The Effect of Corporate Governance Mechanism and Investment Opportunity Set (IOS) on Earnings Quality

P R Wulandari[1*], *K I K* Dewi[1] and Rahindayanti[1]

[1]Accounting Department, Mahasaraswati Denpasar University, Denpasar, Indonesia

Abstract Earnings quality is earnings that correctly and accurately describe the company's operating profitability. One of the most considered information in making economic or investment decisions is earnings information. Earnings as part of the financial statements, if can't present the true facts about the company's economic condition can be doubted its quality. Several studies on the mechanism of corporate governance and investment opportunity sets affecting earnings quality have been conducted, but the results obtained still indicate inconsistencies. The purpose of this study is to examine and obtain empirical evidence of the influence of corporate governance mechanisms and investment opportunity sets on earnings quality. The population used in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2016-2018 period. Sample selection using purposive sampling method and obtained as many as 24 manufacturing companies that meet the sample criteria. Data analysis technique in this research is to use Multiple Regression analysis. The results showed that the independent commissioner and investment opportunity had no effect on earnings quality. While managerial ownership, institutional ownership and audit committee had a negative effect on earnings quality.

1 Introduction

1. 1 Background

The times that are increasingly fast have changed the views and ways of every economic actor in conducting their financial arrangements, especially in making investments. This is also supported by the development of increasingly advanced technology, which makes it easier for someone who wants to start investing, given the ease in the investment process, also driven by the increasing number of companies that have gone public and are listed on the IDX. The investment offered also comes from various business sectors. With the increasing number of companies offering their shares, there will be more options for investors to purchase shares from a particular company.

Before deciding on an investment option, there are considerations that an investor must make in choosing the shares to invest in. One source of information that investors consider in choosing shares to buy is information about company's earnings, therefore the earnings generated by the company must be able to describe the true profitability of the company.

Earnings quality is earnings which accurately and accurately describes the operating profitability. According [1], it is stated that current year earnings have good quality if the earnings are a good indicator of future earnings.

An issue that is also closely related to earnings quality is the good corporate governance mechanism (definitive good corporate governance is a system that regulates and controls the company to create value added for all stakeholders). Two things are emphasized in this concept. First , the importance of shareholders's rights to obtain correct (accurate) and timely information Second, the company's obligation to disclose accurately, timely and transparently of all information on company performance, ownership and stakeholders.

Corporate governance practice has a significant relationship with earnings management [2]. Earnings management is carried out by management in the process of preparing financial statements in order to influence the level of earnings displayed so that it is expected to increase the value of the company at a certain time. Performance engineering, known as earnings management, is in line with agency theory which emphasizes the importance of company owners (principal) handing over company management to professionals or agents who better understand and understand how to run a business.

According [1], IOS is a company value, the amount of which depends on the expenses determined by the management in the future, which are currently investment options that are expected to produce higher returns. [1] states that investment opportunities management requires decision making in an uncertain environment and consequently managerial action becomes more unobservable. Unobservable manager actions can cause the principal not to know whether the manager has taken action according to the wishes of the principal or not.

This separation has a negative side, the freedom of management to maximize company earnings will lead to management's own interests at the expense of the company owner. Like the case of manipulation of financial data, which often occurs, it can prove that the presentation of information in the financial statements that gives rise to earnings quality is bad so that it lacks integrity with interested parties.

Several cases such as the case of the top leadership of the Toshiba Corporation were involved "systematically" in the corporate earnings inflating scandal and the financial reporting scandal that occurred in Indonesia at PT Kimia Farma Tbk.

With this case of manipulation, it is evident that there was involvement of internal parties, the Chief Executive Officer (CEO), the board of directors in committing fraud. The emergence of similar cases raises questions for various parties regarding corporate governance which results in the disclosure that Good Corporate Governance (GCG) has not been implemented properly. Consistent implementation of GCG based on the principles of fairness, transparency, independence, accountability, and responsibility will improve the quality of financial reports. The principles of GCG which are applied consistently can inhibit (constrain) performance engineering activities which result in financial statements not describing the fundamental value of the company.

Independent commissioner is the party who oversees the management of corporate governance so that it can contribute effectively to the results of the preparation of quality financial reports. Research by [3-5] found that the proportion of the board of commissioners has a positive effect on earnings quality. However, the research by [6, 7] states that independent commissioners do not affect earnings quality.

