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GOOD CORPORATE GOVERNANCE ORGANS, COMPANY SIZE AND ITS EFFECT ON EARNINGS QUALITY WITH EARNINGS MANAGEMENT AS AN INTERVENING VARIABLE IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2016-2020

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ABSTRACT
The research that the researcher conducted has the intention of testing the effect of managerial ownership, institutional ownership, audit committee, the proportion of independent commissioners, and firm size on earnings quality. The intervening variable in this study is earnings management with empirical studies on companies that are included in the IDX list for the 2016-2020 period. There are 193 companies that the researchers made as the population in the research that the researchers held. Purposive sampling is a sampling technique used by researchers and obtained as many as 28 companies as samples. The research carried out by researchers utilizes secondary data taken from annual reports obtained from the Indonesia Stock Exchange or company websites in the 2016-2020 period. The model used in the research is panel data regression using the Eviews 9 application. The results of the research are managerial ownership, institutional ownership, audit committee, and the proportion of independent commissioners simultaneously giving effect to earnings management and earnings quality. In addition, all variables have a significant partial effect on earnings management and earnings quality, except for the proportion of independent commissioners that does not have a significant effect on earnings quality. The mechanism of Good Corporate Governance in this study has a significant effect on earnings quality with earnings management as an intervening variable. However, firm size does not have a significant effect on earnings quality with earnings management as an intervening variable.

Keywords: *Good Corporate Governance, Managerial Ownership, Institutional Ownership, Audit Committee, Proportion of Independent Commissioners, Company Size, Earnings Management, Earnings Quality.*

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INTRODUCTION

Advances in technology and a rapidly growing economy have led to very tight competition in various parts of the world. This situation spurred the company to be able to compete and maintain its business. Various information provided by the company, financial statements are one of the many sources of information that can be accessed and used by external parties to assess the company's performance. Financial reports are included in one of the information that must be provided to be used as an instrument of management's accountability to the owner's resource processing (Boediono, 2005).

One of the elements in the financial statements is the income statement. The report is a report that presents information related to profits, expenses, and revenues obtained by a company

over a predetermined period. The profits obtained by the company are then used as performance benchmarks and information for debtors and creditors when making decisions in credit funding and investment activities. Companies that present profit reports with the highest profits will be good news for stakeholders who invest, then these stakeholders will not hesitate when investing in the company. Therefore, creditors will be more confident if they will get a profit from interest when returning the principal of the loan presented to the company.

Profit is included in one of the many elements of financial statements that are used as indicators in measuring manager performance during the reporting process and earnings that have predictive value. Profits that have good quality are profits that are givenbyh the actual situation without any manipulation from other parties who have an interest in it, then the profit in question can be used in making decisions. Manipulation that may be carried out by managers, namely on earnings management.

According to (Gumanti, 2000), earnings management is carried out by financial managers in the hope that there will be usefulness in what they do. This situation is very interestinexciting is because it will provide an explanation related to the behavior of managers when reporting their business activities in a predetermined period. Earnings management has various meanings, in this case earnings management is, related to efforts to manage earnings for predetermined interests based on various predetermined factors (Nur'aini & Raharja, 2012).

The management of a company affects the implementation of earnings management on earnings quality. This is due to the discovery of different interests between the owner and the agent. These different interests are known as agency conflict. Agency conflconflictses the presence of profit reporting with opportunities in optimizing their own profits. Managemehould take action for the welfare of the owner of the company, but it is not uncommon for management to reconsider due to the presence of financial risks that may be faced by the company and its own benefits. These pems have resulted in a decrease in the quality of earnings that are present in financial reporting

In fact in the business world, the implementation of earnings management is not infrequently associated with the presence of an indication of the quality of earnings held by the company. Earnings quality is defined as a profit capability when it responds to the market (Wahyuni & Muslim, 2010).

The agency problem is the problem behind the manipulation of financial reporting organized by the management of a company, because in agency theor there are differences in the interests of the principal and the agent. One of the fraudulent actions when making financial statements carried out by the managemis to increase the company's profits so that investors are interested in the company.

There are inconsistencies in previous studies related to earnings quality and earnings management. As research conducted by (Rahman, 2019) if earnings managemehas a significant effect on earnings quality, the problem in question does not get support from research conducted by (Nanang & Tanusdjaja, 2019) if earnings management has a significant negative effect on earnings quality .

