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**| RESEARCH ARTICLE**

## **The Effect of Good Corporate Governance and Earnings Quality on Firm Value: An Empirical Study of LQ 45 Companies, Indonesia**

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**| ABSTRACT**

This study aimed to determine the effect of good corporate governance and earnings quality on firm value. The population in this study were companies included in the LQ 45 index for the 2017-2020 period, a total population of 45 companies included in the LQ 45 index, 31 companies were selected to be the research sample. As a result, the total observations made for 2017 to 2020 were 124 observations, while the research method used correlational research. The study results were as follows: institutional ownership, managerial ownership, the composition of the independent board of commissioners, audit committee, and earnings quality simultaneously affect the firm value variable by 84%, the rest of 16% was explained by other reasons outside the model. While partially, only the composition of the independent board of commissioners (IC) affected firm value (FV), while the variable institutional ownership (IO), managerial ownership variable (MO), audit committee variable (AC), and earnings quality variable (EQ) was no effect on firm value (FV).

**| KEYWORDS**

Good Corporate Governance, Earnings Quality, Firm Value

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### **1. Introduction**

GCG is defined as one of several essential elements in a market economy. This is closely related to good trust in the implementing company and provides a conducive and suitable business climate. This sound GCG system will later be able to increase investors' trust and impress them and then be interested in carrying out investment in Indonesia. Exemplary GCG implementation is crucial for creating a solid foundation for the company to increase corporate value based on good management practices.

The Indonesia Stock Exchange (IDX) has 38 stock indices, 38 of which are classified according to specific criteria. One of them is the LQ 45 index which is defined as an index that is useful for measuring stock performance on 45 stocks that have a large market capitalization high liquidity and are also driven by a good company basis; reviews and share replacements are carried out four times a year, namely two reviews. The large ones were carried out in January and July, which took effect in February and August. This central review is carried out to review the weights and index constituents helpful in calculating the index. Then two minor reviews are carried out in May and November to review the index's weight (Idx.co.id, 2021).

Investors tend to choose companies that have shares on the LQ45 index. This is due to strict selection criteria and continuous monitoring by the IDX. Investors believe that they can invest in LQ 45 shares because they feel that the shares they buy are good stocks with good prospects, and the value of the shares will be high. Until the end of September 2018, it was recorded that there was a correction, a decline of 12.34% compared to the JCI performance for the same period. Based on these 45 stocks, there are only nine stocks that have recorded positive performance since the beginning of 2018.

Meanwhile, the other 36 stocks still have negative performance records. One of the things that drove the weakness of the LQ 45 index was the correction of stocks originating from the construction sector, in which the construction sector was indeed under

pressure this year. This can be reflected in the sector index, which decreased by 12.17%. In 2020, the Indonesia Composite Indeks (ICI) was still quite poorly corrected, down 20.56%. The LQ 45 index, considered the reference index for the Indonesian capital market, is precise since this index has good business prospects and a liquid stock component, which was corrected more sharply with a value of 24.67%.

It was recorded that nine constituent stocks of LQ 45 even corrected above 40%. Certain factors can emphasize the ICI performance for January 2020, namely the potential for a third world war to happen, and the second factor is the expansion of the coronavirus infection to become a factor that can cause the ICI performance to be depressed. Even the UN World Health Organization, WHO, then declared an international emergency regarding the spread of this coronavirus (Bareksa.com, 2020).

Many studies conducted still show inconsistent results. This can be influenced by positive or negative sentiments in the business world, which can affect investor confidence in investing, especially with the negative sentiment of the coronavirus outbreak in 2020, which greatly affected the state of the economy in Indonesia and could have an impact on the world economy as a whole. In other words, increasing the company's value requires a practice of implementing Good Corporate Governance in the company, and earnings quality factors can also affect the company's value. This profit is defined as a valuable indicator to measure the operational performance of a particular company. This profit can evaluate management performance, predict future earnings, and calculate earnings power.

## **2. Literature Review**

### **2.1 Agency Theory**

Referring to the description stated by (Jensen & Meckling, 1976), agency theory describes the contractual relationship between several people who act as a principal, including the delegation of authority in decision making, and the appointment of another person as an agent who performs services representing the interests of the principal.

### **2.2 Firm Value**

This liquidation value can be calculated in the same way as calculating the book value, which is based on the performance balance that was previously prepared when the particular company will be liquidated (Widianingsih, 2018). The firm value variable in this study was measured using the Tobins'Q method. This method is calculated by comparing the ratio of the market value of the company's stock to the book value of the company's equity (Weston & Copeland, 2001).

### **2.3 Good Corporate Governance**

Good Corporate Governance is defined by a system or series of regulations that implement governance arrangements that involve certain interested parties, especially the relationship that involves the board of commissioners and shareholders and to fulfill the company's targets (Wibisono, 2007:10)

### **2.4 Return on Assets**

ROA is defined by a ratio that describes how far the company's ability or capacity is in optimizing all existing assets or assets in order to generate net profit after tax (Kasmir, 2017). In this research, DAR was also used as a control variable.