Managerial ownership is the amount of share ownership owned by managers which tends to increase management performance to produce earnings quality. According to the research results of [8-10] found that managerial ownership has a positive effect on earnings quality, while the research of [6, 11] found that managerial ownership has no effect on earnings quality.

Institutional ownership is company shares owned by an institution or institution. According to the research results of [3, 9, 10] institutional ownership has a positive effect on earnings quality. However, the research of [12, 13] found that institutional ownership has no effect on earnings quality.

Audit committee is a committee formed by the board of commissioners that is responsible for overseeing financial reports, overseeing external audit, and observing internal control system so that it is expected to reduce the oppertinistic nature of management that performs earnings management, so that the information presented in the financial statements is more informative and high quality. According to research by [5, 12, 13] found that the audit committee has a positive effect on earnings quality, but researchers [4, 11] found that the number of audit committees has no effect on earnings quality.

IOS which is a choice of future investment opportunities that can affect the growth of company assets or projects that have a positive net present value. IOS is expected to be an investment option in the future that will produce a greater return. The research results of [6, 14] state that IOS has a positive effect on earnings quality. However, the research results of [3, 15] state that IOS has no effect on earnings quality.

Judging from the phenomenon and inconsistent results of previous research, researchers are motivated to reexamine the effect of the Corporate Governance Mechanism and Investment Opportunity Set (IOS) on Earnings Quality in manufacturing companies on the IDX 2016-2018.

1.1 Purpose

Based on the description of the problem formulation above, the objectives of this study are as follows: To test and obtain empirical evidence of the effect of the independent commissioner mechanism, managerial ownership, institutional ownership, audit committee, investment opportunity set (IOS) on earnings quality.

2 Theory and Hypothesis

2.1 Agency Theory

Agency theory is a theory which states that there is a working relationship between the party who gives the authority (the principal), namely the investor and the party receiving the authority (the agency), namely the manager, in the form of a cooperation contract called the "nexus of contract" [16].

Agency theory assumes that all individuals act in their own interests, shareholders as principals are assumed to be only interested in increasing financial results or their investment in the company. Meanwhile, agents or company managers are assumed to receive satisfaction in the form of financial compensation and other benefits obtained from this relationship. This difference in "economic interests" could either be caused or caused the emergence of information asymmetry (information gap) between shareholders and the organization.

2.2 Earnings Quality

Earnings quality is an assessment of the extent to which a company's earnings can be obtained over and over again, can be controlled, and both the bank (eligible to apply for credit or loan at the bank), among other factors, earnings quality recognizes the fact that the economic impact of the transaction that occurs will vary among firms as a function of the basic character of the business and variously formulated as the rate of earnings which indicates whether the underlying economic impact is better at predicting cash flow or predictable [6].

Earnings quality is earnings that can show actual information about the company's operational performance, so that it is not misleading to users of financial statements (investors and creditors) in making decisions. Information about earnings should be used as a measure of the success or failure of a business in achieving the operating objectives set by a company. In addition, earnings can also be used to predict the sustainability of the company in the future.

2.3 Good Governance Corporate

The National Committee for Governance Policy defines Good Corporate Governance as a process and structure used by company organs (directors, managers, shareholders, and certain other parties) to provide added value to the company in a sustainable manner in the long term for holders. shares, with due observance of the interests of other stakeholders, based on the prevailing laws and norms [17].

In general, there are five main principles : transparency, accountability, responsibility, independence and fairness [18].

a) Transparency

Requires open, timely, clear and comparable information concerning the financial situation, company management and company ownership.

b) Accountability

Explain roles and responsibilities, as well as support efforts to ensure a balance between the interests of management and shareholders, as overseen by the board of commissioners.

c) Responsibility

Ensuring compliance with applicable rules and regulations as a reflection of compliance with social values.

d) Independency

An situation where managers in making decisions are professional, self-reliant, free from conflicts of interest, and free from pressure/influence from anything that is contrary to the prevailing laws and principles of sound management.

e) Fairness

Ensure the protection of the rights of shareholders and ensure the implementation of commitments with investors.