One of the many methods used to minimze management fraudulent behavior by making earnings management is corporate governance. This is the main element when implementing

economic efficiency improvements, for example shareholders, the board of commissioners,, company management, and other stakeholders. Corporate Governance can be said to be a regulation that regulates relationships between various parties who have interests, for example creditors, investors, company managers and other stakeholders in a company. With the mechanism that organizes the regulation and control of the company, Corporate Governance also aims to maximize the long-term profits of shareholders. Corporate governance is used to control companies that act for external and other internal interests related to their obligations and rights.

According to (Midiastuty & Machfoedz, 2003) suggests that the mechanism of Good Corporate Governance can limit the behavior of managers as agents to carry out fraudulent actions in making financial statements in this case an action of earnings management. The research conducted by Midiastuty is not in line with the research carried out (Agustia, 2013).

Based on the implementation of the (Agustia, 2013), it can be conclude Austria if all elements of good corporate governance (managerial ownership, institutional, independent audit committee ratios, and audit committee size) have no significant effect on earnings management, then leverage has an effect, free cash flow there is a significant negative effect on earnings management. That is, companies with high free cash flow will place restrictions on the implementation of earnings management. In addition, according to research results (Octavia, hat if the size of the board of commissioners ratio signiantly has no effect on earnings management carried out by a company. Institutions that have fairly large shares can intervene in the company and the procedures for making its financial statements. Managerial ownership creates alignment between shareholders and managers to minimize opportunistic actions. The audit committee has a maximum function when supervising financial reports and internal audit performance.

Marcia Millon Cornett, Jamie John McNutt, Hassan Tehranian (2009) examined whether corporate goverand nance systems affect earnings and earnings management in the parent company of the largest publicly traded bank in the United States. Initially, find out if the company's governance, earnings management, and company performance are determined by itself. Therefore, the OLS estimation will result in a bias in the coefficients as well as the simultaneous equation approach used. The study provides evidence that pay sensitivity in CEO performance (PPS), board independence, and capital are positively related to earnings and earnings, board independence, and capital are negatively rela and ted to earnings management. We also find that PPS is positively related to earnings management. Finally, PPS and board independence are positively related, as well as bidirectional. Although PPS and board independence are associated with greater earnings, the results of this study provide evidence that a more independent board appears to impose a constraint on earnings management that forces greater PPS.

Sandra Alves (2012) examines the relationship between corporate ownership structure in Portugal and earnings management. Sandra found that discretionary accruals as a proxy for earnings management were negatively related to the concentration of ownership and managerial ownership. The results of the study prove that the concentration of ownership and managerial ownership increases the quality of annual earnings by reducing the level of earnings management.

METHOD

The form of research that the researcher conducts is causality research. According to (Sekaran, 2009) what is meant by causality research is included in the type of research used to explain the relationship between cause and effect that occurs in a problem. In the research that the researchers carry out, the researchers will analyze the influence of Good Corporate Governance, in this case the size of the company, the ratio of independent commissioners, managerial ownership, audit committees, and institutional ownership, become independent variables on earnings quality as the dependent variable.

1. **Research Sample**

   The data collection method used in the research that the researchers conducted was the purposive sampling method. The purposive sampling method is the determination of data samples with information that has been determined as the requirements needed by researchers in carrying out their research (Sekaran, 2009). The data criteria needed in the research that the researcher conducts are; 1) Manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2020; 2) Manufacturing companies that have a book closing date that ends on December 31 in one accounting period and have been audited from 2016 to 2020; 3) Manufacturing companies that have institutional shareholders from 2016 to 2020; 4) Manufacturing companies that have managerial shareholders from 2016 to 2020; 5) Companies that consistently generate profits in the 2016 – 2020 period. We get 28 companies that are included in the criteria and the researchers make samples.

2. **Data analysis method**

   a. Path Analysis

      The analytical technique used in the implementation of the research is path analysis. Path analysis is included in multiple linear regression analysis which is used with the aim of making estimates of causality relationships between predetermined variables based on predetermined theories. This analysis has not been able to establish a cause and effect relationship and has not been able to be used as a substitute for researchers in studying causal relationships between variables (Ghozali, 2018). This data processing uses the Eviews application.

   b. Sobel Test

      To determine the effect of X on Z through Y, the Sobel test concept will be used. Intervening hypothesis testing can be carried out by the process Sobel developed, known as the Sobel test. The Sobel test is carried out by testing how much influence the indirect strength of X has on Z through Y. The indirect effect of X on Z through Y is calculated by switching paths X and Y (a) with paths Y and Z (b) or ab.

