

## What Drives the Impact of Corporate Governance on Firm Value? Evidence from Earnings Management at Indonesian Sharia Stock Index (ISSI)

Erdin Maulana Trisianto<sup>1</sup>, M. Arsyadi Ridha<sup>2</sup>

<sup>1,2</sup>*Department of Islamic Accounting, Faculty of Islamic Economics and Business,  
UIN Sunan Kalijaga Yogyakarta*

Corresponding author: [erdinmaulanatrisianto@gmail.com](mailto:erdinmaulanatrisianto@gmail.com)

---

### Abstract

**Purpose:** This study sought empirical evidence on the impact of corporate governance as proxied by the board of commissioner's size, managerial ownership, and audit quality on firm value using earnings management as an intervening variable in energy sector companies indexed by the ISSI and listed on the Indonesia Stock Exchange from 2014 to 2022.

**Methodology:** This study uses purposive sampling technique and panel data, resulting in 171 selected sample data units that will be processed using eviews.

**Findings:** Managerial ownership, audit quality, and earnings management all have a significant and beneficial impact on firm value. However, the board of commissioners has a negative impact. Aside from that, the board of commissioners's size and managerial ownership do not affect earnings management, but audit quality has a negative effect. Earnings management as an intervening variable influences corporate governance variables.

**Novelty:** This research attempts to provide a novel viewpoint on how political instability in a country can affect the investment climate in the Indonesian energy sector, which has received little attention previously. This study also acknowledges the inconsistency of previous research findings regarding the relationship between corporate governance and firm value, paving the way for incorporating earnings management variables as mediators and ultimately contributing to our understanding of the complex dynamics between these elements.

**Keywords:** Corporate governance; Earning management; Firm Value, Energy Sector

Article History:

Received: November 2023; Revised: December 2023; Accepted: December 2023

---

### Introduction

Indonesia's exciting investment climate has attracted many investors to invest in Indonesia. This can be seen from the signing of five Memorandum of Understanding (MoU) at the side event of the B20 Summit forum, Signing Agreement B20 Task Force, Sustainability & Climate Business Action held in Bali (Kementerian ESDM, 2022). The Indonesia Stock Exchange (IDX) Composite Stock Price Index (JCI) became very strong in 2022 as energy sector stocks increased by one hundred per cent. PT Adaro Minerals Indonesia Tbk (ADMR) became the energy sector stock with the highest gain, which increased by more than 1,500%, and PT Bayan Resources Tbk (BYAN) also increased by more than 667% (Situmorang, 2022). In 2021, Indonesia's energy consumption level reached 909.24 million barrels. The high energy consumption in Indonesia is another factor that makes the investment climate very exciting. This stimulating investment climate in the energy sector will certainly not be free from shocks, and one of these shock factors is political instability. The crisis in Ukraine from 2014 until now is a form of political instability that can interfere with the success of a capital market.

The conflict indirectly created a phenomenon in energy sector companies in Indonesia, where PT Bumi Resources Tbk (BUMI) experienced a decline in its shares. Hence, the market capitalisation value or the company's value remained IDR. 2,8 trillion. In December 2014, the share price of PT Bumi Resources Tbk (BUMI) was at IDR. 80 per share, down from December 2013, which was at IDR. 300 per share (Angga, 2014). In February 2022, Russia's invasion of Ukraine peaked, and the European Union, an opponent country of Russia, reacted to this attitude by revoking the business licenses of EU companies to open branches in Russia (Pratama, 2022). This will have an impact on the rise and fall of stock prices. The ups and downs of stock prices certainly impact the rate of return that will be obtained; the value of a company, in the eyes of investors, will be represented by a changing stock price (Maharani, 2022). A company has a primary goal, especially in achieving high Firm Value. To achieve this goal, many investors leave the organisation's management to experts responsible for handling the organisation, called managers. However, shareholders and company management are often involved in agency conflicts when achieving these goals, where company management and shareholders have different interests or goals. So, good corporate governance is needed in control and management to minimise the decline in share value, which can lead to a decrease in firm value such as this phenomenon.