### **2.5 Debt to Asset Ratio**

Debt to Asset Ratio is defined by a ratio that is useful for comparing and also seeing the total debt the company has with total existing assets, or it is useful for reviewing the number of company assets funded by debt (Kasmir, 2017). In this research, DAR was also used as a control variable.

### **2.6 Institutional Ownership**

Institutional ownership is defined by the ownership of company shares by several financial institutions, for example, pension funds, insurance companies, and banks (Dahlia, 2018). With concentrated ownership of the company's shares, the owner will monitor its implementation effectively, and this causes management will be more careful in carrying out decision making.

Based on the results of hypothesis testing from (Lestari, 2017), it was found that institutional ownership contributes to the impact on firm value. This is in line with the results of the research conducted (Sutopo et al., 2018). The results of this study are different from the results of research conducted by (Dahlia, 2018), which stated that based on the results of the regression carried out, shows that institutional ownership does not contribute significantly to firm value, this is because the function of monitoring for institutions that have shares in companies in the industrial and consumer goods sectors are not strong in giving influence to the management in carrying out business decisions taken.

H1: Institutional ownership affects firm value

### **2.7 Managerial Ownership**

Managerial ownership is defined as the shares owned by the management of the company. This shared ownership adjusts for potential differences involving parties who hold outside shares with management. Thus, this agency problem is considered to be lost if a manager is an owner of the company (Dahlia, 2018).

This strengthens the agency cost theory, which explains that managerial ownership is defined by an effective mechanism to solve agency problems. Meanwhile, referring to the results of research conducted by (Endri, 2019), it is stated that managerial ownership does not contribute to the impact on the value of companies listed in ISSI, as well as managerial ownership as measured by Tobin's Q has a significant negative effect on firm value.

H2: Managerial ownership affects firm value

### **2.8 Independent Commissioner**

An independent board of commissioners plays a fundamental role in carrying out the strategy and supervision of the company's operations and also provides assurance that these managers are seriously improving the company's performance. The independent board of commissioners is the most important element of corporate governance whose task is to carry out guarantees for the sustainability of the company's strategy, carry out supervision of the management in carrying out company management and ensure company accountability (Fadillah, 2017). Referring to the results of research conducted by (Sutopo et al., 2018), it is explained that the independent board of commissioners has an influence on firm value. This is supported by the results of research conducted by (Fauzi et al., 2016), which explains that GCG is measured using independent commissioners, which give a positive effect on firm value.

H2: Composition of the independent board of commissioners affects firm value

### **2.9 Audit Committee**

The audit committee is defined as one of the various basic mechanisms contained in corporate governance and is an expectation for stakeholders to implement restrictions on the behavior of company managers (Amaliyah & Herwiyanti, 2019). The audit committee's main task is to carry out supervision for the financial reporting process to ensure that the manager carries out transparent reporting on the company's performance and there is no manipulation of company data. Research on audit committees on firm value has been studied by (Widianingsih, 2018), which states that audit committees affect firm value. The results of this study were in line with the results of research conducted by (Sutopo et al., 2018), which suggests that the quality of this audit has a significant influence on firm value.

H4: Audit committee affects firm value

### **2.10 Earning Quality**

According to (Scott, 2012), he explained that earnings quality is defined by several criteria that are special considerations in carrying out measurements to see how far the information presented in the financial statements is biased in describing the actual state of the company. In addition, financial statement information must be able to be used in predicting the company's performance for the next period of time. The same thing was also expressed by (Machdar et al., 2018), who said that the quality of earnings had a negative effect on firm value. In their research using the control variables Leverage and Debt-Equity Ratio (DER), only the leverage control variable has an influence on firm value.

H5: Earning quality affects firm value

## **3. Methodology**

This study used a quantitative approach, while the research method used is correlational research. In this study, the research population was companies that were included in the LQ 45 index on the Indonesia Stock Exchange during the 2017-2020 period, a total population of 45 companies included in the LQ 45 index, 31 companies were selected as research samples. As a result, the total observations made for the period 2017 to 2020 were 124 observations. The technique of processing data was using the classical assumption test, which consists of testing for normality, heteroscedasticity, multicollinearity, and also autocorrelation. For this research, the research data analysis technique used was in the form of multiple regression analysis methods, hypothesis testing using the significance of individual parameters, and also the goodness of fit.

## 4. Results and Discussion

### 4.1 Descriptive Statistic

**Table 4.1 Descriptive Statistics**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
IO	31	0.164	0.996	0.67010	0.289553
MO	31	0.000	0.124	0.00619	0.022846
IC	31	0.286	0.818	0.41823	0.111815
AC	31	0.645	1.000	0.91519	0.091726
EQ	31	-13.765	5.926	1.11723	3.035653
ROA	31	0.001	0.385	0.08097	0.083957
DAR	31	0.141	0.868	0.51645	0.222053
FV	31	0.902	18.080	2.41226	3.267675
Observasion		124	124	124	124
Valid N (listwise)	31				

(Source: processed with SPSS Statistics 26, 2021)

An explanation of the descriptive statistics of each variable in this study is as follows:

In total (N) research, there were 31 that fell into the category of LQ 45 companies on the IDX for four consecutive years, which were composed of institutional ownership, managerial ownership, the composition of independent commissioners, audit committee, earnings quality, with control variables return on assets (ROA), debt to asset ratio (DAR) and firm value (FV).