   c. Coefficient of Determination

      The coefficient of determination is used to determine how much the independent variable variance can be defined by the dependent variable, and the rest that have not been able to be defined are elements of the variance of other variables that have not been included in the regression model. If R2 is small, it indicates that the capability of the independent variable to define the dependent variable is still limited (Ghozali, 2018). The value of R2 which

almost reaches 1 indicates that the independent variable provides most of the information needed to explain the dependent variable.

d. Model Fit Test (F Test)

The F test is used to determine a regression model simultaneously, whether all of the independent variables have a joint effect on the dependent variable (Ghozali, 2018). The model can be said to be suitable if the results of model testing are significant, and vice versa. The level of significance in the research that the researchers carried out was 0.05. If sig. 0.05, then the conclusion is drawn if the model is in accordance with the research. But if sig. > 0.05, the model is not in accordance with the research.

e. Effect Test (t test)

The t-test is useful in finding the history of the influence of the independent variables individually on the dependent variable (Ghozali, 2018). The research that the researcher carried out used a significance level of 0.05. If sig. 0.05, it can be concluded that if there is an individual effect on variable X on variable Y. But if sig. > 0.05, there is no individual effect of variable X on variable Y.

RESULTS AND DISCUSSION

Hypothesis testing

1. T test

The t-test generally has the objective of g showing the extent to which the influence of an independent variable is independent of the dependent variable. The level of significance that researchers used in conducting the research was 0.05 (α=5%). The acceptance or rejection of the hypothesis is carried out with the conditions, namely; a) If the magnitude of the Prob value. (0.05), conclusions can be drawn if the hypothesis is accepted; b) If the magnitude of the value of Prob. (0.05), conclusions can be drawn if the hypothesis is rejected.

The results of the multiple regression partial t-test of equations 1 and 2 are shown in the table below:

Table 1. Partial t test of Equation 1 (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.019599	2.654002	2.644911	0.0094
KM	-0.224400	0.090457	-2.480736	0.0147
KI	-0.672289	0.243228	-2.764031	0.0067
KA	-0.187525	0.078833	-2.378758	0.0191
DKI	-0.391975	0.182395	-2.149051	0.0339
UP	-0.208107	0.092062	-2.260497	0.0258

Source: Data processed with eviews 9, 2021

Table 2. Partial t test of Equation 2 (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	212.1765	52.91154	4.010023	0.0001
KM	14.82313	4.404425	3.365510	0.0011
KI	11.56165	5.542935	2.085835	0.0394
KA	-1.855060	0.634454	-2.923867	0.0042
DKI	-0.425024	3.579881	-0.118726	0.9057
UP	-7.469346	1.813068	-4.119726	0.0001
ML	-2.114888	0.492719	-2.322211	0.0221

Source: Data processed with eviews 9, 2021

Based on the results of the t-test in tables 1 and 2, then:

a. Hypothesis 1: There is an effect of managerial ownership on earnings management.

Based on the table above, it is found if the magnitude of the prob value. Managerial ownership variable (KM) 0.0147 <0.05, this matter shows if there is an effect of managerial ownership on earnings management. Based on the statistical processing that has been described previously, conclusions can be drawn if the first hypothesis is declared accepted.

b. Hypothesis 2: There is an effect of institutional ownership on earnings management.

Based on the table above, it is found if the magnitude of the prob value. Institutional ownership variable (KI) 0.0067 <0.05, this shows that the effect of institutional ownership on earnings management is found. Based on the statistical processing described previously, conclusions can be drawn if the second hypothesis is accepted.

c. Hypothesis 3: There is an effect of the audit committee on earnings management.

Based on the table above, it is found if the magnitude of the prob value. The audit committee variable (KA) 0.0191 < 0.05, this shows that the effect of the audit committee on earnings management is found. Based on the statistical processing that has been described previously, conclusions can be drawn if the third hypothesis is accepted.

d. Hypothesis 4: There is an effect of the proportion of independent commissioners on earnings management.

Based on the table above, it is found if the magnitude of the prob value. Variable independent board of commissioners (DKI) 0.0339 <0.05, this matter shows if found the effect of the proportion of independent commissioners on earnings management. Based on the statistical processing described previously, conclusions can be drawn if the fourth hypothesis is accepted.

e. Hypothesis 5: There is a simultaneous effect of managerial ownership, institutional ownership, the proportion of independent commissioners and audit committees on management.

Based on the table above, it is found that the magnitude of the F value (Statistic) in equation 1 is 0.000 < 0.05. Which means that managerial ownership, institutional ownership, audit committee and independent board of commissioners simultaneously have an effect on

earnings management. Based on the statistical processing described previously, conclusions can be drawn if the fifth hypothesis is accepted.

f. Hypothesis 6: There is an effect of firm size on earnings management.