Research has been conducted extensively on how corporate governance affects firm value. However, current research findings are inconsistent. Hilabi (2022) found empirical evidence showing that managerial ownership, which represents the company's management, significantly and positively impacts firm value. However, Rohim et al. (2018) conducted research involving a sample of manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2018. They found that managerial ownership significantly and negatively impacts firm value. The inconsistent results of these studies suggest that other factors influence this relationship, one of which is earnings management. According to research conducted by Darmawang et al. (2019), one of the ways for companies to achieve their goals of increasing firm value is by maintaining company performance so that it is always in good condition. Suppose a condition does not achieve the desired profit or poor financial condition. In that case, management will take advantage of the flexibility accounting standards allow in preparing financial statements to modify earnings.

Because the results of previous studies are inconsistent, researchers are encouraged to use additional variables that can mediate the relationship between corporate management and firm value. By using earnings management as a mediator or intervening, the authors want to re-test how corporate management affects firm value by selecting ISSI-indexed energy sector companies as their research subjects. The ISSI-indexed energy sector was selected because the impact of the Russian invasion of Ukraine caused an energy crisis in countries blocking energy imports from Russia. The practice of fraud or manipulation, either profit or governance, is prohibited in Islam. Is expected to contribute to the theories used in the study and provide a subscription to DeepL Pro to edit this document. Visit [www.DeepL.com/pro](http://www.DeepL.com/pro) for more information. Understanding additional references for future scientists who will lead research on firm value. Concerning the company's contribution, the results of this study can be considered when making investment decisions.

## **Literature Review**

### **Board of Commissioner's size and firm value**

According to Alda & Prastiwi (2021), a board will oversee every flow in determining the business decisions that will be taken by the company so that the decisions set will not get out of the predetermined goals. If the decision taken deviates, it will result in a decrease in firm value. Apart from the board as a supervisory function, the board also impacts improving the quality of the decisions made. This is in line with agency theory, which focuses on creating collaboration between the board of directors in making a decision and the board of commissioners as a supervisor; in this case, the board acts as a board that has a supervisory function in the company's decision-making process and safeguards the interests of investors. Agustina (2018) states that the more boards of commissioners in a company, the better the supervision. There will also be more suggestions and advice obtained by management so that there are many alternatives that management can choose from to make decisions. Based on the description above, the following hypothesis can be formulated:

H1: The size of the Board of Commissioners positively affects firm value.

### **Managerial ownership and firm value**

Management share ownership is the proportion of common shares owned by executives. This managerial ownership makes it possible to regulate the approach taken by executives. Managers are expected to act following the principal's wishes because they will be motivated to improve future performance when they have managerial share ownership. Managerial ownership can reduce organisational disputes between the board and outside investors. When managers own shares, they have a vested interest in the company's success and are likely to act in a way that benefits shareholders so that the company's value can increase. This is illustrated by agency theory, where managerial owners' conflicts of interest in a company will be reduced. Shan (2019) and Yudha et al. (2022) stated managerial ownership strongly influences firm value. Based on this description, the following hypothesis can be made:

H2: Managerial ownership has a positive effect on firm value.

### **Audit quality and firm value**

Audit quality is a measure that shows how proficient and independent a Public Accountant Firm is in examining financial statements. Companies that conduct audits at Public Accountant Firm that have good quality will impact the trust of potential investors. In addition, his research found that audit quality positively impacts firm value (Nafiah et al., 2020). Companies with a large scale have the potential for agency conflicts and ownership takeovers. Therefore, as an effort by the company to implement good governance, the company will use an external auditor who is part of the big four Public Accountant Firm so that the information to be submitted by the company (agent) is relevant. This is an effort to maintain the company's reputation and the investors' trust. According to signal theory, the use of the big four Public Accountant Firm in the process of examining the company's financial statements can create a positive signal to potential shareholders that the company has been examined by a Public Accountant Firm that has a high reputation and provides a signal that the company will continue to be committed to providing high-quality financial information to increase investor confidence in financial statements so that investors will not hesitate to invest their money to increase Firm Value (Rizki, 2020). Research conducted by Nafiah et al. (2020) and Buttang (2020) stated that this audit quality positively affects firm value. Based on this description, the following hypothesis can be made:

H3: Audit quality has a positive effect on firm value.