Based on descriptive statistical measurements, it showed that the average value for institutional ownership variables in 2017 to 2020 was 0.6701, meaning that the shares owned by institutions or institutions for the period 2017 to 2020 from 124 research samples were worth 67%, this value was higher than the standard deviation value, which is 0.2895 (28.95%). This showed that the variance of institutional ownership of the research sample companies during the study period was low or showed that the data points of this study were close to the average (mean) or there was no large gap between the highest and lowest institutional ownership ratios.

The average value of manager ownership for 2017 to 2020 was 0.0062. In this case, it meant that the percentage of share ownership from the management and directors who had direct involvement in company decisions for the period 2017 to 2020 of 124 research samples is 0.62%. This value was lower than the standard deviation value, which is 0.0228 (2.28%). This showed that the variance for the ownership of company managers in the research sample during that period is high, or it can be stated that the research sample carried out in this study had data points that are spread over a wider and more biased range of values. For the manager's ownership, this data deviation can be declared bad, and this is because there were data that are considered extreme. This extreme data can be reviewed based on the magnitude of the minimum value of managerial ownership, which was 0% which 20 companies out of the 31 sample companies own. This showed that the majority of the shares of this sample company did not belong to the management. The maximum value of this research is 0.124 or 12.4%, only owned by Adaro Energy Tbk (ADRO) with average managerial ownership from 2017 to 2020 of 3,953,193,390 shares out of a total of 31,985,962,000 shares outstanding.

The average value of independent commissioners from 2017 to 2020 was 0.4182. This meant that the independent commissioners in the company during the period 2017 - 2020 from 31 samples were worth 41.82%. This value was higher compared to the standard deviation value of 0.1118 or 11.18%. This showed that the variance of the independent commissioners of the sample companies during the study period was low or showed that the data points tend to be close to the average (mean) or there was no big gap from the lowest to the highest independent ownership ratio.

The average value of the frequency and attendance of audit committee members at audit committee meetings for the period 2017 to 2020 in 31 samples was 0.915, a higher value compared to the standard deviation value, which was 0.092. This showed that the variance in the frequency and attendance of the company's audit committee for the research sample during the study period was low or indicated that this data point was close to the average (mean), or it can be stated that there was no high gap in the frequency and attendance of the lowest audit committee meeting with the lowest to highest.

The average value of earnings quality was 1.117, meaning that the percentage of earnings quality from 31 samples of companies had an average earnings quality of 1.117 or 111.72% of the total profits generated by the company. This value was smaller than the standard deviation value, which is 3.0356. This showed that the variance of the company's earnings quality for the research sample during the study period was considered high or that these data points spread with a wider and more biased range of values.

The average value of the company from 2017 to 2020 was at 2,412 or higher compared to 1. This showed that the value of the company is considered higher compared to the value of the listed company or the company's shares were in an overvalued state. In this case, the company's management was successful in managing the company's assets on the value of the company's assets listed and shows that the market gives more value to this company. This value was higher than the resulting standard deviation value, which is 3.2677.

**4.2 Normality Test**

**Table 4.2 Normality Test**

	<b>Unstandardized Residual</b>	<b>Keterangan</b>
Test Statistic	0.072	Normal Distribution
Asymp. Sig. (2-tailed)	.200 <sup>c,d</sup>	

(Source: processed with SPSS Statistics 26, 2021)

Based on table 4.2, it was known that the Asymp value. Sig. (2-tailed) is worth 0.200. Because the value of the Kolmogorov-Smirnov test result was higher compared to 0.05 thus, according to the basis for decision making in the Kolmogorov-Smirnov normality test, it can be concluded that the residual data were normally distributed. Moreover, the assumptions or requirements for normality in the regression model have been fulfilled.

**4.3 Multicollinearity Test**

**Table 4.3 Variance Inflation Factor (VIF)**

<b>Model</b>	<b>Collinearity Statistics</b>		<b>Keterangan</b>
	<b>Tolerance</b>	<b>VIF</b>	
IO	0.415	2.412	Uncorrelated
MO	0.903	1.107	Uncorrelated
IC	0.485	2.064	Uncorrelated
AC	0.537	1.862	Uncorrelated
EQ	0.795	1.258	Uncorrelated
ROA	0.494	2.026	Uncorrelated
DAR	0.406	2.462	Uncorrelated

Source: processed with SPSS Statistics 26, 2021)

Table 4.3 above shows the VIF results of the five independent variables used, including earnings quality (EQ), audit committee (AC), the composition of independent commissioners (IC), managerial ownership (MO), and institutional ownership (IO). This showed the VIF value was lower than 10, and for tolerance, it was higher than 0.10. With this, it can be concluded that there was no multicollinearity disorder on several independent variables used for the period 2017 to 2020.