2.4 Investement Oportunity Set (IOS)

Investment Opportunity Set (IOS) is an investment opportunity set which is an investment option in the future and reflects the growth of assets and equity [19]. The investment opportunity set shows the company's ability to benefit from the growth prospects. The prospect of a company that grows for investors is a profitable thing, because the investment invested is expected to provide high returns. A growing company will be responded to by the market and growth opportunities can be seen in investment opportunities that are proxied by various combinations of the investment opportunity set value.

2.5 Hypothesis

2.5.1 The Influence of Independent Commissioners on Earnings Quality

An independent commissioner is the party who oversees the management of corporate governance so that it can contribute effectively to the results of the preparation of quality financial reports. The board of commissioners plays an important role in directing the strategy and supervising the running of the company and ensuring that managers actually improve the company's performance as part of the company's achievements [3].

Companies that have a composition of board members from outside the company or outside the director can affect earnings quality. The indicator used to measure the composition of the board of commissioners is the percentage of board members who come from outside the company, of the total number of members of the company's board of

commissioners. The results of research by [1, 3, 4]. stated that independent commissioners have a positive impact on earnings quality. Based on the description above, the hypotheses developed in this study are:
H_1: The Independent Commissioner has a positive effect on earnings quality.

2.5.2 The Effect of Managerial Ownership on Earnings Quality

Managerial ownership of a company is the level or amount of company share ownership owned by management in the company itself. Managerial ownership is believed to minimize agency conflicts that stem from differences in interests between company management and company owners, this is because managers also have shares in the company and will try to advance the company because managers are owners of the company. Managers are likely to improve their performance so that the company has better prospects in the future.

The research results of [8-10] also state that managerial ownership has a positive effect on earnings quality. Based on the description of the ditas, what was developed in this study were:
H_2: Managerial ownership has a positive effect on earnings quality.

2.5.3 The Effect of Institutional Ownership on Earnings Quality

Institutional ownership is share ownership by the government, financial institutions, legal entities, foreign institutions, representative funds and other institutions at the end of the year by [20]. Institutional ownership has the ability to control management through the process. Monitoring effectively so as to reduce management actions in earnings management. High institutional ownership of a company monitors management in improving performance to generate earnings quality [3].

The results of research by [3, 8, 10] state that institutional ownership has a positive effect on earnings quality. Based on the description above, the hypotheses developed in this study are:
H_3: Institutional ownership has a positive effect on earnings quality.

2.5.4 The Effect of the Audit Committee on Earnings Quality

The audit committee is responsible for overseeing financial reports, overseeing external audits, and overseeing the internal control system. The existence of an audit committee is expected to reduce the opportunistic nature of management that performs earnings management by monitoring financial reports and supervising external audits [21]. The audit committee is expected to reduce earnings management activities which in turn will affect earnings quality.

The research results of [5, 12, 13] state that the audit committee has a positive effect on earnings quality. Based on the description above, the hypotheses developed in this study are:
H_4: The audit committee has a positive effect on earnings quality.

2.5.5 The Effect of Investment Opportunity Set (IOS) on Earnings Quality

The Investment Opportunity Set is the availability of future investment alternatives for companies [1]. The Investment Opportunity Set is the present value and the choice of companies to make investments in the future. [1] also that IOS can imply the value of assets and the value of a company's opportunity to grow in the future.

Companies with a high IOS will have high earnings response coefficients. Thus, the higher the earnings response coefficients, the better the company's earnings quality. This is reinforced by the results of researchers [22] which state that growth opportunities (IOS) have a positive effect on earnings response coefficients (as a measure of earnings quality).

The results of researchers [1, 7, 14] state that IOS has a positive effect on earnings quality. Based on the description above, the hypotheses developed in this study are:
H_5: Investment Opportunity Set (IOS) has a positive effect on earnings quality.

3 Data and Methodology

3.1 Population and Sample

The population in this study is the financial statements of manufacturing companies listed on the IDX in 2016-2018. The sample selection of this research was conducted using purposive sampling method. Purposive sampling is a sampling technique with certain considerations [23]. While the research sample was obtained by using purposive sampling technique, namely as many as 72 manufacturing companies.

