The Effect of Corporate Governance Mechanism on Company Value with Earnings Quality as Mediation

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Abstract. Firm value is an investor's response to the company, usually associated with stock prices. Companies with high stock prices are considered to have high company values. This is because public interest can affect stock prices in the market. One of the factors that can increase public interest is the quality of reported earnings. Earnings will be called more qualified if the reported earnings follow the company's actual state. However, the reality is that reporting quality earnings is not easy. This is because there is a conflict of interest between the owner and the manager. Therefore, good corporate governance is expected to minimize these conflicts, so that reported earnings can be of higher quality and ultimately affect the public interest and company value. This study aims to examine and analyze the effect of the size of the board of directors, institutional ownership, managerial ownership, and independent commissioners on firm value with earnings quality as a mediating variable. The object of research is a manufacturing company listed on the Indonesia Stock Exchange (IDX) for the 2018–2020 period. The research sample consisted of 58 manufacturing companies selected by the purposive sampling technique. The research data analysis technique uses a path analysis model. The results showed that earnings quality could mediate the size of the board of directors and managerial ownership on firm value. However, earnings quality has not mediated institutional ownership and independent commissioners on firm value.

Keywords: Corporate Governance · Firm Value · Quality of Reported Earnings

1 Introduction

Rapid business growth has forced companies to have a competitive strategy to avoid bankruptcy. One strategy that can be done to overcome this is the implementation of corporate governance. Governance that is implemented well can be one of the many pieces of evidence of success obtained by the company and has the opportunity to provide benefits for the company in the long term [3]. According to [10], making a profit is the company's primary goal, but the long-term goal is to give abundance to the owner and maximize the company's value.

The company's value is a picture of the public's trust in the company that has gone through various process activities, starting from the company's establishment until now.

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[13] states that firm value is investors' response to the company, usually associated with stock prices. There is an allegation that companies with higher share prices indicate that the company's value is also high. Implementing good corporate governance is the key for companies to maximize company value [24].

Good corporate governance can be created if the company adheres to 5 main principles: accountability, transparency, independence, responsibility and fairness, and equality [12]. Applying these five principles is expected to minimize agency conflicts and earnings management practices that can affect firm value [15].

Earnings quality is a benchmark to determine whether the profits earned have the same accuracy as previous earnings [18]. In addition, the quality of earnings is also referred to as an indicator; for example, if the report contains quality earnings, then it can affect the increase in profits in the future. [27] reveal that earnings with higher quality can increase the value of a company. This is because the quality of earnings affects the selling price of shares.

Profit does have the ability to increase the selling price of shares, which will affect the company's value. However, studies state that management is the party that often manipulates earnings. According to [7], manipulation by management is the beginning of poor quality earnings. One of the causes of poor earnings quality is the separation of ownership between owners and management. This separation of ownership causes differences in interests, resulting in a conflict known as an agency conflict.

Besides a strategy to avoid liquidity, a good corporate governance mechanism also relates to earnings quality. [9, 21] state that there are two types of corporate governance mechanisms: internal and external. The internal mechanisms include the internal audit function, internal control and the board of commissioners. Meanwhile, external mechanisms include the capital market, labor market, shareholders, investor activities and court decisions. In overcoming problems related to agency conflicts, internal mechanisms are corporate governance mechanisms that are often used to minimize these conflicts. The internal mechanisms used are institutional ownership, managerial ownership and independent commissioners [16] and the size of the board of directors.

Based on [25], it is known that the board of directors influences firm value. However, [26] research states that the board of directors harms firm value. In addition, [26] also find that institutional ownership does not affect firm value. But [30] find that institutional ownership influences firm value.[16] states that managerial ownership has a significant positive impact on firm value. However, [25] research reveals that partial managerial ownership does not significantly impact firm value. In addition, [16] revealed that independent commissioners had an insignificant negative effect on firm value, while [30] stated that independent commissioners positively influenced independent commissioners.