#### 4.4 Heteroscedasticity Test

**Table 4.4 Heteroscedasticity Test Using The Glejser**

Model	Sig.	Keterangan
IO	0.925	No Symptom of Heteroscedasticity (Homocedasticity)
MO	0.168	No Symptom of Heteroscedasticity (Homocedasticity)
IC	0.476	No Symptom of Heteroscedasticity (Homocedasticity)
AC	0.726	No Symptom of Heteroscedasticity (Homocedasticity)
EQ	0.469	No Symptom of Heteroscedasticity (Homocedasticity)
ROA	0.073	No Symptom of Heteroscedasticity (Homocedasticity)
DAR	0.769	No Symptom of Heteroscedasticity (Homocedasticity)

(Source: processed with SPSS Statistics 26, 2021)

Table 4.4 above showed the results of the heteroscedasticity test using the Glejser test by looking at the significance value (Sig) of the five independent variables used, namely institutional ownership (IO), managerial ownership (MO), the composition of independent commissioners (IC), audit committee (AC) and earnings quality (EQ). The test results showed the value of Sig > 0.05. With this, it can be concluded that there was no symptom of heteroscedasticity in the regression model.

#### 4.5 Autocorrelation Test

**Table 4.5 Autocorrelation Test Using The Durbin Watson**

Model	dL	4 - dW	Durbin-Watson	Keterangan
1	0,9496	1836	2164	No Positive and Negative Autocorrelation

(Source: processed with SPSS Statistics 26, 2021)

Table 4.5 above shows the results of the Durbin Watson autocorrelation test, where the Durbin Watson value is 2.164. According to the results of the decision: 1). Suppose Durbin Watson (Dw) < (dU) then there is a positive and negative autocorrelation. In this study, the value of dW (2.164) > dU (2.0183) then there was no positive and negative autocorrelation.

#### 4.6 Testing of Hypotheses

This study was preceded by conducting a classical assumption test, where several test requirements must be met before conducting data analysis so that the results of the processed data can honestly describe the research objectives and describe the predictive model into a model that is entered into a data series.

There were no deviations or violations of assumptions from all the tests carried out. Thus, this research can be continued with hypothesis testing to submit samples and provide a basis for deciding whether the tested hypothesis is rejected or accepted.

##### 4.6.1 Coefficient of Determinant Test

**Table 4.6.1 Coefficient of Determination**

Model	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.877	0.840	1.308650

(Source: processed with SPSS Statistics 26, 2021)

Referring to table 4.6.1 presented above, it was possible to produce an R-Square (R<sup>2</sup>) value of 0.877, and the value of Adjusted R-Square is 0.840. This Adjusted R-Square is the value of the R-Square that had been aligned. Referring to the description of the statement put forward by (Santoso, 2015), explaining that for this regression consisting of several independent variables, it used Adjusted R Square for the coefficient of determination. So the results of this study meant that the earnings quality (EQ), audit committee (AC), composition of the independent board of commissioners (IC), managerial ownership (MO), and institutional ownership (IO) had a simultaneous influence on firm value of 84%, meanwhile for the remaining 16% (100% - 84%) was influenced by several research variables that were not included in this regression model.

**4.6.2 Goodness of Fit Test**

**Table 4.6.2 Goodness of Fit**

<b>Model</b>	<b>F</b>	<b>Sig.</b>	<b>Keterangan</b>
1	23.435	.000 <sup>a</sup>	Eligible Regression Model

(Source: processed with SPSS Statistics 26, 2021)

Based on table 4.6.2 for the results of the F test above, a significance value of 0.000 was obtained, which was lower than 0.05. Likewise, the calculated F value was 23,435, which is higher than the F table, which is 2.42. With this, it can be concluded that the five independent variables, namely institutional ownership (IO), managerial ownership (MO), the composition of the independent board of commissioners (IC), audit committee (AC), earnings quality (EQ), simultaneously had an effect on firm value (FV).

**4.6.3 Individual Parameter Significance Test**

**Table 4.6.3 Individual Parameter Significance Test**

<b>Model</b>		<b>t</b>	<b>Sig.</b>
(Constant)	-1.169	-0.417	0.681
KI	1.735	1.354	0.189
KM	3.276	0.298	0.769
KDKI	7.599	2.475	0.021
KA	-4.756	-1.338	0.194
KL	0.049	0.554	0.585
ROA	30.596	7.554	0.000
DAR	2.017	1.195	0.244

a. Dependent Variable: NP

(Source: processed with SPSS Statistics 26, 2021)

Based on table 4.6.3, it was obtained that the sig value of institutional ownership (IO) is 0.189, with a t-count value of 1.354. With this, it can be concluded that the hypothesis is rejected because, partially, there was no effect of the institutional ownership variable (IO) on firm value (FV).

