the credibility of the financial reporting process, maintaining the creation of an adequate company supervision system and the implementation of corporate governance mechanisms.

Earnings Quality

Earnings quality is the ability of earnings to reflect the company's actual earnings and helps in predicting future earnings. In this study, the measurement used is the Penman model (1999) reused by Maulita & Putri (2019).According to (Siallagan, 2009) The lower the discretionary accrual, the higher the earnings quality and the firm value. Low discretionary accruals indicate low opportunistic management practices. This shows that the company's financial (profit) reporting reflects the real company. As a result, the high quality of earnings will be responded positively by third parties and the firm value will thereby be high.

Hypothesis

The Effect of Managerial Ownership on Firm Value

In agency theory, the separation of ownership between company owners and company managers will cause agency conflicts due to different interests between management as the decision maker and shareholders as the owner of the company in maximizing their respective utility. In addition, these differences will encourage management to commit fraud that is detrimental to shareholders. Therefore, a control mechanism that can align the interests of management and shareholders is needed.

An increase in the proportion of stock owned by managers will reduce the tendency for managers to commit fraud because the manager or the owner of the company will directly get the benefits or losses from the decisions taken. Therefore, Managerial Ownership is a mechanism that can unite the interests of managers and shareholders and will thereby have a positive impact on increasing Firm Value. Several previous studies (Warapsari & Suaryana, 2016); (Ni'mah & Poerwanti, 2019) found that managerial ownership significantly affects firm value. This finding is in line with the Stakeholders Theory and Agency Theory that the company maintains a relationship with the stockholders by increasing stock prices to increase firm value. Thus, the first hypothesis in this study is:

H_1: Managerial Ownership has a significant effect on Firm Value

The Effect of Institutional Ownership on Firm Value

Institutional Ownership Concentration is company stocks owned by institutions such as insurance companies, investment companies and other institutional ownership. Institutional Ownership in the company is aimed at reducing conflicts of interest between agents and principals because Institutional Ownership is believed as an effective monitoring mechanism for decisions made by management. The institutional ownership will increase and optimize the supervision for management performance so that management will be more careful in making decisions.Institutional stock ownership will monitor the company, while the manager is the company management.

The higher the institutional ownership, the more efficient the utilization of the company's assets and it can also prevent waste by management. Institutional ownership affects shareholder value because institutional ownership can be a reliable mechanism in motivating managers to improve their performance and will thereby increase firm value. Several previous studies Isnawati, Dhiana, et al. (2018); Raka & Suhartono, 2018; Octafilia & Salim, 2018; Maria, 2019) found that institutional ownership significantly affects firm value. This finding is in line with the Stakeholders Theory and Agency Theory that the company maintains a relationship with the stockholders by increasing stock prices to increase firm value. Thus, the second hypothesis in this study is:

H_2 : Institutional Ownership has a significant effect on Firm Value

The Effect of Audit Committee on Firm Value

Audit Committee is formed by the board of commissioners to assist in checking the function of the board of directors in managing the company. The Audit Committee is also responsible for supervising financial reports, external auditing, and observing the internal control system. If the Audit Committee functions well, the transparency of management accountability can be trusted so that investor's trust will increase. Firm value is a reflection of the company's stock price. When a company's financial statement has high credibility, it will attract potential investors to invest in the company. Several previous studies Isti'adah (2015); Isnawati, Dhiana, et al. (2018) found that audit committee significantly affects firm performance. This finding is in line with the Stakeholders Theory and Agency Theory that the company maintains a relationship with the stockholders by increasing stock prices to increase firm value. Thus, the third hypothesis in this study is:

H_3 : Audit Committee has a significant effect on Firm Value

The Effect of Managerial Ownership on Earnings Quality

Earnings quality reported by the company can be influenced by managerial ownership. Economically, large share ownership in a company can function as monitoring aimed at harmonizing the different interests between managers and shareholders. When the managerial ownership is low, the possibility of the manager's opportunistic behavior such as earnings management will increase and cause a low earnings quality. Profits that do not reflect the real situation indicate low-quality profits. Therefore, the higher the Managerial Ownership, the less opportunistic the manager will be and it will prevent earnings management actions that will result in high-quality earnings. Several previous studies (Oktaviani, Nur, & Ratnawati, 2015; Machdar & Jonathan, 2018) found that managerial ownership significantly affects earnings quality. Therefore, the fourth hypothesis is:

H_4 : Managerial Ownership has a significant effect on Earning Quality

The Effect of Instutional Ownership on Earnings Quality

In relation to the monitoring function within the company, institutional investors are believed to be able to monitor the actions of managers better than individual investors. The existence of Institutional Ownership by such as insurance companies, banks, investment companies, and other institutions will optimize and increase managerial performance. Institutional investors also function as monitoring agents. Institutional ownership can be an obstacle to the opportunistic behavior of managers who abuse management discretion for their personal interests, which may harm other parties. A high Institutional Ownership will lead to better and more effective monitoring by the existence of institutional investors. As a result, the earnings management committed by managers can be reduced and will thereby increase the earnings quality. Several previous studies Isti'adah (2015); Oktaviani et al., 2015; Isnawati, Dhiana, et al. (2018) Found that institutional ownership significantly affects earnings quality. Thus, the hypothesis proposed is:

H_5: Institutional Ownership has a significant effect on Earning Quality

The Effect of Audit Committee on Earnings Quality

In a company, the role of the Audit Committee is to give a professional and independent opinion to the board of commissioners on reports or anything that need to be considered by the board of commissioners. The role of the Audit Committee in managing a company is essential because the Audit Committee is considered as a mediator between shareholders and the board of commissioners. In fact, investors (shareholders) as external parties cannot see how the company's internal control system is implemented and the financial reporting process so that the perception of the Audit

Committee can influence investors' assessment of the company's earnings quality.Therefore, the existence of the Audit Committee is very important because it affects the company's earnings quality by assisting the board of commissioners in monitoring the financial reporting process by management to increase the credibility of financial reports. Several previous studies Isti'adah (2015); Oktaviani et al. (2015) found that audit committee significantly affects earnings quality. Thus, the sixth hypothesis is:

H_6: The Audit Committee has a significant effect on Earning Quality

The Effect of Earnings Quality on Firm Value

Profits are high quality if users of financial statements can make the right decisions or predict stock prices and returns based on the earnings reported by the company. For companies that issue shares on the capital market, the price of shares is an indicator of firm value because this information cannot explain the actual firm value. For investors, financial statements are considered to provide information to analyze stock issued by the issuer (Boediono, 2005). Several previous studies (Isnawati, Dhiana, et al., 2018; Ng & Daromes, 2016; Isti'adah, 2015) found that earnings quality significantly affects firm value. Thus, the seventh hypothesis proposed is:

H_7 : Earnings Quality has a significant effect on Firm Value

The Effect of Managerial Ownership on Firm Value Mediated by Earnings Quality

In agency theory, the separation of ownership between company owners and company managers will cause agency conflicts due to different interests between management as the decision maker and shareholders as the owner of the company in maximizing their respective utility. Large share ownership in a company can function as monitoring aimed at harmonizing the different interests between managers and shareholders. When the managerial ownership is low, the possibility of the manager's opportunistic behavior such as earnings management will increase and cause a low earnings quality. A study conducted by Wijayati (2015) found that earnings management can mediate the effect of managerial ownership on firm value. Thus, the hypothesis proposed in this study is:

H_8 : Managerial Ownership through Earnings Quality has a significant effect on Firm Value

The Effect of Institutional Ownership on Firm Value Mediated by Earnings Quality

Institutional investors are believed to be able to monitor the actions of managers better than individual investors. The existence of Institutional Ownership by such as insurance companies, banks, investment companies, and other institutions will optimize and increase managerial performance. Institutional investors also function as monitoring agents. Institutional ownership can be an obstacle to the opportunistic behavior of managers who abuse management discretion for their personal interests, which may harm other parties. A high Institutional Ownership will lead to better and more effective monitoring by the existence of institutional investors. As a result, the earnings management committed by managers can be reduced and will thereby increase the earnings quality. A study conducted by Zarviana, Nur, & Indrawati (2017) found that earnings management mediates the effect of institutional ownership on firm value. Thus, the hypothesis proposed is:

H_9 : Institutional Ownership through Earning Quality has a significant effect on Firm Value

The Effect of Audit Committee on Firm Value Mediated by Earnings Quality

The role of Audit Committee is to give a professional and independent opinion to the board of commissioners on reports or anything that need to be considered by the board of commissioners. The role of the Audit Committee in managing a company is essential because the Audit Committee is considered as a mediator between shareholders and the board of commissioners. In fact, investors (shareholders) as external parties cannot see how the company's internal control system is implemented and the financial reporting process so that the perception of the Audit Committee can influence investors' assessment of the company's earnings quality.