The research results by [29] state that the size of the board of directors has a positive relationship with earnings quality. Research by [30] also mentions that institutional ownership positively impacts earnings quality. [5] found that the quality of the company's earnings is positively influenced by managerial ownership. Independent commissioners influence earnings quality by proxy of discretionary accruals.

[22] states that earnings quality positively influences firm value. The same thing was also conveyed by [20], where earnings quality has a significant positive influence on firm value. Based on the various research results described above, it is known that the

corporate governance mechanism is inconclusive on firm value because the corporate governance mechanism does not directly affect firm value but must go through earnings quality.

This study aims to examine and analyze earnings quality in mediating the effect of the size of the board of directors on firm value. Testing and analyzing earnings quality mediates the effect of institutional ownership on firm value. Testing and analyzing earnings quality mediates the effect of managerial ownership on firm value. Finally, examine and analyze the effect of independent commissioners on firm value.

2 Literature Review

2.1 Agency Theory

[11] reveal that the concept of agency theory is the relationship between principals and agents. The principal is the owner or shareholder, while the agent is the management responsible for managing the company. The relationship is formed when the owner hires a manager to complete all company activities. The relationship between the owner and manager will last well as long as there is no difference of interest between the two. New problems arise when the principal and agent have conflicting interests or goals. According to [6], the problem occurs because the owner is more interested in maximizing the return and the price of the company's securities, while managers also have psychological and economic needs, including maximizing the opportunity to obtain compensation. The problem that generally arises in agency theory is information asymmetry. Information asymmetry is when one party has more complete information than the other party. The relationship between information asymmetry in corporate governance lies with the management (agent), who has more information than the owner (principal).

2.2 Firm Value

Firm value is the investor's perception of the company which often meets stock prices [13]. Companies that have a high share price, that the value of the company owned is also high. In addition, the high share price is able to increase market confidence in the company's capacity and the company's prospects in the future. According to [26] stock prices are prices that occur when shares are traded in the capital market. There are several options for measuring the value of a company, such as Price to Book Value (PBV) or Tobin's Q.

2.3 Quality of Earnings

According to [26], earnings quality is a benchmark to compare whether the profits obtained follow what was previously designed. Profit will be said to be of higher quality if it is closer to the initial plan or even exceeds the initial target. Meanwhile, it will be called increasingly unqualified if the profits presented are not following the company's condition as they should be. Earnings with low quality can affect the decisions taken by investors and creditors so that the company's value can be reduced. If the reported profit cannot show the facts about the company's economic condition that it should be, then the quality of the earnings in the report needs to be doubted. In addition, earnings that cannot represent management's performance can mislead the report's users.

2.4 Size of Board of Directors

The board of directors is a party in a corporate entity responsible for all company operational activities [26]. The board of directors is part of the company that has full authority and responsibility for the company's interests following the company's goals and can represent the company both inside and outside the court following the provisions of the articles of association. The Board of Directors is part of the corporate governance element representing responsibility and transparency.

2.5 Institutional Ownership

Institutional ownership is shared by institutions such as banks, insurance companies, investment companies, and other institutions [2]. Jensen and Meckling [11] state that institutional ownership greatly reduces conflicts of interest between owners and managers. Companies owned by institutions with an ownership portion of more than 5% (five) indicate that the institutional capacity in supervising management is high [19]. The influence of institutional ownership as a monitoring tool will be suppressed through large institutional funding on the capital market.

2.6 Managerial Ownership

According to [8], managerial ownership is the proportion of share ownership by management, both commissioners and directors, who are actively involved in making company decisions. Managerial ownership will make the position between managers and shareholders equal. This can encourage managers not to make decisions based on their interests and focus more on shareholders' wishes. In addition, managerial ownership can also increase the motivation of managers so that the company's performance will experience changes. This is because the manager's position is no longer an outside party responsible for the owner's expectations but also one of the company's owners.