The managerial ownership variable (MO) had a significance value of 0.769 with a t-count value of 0.298. With this, it can be concluded that the second hypothesis is rejected because, partially, there was no effect of the managerial ownership variable (MO) on firm value (FV).

The variable composition of the independent board of commissioners (IC) had a significance value of 0.021 with a t-count value of 2.475. With this, it can be concluded that the third hypothesis is accepted because, partially, there was a significant positive effect of the composition of the independent board of commissioners (IC) on firm value (FV).

The variable composition of the independent board of commissioners (IC) had a significance value of 0.021 with a t-count value of 2.475. With this, it can be concluded that the third hypothesis is accepted because, partially, there was a significant positive effect of the composition of the independent board of commissioners (IC) on firm value (FV).

The earnings quality variable (EQ) had a significance value of 0.585 with a t-count value of 0.554. With this, it can be concluded that the fifth hypothesis is rejected because, partially, there was no effect of the earnings quality variable (EQ) on firm value (FV). Based on table 4.6.3, it was found that the multiple linear equations for this research can be written as follows: **FV = -1,169 + 1,375 IO – 3,276 MO + 7,599 IC – 4,756 AC + 0,049 EQ + 30,596 ROA + 2,017 DAR.**

The description for this equation is as below:

The magnitude of this constant is -1.169. This showed that in the absence of the effect of the independent variable and the control variable, the variable of this firm value was -1.169.

The regression coefficient for the independent variable of institutional ownership was positive 1.735. This meant that if the institutional ownership variable had increased by one unit. Thus, this will cause the value of this company to increase by 1.735, assuming the other independent variables were constant.

The regression coefficient for the independent variable of managerial ownership was positive 3.276. This meant that if the managerial ownership variable had increased by one unit. Thus, this will result in the value of this company increasing by 3,276, assuming the other independent variables were constant.

The regression coefficient for the independent variable of the composition of the independent board of commissioners was positive 7.599. This meant that if the variable composition of the independent board of commissioners had increased by one unit. Thus, this will cause the value of this company to increase by 7.599, assuming the other independent variables were constant.

The regression coefficient for the independent variable of the audit committee was negative 4.756. This meant that if the variable composition of the audit committee board had increased by one unit. Thus, this will result in the value of this company experiencing a decrease of 4.756, assuming the other independent variables were constant.

The regression coefficient for the independent variable earnings quality was positive 0.049. This meant that if the earnings quality variable had increased by one unit. Thus, this will result in the value of this company increasing by 0.049, assuming the other independent variables were constant.

The regression coefficient for the independent variable Return on Assets (ROA) was positive 30.596. This meant that if the Return on Assets (ROA) variable had increased by one unit. Thus, this will result in the value of this company experiencing an increase of 30.596, assuming the other independent variables were constant.

The regression coefficient for the independent variable Debt to Asset Ratio (DAR) was positive 2.017. This meant that if the variable Debt to Asset Ratio (DAR) had increased by one unit. Thus, this will cause the value of this company to increase by 2.017, assuming the other independent variables were constant.

## **4.7 Discussion**

### **4.7.1 The Effect of Institutional Ownership (IO) on Firm Value (FV)**

The results showed that institutional ownership on the sample of LQ 45 companies in this study had no effect on firm value. Therefore, the first hypothesis (H1) is rejected. Based on the data that had been processed by the author, the average institutional share ownership is 67%, this value is a large value, but institutional ownership had not been able to affect the value of the company, this may be due to three factors, as follows:

The first factor is because the sample studied were companies that are members of LQ 45 companies, most institutional investors believe in good company performance, resulting in low supervision given by investors to company management, so that it can become a reproach for opportunistic management behavior.

The second factor is that the funds they process are institutional funds. With this, investors will be careful in carrying out their investments and, of course, carry out big decisions by withdrawing all their shares if the company is deemed not to be profitable. Quoted from (CNBCIndonesia.com, 2018), in the period of 2018, the increase in the benchmark interest rate caused the ICI to fall by 0.97%. Market participants responded negatively to the interest rate hike, particularly the financial services sector, which weakened by 1.12%. The shares of financial services released by these investors include PT. State Savings Bank Tbk (BBTN) worth -2.16%, PT. Bank Central Asia Tbk (BBCA) worth -0.66%, PT. Bank Mandiri Tbk (BMRI) worth -1.69%, and also PT. Bank Rakyat Indonesia Tbk (BRI), with a value of -3.38%, of the five companies mentioned above, all of them were included in the LQ 45 index that the author examined. The same thing happened again in 2020, the issue of the potential for the outbreak of a third world war and the spread of the coronavirus pandemic caused the entire world economy to react negatively, the ICI fell by 20.56%, while the LQ 45 index was corrected deeper by 24.67%. It was recorded that nine constituent stocks of LQ 45 even corrected above 40%. This large stock draw received a negative response from the market, which would later cause the value of this company to fall (Masri. Marius, 2017).