Based on the table above, it is found if the magnitude of the prob value. Firm size (UP) < critical probability value (α = 5%) worth 0.0258 < 0.05, this shows that the influence of firm size on earnings management is found. Based on the statistical processing described previously, conclusions can be drawn if the sixth hypothesis is accepted.

g. Hypothesis 7: There is an effect of managerial ownership on earnings quality

Based on the table above, it is found if the magnitude of the prob value. Managerial ownership variable (KM) 0.0011 <0.05, this matter shows if there is an influence of managerial ownership on earnings quality. Based on the statistical processing described previously, conclusions can be drawn if the seventh hypothesis is accepted.

h. Hypothesis 8: There is an effect of institutional ownership on earnings quality

Based on the table above, it is found if the magnitude of the prob value. Institutional ownership variable (KI) 0.0394 <0.05, this shows that the effect of institutional ownership on earnings quality is found. Based on the statistical processing described previously, conclusions can be drawn if the eighth hypothesis is accepted.

i. Hypothesis 9: There is an effect of the audit committee on earnings quality

Based on the table above, it is found if the magnitude of the prob value. The audit committee variable (KA) 0.0042 <0.05, this shows that the audit committee's influence on earnings quality is found. Based on the statistical processing described previously, conclusions can be drawn if the ninth hypothesis is accepted.

j. Hypothesis 10: There is an effect of the proportion of independent commissioners on earnings quality

Based on the table above, it is found if the magnitude of the prob value. Variable independent board of commissioners (DKI) 0.9057 > 0.05, this matter shows if there is no effect of the proportion of independent commissioners on earnings quality. Based on the statistical processing described previously, conclusions can be drawn if the tenth hypothesis is rejected.

k. Hypothesis 11: There is a simultaneous effect of managerial ownership, institutional ownership, the proportion of independent commissioners and audit committees on earnings quality.

Based on the table above, it is found that the magnitude of the F value (Statistic) in equation 2 is 0.000 < 0.05. Which implies that managerial ownership, institutional ownership, audit committee and independent board of commissioners simultaneously have an effect on earnings quality. Based on the statistical processing described previously, conclusions can be drawn if the eleventh hypothesis is accepted.

l. Hypothesis 12: There is an effect of firm size on earnings quality

Based on the table above, it is found if the magnitude of the prob value. Firm size (UP) 0.0001 < 0.05, this matter shows if the influence of firm size on earnings quality is found. Based

on the statistical processing described previously, conclusions can be drawn if the twelfth hypothesis is accepted.

m. Hypothesis 13: There is an effect of earnings management on earnings quality

Based on the table above, it is found if the magnitude of the prob value. Earnings management (ML) 0.0221 <0.05, this shows that the effect of earnings management on earnings quality is found. Based on the statistical processing that has been described previously, conclusions can be drawn if the thirteenth hypothesis is accepted.

Multiple regression analysis was used to find out the direct relationship of the independent variables of firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership to earnings management. The results of testing equation 1 after going through the Chow and Hausman tests, the model used is the fixed effect model which is presented in the table below:

Table 3. Regression Analysis Equation 1 (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.019599	2.654002	2.644911	0.0094
KM	-0.224400	0.090457	-2.480736	0.0147
KI	-0.672289	0.243228	-2.764031	0.0067
KA	-0.187525	0.078833	-2.378758	0.0191
DKI	-0.391975	0.182395	-2.149051	0.0339
UP	-0.208107	0.092062	-2.260497	0.0258

Source: Data processed with eviews 9, 2021

Based on the regression results in the table above, the relationship between the variables of firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership on earnings management can be presented in the following equation:

$$ML = 7.019 - 0.224\ KM - 0.672\ KI - 0.187\ KA - 0.391\ DKI - 0.208\ UP$$

The above equation means that:

a. The constant c is 7,019, which means that if the variables of firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership are 0 (no change), earnings management has a value of 7,019
b. The managerial ownership variable regression coefficient of -0.224 shows a negative direction. Which holds meaning if managerial ownership has decreased by 1 percent while other variables are constant, therefore earnings management will increase by 22.4 percent.
c. Institutional ownership variable regression coefficient of -0.672 shows a negative direction. Which holds meaning if institutional ownership decreases by 1 percent while other variables are constant, therefore earnings management will increase by 67.2 percent.

d. The audit committee variable regression coefficient of -0.187 shows a negative direction. Which holds meaning if the audit committee has decreased by 1 percent while other variables are constant, therefore earnings management will increase by 18.7 percent.
e. The board of commissioners variable regression coefficient of -0.391 shows a negative direction. Which holds meaning if the board of commissioners decreases by 1 percent while other variables are fixed/constant, therefore earnings management will increase by 39.1 percent.
f. The regression coefficient of the firm size variable is -0.208 which shows a negative direction. Which holds meaning if the size of the company decreases by 1 percent while other variables are constant, therefore earnings management will increase by 20.8 percent.