Audit Committee is formed by the board of commissioners to assist in checking the function of the board of directors in managing the company. The Audit Committee is also responsible for supervising financial reports, external auditing, and observing the internal control system. If the Audit Committee functions well, the transparency of management accountability can be trusted so that investor's trust will increase. Firm value is a reflection of the company's stock price. When a company's financial statement has high credibility, it will attract potential investors to invest in the company. A study conducted by Zarviana, Nur, & Indrawati (2017) found that audit committee through earning quality has a significant effect on firm value. Therefore, the last hypothesis proposed in this study is:

H_{10} : The Audit Committee through Earning Quality has a significant effect on Firm Value.

III. METHODS

17 out of 182 companies in the 2014-2019 period were selected as samples using purposive sampling method. 102 observational data were usable and were then analyzed by SPSS 25.Firm value is measured by using Tobin's Q: the ratio of firm value measured by comparing equity market value and total company debt to total assets. Managerial Ownership (KM) is measured by comparing the number of shares owned by managers to the number of outstanding shares. Institutional Ownership (KI) is measured by comparing the number of shares owned by the institution to the number of outstanding shares. The board of commissioners form audit Committee to help their duties and functions related to the financial reporting process. Quality Earnings (QE) is measured by comparing the ratio of operating cash flows to net income.

IV. RESULTS AND DISCUSSIONS

The results of the classical assumption test shows that the data are normally distributed, there is no multicollinearity, heteroscedasticity or autocorrelation, so that it meets the requirements for multiple linear regression analysis.

Table 1. Result Test sub Structure 1

	Model	T Table	T Count	Sig.	Conclution
1	(Constant)		-0.501	0.000	
	MNJR	1,984	0.455	0.651	Rejected
	INST	1,984	8.320	0.000	Accepted
	KA	1,984	4.454	0.000	Accepted

Managerial ownership has a t_{count} of 0.455 with a significance value of 0.651. Based on the t-distribution table, the t_{table} is 1.984. It can be concluded that $t_{count} < t_{table}$ (0.455 <1.984) and significance> 0.05 (0.651> 0.05), which means that H4 is rejected or managerial ownership has no significant effect on earnings quality. Institutional ownership has a t_{count} of 8.320; a t_{table} of 1.984; and a significance value of 0.000. Therefore, $t_{count} > t_{table}$ (8.320>1.984) and significance<0.05 (0.000 <0.05), which means that H5 is accepted or institutional ownership has a significant effect on earnings quality. The audit committee has a t_{count} of 4.454; a t_{table} of 1.984; and a significance value of 0.000. Thus, $t_{count} > t_{table}$ (4.454> 1.984) and significance <0.05 (0.000 <0.05), which means that H6 is accepted or audit committee has a significant effect on earnings quality.

Table 2. Result Test sub Structure 2

Model	T Table	T Count	Sig.	Conclution
MNJR	1,984	20.897	0.000	Accepted
INST	1,984	1.858	0.066	Rejected
KA	1,984	4.734	0.000	Accepted
QE	1,984	1.531	0.130	Rejected

The partial test results in table 2 show that Managerial ownership has a t_{count} of 20.897 with a significance value of 0.000. Based on the t distribution table, the t table is 1.984. Thus, $t_{count}> t_{table}$ (20.897> 1.984) and significance<0.05 (0.000 <0.05), which means that H1 is accepted or the managerial ownership has a significant effect on firm value. Institutional ownership has a t_{count} of 1.858; a t_{table} of 1.984; and a significance value of 0.066. Thus, $t_{count}<t_{table}$ (1.858> 0.066) and significance> 0.05 (0.066> 0.05), which means that H2 is rejected or the institutional ownership has no significant effect on firm value. Audit committee has a t_{count} of 4.734; a t_{table} of 1.984; and a significance value of 0.000. Therefore, $t_{count}> t_{table}$ (4.734> 1.984) and significance <0.05 (0.000 <0.05), which means that H3 is accepted or audit committee has a significant effect on firm value. Earnings Quality has a t_{count} of 1.531; a t_{table} of 1.984; and a significance value of 0.130. Thus, $t_{count} <t_{table}$ (1.531<1.984) and significance>0.05 (0.130>0.05), which means that H7 is rejected or earnings quality has no significant effect on firm value.