3.2 Operational Definition of Variables

3.2.1 Earnings Quality

Earnings quality is earnings that accurately and accurately describes the company's operational profitability [24]. Earnings quality is a measure to match whether the earnings generated is the same as what was previously planned. In this study, the earnings quality proxy used was discretionary accruals calculated by calculating the modified Jones Model. The modified Jones Model estimates that if the amount of cash the company receives is calculated as cash flow from operations, it can be reformulated as follows [25]:

a) Measuring total accruals:

$$TACt = NIt - OCFt \quad (1)$$

Note :
TACt = Total accruals for the t period
NIt = Company net income t period
OCFt = Cash Flow from Operation t period

b) Calculating the estimated accrual value with the OLS (Ordinary Least Square) regression equation:

$$\frac{TACt}{At-1} = \alpha 1 \left(\frac{1}{At-1}\right) + \alpha 2 \left(\frac{\Delta REVt - \Delta RECt}{At-1}\right) + \alpha 3 \left(\frac{PPEt}{At-1}\right) + e \quad (2)$$

Note :
TACt = Total accruals of company i in t period
At-1 = Total assets for the sample of firm i at the end of the year
ΔREVt = Change in company i revenue from year t-1 to t year
ΔRECt = Change in the receivables of company i from year t-1 to t year
PPEt = Fixed assets of the company t year
α1,α2,α3= Regression coefficient
e = error

c) Calculating the non-discretionary accruals model (NDA) is as follows:

$$\mathrm{NDAt} = \alpha 1\left(\frac{1}{At-1}\right) + \alpha 2 \left(\frac{\Delta \mathrm{REVt} - \Delta \mathrm{RECt}}{\mathrm{At-1}}\right) + \alpha 3 \left(\frac{\mathrm{PPEt}}{\mathrm{At-1}}\right) \quad (3)$$

Note :
NDAt = Non-discretionary accruals company i in t year
At-1 = Total assets for the sample of firm i at the end of the year
ΔREVt = Change in company i revenue from year t-1 to t year
ΔRECt = Change in the receivables of company i from year t-1 to t year
PPEt = Fixed assets of the company t year
α = Fitted coefficient that is obtained from the regression results on the calculation of total accruals

d) Calculating discretionary accruals:

$$\mathrm{DACt} = (\mathrm{TACt}/(\mathrm{At-1})) - \mathrm{NDAt} \quad (4)$$

Note :
DACt = Discretionary accruals company i in the year
TACt = Total accruals of company i in period t
At-1 = Total assets for the sample firm i at the end of year t-1
NDAt = Non-discretionary accruals company i in year t

i. Corporate Governance Mechanism

a) Independent Commissioner

An independent commissioner is an organ within a company that is tasked with conducting general or specific supervision in accordance with the articles of association and providing advice to the board of directors. Independent commissioners can create good corporate governance and contribute effectively to the results and process of financial statement preparation or the possibility of avoiding fraudulent financial statement reports so that a earnings quality can be obtained. The measuring indicator is the percentage of the number of independent commissioners in the company to the total number of commissioners in the board of commissioners [26].

b) Managerial Ownership

Managerial ownership is the percentage of shares owned by company management. The amount of managerial ownership in the company tends to make management try to improve performance to generate earnings quality. The measurement indicator is the percentage of the number of shares owned by management of all the share capital of the company being managed [26].

c) Institutional Ownership

Institutional ownership is company shares owned by an agency or institution. High institutional ownership is able to increase tight supervision of management performance so as to avoid behaviors that are detrimental to the principal by management. The measurement indicator is the percentage of shares owned by institutional investors [26].

d) Audit Committee

The audit committee is an additional organ in the company that is required in the implementation of the principles of good corporate governance and the implementation of the functions of the board of directors in carrying out important tasks related to the financial reporting system. With the supervision of the audit committee, the information presented in the financial statements is more informative and of higher quality. The measurement indicator is the number of audit committee members in the company each year [27].

e) Investment Opportunity Set (IOS)

IOS is an investment opportunity set which is an investment option in the future and reflects the growth of assets and equity. Referring to the research of [1, 5], it is stated that IOS can be measured through the market value to book value of asset ratio. Mathematically:

$$\text{MVBVA} = \frac{\text{Total } \textbf{\textit{Assets}} \text{-Total Equity+(number of shares outstanding x ClosingPrice)}}{\text{Total Assets}} \quad (5)$$

3.3 Identification of Research Variables

3.3.1 Independent Variable

Independent variable is variable that affect or cause changes or the emergence of the dependent variable or dependent variable [23]. Independent variable in this study is the corporate governance mechanism which consists of (independent commissioner, managerial ownership, institutional ownership, and audit committee) and investment opportunity set (IOS).