2.7 Independent Commissioners

[28] states that independent commissioners are members of the board of commissioners who are not affiliated with the directors, shareholders, or other commissioners. They do not have business ties or family relationships that can affect their capability to act in the company'. Each commissioner is obliged to act independently to carry out his obligations solely for the company. Companies must have independent commissioners who have no relationship with directors, shareholders or other commissioners because one of the functions of the independent commissioner is to be a balancer in decision making [1].

2.8 Hypothesis

2.8.1 The Effect of Board of Directors Size on Firm Value with Earnings Quality as a Mediation Variable

Agency problems arise when there is a difference of interest between the owner (principal) and the manager (agent). If left unchecked, this problem can lead to agency costs that the company owner must bear. Therefore, the owner appoints the board of directors to resolve agency problems. The composition of the board of directors is a mechanism that can reduce agency costs. This is because the presence of non-executive directors can be a means of monitoring the actions of the executive director. In addition, the presence of non-executive directors can also ensure that the executive director prioritizes the owner's interests over his interests. Based on the statement above, it can be concluded that the size of the board of directors can reduce the opportunity for managers to carry out earnings management practices so that the profits generated by managers in financial statements can be of higher quality. The increase in the quality of earnings presented in the financial statements will make people believe in the company so that people will have more tendencies to buy company shares. This will impact the increase in the company's share price and the value of the company-owned.

Research by [29] states that the size of the board of directors has a positive relationship with earnings quality. [27] research also shows that the value of a company is influenced by earnings quality. Utomo and Dianawati's research also found that earnings quality was proven to mediate the relationship between the size of the board of directors and firm value.

H1: The size of the Board of Directors affects the value of the company with earnings quality as a mediation.

2.8.2 The Effect of Institutional Ownership on Firm Value with Earnings Quality as a Mediation Variable

[4] show that more optimal supervision carried out by institutional investors can limit the actions of managers so that managers become more focused on the company's performance. This will automatically affect the opportunity for managers to carry out earnings management practices. If the opportunity for earnings management practices is getting smaller, then the company's opportunity to report higher quality earnings will be even greater. This is because the reported earnings can describe the actual economic condition of the company. The description of the economy following the actual conditions will be able to increase public interest. This increase in interest will impact the company's stock price, affecting the company's value.

[17] found that institutional ownership affects earnings quality. [27] also find that firm value is influenced by earnings quality. The same result is also obtained by [26], where earnings quality can connect the relationship between institutional ownership and firm value.

H2: Institutional ownership affects firm value with earnings quality as a mediation.

2.8.3 The Effect of Managerial Ownership on Firm Value with Earnings Quality as a Mediation Variable

Managerial ownership will change the manager's position from being previously under the power of the shareholders to being equal to the shareholders. This equality of position will encourage managers to focus more on company interests than personal interests. In addition, managerial ownership can also increase the motivation of managers in managing the company better because, at this time, their position is not only as an external party responsible for the company but also as the owner of the company. Based on the previous explanation, it can be concluded that greater managerial ownership will be able to reduce agency problems that occur. In addition, the possibility of managers taking manipulative earnings actions will also decrease so that reported earnings will be of higher quality. Increasing the quality of earnings reported by the company can impact the public's response. A good public response can increase the company's stock price so that the value owned by the company also increases.

[23] research show that managerial ownership affects earnings quality. [8] found that earnings quality can affect firm value. Earnings quality also can mediate between managerial ownership and firm value.

H3: Managerial Ownership Affects Company Value with Earnings Quality as a Mediation

3 Research Methods

The research method uses quantitative research with hypotheses that aim to test and analyze the effect of corporate governance mechanisms (board size of directors, institutional ownership, managerial ownership and independent commissioners) on firm value with earnings quality as a mediating variable (Fig. 1).