Path Anaysis

Path analysis is an extension of multiple linear analysis that uses regression analysis to estimate the causal relationship between variables (Ghozali, 2018). *Path Analisys* is divided into two substructures. The first substructure is Z= P_{ZX1}. X1 + P_{ZX2} .X2 + P_{ZX3}. X3+e1 and the second substructure is Y = P_{YX1} .X1 + P_{YX2} .X2 + P_{YX3}. X3+ P_{YZ} .Z + e2. Based on table 1 for substructure 1 and table 2 for substructure 2, The equations are:

$Z= 0,616_{X1} -0,113_{X2} +0,074_{X3}+ 0,025e_1$

$Y = 0,782_{X1}+0,067_{X2}+0,117_{X3}+0,098_Z+0,088e_2$

The above equations can be include in the research path diagram as follows:

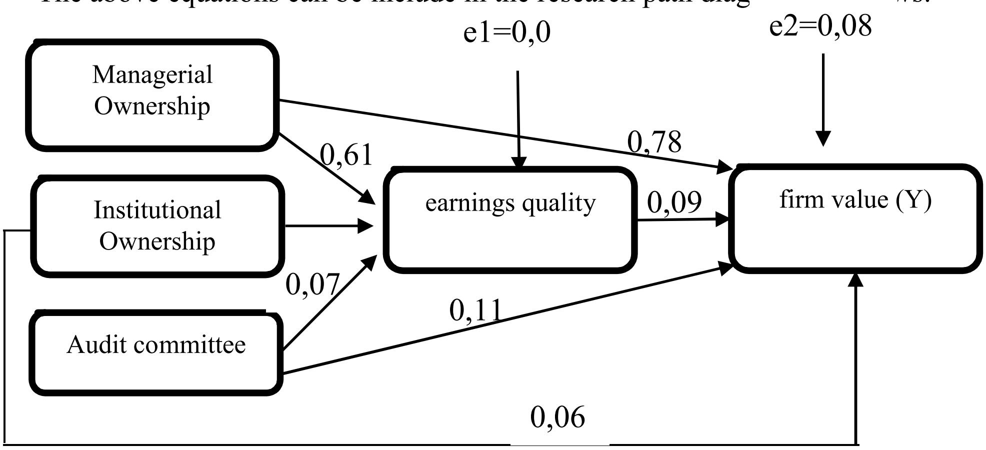

Fig 1. Path Analysis

To test the mediation effect, We use Sobel Test developed by Sobel (1982). Based on Z_{hitung} = 0.2323, Zt_{abel} is 0.5987. Thus, Z_{hitung} < Zt_{abel} (0.2323<0.5987), which means that earnings quality cannot be intervening variable for manufacturing companies listed in Indonesia Stock Exchange 2014-2019.

V. DISCUSSION

The Effect of Managerial Ownership on Firm Value

The test results indicate that managerial ownership has a significant effect on firm value. Managerial ownership in manufacturing companies in Indonesia is quite high, as can be seen that the mean value of managerial ownership in descriptive statistics is 0.1561 or 15.61%. This means that managers who have the ability to manage the company efficiently can make a more accurate decision. Thus, investor confidence will tend to increase and company value will be better in the eyes of investors. Besaide that acording to agency theory that relation betwen agen and principle will be hamper company to achieve the goal of company to maximize firm of value. Therefore, this finding supports the studies conducted by Rizqia, Aisjah, & Sumiati (2013) Toly, Claudya, Santoso, & Grace, (2019); Ni'mah & Poerwanti, (2019); Warapsari & Suaryana, (2016) which found that managerial ownership partially has a significant effect on firm value.

The Effect of Institutional Ownership on Firm Value

The test results indicate that institutional ownership has no significant effect on firm value. The mean value of institutional ownership in this study is 0.5785 or 57.85% is the majority owner. According to Isti'adah (2015) , majority investors tend to compromise with management and ignore the interests of minority investors. These Management's actions result in the market's negative response to the alliance strategy of management and institutional investors. This means that institutional ownership does not affect firm value. The institutional ownership cannot show the high and low value of a company. This finding supports the studies conducted by Warapsari & Suaryana (2016); Dahlia (2018); and Ni'mah & Poerwanti, (2019) which found that partially, institutional ownership does not have a significant effect on firm value.

The Effect of Audit Committee on Firm Value

The test results indicate that the audit committee has a significant effect on firm value. This means that audit committee can improve the effectiveness of firm performance and control the financial reporting process that affects firm value. This finding supports the studies conducted by Isnawati, Dhiana, et al. (2018); Isti'adah (2015); and Mangatas, Efni, & Rokhmawati (2018) which found that audit committee partially has a significant effect on firm value.

The Effect of Managerial Ownership on Earnings Quality

The test results indicate that managerial ownership has no significant effect on earnings quality. This means that high managerial ownership will lead to opportunistic actions committed by managerial shareholders. High managerial ownership can encourage management to allocate resources and make decisions by prioritizing their own interests. Opportunistic action commonly committed by management is income smoothing which makes the company looks good financially. Managerial ownership does not affect earnings quality. The managerial ownership cannot indicate the level of the earnings quality value of a company. This finding supports the studies conducted by Isnawati, Dhiana, et al. (2018); Dahlia (2018); and Ni'mah & Poerwanti, (2019) which found that partially, managerial ownership does not have a significant effect on earnings quality.