The third factor is that institutional investors in this LQ 45 companies are an investor who acts as a manager of institutional funds. Based on a copy of the Financial Service Authority Regulation Number 21/POJK.04/2017 concerning guidelines for managing securities portfolios for the benefit of individual customers, it is stated that one of the duties and the responsibility of the investment manager is to maintain the separate entry and bookkeeping for each customer; therefore, the fund manager or investment manager will take care with managers who have the aim of making financial statements look profitable by manipulating existing data. This result is in line with (Masri. Marius, 2017), which states the amount of institutional ownership. It surely would



have an impact on high dividend returns and cause the amount of retained earnings to decrease, which will eventually minimize the company's internal sources of funds used for the development of the company, thus minimizing the value of the company itself. This result contradicted the results of research conducted by (Widianingsih, 2018), which states that there was an influence of institutional ownership on firm value, where increasing institutional ownership will be able to encourage management to improve their performance in accordance with Good Corporate Governance practices. The improvement of management performance will result in the growth of firm value and can provide added value for institutional investors.

#### ***4.7.2 The Effect of Managerial Ownership (MO) on Firm Value (FV)***

The results showed that managerial ownership had no effect on firm value. Thus, the second hypothesis (H2) is rejected. This showed that this managerial ownership variable was not considered as an appropriate mechanism to minimize conflicts of interest involving the manager and the owner. According to the research results, the average value of managerial ownership was only 0.61%. From 31 samples of companies, 20 of them have an average managerial ownership of 0%. This low share ownership by the management assumed that the management still did not feel that they owned the company. It is not only the profits that the company gets were mostly not enjoyed by management but also, this was what will cause the management to be compelled to increase their personal profits. Thus, this will cause the owner to lose money later. This low management performance would cause the value of the company to decline. This was in line with the results of research conducted by (Dahlia, 2018) and (Sutopo et al., 2018), which stated that managerial ownership had no effect on firm value, but this was not in line with the results of research conducted by (Pernamasari & Mu'minin, 2019), which suggested that managerial ownership had a significant and negative effect on firm value. This research proved that this managerial share ownership variable would later facilitate consolidation for the benefit of shareholders and also the manager who stated that the manager will get certain benefits for their decisions and can bear the losses for the consequences of making inappropriate decisions.

In addition, the object of this research is LQ 45 companies, where managers are required to work optimally in order for the company's share to remain included in the LQ 45 index category. For this reason, managers are motivated to manipulate financial statements in order to achieve the target given to them. This low management performance would cause a decrease in firm value. This was in line with the results of research conducted by (Dahlia, 2018) and (Sutopo et al., 2018), which stated that managerial ownership had no effect on firm value, but this was not in line with the results of research conducted by (Pernamasari & Mu'minin, 2019), which suggested that managerial ownership had a significant and negative effect on firm value. This research proved that this managerial share ownership variable would later facilitate consolidation for the benefit of shareholders and also the manager who stated that the manager will get certain benefits for their decisions and can bear the losses for the consequences of making inappropriate decisions.

#### ***4.7.3 The Effect of Composition of the Independent Board of Commissioners (IC) on Firm Value (FV)***

The results showed that the composition of the independent board of commissioners had a significant and positive influence on firm value. As a result, the third hypothesis (H3) is accepted. Based on the results of the study, it was found that the average ownership of independent commissioners was 41.82%, which means that the average sample of companies studied had implemented Financial Services Authority Regulation No. 33/POJK.04/2014, where the number of independent commissioners was at least 30% of the total for all members of the board of commissioners. According to agency theory, it was stated that problems related to the agency could arise as a consequence of the interests involving management, which acted as an agent, with the owners of capital who were the principals (Jensen & Meckling, 1976). In this case, the existence of an independent board of commissioners (principal) who was not affiliated with the board of directors, other members of the board of commissioners, and controlling shareholders makes the board of commissioners act independently in carrying out control and control the wishes of the company management in carrying out fraudulent financial statements. In addition, the existence of an independent board of commissioners was able to monitor management performance in terms of carrying out company management, implementation of accountability, and guaranteeing the company's strategy. Thus, if there are more and more members of this commissioner, this will cause the supervisory process for financial statements that the board of commissioners is carrying out will become more effective than the previous one. Therefore, this would be able to increase the performance of the company carried out by the management and increase the value of the company. In addition, the existence of an independent board of commissioners is able to monitor management performance in terms of carrying out company management, implementation of accountability, and guaranteeing the company's strategy. Thus if there are more and more members of this commissioner, this will cause the supervisory process for financial statements that the board of commissioners is carrying out will become more effective than yes. The results of this study confirmed what was found by (Pernamasari & Mu'minin, 2019) as well as (Suryato & R Meisa, 2016). However, the results of this study were not in line with the results of research conducted by (Dahlia, 2018), which stated that there was no contribution of influence produced by the composition of the independent board of commissioners on the value of the previous company. Therefore, this will be able to increase the company's performance carried out by management and increase firm value.