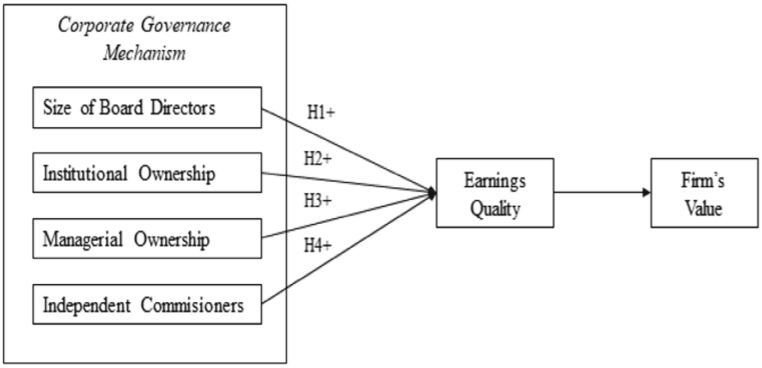

Fig. 1. Research Framework. Source: Author (2021)

3.1 Population and Sample

The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2020 period. The company's sampling technique used the purposive sampling method. The sample companies in the study were 58 manufacturing companies.

3.2 Independent Variable

3.2.1 Board of Directors' Size

The board of directors is a party in the corporate entity responsible for all company's operational activities [26]. The size of the board of directors is measured by the number of boards of directors owned by the company.

3.2.2 Institutional Ownership

Institutional ownership is share ownership owned by institutions or institutions such as insurance companies, banks, investment companies, and other institutional ownership [2]. Institutional ownership is measured using the following formula:

$$IO = \frac{\text{Proportion of shares owned by the institution}}{\text{Number of shares outstanding}}$$

3.2.3 Managerial Ownership

Managerial ownership is the percentage of share ownership by management (commissioners and directors) who actively participate in decision-making in the [8]. The following formula measures managerial ownership:

$$MO = \frac{\text{Proportion of shares owned by management}}{\text{Number of shares outstanding}}$$

3.2.4 Independent Commissioner

[28] The independent board of commissioners is a member of the board of commissioners who are not affiliated with other shareholders, directors, or commissioners and does not have business ties or family relationships that can affect his ability to act in the interests of the company. Independent commissioners are measured using the following formula:

$$\text{IC} = \frac{Number\ of\ independent\ commissioners}{number\ of\ commissioners}$$

3.3 Mediation Variable

3.3.1 Earnings Quality

Earnings quality is a measure to match whether the profits generated follow what was planned [26]. Earnings quality in this study is measured through discretionary accruals using the Modified Jones Model formula.

a. Measure total accruals (TAC)

$$\mathrm{TAC_t} = \mathrm{NI_t} - \mathrm{CFOt}$$

b. Calculate the estimated accruals value with the OLS (Ordinary Least Square) regression equation

$$\frac{TAC_t}{TA_{t-1}} = \alpha_1\left(\frac{1}{TA_{t-1}}\right) + \alpha_2\left(\frac{\Delta REV_t}{TA_{t-1}}\right) + \alpha_3\frac{PPE_t}{TA_{t-1}}$$

c. Finding the value of non-discretionary accruals (DAC)

$$NDAC_t = \alpha_1\left(\frac{1}{TA_{t-1}}\right) + \alpha_2\left(\frac{\Delta REV_t - \Delta REC_t}{TA_{t-1}}\right) + \alpha_3\frac{PPE_t}{TA_{t-1}}$$

d. Calculating the value of discretionary accruals (DAC)

$$DAC_t = \frac{TAC_t}{TA_{t-1}} - NDA_t$$

Nit	The company's net profit in the period of year t.
CFOt	Cash flow from the company's operating activities.
ΔREVt	Income in year t minus income in year t 1.
ΔRECt	Accounts receivable in year t minus accounts receivable in year t-1.
PPEt	Property, plant and equipment year t.