Table 4 Regression Analysis Equation 2 (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	212.1765	52.91154	4.010023	0.0001
KM	14.82313	4.404425	3.365510	0.0011
KI	11.56165	5.542935	2.085835	0.0394
KA	-1.855060	0.634454	-2.923867	0.0042
DKI	-0.425024	3.579881	-0.118726	0.9057
UP	-7.469346	1.813068	-4.119726	0.0001
ML	-2.114888	0.492719	-2.322211	0.0221

Source: Data processed with eviews 9, 2021

Based on the regression results in the table above, the relationship between firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership as well as earnings management intervening variables on earnings quality can be presented in the following equation:

$$KL = 212.177 + 14.823\ KM + 11.562\ KI - 1.855\ KA - 0.425\ DKI - 7.469\ UP - 2.115\ ML$$

The above equation means that:

a. Constant c is 212.177, it means that if the independent variable is firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership and earnings management intervening variable is 0 (no change), then earnings quality has a value of 212.177.
b. The managerial ownership variable regression coefficient of 14,823 shows a positive direction. Which means that if managerial ownership increases by 1 percent while other variables are constant, it can be concluded that earnings quality will increase by 1482.3 percent.
c. The institutional ownership variable regression coefficient of 11,562 shows a positive direction. Which means that if institutional ownership increases by 1 percent while other variables are constant, it can be concluded that earnings quality will increase by 1156.2 percent.

d. The audit committee variable regression coefficient of -1.855 indicates a negative direction. Which means that if the audit committee decreases by 1 percent while other variables are constant, it can be concluded that the earnings quality will increase by 185.5 percent.
e. The regression coefficient for the board of commissioners variable is -0.425, indicating a negative direction. Which means that if the board of commissioners decreases by 1 percent while other variables are constant, it can be concluded that the quality of earnings will increase by 42.5 percent.
f. The regression coefficient of the firm size variable is -7.469 which proves the negative direction. Which means that if the size of the company decreases by 1 percent while other variables are constant, it can be concluded that the earnings quality has increased by 746.9 percent.
g. The earnings management variable regression coefficient of -2.115 indicates a negative direction. Which means that if earnings management has decreased by 1 percent while other variables are constant, it can be concluded that earnings quality will increase by 211.5 percent.

2. Sobel Test

Table 5. Sobel Test Calculation Results

Hypothesis	*Standard Error*	*Nilai t-hitung*
Managerial ownership	0.22	2.155
Institutional Ownership	0.62	2.292
Audit Committee	0.19	2.079
Independent Board of Commissioners	0.44	1.880
Company Size	0.22	1.999

Based on the above calculation, then:

a. Hypothesis 14: There is an effect of managerial ownership on earnings quality mediated by earnings management. The value of t arithmetic (KM) > t table value (α = 5%) is 2.155 > 1.977, this finding provides evidence if there is an effect of managerial ownership on earnings quality mediated by earnings management. Based on the statistical processing that has been described previously, a conclusion can be drawn if the fourteenth hypothesis is declared accepted.
b. Hypothesis 15: There is an effect of institutional ownership on earnings quality mediated by earnings management. The value of t count (KI) > t table value (α = 5%) is 2.292 > 1.977, this finding provides evidence that there is an effect of institutional ownership on earnings quality mediated by earnings management. Based on the statistical processing that has been described previously, a conclusion can be drawn if the fifteenth hypothesis is declared accepted.
c. Hypothesis 16: There is an effect of the audit committee on earnings quality mediated by earnings management. The value of t count (KA) > t table value (α = 5%) is 2,079 > 1,977, this finding provides evidence if there is an effect of the audit committee on earnings quality

mediated by earnings management. Based on the statistical processing that has been described previously, it can be concluded that the sixteenth hypothesis is accepted.