#### **4.7.4 The Effect of Audit Committee (AC) on Firm Value (FV)**

The results showed that this audit committee had no effect on firm value. Therefore, the fourth hypothesis is rejected. Logically, the formation of this audit committee can minimize the potential for agency conflicts to take place, this is because this audit committee had a fundamental role to be a third party whose task is to carry out supervision on the management side so as not to carry out fraudulent actions in the financial reporting presented, but the research results were being implemented is not in line with the existing theory. In this study, the average value of audit committee meeting attendance was 91.51% of the number of meetings held by the company. This result showed a high attendance percentage, but this audit committee variable did not succeed in proving that the audit committee factor had an effect on firm value. This can be caused by the ineffectiveness of the meeting, and it can also be caused by the unpreparedness of the meeting members.

The COVID-19 pandemic in 2020 also resulted in the government taking policies to reduce the rate of transmission of COVID-19 by limiting community mobility, starting with the term Large-Scale Social Restrictions (PSBB) to the Enforcement of Community Activity Restrictions (PPKM) (Kompaspedia.kompas.id, 2021). With these mobility restrictions, companies were required to run a work from home (WFH) scheme. With the WFH policy, all work was optimized from home as well as audit committee meetings were carried out using an online system, resulting in the meeting held by the audit committee with the initial aim of improving the function of the audit committee whose meetings often did not take place effectively. The frequency of the audit committee meetings being held is limited to formality and fulfilling obligations. Thus, the meetings held did not focus on monitoring for information relating to the implementation of the company's Good Corporate Governance.

The large frequency of meetings that the audit committee holds these results in a lot of wasted time and audit committee energy, the work from home scheme also caused the performance of the audit committee to be less than optimal because most of the company's activities were not carried out in the company. As a result, the supervision carried out by the audit committee was also low.

The results of this study were not in line with the results of research conducted by (Amaliyah & Herwiyanti, 2019), which stated that with this audit committee meeting, it could be determined that the company's accountability is in line with the provisions of existing regulations and applies in Indonesia. Furthermore, investors will have more interest in investing in order to increase the value of the company. Meanwhile, referring to the results of a study conducted by (Christiani & Herawaty, 2019), which examined the effect of the audit committee on firm value using a proxy for the number of audit committees, this study revealed that the number of audit committees was not one of the factors that determine the effectivity of audit committees, especially those related to conflicts of interest, fraud and also acts that cause company losses (FCGI, 2008).

#### **4.7.5 The Effect of Earnings Quality (EQ) on Firm Value (FV)**

The results of this study indicated that there was no influence between earnings quality on firm value. Therefore, the fifth hypothesis (H5) is rejected. Based on the formula (Penman, 2001), it is stated that if the earnings quality ratio is higher than 1.0, it indicates high earnings quality. On the other hand, if the earnings quality ratio is less than 1.0, it indicates low earnings quality. In this study, the average value of earnings quality was 1.117, it was concluded that the quality of earnings owned by the company was high, but this earnings quality variable did not prove that earnings quality factors had an effect on firm value. The factors that can cause this include low supervision and ineffective performance of the audit committee in reviewing the company's financial statements and financial information so as to allow the company to practice earnings management, where the manager can achieve the targets given by the company in order to maintain the company's status to remain in the company involved in LQ 45 index category. This is related to the results of research, which also proves that the audit committee variable in the sample carried out has no effect on firm value. In addition, predictably, there is market manipulation which is usually carried out by large and experienced investors by utilizing the mass media to manipulate certain conditions for their personal goals, which can result in investors being more interested in investing in the company so that they did not pay attention to quality factors' profit of the company concerned.

The example of market manipulation done by one of the LQ 45 companies are the increase in the shares of two nickel producer issuers in Indonesia, including PT Vale Indonesia Tbk (INCO) and also PT Aneka Tambang Tbk (ANTM), as a consequence of the discourse of the formation of a consortium intended to build a battery industry made from nickel raw materials by involving PT. State Electricity Company (PLN) and also PT. Pertamina (Persero) which as one of several subsidiaries of PT. Indonesia Asahan Aluminum (Inalum) or MIND ID, ANTM had the opportunity to work in the downstream sector. In addition, the shares of ANTM and INCO also increased due to news about Tesla's plans, as one of the various well-known electric car manufacturers in the world who have plans to build factories in the state, more precisely in Batang district, Central Java.

This resulted in ANTM's shares strengthening by 6.28% to a level of Rp. 1,110 per share, while INCO's share price rose 3.63% to a level of Rp. 4,280 per share (Kontan.co.id, 2020). Meanwhile, when compared with its valuation using the comparison of net profit with the market price (PER) of ANTM, which is at 26.74 times. This figure was higher than the industry average of 15.2 times. Meanwhile, if using the book value valuation (PBV), ANTM was already considered too expensive, at 1.57 times compared to the

industry average at 1.4 times. This was the same as what happened in INCO shares which have a PER of 30.71 and a PBV of 1.55, both of which were above the industry average (CNBCIndonesia.com, 2020). This proved that the company is trying to retain investors in various ways so that they can continue to invest in their company in order to make the volume and transactions activity remain at the top level to maintain the company's position in the LQ 45 index category.