3.4 Dependent Variable

3.4.1 Firm's Value

Firm value is an investor's perception of the company which is often associated with stock prices [13]. The higher the company's stock price, the higher the company's value is also higher. Firm value is measured using Tobin's Q ratio, as follows:

$$\mathrm{Q} = \frac{(MVS + D)}{TA}$$

Information:

Q	Tobin's Q
MVS	Market value of all outstanding shares
D	Debt
TA	Total Assets

Where:

MVS = closing share price × number of shares outstanding at the end of the year
Debt = (Current liabilities – current assets) + long-term liabilities

3.5 Control Variable

Company size is a scale that determines the size of a company. Benchmarks that show the size of a company can be seen based on total sales, average sales levels, and total assets. Company size is measured using the following formula:

$$\text{Company size } = Ln\text{ (Total Assets)}$$

4 Result and Discussion

4.1 Descriptive Statistic

As measured by Tobin's Q ratio, the company value has a minimum value of −0.205 belonging to PT Gajah Tunggal Tbk (GJTL) for the 2019 period. The maximum value is 1.658 belonging to PT Prima Cakrawala Abadi Tbk (PCAR) for the 2018 period. The average value of the company value is 0.251. This figure indicates that the average companies in the sample do not yet have good growth opportunities. The standard deviation of the firm value is 0.252 or greater than the average value, so it can be concluded that the firm value in this study has a high level of variability.

As measured by discretionary accruals using the modified Jones model formula, earnings quality has a minimum value of 0.707 belonging to PT Indofood Sukses Makmur Tbk (INDF) for the 2019 period. The maximum value is 0.708 belonging to PT Prima Cakrawala Abadi Tbk (PCAR) for the 2018 period. The average value of earnings quality is 0.707. This figure indicates that the average company in the sample has an upward trend in earnings management. The standard deviation of firm value is 0.001 or smaller than the average value, so it can be concluded that the quality of earnings in this study has a low level of variability (Table 1).

The board of directors has a minimum score of 2 belonging to PT Yanaprima Hastapersada Tbk (YPAS) for the 2018 period. The maximum value is 11 for PT Unilever Indonesia Tbk (UNVR) for the 2019 period. The average score for the board of directors is 4.785. This figure indicates that the average company in the sample has 4 to 5 members of the board of directors. The standard deviation of the board of directors is 1.999 or smaller than the average value, so it can be concluded that the board of directors in this study has a low level of variability.

Institutional ownership has a minimum value of 0.000 belonging to PT Betonjaya Manunggal Tbk (BTON) for the 2020 period. The maximum value is 0.989 belonging to PT Unilever Indonesia Tbk (UNVR) for the 2018 period. The average value of institutional ownership is 0.643. This figure indicates that the average company in the sample is owned by an institution of more than 50%. The standard deviation of institutional ownership is 0.268 or smaller than the average value, so it can be concluded that institutional ownership in this study has a low level of variability.

Table 1. Descriptive Statistic Test Result

Var.	Descriptive Statistic				
	N	Min	Max	Avg	Std. Dev
FV	172	−0,205	1,658	0,251	0,252
DAC	172	0,707	0,710	0,708	0,001
BOD	172	2,000	11,000	4,785	1,999
IO	172	0,000	0,989	0,643	0,268
MO	172	0,000	0,701	0,097	0,153
IC	172	0,286	0,833	0,416	0,096
SIZE	172	25,361	33,494	28,377	1,665

Source: Processed data (2021)

Managerial ownership has a minimum value of 0.000 belonging to PT Centra Proteina Prima Tbk (CPRO) for 2018. While a maximum value of 0.701 belongs to PT Mega Perintis Tbk (ZONE). The average value of managerial ownership is 0.097. This figure indicates that the average company in the sample is owned by less than 10% of management. The standard deviation of managerial ownership is 0.153 or greater than the average value, so it can be concluded that managerial ownership in this study has a high level of variability.

Independent commissioners have a minimum value of 0.286 belonging to PT Madusari Murni Indah Tbk (MOLI). While the maximum value of 0.833 belongs to PT Unilever Indonesia Tbk (UNVR) for the 2020 period. The average value of the independent commissioners is 0.416. This figure indicates that the average company in the sample has more than 30%, independent commissioners. The standard deviation of the independent commissioner is 0.096 or smaller than the average value, so it can be concluded that the independent commissioner in the study has a low level of variability.