3.3.2 *Dependent Variable*

Dependent variable is the variable that is affected or that is the result of the independent variable [23]. The dependent variable in this study is earnings quality.

3.4 Data Analysis Techniques

3.4.1 Descriptive Statistical Test

Descriptive statistics provide an overview or description of data seen from the mean, standard deviation, maximum, minimum, sum, range, kurtosis and skewness (slope of distribution). Descriptive statistics are statistics that describe or describe data into information that is clearer and easier to understand [28].

3.4.2 Classic Assumption Test

Before the regression model is used to test the hypothesis, first the classical assumption is tested to determine the relationship between the independent variable and the dependent variable. The classical assumption tests used in this study are:

a) Normality test
b) Multicollinearity test
c) Autocorrelation test
d) Heteroscedasticity test

3.*4.3 Multiple Regresion Analysis*

In this research, the analysis method used to test the hypothesis is multiple regressions analysis. Multiple regressions analysis method is a statistical method to test the relationship between several independent variables to one dependent variable. The models used in multiple regressions to see the effect of corporate governance mechanisms (independent commissioners, managerial ownership, institutional ownership and audit committee), and investment opportunity set (IOS) on earnings quality are as follows:

$$KL = \alpha + \beta 1 \text{ KOMID} + \beta 2 \text{ KM} + \beta 3 \text{ KEPIN} + \beta 4 \text{ KOMDIT} + \beta 5 \text{IOS} + \varepsilon \quad (6)$$

Note :

KL = Earnings quantity

α	= Constant
(β)1- (β)5	= Regression coefficient
KOMID	= Independent Commissioner
KM	= Managerial ownership
KEPIN	= Institutional Ownership
KOMDIT	= Audit Committee
IOS	= Investment Opportunity Set
ε	= error

3.4.4 Goodness of Fit

According to [28] states that the accuracy of the sample regression function in estimating actual value can be measured from the Goodness of Fit. To prove the proposed hypothesis is true or not, hypothesis testing is carried out using the following tests:
a) Coefficient of Determination Test (R^2)
b) F Statistic Test
c) t Statistic Test

4 Research Result

4.1 Descriptive Statistical Test

Table 4.1 Descriptive Statistical Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KOMID	72	.25	.60	.3869	.08113
KM	72	.02	38.00	8.7472	11.95726
KEPIN	72	5.14	94.01	62.8260	22.84740
KOMDIT	72	3.00	4.00	3.0833	.27832
IOS	72	101064.00	3113773.00	977814.2639	830486.9418
KL	72	-.17	.15	-.0259	.05287
Valid N (listwise)	72				

Source: Processed data (2019)

Based on Table 4.1 it is known that the number of observations in the study (N) is 72. The results of the descriptive statistical test can be explained as follows:
a. The independent commissioner variable (KOMID) shows a minimum value of 0,25 and a maximum of 0,60 with an average (mean) value of 0,3869 and a standard deviation of 0,08113.
b. The managerial ownership variable (KM) shows a minimum value of 0,02 and a maximum value of 38,00 with an average (mean) value of 8,7472 and a standard deviation of 11,95726.
c. The institutional ownership variable (KEPIN) shows a minimum value of 5,14 and a maximum of 94,01 with an average (mean) value of 62,8260 and a standard deviation of 22,84740.
d. The audit committee variable (KOMDIT) shows a minimum value of 3,00 and a maximum of 4,00 with an average (mean) value of 3,0833 and a standard deviation of 0,27832.
e. The investment opportunity set (IOS) variable shows a minimum value of 101064,00 and a maximum value of 3113773,00 with an average value (mean) of 977814,2639 and a standard deviation of 830486,9418.
f. The earnings quality variable (KL) shows a minimum value of -0.17 and a maximum of 0.15 with an average (mean) value of -0.0259 and a standard deviation of 0.05287.