The results of this study were in line with the results of research conducted by (Lusi & Mustikowati, 2019), which stated that the quality of earnings was measured using discretionary accruals (DA), which had no effect on firm value. Good earnings quality was not only a factor that can be considered by investors to invest. The information presented in this financial report was still not able to become a strong attraction for investors to appreciate the company's share price, which is higher after the company had published its financial statements. Earnings quality was calculated using historical stock prices for the previous several years. Meanwhile, investors only carry out evaluations and assessments for companies in certain years. Therefore, this will result in the earnings quality factor not having an effect on firm value. Meanwhile, according to the results of research conducted by (Utomo & Dianawati, 2017), it was revealed that the quality of earnings had an influence on firm value. And also, (Apridasari et al., 2018), the greater the market reaction to earnings information, the value of the company will also increase.

## **5. Conclusion**

### **5.1 Conclusion**

This study focuses on a sample of 31 companies that are included in the LQ 45 index from 2017 to 2020. The reason the researcher uses the sample company is due to the phenomenon of declining JCI performance in 2018 and 2020. Based on the result of the regression equation and the significance test, as well as the discussion of the analysis of this research, the conclusion obtained are:

Institutional ownership, managerial ownership, the composition of the independent board of commissioners, audit committee, and earnings quality simultaneously affect the firm value variable by 84%. Other reasons outside the model explain the remaining 16%. While partially only the composition of the independent board of commissioners (IC) affects firm value (FV), while the variables are institutional ownership (IO), managerial ownership variable (MO), audit committee variable (AC), and earnings quality variable (EQ) was no effect on firm value (FV).

### **5.2 Implication and Limitation**

According to the results of the study, there are several suggestions and limitations in this study, including :

#### **5.2.1 For Companies:**

Companies, In particular, companies that have been involved in the LQ 45 index category were expected to anticipate fraud or manipulation of data in a financial report. This happened because it can lead to errors in decision-making. The composition of the independent board of commissioners was one of the important factors in the company because, based on the research results, the composition of the independent board of commissioners had a positive and significant effect on firm value. The composition of the independent board of commissioners was proven to be able to monitor management performance and reduce agency conflicts, thereby increasing the value of the company. This independent board of commissioners would later be motivated to increase its optimal supervision of management performance. This will cause management to be more careful and careful in carrying out decisions that result in financial statements being biased or unable to describe the actual condition of the company, so it cannot be used to predict the company's performance in the next period.

Before making a decision to start investing, it is very important for the investor to really pay attention to the company to be invested in. Because the performance of the company will determine the stock price or value of the company in the future, for investors who want to invest in LQ 45 companies, it should be underlined that the importance of fundamental analysis before starting an investment is sometimes in vain due to other factors outside of fundamentals, such as global and national sentiment, such as an earthquake on the center of the economy, presidential elections, etc. During the research period at the beginning of 2020, there was an issue of the outbreak of the third world war and the spread of the coronavirus infection which resulted in that effect to the decline of JCI, especially after WHO declared that covid 19 was a pandemic (Saraswati, 2020). Therefore it is important for every investor to choose a company that actually has implemented Good Corporate Governance in its company. The composition of the independent board of commissioners, which is one of the mechanisms of Good Corporate Governance, is one of the important factors in the company. Because based on the results of the study, the composition of the independent board of commissioners on the sample of LQ 45 companies studied had a positive and significant effect on firm value. The independent board of commissioners is proven to be able to monitor management performance and reduce agency conflicts so as to increase firm value.

### 5.2.2 For Further Researchers

Research on the effect of Good Corporate Governance through institutional ownership, managerial ownership, independent commissioners, audit committees, and earnings quality on firm value had been widely studied before, but research related to this still had inconsistent results. Researchers also included two control variables in this study, namely the Return on Assets (ROA) variable and the Debt to Total Asset Ratio (DAR) variable, which aimed to control the relationship between the independent variable and the dependent variable and avoid misspecification of the empirical model used in the study as well as avoid biased results. However, it was found that most of the independent variables had no effect on firm value. Therefore, in future research, it is expected to be able to examine the value of companies with different sizes and contexts so that different results can be seen, for example, by using the corporate governance index to measure firm value to prove existing theories and can be used as a comparison of research results.

For further research, it is recommended not only to use the company's annual report but also to conduct a more in-depth investigation to obtain real information, for example, on the audit committee and independent commissioners. An effective description of the roles and functions of the audit committee and independent commissioners cannot be seen from the number and percentage of meeting attendance alone, but there are more important things, namely the management expertise of its members and independence. Accurate information regarding all of this cannot be seen only from the number, but it is necessary to investigate the background and profession of each member of the audit committee and independent commissioner in the company.

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