### **Board of Commissioner' s size and earnings management**

According to agency theory, the supervisory function of the board of commissioners is expected to reduce the possibility of a manager using his power opportunistically for personal gain. However, to carry out its supervisory function effectively, the board of commissioners must be free to criticise and advise against the director's decision openly. Cho and Chung (2022) argue that shareholders will provide appropriate incentives to managers and pay monitoring fees to limit managers' abnormal activities in the relationship between shareholders and agents. Some studies report that a small board of commissioners is more efficient because too many board members make it difficult for all members to express their thoughts and opinions (Krisnadewi et al., 2020). Therefore, supervision of decision-making could be more efficient on a large board. Previous research that shows a positive relationship includes Alfarizi (2020) and Syahrani (2021). Based on this description, the following hypothesis can be formulated:

H4: The size of the Board of Commissioners positively affects earnings management.

### **Managerial ownership and earnings management**

The percentage of shares owned by directors and commissioners is called the managerial ownership structure. This is one of the control mechanisms that shareholders can use to reduce earnings management. Allowing managers to take part in share ownership to regulate their interests with shareholders will reduce their desire to maximise profits through earnings management. This is because managers will be responsible for the organisation's bookkeeping approach and practices, which increases manager ownership; the management of profits will be reduced because managers will make every choice (Agsari, 2020). Research conducted by Mahesa (2019) shows the results of management

ownership of the company and shows their motivation in taking earnings management actions. Earnings management actions are influenced by a specific share ownership by management with managerial ownership. Previous research that shows a positive relationship includes Mahesa (2019) and Aygun et al. (2019). Based on this description, the following hypothesis can be formulated:

H5: Managerial ownership has a positive effect on earnings management.

### **Audit quality and earnings management**

Audit reduces agency costs because there will be no information asymmetry between outside shareholders and company management (Thu et al., 2018). Auditors are engaged to add validity to the company's financial statements and provide a healthy level of confirmation that these statements fairly represent the company's operating results and financial position, which is considered an essential input for investors' and creditors' decisions. Therefore, auditors with more expertise and experience will increase the credibility of the company's financial reporting procedures. This, in turn, may prevent damage to their reputation and subsequent litigation issues, which may severely limit earnings management practices (Butar Butar, 2020). In agency theory, an auditor has a role in providing a level of confirmation of a financial report so that investors and creditors can trust the contents of the financial statements, as stated by Ajekwe (2017), who found that high audit quality is positively correlated with higher earnings management. Moreover, Ajekwe (2017) and Thu et al. (2018) are other studies that show a positive relationship between these variables. Based on this description, the following hypothesis can be formulated:

H6: Audit quality has a positive effect on earnings management.

### **Earnings management and firm value**

Earnings management may cause information inequality between agents and principals in financial statements. This practice will make the financial statements not describe the actual situation, providing the wrong signal regarding a company's financial performance. This will cause the value of a company to be higher or lower than it should be. As a result, investors will make investment decisions that may need to be corrected due to information asymmetry (Maulana et al., 2022). Increasing or decreasing company profits is a common way to manage earnings so that the profit reaches the predetermined target. The need for balance in the relationship between managers and company owners allows managers to implement earnings management practices. According to Zahrawani et al. (2021), companies can manage investors' expectations regarding company performance by carrying out earnings management. Thus, the company can meet these expectations and strengthen its image in the capital market so that many investors will be interested in investing and indirectly increase its value. Research conducted by Zahrawani et al. (2021) and Dao & Ngo (2020) states that earnings management significantly positively affects firm value. From this explanation, the following hypothesis can be drawn:

H7: Earnings management has a positive effect on firm value.

### **Board of Commissioner's size, firm value and earnings management**

The size of the board of commissioners affects firm value because of its impact on earnings management practices. A company may have a higher level of supervision if its board of commissioners is more extensive or more diverse, which can reduce management's incentive to carry out unethical earnings management. The link in agency theory is that a company's number of boards of commissioners can mitigate agency risk with stringent management supervision (Susanto, 2022). In this way, the board of commissioners' size can serve as an internal control equipped to direct the profits trained by executives, thereby adding to the increase in firm value. The board of commissioner's size is considered one indicator of stewardship quality that shows the company's commitment to investors and shareholders. It also provides a positive signal that the company has a solid supervisory mechanism (Tamba, 2021). This logic reflects the complex dynamics of businesses that balance short-term goals and efforts to maintain a company's long-term value. From this explanation, the following hypothesis can be drawn:

H8: The size of the Board of Commissioners affects the firm's value through earnings management.