4.2 Classic Assumption Test

4.2.1 Normality Test

Table 4.2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		72
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.04919116
Most Extreme Differences	Absolute	.080
	Positive	.080
	Negative	-.041
Test Statistic		.080
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: Processed data (2019)

Based on Table 4.2 shows that the value of Asymp. Sig (2-tailed) of 0.200 is greater than α = 0.05. This shows that the data in this study are normally distributed.

4.2.2 Multicollinearity Test

Table 4.3 Multicollinearity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.453	.068		6.683	.000		
	KOMID	.082	.166	.064	.494	.623	.510	1.959
	KM	-.004	.002	-.349	-2.512	.014	.443	2.260
	KEPIN	-.002	.001	-.309	-2.052	.044	.378	2.648
	KOMDIT	-.121	.029	-.522	-4.203	.000	.555	1.803
	IOS	1.965E-9	.000	.012	.120	.905	.820	1.220

a. Dependent Variable: KL

Source: Processed data (2019)

Based on the multicollinearity test results in Table 4.3, it can be explained that the tolerance value of each variable is greater than 0.10 and the VIF of each variable is less than 10 so that it can be concluded that there is no multicollinearity.

4.2.3 Autocorrelation test

Table 4.4 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.659[a]	.435	.392	.10291	1.989

a. Predictors: (Constant), IOS, KEPIN, KOMDIT, KOMID, KM

b. Dependent Variable: KL

Source: Processed data (2019)

Based on the results of the autocorrelation test in table 4.4, it shows that the Durbin-Watson value is 1,989, at a significant level of 0,05, with the number of samples (N) 72, and the number of independent variables 5 (K = 5), the value of du is 1,7688. The autocorrelation test results with the Durbin-Watson method were between du = 1,7688 and 4-du = 2,2312 which were in the range of du <d <4-du (1,7688 <1,989 <2,2312). This result means that the Durbin-Watson value of 1,989 is greater than the du value of 1,7688 but smaller than the 4-du 2,2312, so it can be concluded that the regression model does not occur autocorrelation.

4.2.4 Heteroscedasticity Test

Tabel 4.5. Heteroscedasticity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.317	20.839		.591	.557
	KOMID	-11.166	19.377	-.077	-.576	.566
	KM	-.089	.209	-.090	-.424	.673
	KEPIN	-.029	.112	-.056	-.255	.799
	KOMDIT	-1.232	5.481	-.029	-.225	.823
	IOS	-2.016E-7	.000	-.014	-.106	.916

a. Dependent Variable: ABRES

Source: Processed data (2019)

Based on the results of the heteroscedasticity test in table 5.5, it can be explained that the significant value of each independent variable is more than 0,05. So it can be concluded that in the regression model heteroscedasticity does not occur.

4.3 Multiple Regression Analysis

Table 4.6. Multiple Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.453	.068		6.683	.000
	KOMID	.082	.166	.064	.494	.623
	KM	-.004	.002	-.349	-2.512	.014
	KEPIN	-.002	.001	-.309	-2.052	.044
	KOMDIT	-.121	.029	-.522	-4.203	.000
	IOS	1.965E-9	.000	.012	.120	.905

a. Dependent Variable: KL

Source: Processed Data (2019)

KL = 0,453 + 0,082 KOMID – 0,004 KM –0,002 KEPIN –0,121 KOMDIT + 1,965E-9 IOS (7)

a) Constants

The constant value obtained is 0,453, meaning that if the five independent variables are equal to 0 (zero), then the dependent variable, namely earnings quality (KL), is 0,453.

b) Managerial Ownership

Managerial ownership shows the value of the regression coefficient of -0,004 with a significance of 0,014 which is smaller than α (0,05) which means that every one-unit increase in the managerial ownership variable, the earnings quality variable will decrease by 0,004 assuming the other independent variables are constant.

c) Institutional Ownership

Institutional ownership shows the value of the regression coefficient amounting to -0,002 with a significance of 0,044 which is smaller than α (0,05) which means that every one-unit increase in institutional ownership variable, the earnings quality variable will decrease by 0,002 assuming the other independent variables are constant.

d) Audit Committee

The audit committee shows the regression coefficient value of sebesar -0,121 with a significance of 0,000 which is smaller than α (0,05), which means that every one-unit increase in the audit committee variable, the earnings quality variable will decrease by 0,121 assuming the other independent variables are constant.