- Hypothesis 17 : There is an effect of the proportion of independent commissioners on earnings quality mediated by earnings management. The value of t count (DKI) > t table value (α = 5%) is 1,880 < 1,977, this finding provides evidence that there is no influence of independent commissioners on earnings quality mediated by earnings management. Based on the statistical processing that has been described previously, a conclusion can be drawn if the seventeenth hypothesis is accepted.

d. Hypothesis 18: There is an effect of firm size on earnings quality mediated by earnings management. The t value of the firm size variable (UP) > t table value (α = 5%) is 1.883 < 1.977, this finding provides evidence that there is no effect of firm size on earnings quality mediated by earnings management. Based on the statistical processing that has been described previously, a conclusion can be drawn if the eighteenth hypothesis is accepted.

3. Simultaneous F Test

The results of the f test in equations 1 and 2 are presented in the table below:

Table 6. F Statistical Test Results

Model	Prob. F	Alpha level (a = 5 %)	Final decision
Equality 1	0.0000	0.0000 < 0.05	Simultaneous Effect
Equality 2	0.0000	0.0000 < 0.05	Simultaneous Effect

Source: Data processed with eviews 9, 2021

The test results in the table above, indicate if the prob value. F (Statistics) in equation 1 is 0.000 <0.05. Which implies that the size of the company, independent board of commissioners, managerial ownership, audit committee, and institutional ownership simultaneously have an effect on earnings management.

The test results in the table above prove that the prob value. F (Statistic) in equation 2 is 0.000 < 0.05. Which implies that the size of the company, independent board of commissioners, managerial ownership, audit committee and institutional ownership, and earnings management simultaneously have an effect on earnings quality.

4. Coefficient of Determination Test

The results of the coefficient of determination in the implementation of the research are shown in the following table below:

Table 7. Coefficient of Determination (R^2)

Equality	R-Square	Adjusted-R Square
Equality 1	0.951643	0.937181
Equality 2	0.539963	0.396744

Source: Data processed with eviews 9, 2021

Based on the results of the coefficient of determination in the table above, the adjusted r square value in equation 1 is 0.9372 which proves that firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership have a strong relationship with earnings management. The proportion of the effect of firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership on earnings management is 93.72 percent while the remaining 6.28 percent (100 – 93.72 percent) has the influence of other variables that the researcher did not use in this study.

The value of adjusted r square in equation 2 is 0.3967 which proves that company size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership and earnings management have a sufficient relationship to earnings quality. The proportion of the effect of firm size, independent board of commissioners, managerial ownership, audit committee, and institutional ownership and earnings management on earnings quality is 39.67 percent while the remaining 60.33 percent (100 – 39.67 percent) has the influence of other variables that have not been used by researchers in conducting research.

Discussion

Hypothesis one, with managerial ownership, management's position will be in line with company owners who are able to unite or adjust the priorities of management with stockholders, which makes management take the same action as investors as usual and will not carry out earnings management to monitor the actual state of the company. The results of the research that the researchers carried out received support from research conducted by (Octavia, 2017), he explained that managerial ownership had a significant influence on earnings management. (Octavia, 2017) states that the lower level of managerial ownership in the company will increase the implementation of earnings management. These results are not in line with research from (Agustia, 2013). According to Agustia, companies have a tendency to make regulations in carrying out earnings management from the perspective of the wishes of shareholders, for example by increasing the level of profit given in the financial statements and making many potential investors feel interested in investing and can increase the company's share price.

Hypothesis two, in the research that the researchers carried out proved that institutional ownership had an effect on earnings management. When examined from the pattern of existing relationships, the effect found is negative. The results of the research that the researchers carried out did not support the research carried out (Suryani & Rahardja, 2010), Suryani proved that there was a significant negative effect of ownership on earnings management. This party proves that the shares owned by institutional investors are able to play a role in preventing and resolving earnings management practices carried out by the company's managers.

Hypothesis three, the authority, responsibility, and task of the audit committee is to serve the board of commissioners. In addition, the audit committee has the authority to limit the earnings management practices of a company. This is in accordance with research conducted by (Octaviani, 2018) where the audit committee has a significant negative effect on earnings management. The research that the researcher carried out did not get support from the results of the research carried out (Nanang & Tanusdjaja, 2019) in which the research results stated that the audit committee had no significant effect on earnings management.

The fourth hypothesis, according to the results of the research that the researchers carried out, was that this amount was sufficient to implement Good Corporate Governance. With its status as an independent party, the independent board of commissioners can play a free and active role because there is no conflict of interest for the board of other stakeholders who are bound by the company. The research that the researcher carried out was in accordance with (Octaviani, 2018) which said that if the independent board of commissioners had a significant effect on earnings management. However, the research that the researchers carried out did not get support from research conducted by (Nanang & Tanusdjaja, 2019) independent commissioners, which had no significant effect on earnings management.