The Effect of Institutional Ownership on Earnings Quality

The test results indicate that institutional ownership has a significant effect on earnings quality. This means that institutional ownership is one of the factors that affect the quality of earnings. The higher the institutional ownership, the better the earnings quality of a company. This finding supports the studies conducted by Oktaviani et al. (2015); Isti'adah (2015); and Isnawati, Dhiana, et al. (2018) which found that institutional ownership partially has a significant effect on earnings quality.

The Effect of Audit Committee on Earnings Quality

The test results indicate that the companies with an independent audit committee tend to report earnings with a lower content of discretionary accruals than companies that do not have an audit committee. Discretionary accruals will affect the company's earnings quality. The market assesses that the quality of earnings reported by companies that have audit committee is better than those reported by companies that do not have an audit committee. Therefore, audit committee affects earnings quality. This finding supports the studies conducted by Oktaviani et al. (2015); and Isti'adah (2015) which found that audit committee partially has a significant effect on earnings quality.

The Effect of Earnings Quality on Firm Performance

The test results indicate that earnings quality does not have a significant effect on firm value. This means that the information in financial stateaments can be considered bad news for investors so that it cannot attract investors to value the company's stock price more after publishing their financial reports. Because the calculation of earnings quality uses historical prices in previous years, while investors are more evaluating and assessing the company in the current year. This finding supports the studies conducted by Machdar & Jonathan (2018); Ni'mah & Poerwanti (2019); and Lusi, Maulina, & Mustikowati (2020) which found that partially, earnings quality does not have significant effect on firm value.

The Effect of Managerial Ownership on Firm Value Mediated by Earnings Quality

The test results indicate that earnings quality does not significantly mediate the effect of managerial ownership on firm value. According to Zarviana et al. (2017), although earnings quality can directly influence firm value, earnings quality cannot mediate the effect of managerial ownership on firm value. Managerial ownership will align the interests of management and shareholders so that they will gain benefits or bear losses directly from the decisions made. This finding supports the studies conducted by Isti'adah (2015); Dahlia (2018); and Ni'mah & Poerwanti (2019) which found that earnings quality does not significantly mediate the effect of managerial ownership on firm value.

The Effect of Institutional Ownership on Firm Value Mediated by Earnings Quality

The test results indicate that earnings quality does not significantly mediate the effect of institutional ownership on firm value. This means that in this research, the institution has not been able to become an effective monitoring tool in increasing firm value. Institutional ownership can monitor investment developments that will affect company profits that will thereby reduce the potential for fraud. The lower the institutional ownership, the less the encouragement of the institution towards management monitoring. As a result, it will provide a smaller encouragement in optimizing firm value so that the company's performance will decrease. This finding supports the studies conducted by Isti'adah (2015); Dahlia (2018); and Ni'mah & Poerwanti (2019) which found that earnings quality does not significantly mediate the effect of institutional ownership on firm value.

The Effect of Audit Committee on Firm Value Mediated by Earnings Quality

The test results indicate that earnings quality does not significantly mediate the effect of audit committee on firm value. This means that although earnings quality can directly influence firm value, earnings quality cannot mediate the effect of audit committee on firm value. This finding supports the studies conducted by Isti'adah (2015); Dahlia (2018); and Ni'mah & Poerwanti (2019) which found that earnings quality does not significantly mediate the effect of audit committee on firm value.

VI. CONCLUSION

The corporate governance measured by managerial ownership and audit committee affects firm value. This shows the managers' ability in making the right decision and the supervision of the audit committee that increase company effectiveness. On the other hand, institutional ownership has no effect on firm value. Managerial Ownership cannot affect the Earnings Quality because managerial ownership cannot indicate the earnings quality of a company. Institutional ownership has a significant effect on earnings quality. This proves that the institutional ownership, the better the company's earnings quality. Audit Committee has a significant effect on earnings quality. This proves that the earnings reported by companies with audit committee have better quality than the earnings reported by companies that do not have an audit committee. Earnings Quality has no significant effect on Firm Value. This shows that the earnings management committed by the company is not directly related to the size of the firm value interpreted by investors. Earnings quality cannot mediate the effect of managerial ownership on firm value.

Limitation and study forward

This study only uses three variables as indicators of corporate governance mechanisms: managerial ownership, institutional ownership and the audit committee. On the other hand, there are still two more variables that are the proxies of the corporate governance mechanism: the proportion of the independent board of commissioners and the proportion of the board of directors.

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