### Managerial ownership, firm value and earnings management

How much managerial ownership is proven to impact firm value through earnings management? This is because management has fewer choices in earnings management practices when management owns the company (Wulanda et al., 2019). Management ownership makes the leadership as investors will be more careful in making decisions, including whether to benefit the board, considering that their choices can have a positive and detrimental impact on firm value. Management's strong commitment to company performance and share value is often reflected in managerial ownership. In this case, earnings management can increase profits in an organisation's financial statements, increasing stock prices. In other words, earnings management can motivate executives to increase firm value, given that they have significant ownership in a company (Aulia et al., 2023). From this explanation, the following hypothesis can be drawn:

H9: Managerial ownership affects firm value through earnings management.

### Audit quality, firm value and earnings management

The auditor's ability to identify and disclose questionable earnings management practices is usually correlated with high audit quality. Good audit quality will more effectively expose such practices and lower investor confidence if earnings management is truly under control. Conversely, if board-earned profits are not under control, high review quality may only play a limited role in increasing firm value as executives continue to practice earnings management (Darmawan, 2020). Good audit quality can provide investors with more precise data, thus impacting their assessment of firm value (Helmi et al., 2023). In this way, executives' profits can be an extension that strengthens the relationship between audit quality and firm value because, through the profits trained by the board, the task of audit quality can become more apparent and more significant in determining the value of an organisation. From this explanation, the following hypothesis can be drawn:

H10: Audit quality affects firm value through earnings management.

### Methodology

The research uses a type of research called explanatory research. To measure, this research uses a quantitative approach. This research combines time series and cross-section data; the data used is secondary data, which is historical in panel form. This study looks at the financial statements of all companies in the energy sector indexed by ISSI (Indonesian Sharia Stock Index) and listed on the Indonesia Stock Exchange from 2014 to 2022. Nineteen companies were selected as samples in this study. Our data source comes from the financial statements of the Indonesia Shariah Stock Index, which can be found at <https://www.idx.co.id>. Purposive sampling is the data collection method. This study uses the Eviews 12 program to test the hypothesis.

**Table 1. Variable Measurement**

No.	Variables	Indicator / Proxy	Reference
1	Firm Value	Tobin's q = (Market Value of Equity + Book Value of Debt) / (Book Value of Total Assets)	Asghar et al., (2020)
2	Board of Commissioner size	Total number of board of commissioner' s	Saidat et al., (2019)
3	Managerial ownership	(Share Ownership by Management)/(Total Shares Outstanding) x100%	Arthasari et al., (2022)
4	Audit quality	"1" if audited by BIG Four (Delloite, PwC, KPMG, Ernst & Young), otherwise presented as "0" disajikan sebagai "0"	Ullah & Bagh, (2019)
5	Earnings management	$DA_{it} = (TAC_{it} / A_{it} - 1) - NDA_{it}$	Dechow et al., (2015)

Source: Results of Previous Research Operationalization Search

## Results and Discussion

**Table 2. Results of Descriptive Statistical Analysis**

	Firm Value	Earning Management	BOC Size	Managerial Ownership	Audit Quality
Mean	0.871867	-0.018808	4.584795	0.071572	0.526316
Median	0.781346	-0.014579	5.000000	0.004318	1.000000
Maximum	2.137320	0.378241	9.000000	0.884929	1.000000
Minimum	0.165995	-0.361751	2.000000	0.000000	0.000000
Std. Dev.	0.405714	0.158330	1.322921	0.150730	0.500773

Source: EViews12 Processing Output, 2023

When viewed from Table 2, the descriptive statistical test shows the dependent variable firm value (Y), which shows an average value of 0.871867. The highest value of this variable, namely 2.137, comes from PT Mitrabara Adiperdana Tbk (MBAP), and the lowest value of 0.165 comes from PT Harum Energy Tbk (HRUM). From this range, a range of 1.972 is obtained. For the intervening variable, earnings management (Z) shows an average value of -0.019. The highest value of this variable, namely 0.378, comes from PT Apexindo Pratama Duta Tbk (APEX), and the lowest value of -0.362 comes from PT Bina Buana Raya National Shipping Tbk (BBRM). From this range, a range of 0.016 is obtained. The deviation value of 0.158330 is greater than the average value. The independent variable board size (X1) shows an average value of 4.585. The highest value of this variable, namely 9, comes from PT Petrosea Tbk (PTRO), and the lowest value of 2 comes from three different companies, namely PT Wintermar Offshore Marine Tbk (WINS), PT Soechi Lines Tbk (SOCI) and PT Mitrabahera Segara Sejati Tbk (MBSS). The deviation value of 1.322921 is lower than the average value. The independent variable managerial ownership (X2) shows an average value of 0.072. The highest value of this variable, 0.88, comes from PT Indo Tambangraya Megah Tbk (ITMG), and the lowest value of 0 comes from nine different companies. From this range, a range of 0.88 is obtained. The deviation value of 0.151 is greater than the average value.