The company size has a minimum value of 25,361 belonging to PT Prima Cakrawala Abadi Tbk (PCAR) for the 2020 period. The maximum value is 33,494 belonging to PT Astra International Tbk (ASII) for the 2019 period. The average value of the company size is 28,377. This figure indicates that the average company in the sample has a large company size. The standard deviation of firm size is 1.665 or smaller than the average value, so it can be concluded that the firm size in this study has a low level of variability (Fig. 2).

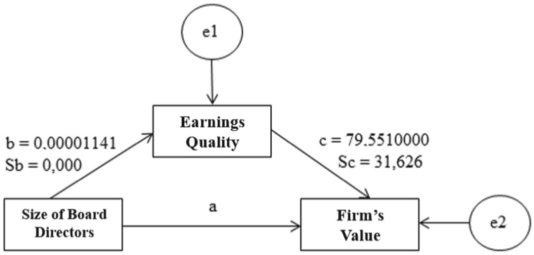

Fig. 2. Path Analysis Eqs. 1 and 2 (Board of Directors). Source: Processed data (2021)

4.2 Sobel Test

$$\mathrm{Sbc} = \sqrt{\mathrm{c^2sb^2 + b^2sc^2 + sb^2sc^2}}$$

$$\mathrm{Sbc} = \sqrt{\begin{array}{c}(79{,}511)^2\ (0{,}000)^2 + (0{,}00001141)^2\ (31{,}626)^2 \\ +(0{,}000)^2\ (31{,}626)^2\end{array}}$$

$$\mathrm{Sbc} = 0{,}00036$$

Then calculate the t-value of the bc coefficient:

$$\mathrm{t = bc/sbc}$$

$$\mathrm{t} = 2.521$$

The calculated t value is greater than the t table value (1.653). This indicates that earnings quality can mediate the relationship between the board of directors and firm value (Fig. 3).

$$\mathrm{Sbc} = \sqrt{\mathrm{c^2sb^2 + b^2sc^2 + sb^2sc^2}}$$

$$\mathrm{Sbc} = \sqrt{\begin{array}{c}(69{,}975)^2\ (0{,}000)^2 + (0{,}000)^2\ (31{,}359)^2 \\ +(0{,}000)^2\ (31{,}359)^2\end{array}}$$

$$\mathrm{Sbc} = 0$$

Then calculate the t-value of the bc coefficient:

$$\mathrm{t = bc/sbc}$$

$$\mathrm{t} = 0$$

The calculated t value is smaller than the t table value (1.653). This indicates that earnings quality cannot mediate the relationship between institutional ownership and firm value (Fig. 4).

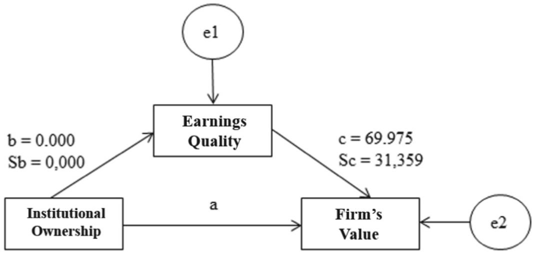

Fig. 3. Path Analysis of Eqs. 3 and 4 (Institutional Ownership). Source: Processed data (2021)

$$\mathrm{Sbc} = \sqrt{c^2 sb^2 + b^2 sc^2 + sb^2 sc^2}$$

$$\mathrm{Sbc} = \sqrt{\begin{array}{c}(79{,}210)^2\ (0{,}000)^2 + (0{,}00002732)^2\ (31{,}617)^2 \\ +(0{,}000)^2\ (31{,}617)^2\end{array}}$$

$$\mathrm{Sbc} = 0{,}00086$$

Then calculate the t-value of the bc coefficient:

$$t = bc/sbc$$

$$t = 2.516$$

The calculated t value is greater than the t table value (1.653). This indicates that earnings quality can mediate the relationship between managerial ownership and firm value (Fig. 5).