4.4 Goodness of Fit

4.4.1 Test The Coefficient of Determination (R^2)

Table 4.7 Test the coefficient of determination (R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.659[a]	.435	.392	.10291	1.989

a. Predictors: (Constant), IOS, KEPIN, KOMDIT, KOMID, KM

b. Dependent Variable: KL

Source: Processed data (2019)

Table 4.7 shows that the value of the coefficient of determination (Adjusted R Square) of 0.392 or 39.2 percent of the variations in the ups and downs of earnings quality are influenced by, independent commissioners, managerial ownership, institutional ownership, audit committee and investment opportunity set, the remaining 60.8 percent is influenced by by other variables outside the research model.

4.4.2 Statistical Test F

Table 4.8 F Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.538	5	.108	10.151	.000[b]
	Residual	.699	66	.011		
	Total	1.237	71			

Source: Processed Data (2019)

Based on the results of the F test in table 4.8, the results of the F test with a significant value of 0,000[b] less than 0,05 , it can be said that the model is said to be fit with the observation data.

4.4.3 Statistical Test t

Table 4.9 T test results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.453	.068		6.683	.000		
	KOMID	.082	.166	.064	.494	.623	.510	1.959
	KM	-.004	.002	-.349	-2.512	.014	.443	2.260
	KEPIN	-.002	.001	-.309	-2.052	.044	.378	2.648
	KOMDIT	-.121	.029	-.522	-4.203	.000	.555	1.803
	IOS	1.965E-9	.000	.012	.120	.905	.820	1.220

a. Dependent Variable: KL

Source: Processed data (2019)

Based on the results of the t test in table 4.9, it can show that the significant test of each independent variable on the dependent variable is as follows:

a) The effect of independent commissioners on earnings quality

Based on table 5.9, it can be seen that the independent commissioner variable has a t-value of 0.494 with a significance of 0.623, which is greater than the significant level of 0.05. This means that the independent commissioner has no effect on earnings quality, so H_1 is rejected.

b) The effect of managerial ownership on earnings quality

Based on table 5.9, it can be seen that the managerial ownership variable has a t-value of -2.512 with a significance of 0.014, which is smaller than the significant level of 0,05. The coefficient sign is negative, then managerial ownership has a negative effect on earnings quality, so H_2 is rejected.

c) The effect of institutional ownership on earnings quality

Based on table 5.9, it can be seen that the institutional ownership variable has a t-value of -2.052 with a significance of 0.044, which is smaller than the significant level of 0,05. The coefficient sign is negative, then institutional ownership has a negative effect on earnings quality, so H_3 is rejected.

d) The effect of the audit committee on earnings quality

Based on table 5.9, it can be seen that the audit committee variable has a t-value of -4,203 with a significance of 0,000, which is smaller than the significant level of 0,05. The coefficient sign is negative, then the audit committee has a negative effect on earnings quality, so H_4 is rejected.

e) The effect of investment opportunity set on earnings quality.

Based on table 5.9, it can be seen that the independent commissioner variable has a t count of 0.120 with a significance of 0.905, which is greater than the significant level of 0.05. This means that independent commissioners have no effect on earnings quality, so H_5 is rejected.

4.5 Discussion of Analysis Results

4.5.1 The Effect of Independent Commissioners on Earnings Quality

The results of data analysis indicate that independent commissioners have no effect on earnings quality, so the first hypothesis which states that independent commissioners has a positive effect on earnings quality is rejected. There is no influence between independent commissioners and earnings quality because the minimum requirement for independent commissioners of 30% is not high enough to cause these independent commissioners to dominate the policies taken by the board of commissioners, the lack of effectiveness of independent commissioners in a company causes a gap to manipulate profits.

The results of this study are in line with the results of research conducted by [7, 25] which state that independent commissioners have no effect on earnings quality. However, this is not consistent with the results of research conducted by [3, 4], which states that independent commissioners have a positive effect on earnings quality. Contrary to the research results of [11, 29] independent commissioners have a negative effect on earnings quality.

4.5.2 The Effect of Managerial Ownership on Earnings Quality

The results of data analysis indicate that managerial ownership has a negative effect on earnings quality, so the second hypothesis which states that managerial ownership has a positive effect on earnings quality is rejected.