Hypothesis five, the GCG organ in the research implementation is the audit committee, independent board of commissioners ratio, institutional ownership, and managerial ownership can effectively suppress earnings management practices. As quoted from a book written by (Suratman, 2018) that (Ahmad, 2005) argues that if a company implements a GCG implementation system diligently and optimally it will bring benefits to a company.

Hypothesis six, large companies tend to be more careful in running their business and financial reporting, the financial statements of large companies tend to report the condition of the company according to the actual situation. Because, large companies are usually noticed by the public or the public. The results of the research carried out by the researchers are in accordance with the research of (Pramudhita & Sugiyanto, 2017) which says that the size of the company has an influence on earnings management. However, it is not in harmony when compared with the results of research conducted by (Selviani, 2017) which states that company size has no effect on earnings management. Companies that have large total assets tend to be highlighted by the public if a comparison is made with small companies that have accumulated a large number of small assets. Thus, large companies have a tendency to carry out earnings management practices so that they are judged by the public as companies with good performance.

The hypothesis of seven companies with high managerial ownership is not oriented to current earnings, they tend to focus on earnings quality, what is meant by earnings quality here is persistent earnings in the future. The research carried out by the researcher is in accordance with the research conducted by (Octavia, 2017) which shows that managerial ownership has an influence on the quality of a company's earnings. However, it is inversely proportional to the research conducted by (Rachmawati & Triatmoko, 2007) who conducted research that discussed several factors that had an influence on earnings quality. The results of the study provide evidence that institutional ownership and managerial ownership have no effect on earnings quality.

Hypothesis eight, institutional ownership has the capability to minimize the incentives of managers who prioritize themselves by increasing supervision more intensely. Institutional ownership is able to minimize the possibility of management carrying out earnings management actions on financial statements which will later report the quality of existing earnings. In addition, institutional ownership invests in the long term so that the persistence of the profits generated by the company must be good so that the survival of a company can be maintained. These results are in line with research from (Oktaviani et al., 2015) that institutional management has an influence on earnings quality. However, the results that researchers get are not in accordance with the research

conducted (Octaviani, 2018) if institutional ownership has no significant effect on earnings quality. This is caused by institutional investors who are only made temporary owners who have a focus on current profits.

Hypothesis nine, with the presence of an audit committee, a company will report its financial statements according to the actual situation. In addition, with the existence of an audit committee, the internal control of a company will run as it should. The research that the researcher carried out was in line with the research conducted by (Octaviani, 2018) if the audit committee had a significant effect on earnings quality. However, the research that the researchers carried out did not receive support from the research carried out (Sari, 2018). This problem is due to the fact that the formation of an audit committee in the company is only a formality with the aim of implementing the applicable policies, which causes the failure of efforts to minimize earnings management and maximize earnings quality.

Hypothesis ten, the supervision of the company's operations by independent commissioners is proven not to be optimal, this is caused by the lack of an independent board of commissioners ratio in a company. The lack of supervision is the cause of the ongoing tendency of fraud in a company which has an impact on the decline in company profits that are not in line with actual conditions. The results of the research that the researchers carried out received support from the research carried out (Nanang & Tanusdjaja, 2019) if the proportion of independent commissioners had no significant effect on earnings quality. But this does not get support from research (Octaviani, 2018) that the ratio of independent commissioners has an effect on earnings quality. With the presence of the board of commissioners, supervision on the implementation of GCG will be more optimal by using an independent board of commissioners not only to supervise management, but also to supervise the board of commissioners when carrying out their duties.

The eleventh hypothesis, the organs of Good Corporate Governance in the research that the researchers carried out were Managerial Ownership, Institutional Ownership, Audit Committee and the Proportion of the Independent Board of Commissioners effective when creating a stable company to maintain the sustainability of a company's business. By maintaining the environment of a company that is carried out with good internal control, a company is likely to obtain good quality earnings in the future. In addition, the implementation of Good Corporate Governance can provide an increase in the value of the company, both in the eyes of the public and investors. This is very useful for the sustainability of a company.

The twelfth hypothesis is that the larger the size of the company, the better the quality of earnings obtained, because large companies tend to practice good corporate governance. Meanwhile, small companies will find it difficult to carry out good corporate governance because they need large enough capital to do these things, for example the salary burden for commissioners. The results of the research that the researcher carried out were in accordance with the research conducted by (Warianto & Rusiti, 2014) which said that if the independent variable company size had a significant negative effect on earnings quality. However, the research that the researchers carried out did not get support from the research conducted by (Safitri & Afriyenti, 2020) saying that if the size of the company had no significant effect on earnings quality. In his research (Safitri &

Afriyenti, 2020) explained that large-scale manufacturing companies will support companies to generate profits with optimal quality.