Furthermore, audit quality (X3) shows an average value of 0.526. The highest value of this variable, namely 1, comes from five different companies, and the lowest value of 0 comes from five different companies. From this range, a range of 1 is obtained. The deviation value of 0.501 is lower than the average value.

**Table 3. Selection of Panel Data Model Estimation**

Testing	Value	Prob. Sectoral 1	Prob. Sectoral 2
Uji Chow	Cross-section	<b>0,0000</b>	<b>0,0000</b>
	Chi-square	Ha: Fixed Effect Model	Ha: Fixed Effect Model
Uji Hausman	Cross-section	<b>0,5036</b>	<b>0,0683</b>
	Random	Ho: Random Effect Model	Ha: Random Effect Model
Uji Lagrange Multiplier	Breusch-Pagan	<b>(0,0000)</b>	<b>(0,0000)</b>
		Ha: Random Effect Model	Ha: Random Effect Model

Source: EViews12 Processing Output, 2023

Gujarati (2006) explains that panel data has various advantages that result in panel data not having to be tested for classical assumptions. However, Porter and Gujarati (2009) argue that for those who meet the classical assumptions, there is no need to test classical assumptions, namely equations that only use the GLS (Generalized Least Square) method. In Eviews software, the GLS method is the random effect estimation method. Because the random effect is a more appropriate estimation method used in this study, refer to the argument Porter dan Gujarati (2009) classical assumption testing is not performed.

**Table 4. Panel Data Regression Results Random Effect Model (REM)**

Sectoral 1					Sectoral 2				
Variable	Coefficient	Std. Error	I-Statistic	Prob.	Variable	Coefficient	Std. Error	I-Statistic	Prob.
c	-0.003.944	0.045.857	-	09.316	c	1.058.968	0.120.873	8.760.981	0,0000
BOC Size	0.002.591	0.006.328	0.409.533	06.827	Earnings management	072.253	0.258.413	279.603	00.058
Managerial Ownership	0.015.076	0.041.729	0.361.284	07.183	BOC Size	-0.075.206	0.024.226	-3.104.292	00.022
Audit Quality	-0.052.866	0.026.317	-	00.462	Managerial Ownership	035.583	0.171.551	2.074.193	00.396
			2.008.865		Audit Quality	0.277.066	0.086.351	3.208.624	00.016
R-squared		0.025.457			R-squared		0.131.387		
Adjusted R-squared		0.007.950			Adjusted R-squared		0.110456		
F-statistic		1.454.136			F-statistic		6.277.299		
Prob(F-statistic)		0.228.992			Prob(F-statistic)		0.000.100		

Table 4 of the regression results with the Random Effect Model in sector 1 shows that the Adjusted R-square value is 0.007950. This shows that the variation in the dependent variable, namely earnings management, can simultaneously be explained by the independent variables, namely the board of commissioner' s size, managerial ownership and audit quality, by 0.79%. In comparison, the remaining 99.21% is explained by other factors outside the variables studied. While the regression results with the Random Effect Model in sectoral 2, it is known that the Adjusted R-square value is 0.110456. This shows that the variation in the dependent variable, namely firm value, can simultaneously be explained by the independent variables, namely the board of commissioner' s size, managerial ownership, audit quality and the intervening variable earnings management by 11.04%. Other factors outside the variables studied explain the remaining 88.96%.

Based on the four simultaneous test results, it shows that in sectoral 1, the t-statistic value is 1.454136 with a significance value of 0.228992, which means  $> 0.05$ , so it can be concluded that the variables of board size, managerial ownership and audit quality together do not affect earnings management. Meanwhile, in sectoral 2, the t-statistic value is 6.277299 with a significance value of 0.000100, which means  $< 0.05$ , so it can be concluded that the variables of board size, managerial ownership, audit quality and earnings management affect firm value.