This shows that managerial ownership reduces the quality of generated earnings. The higher the managerial ownership, the lower the earnings quality, because managerial intends to carry out earnings management in order to show good performance so that the earnings quality will decrease.

The results of this study are in line with the results of research conducted by [30] which states that managerial ownership has a negative effect on earnings quality. However, this is not consistent with the results of research conducted by [9, 10], which states that managerial ownership has a positive effect on earnings quality. Contrary to the research results of [12, 13], managerial ownership has no effect on earnings quality.

4.5.3 The Effect of Institutional Ownership on Earnings Quality

The results of data analysis indicate that institutional ownership has a negative effect on earnings quality, so that the third hypothesis which states that institutional ownership has a positive effect on earnings quality is rejected.

This shows that institutional ownership reduces earnings quality. This is because, based on this research, even though institutional ownership is seen as having an effective ability to monitor performance or management activities. Manufacturing companies listed on the IDX have descriptive institutional ownership, namely an average of 62.8%. Because they are the majority owners, institutional investors tend to side with management and prioritize their interests over the interests of other owners (the public), this can be a negative signal for investors, with the existence of earnings management efforts made which can reduce earnings quality.

The results of this study are in line with the results of research conducted by [6] which states that institutional ownership has a negative effect on earnings quality. However, this is not consistent with the results of research conducted by [3, 8], which states that institutional ownership has a positive effect on earnings quality. Contrary to research results [7], state that institutional ownership has no effect on earnings quality.

4.5.4 The effect of the audit committee on earnings quality

The results of data analysis indicate that the audit committee has a negative effect on earnings quality, so the fourth hypothesis which states that the audit committee has a positive effect on earnings quality is rejected.

This indicates that there is an opposite or negative relationship between the audit committee and earnings quality, where the more the number of audit committees the company has, the lower the company's earnings quality. This indicates that the number of audit committees does not guarantee the effectiveness of the performance of the audit committee in supervising management that presents financial reports, which causes earnings management and decreases earnings quality.

The results of this study are in line with the results of research conducted by [9] which states that the audit committee has a negative effect on earnings quality. However, this is not consistent with the results of research conducted by [5, 12], which states that the audit committee has a positive effect on earnings quality. Contrary to the research results of [4, 31], the audit committee has no effect on earnings quality.

4.5.5 Effect of Investment Opportunity Set on Earnings Quality

The results of data analysis show that the investment opportunity set has no effect on earnings quality, so the fifth hypothesis which states that the investment opportunity set has a positive effect on earnings quality is rejected.

The investment opportunity set has no effect on earnings quality because the investment opportunity set is not the center of attention of investors in making investment decisions. Investors do not pay much attention to the value of a company's investment opportunity set, but rather pay more attention to the company's profit rate. In addition, companies that have a high investment opportunity set value are not because the market values the assets owned by these companies higher than their book value. But this value is obtained due to the low value of the company's assets and the high negative equity value.

Based on the results of previous studies, the reason for the insignificant effect of the investment opportunity set on earnings quality is because the motivation of investors in investing is not to get long-term benefits. But to get capital gains (short term). The growth opportunity factor seen from the investment opportunity set is usually observed by investors who have a long-term perspective to get a yield from the investment they do.

The results of this study are in line with the results of research conducted by [3, 13, 15] which state that IOS has no effect on earnings quality. However, this is not consistent with the results of research conducted by [7, 14], which states that IOS has a positive effect on earnings quality. Contrary to the research results of [9], IOS has a negative effect on earnings quality.

5 Conclusions and Suggestions

5.1 Conclusion

1. Independent commissioner has no effect on earnings quality
2. Managerial ownership has a negative effect on earnings quality
3. Institutional ownership has a negative effect on earnings quality
4. The audit committee has a negative effect on earnings quality
5. Investment opportunity set has no effect on earnings quality

5.2 Suggestion

The suggestion in this study for future researchers is to increase the sample by expanding other types of companies such as the banking sector and other sectors on IDX. Further research is recommended to take a longer observation period and it is recommended to use different variable measurements such as earnings persistence on earnings quality variables, and to add other variables to measure earnings quality such as company size, external auditor quality, profitability, growth and liquidity.

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