$$\mathrm{Sbc} = \sqrt{c^2 sb^2 + b^2 sc^2 + sb^2 sc^2}$$

$$\mathrm{Sbc} = \sqrt{\begin{array}{c}(70{,}506)^2\ (0{,}000)^2 + (0{,}000)^2\ (28{,}329)^2 \\ +(0{,}000)^2\ (28{,}329)^2\end{array}}$$

$$\mathrm{Sbc} = 0$$

Then calculate the t-value of the bc coefficient:

$$t = bc/sbc$$

$$t = 0$$

The calculated t value is smaller than the t table value (1.653). This indicates that earnings quality cannot mediate the relationship between independent commissioners and firm value.

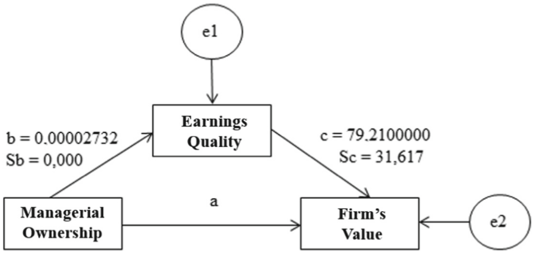

Fig. 4. Path Analysis Eqs. 5 and 6 (Managerial Ownership). Source: Processed data (2021)

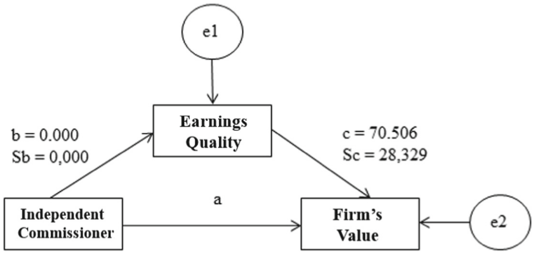

Fig. 5. Path Analysis Eqs. 7 and 8 (Independent Commissioner). Source: Processed data (2021)

4.3 Discussion

4.3.1 Board of Directors Size on Company Value with Earning Quality as Mediator

The results of testing the hypothesis of the effect of the size of the board of directors on firm value with earnings quality as a mediator indicate a significant effect. This is indicated by the results of the Sobel test, which shows that earnings quality can mediate the relationship between the size of the board of directors and firm value. Based on this conclusion, H1 in the study can be accepted. This study confirms the research conducted by [26], where earnings quality is a mediating variable between the board of directors and firm value. The board of directors can reduce agency costs because its presence can increase the supervision of managers. In addition, the board of directors can also ensure that managers will focus more on the interests of the owners rather than their interests so that the opportunity for managers to carry out earnings management practices will be reduced. The small opportunity for managers to practice earnings management will make the earnings reported in the financial statements more qualified. The company's financial statements that present quality earnings will positively impact the market. The community will have confidence in the company's competence in running its business so that people are willing to invest in the company. The high public interest in the company will impact the company's stock price. The company's stock price will increase so that the value owned by the company will also experience growth.

4.3.2 Measures of Institutional Ownership of Firm Value with Earnings Quality as Mediator

The results of the hypothesis testing the effect of institutional ownership on firm value with earnings quality as a mediator show no significant effect. This is indicated by the results of the Sobel test, which shows that earnings quality cannot mediate the relationship between institutional ownership and firm value. Based on this conclusion, H2 in the study was rejected. The results of this study do not confirm the research conducted by [30], which states that earnings quality is a variable that can mediate institutional ownership on firm value. However, the results of this study confirm the research conducted by [16], where earnings quality has not been able to mediate institutional ownership with firm value. [2] revealed that large institutional ownership can make performance management controls more effective, making company assets more efficient. In addition, institutional ownership is also considered an effective monitoring tool in management decisions, so managers will focus more on the company and reduce earnings management practices. However, in this study, institutional ownership has not been able to become an effective supervisory tool in management decision-making, so optimal supervision has not been created. The inability to create optimal supervision by institutional investors has increased the manager's opportunity to practice earnings management. This can cause the earnings reported in the financial statements to be of low quality so that public interest in the company's shares decreases. This decline in the public interest will affect the value currently owned by the company.