The hypothesis test results (partial t-test) show that the size of the board of commissioners negatively affects firm value. This negative result indicates that the more members of the board of commissioners a company has, the smaller the Firm Value. This can happen because a large board of commissioners' size will cause the implementation of decisions or decision-making by the board of directors to be more complex or slower, interfering with the company's performance and efficiency. This study supports research conducted by Utama et al. (2018) and Nurhidayanti et al. (2023), which states that many boards of directors can cause internal coordination and communication problems, agency costs and complex supervision that will reduce Firm Value. 57.8% of sample companies have a board of commissioners, above the average of 4.5%. PT Indo Tambangraya Megah Tbk (ITMG) is one of the sample companies with a size value above the average: in 2018, it had five boards of commissioners with a firm value of 1.4221, but in 2019 it became six boards of commissioners with a firm value of 1.0405.

Managerial ownership affects firm value positively. Managerial ownership can directly oversee the company's internal activities so that the company has good quality and performance. With managerial ownership, management and shareholders have an equal position. If the ownership value of a company is high, it will increase the supervision given to company management (Shan, 2019). According to agency theory, firm value can be influenced by the relationship between shareholders

(principals) and management ownership (agents) (Trafalgar et al., 2019). The results showed managerial ownership (X2) positively and significantly impacted firm value. The results of this study support research conducted by Shan (2019) and Yudha et al. (2022), which explains that if the managerial ranks share company shares, the performance offered to the company will multiply with the outpouring of their hearts and the totality of their professionalism will be explored so that in the end it will lift the company's value. Based on the data in the field, one of them shows that PT Rukun Raharja Tbk (RAJA) in 2016 did not have a managerial ownership value with a Firm Value of 0.7813. However, in 2017, the managerial ownership value became 0.7139, and the Firm Value increased to 0.8246.

The results found that audit quality (X3) positively and significantly affects firm value. Companies with a large scale have the potential for agency conflicts and ownership takeovers. Therefore, the company will use an external auditor who is part of the big four Public Accountant Firm to implement effective governance so that the information the company (agent) will convey is relevant. This is an effort to maintain the company's reputation and the investors' trust (Nuryono et al., 2019). With higher audit quality, agency costs are expected to decrease, reduce information asymmetry, and increase firm value. The use of a large Public Accountant Firm is also a signal to investors that they consider it necessary and are trying to present high-quality financial reports; this is done as a company's effort to increase investor confidence so that information asymmetry can be avoided and as a form of the company's commitment to transparency (Al-ahdal et al., 2022). This research is in line with research conducted by Nafiah et al. (2020) and Buttang (2020). In this study, 53% of companies used Big 4 Public Accountant firms. According to the data in the field, the company with the highest firm value during the study period was owned by a company that used Big For PublicAccount firms, namely PT. Mitrabara Adiperdana Tbk (MBAP). MBAP in 2022 recorded a Firm Value of 2.1373.

The results of this study indicate that the size of the board of commissioners is independent of earnings management. This finding supports the research results of Hendra (2022), which states that the size of the board of commissioners does not influence earnings management practices; the board of commissioners' size is thought to fulfil only the provisions set by the regulator. The responsibility for ensuring that the information in the financial statements is of high quality is held by the composition of the commissioner. Based on agency theory, the company's board of commissioners, as agents for shareholders, will act selfishly and unfairly towards shareholders. This shows that the number of independent members of the company's board of commissioners does not always mean there is no fraud in the company's financial statements. This study's results align with previous research by Pratomo et al. (2022), which states that the board of commissioners does not affect earnings management.

The results showed that managerial ownership (X2) does not affect firm value in energy sector companies listed on the ISSI. This means that the size of managerial share ownership cannot make the company carry out earnings management. Even though the manager shares ownership in the company, it does not mean a manager can act according to his interests to increase personal gain, such as earnings management practices. A company has an audit committee responsible for examining or auditing financial statements (Dessyana, 2023). Christian et al. (2022) argue that earnings management does not occur even though managers own shares in this company due to the selection of efficient accounting techniques that provide added value. Managers will supervise people so earnings management practices do not occur. This also shows a belief that managerial share ownership is not a significant factor affecting earnings management. Instead, this focus is placed on the use of accounting techniques. Since the number of managers' shares is relatively small compared to the total capital of general investors, the management and capital owners of the company need to improve the quality of financial reporting and financial statements. This means that the number of shares owned by the company's management must be independent of the size of earnings management. The results of this study align with those conducted by Christian et al. (2022) and Mahadewi et al. (2017).