Hypothesis thirteen, good earnings quality is reflected in financial statements that do not contain elements of manipulation. One of the many efforts undertaken by managers in generating profits is through earnings management. The research that the researchers carried out received support from research conducted by (Nanang & Tanusdjaja, 2019) which said that earnings management had an influence on earnings quality. However, not getting support from research conducted by (Vika, 2021) with the presence of managerial ownership in a company will later lead the company to a better direction, because managerial ownership has a dual role, namely as direct owner and managerial management.

The fourteenth hypothesis, managerial ownership can be involved in decisions taken by companies related to future policies, of course managerial ownership will not make decisions only to increase current earnings, but will prioritize the sustainability of the company. This result is in line with research from (Oktaviani et al., 2015) if earnings management can mediate the relationship between managerial ownership and earnings quality. However, not getting support from research conducted by (Nanang & Tanusdjaja, 2019) earnings management variables cannot mediate the relationship between Corporate Governance in this case managerial ownership and earnings quality. The results of the research that the researchers carried out concluded that managerial ownership had no direct or indirect effect on earnings management on earnings quality.

The fifteenth hypothesis, with institutional ownership, will monitor the company. With good monitoring, therefore the implementation of earnings management will be smaller. This problem makes earnings management able to strengthen the relationship between institutional ownership and earnings quality. The results of the research that the researchers carried out were not in accordance with the research conducted (Oktaviani et al., 2015) which said that there was no significant effect of institutional ownership on earnings quality mediated by earnings management. However, the research that the researchers carried out received support from the results of research conducted by (Nanang & Tanusdjaja, 2019) if earnings management can mediate the relationship between institutional ownership and earnings quality.

Sixteenth hypothesis, the number of audit committees in each company that implements GCG tends to be minimal, but with the responsibility, capacity and capability of the audit committee, this can result in a lack of earnings management in a company, with a lack of earnings management in a company, the profit generated from the company will also have a good quality. The results of the research that the researchers carried out were in accordance with the research conducted by (Oktaviani et al., 2015) which stated that the audit committee had a significant effect on earnings quality with earnings management as the intervening variable. However, the research that the researchers carried out did not receive support from research conducted by (Nanang & Tanusdjaja, 2019) which stated that earnings management had not been able to strengthen the relationship between the audit committee and earnings quality. This problem is because the presence of an audit committee in a company is only for the sake of applicable policies and the elected members of the audit committee do not have the ability to carry out their responsibilities, so that the audit

committee has not been able to have a good influence on the quality of earnings or earnings management.

Hypothesis seventeen, with the presence of an independent board of commissioners, the audit of a company will run effectively and according to the contents of the applicable legislation. This effective supervision occurs because the independent commissioner has no conflict of interest with the managers. The results of this study are supported by (Nanang & Tanusdjaja, 2019) who stated that the proportion of independent commissioners has an influence on earnings quality with earnings management as an intervening variable.

Hypothesis eighteen, earnings management does not only take place in large companies, but can also take place in small companies that are developing. One of the motives for the occurrence of earnings management in large and small companies is to be able to attract investors to invest in companies with a reflection of current earnings that promise profits. With such a large profit for the year, it seems as if the performance of the company is good, even though this matter is not in line with the actual situation.

CONCLUSION

Based on the research objectives presented in CHAPTER I of this thesis, it can be concluded that the research results are; 1) The proportion of independent commissioners, audit committees, institutional ownership and managerial ownership either partially or simultaneously has a significant effect on earnings management. In addition, the size of the company also has a significant effect on earnings management; 2) Audit committee, institutional ownership, and managerial ownership partially and significantly have an effect on earnings quality, then for the proportion of independent commissioners there is no significant effect on earnings quality. In addition, the proportion of independent commissioners, audit committees, institutional ownership, and managerial ownership simultaneously and significantly has an effect on earnings quality. In addition, company size also has a significant effect on earnings quality; 3) Earnings management has a significant effect on earnings quality; 4) Earnings management can significantly mediate the relationship between the proportion of independent commissioners, audit committees, institutional ownership, and managerial ownership on earnings quality. However, firm size does not have a significant effect on earnings quality with earnings management as an intervening variable.

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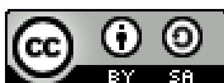
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