4.3.3 Managerial Ownership Measures of Firm Value with Earnings Quality as Mediation

The results of the hypothesis testing the effect of managerial ownership on firm value with earnings quality as a mediation show a significant effect. This is indicated by the results of the Sobel test, which shows that earnings quality can mediate the relationship between managerial ownership and firm value. Based on this conclusion, H3 in the study can be accepted. This study confirms research conducted that shows that earnings quality can mediate managerial ownership on firm value. The change in the position of managers from previously under the shareholders to being in line with the shareholders has minimized the tendency of managers to manipulate earnings so that earnings management practices will decrease, and this will ultimately have an impact on the quality of earnings reported by the company. More qualified earnings will be able to increase public confidence and ultimately affect the value of a company.

4.3.4 Independent Commissioner's Size on Company Value with Earning Quality as Mediator

The results of the hypothesis testing the effect of independent commissioners on firm value with earnings quality as a mediator show no significant effect. This is indicated by the results of the Sobel test, which shows that earnings quality cannot mediate the relationship between the size of independent commissioners and firm value. Based on this conclusion, H4 in the study was rejected. The results of this study do not confirm the research conducted by [30], who found the results that earnings quality was able to mediate independent commissioners with firm value. However, the results of this study confirm the research conducted by [16], where earnings quality has not been able to mediate independent commissioners on firm value. [11] stated that the more the number of independent commissioners, the better the supervisory function of the manager's activities, minimizing agency problems. However, in this study, independent commissioners have not been able to carry out their supervisory functions optimally. This causes managers to have a greater opportunity to practice earnings management. The high opportunity for managers to practice earnings management will negatively impact reported earnings, so the earnings are of less quality. Poor quality earnings reports will certainly affect public confidence in the company's ability to manage its capital. In addition, the decline in public confidence can also affect the company's stock price in the market. If the company's stock price has decreased, it indicates that the value of the company owned has also decreased.

5 Conclusions

Based on the test results, it can be concluded that earnings quality is a mediating variable for the size of the board of directors and managerial ownership of firm value. Meanwhile, earnings quality has not been able to become a mediating variable for institutional ownership and independent commissioners on firm value. This explains that the board of directors can reduce agency costs because its presence can increase the supervision of managers. The result also explains, that institutional ownership has not been able to become an effective supervisory tool in decision making by management so optimal supervision has not been created. That is, there are more effective monitoring tools that can be used for managerial decision-making. Changes in the position of managers from previously under the shareholders have minimized the tendency of managers to manipulate earnings, so that the quality of earnings reported by the company is better. The number of independent commissioners makes the supervisory functions better so that actions can be minimized. However, unfortunately, this is the opposite where the supervision carried out by independent commissioners has not been able to have a good impact on minimizing earnings management.

The limitation of this research is that the mediating variable, namely earnings quality, is only proxied by earnings management and is measured using the modified Jones model formula. In addition, the dependent variable, namely firm value, is only measured using Tobin's Q formula.

Suggestions that can be used in subsequent research are the mediating variable, namely the quality of earnings, which can be measured using other methods, such as the Earnings Response Coefficient (ERC) used by [14]. In addition, the dependent variable, namely firm value, can be measured using other methods such as Price to Book Value (PBV) used by Dewi and [8].

The research results imply that the board of directors must be able to maintain its supervisory function so that the opportunity for managers to practice earnings management will remain low. In addition, the share of ownership by managers needs to be added to the sample companies. This is because managerial ownership has reduced conflicts of interest between owners and managers so that the opportunity for earnings management practices will be lower. The ownership by investors and independent commissioners must increase supervision within the company more optimally so that the opportunity for managers to carry out earnings management practices will be smaller. There is a small chance that managers will be able to improve the quality of earnings reported in the financial statements so that people become interested in the company's shares and automatically increase the company's value.

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