The results found that audit quality (X3) negatively and significantly affects earnings management in energy sector companies listed on the ISSI. This means that the larger the Public Accountant Firm, the less earnings management occurs. The Public Accountant Professional Code of Ethics in section 130.1 explains that auditors must ensure an increase in professional knowledge and skills by the requirements. The aim is to ensure that companies where auditors work receive competent professional services that comply with applicable laws and regulations and are by the latest professional and technical standards (Ikatan Akuntan Publik Indonesia, 2021). Agency Theory explains that the



principal wants accurate financial information from the reports prepared by the agent or management. However, usually, management tries to make financial reports look good, including doing earnings management. Therefore, it is necessary to test quality financial statements so that the resulting financial information also has quality, and this is done by an independent and competent party, namely an external auditor (Karina, 2018).

Research from Anggraeni (2022) states that because the big four Public Accountant Firm are considered more proficient and have more profound knowledge than the non-big four Public Accountant Firm, financial statement audits conducted by the big four Public Accountant Firm have the potential to prevent earnings management practices in the company because their larger size makes them better able to withstand pressure from clients who want a fair or clean opinion and monitor earnings management practices carried out by company management. Research by Hessayri et al. (2017) explains that audit quality is essential to determine the credibility and integrity of a company's financial reporting. The better the quality of auditors and audit results, the less dangerous earnings management practices occur. The results of this study align with the results of research conducted by Wilson et al. (2020), which show that Public Accountant Firm size is negatively correlated with earnings management: the larger the Public Accountant Firm chosen by the company, the lower the possibility of management implementing earnings management practices.

Earnings management affects firm value positively. Ullah et al. (2019) said that earnings management increases firm value. This means that the more earnings management practices a company uses, the higher the value or market valuation. In other words, effective earnings management, if done well, can increase the assessment of firm value in the financial markets. Thus, earnings management activities increase investors' company valuation, and investors' reactions indicate that investors do not care much about the company's financial information. In signalling theory, actions such as earnings management can be considered a way for companies to send signals to investors. Companies use earnings management to create an image that the company is in good financial condition, even though its performance may not be as good as it seems. However, this also implies that investors respond to such signals with shortsightedness (Juliani et al., 2023). Investors can get caught up in short-term perceptions that may not reflect the company's performance. This is a relevant aspect of signalling theory, where companies succeed in creating positive perceptions. However, these perceptions may be outside the company's actual financial performance. This supports research conducted by Zahrawani et al. (2021) and Dao & Ngo, (2020)

The board of commissioners's size can affect how earnings management is carried out, and these earnings management practices can then contribute to the determination of firm value. The BOC oversees and ensures that the company implements corporate governance. The Board of Commissioners also advises the Board of Directors on policies for company operations (Gumanti et al., 2020). The more the board of commissioners, the better management manages profits. Agency theory argues that differences in interests between agents and principals can lead to conflicts of interest. In addition, too many members of the board of commissioners will make coordination and communication more complex, and this problem can interfere with the supervisory process. In signalling theory, actions such as earnings management can be considered a way for companies to send signals to investors. Companies use earnings management to create an image that the company is in good financial condition, even though its performance may not be as good as it seems. In response, investors may react to this manipulated information without delving deeper into a more comprehensive analysis closely related to increasing firm value through earnings management (Suyono & Farooque, 2018).

Managerial ownership affects firm value through earnings management. With managerial ownership in a company, the management who owns the shares will have a personal interest in increasing the share price so that financial incentives are fulfilled. Earnings management practices are used by management to fulfil these incentives by improving the company's financial statements. Management may expand their share ownership in the company to create the impression of solid growth and positive performance to attract investors to invest in the company and to encourage the increase of the share price (Daud et al., 2019). On the other hand, managers who own shares usually have control over decisions and in-depth knowledge of the company's operations so that they have access to internal information that can be used to carry out earnings management practices and identify where earnings

management opportunities are to be applied. This is in line with agency theory. If earnings management practices are successful, it will create a positive image of the company in the eyes of investors and financial analysis. Therefore, this positive assessment can motivate investors to invest in the company's shares, which will affect the company's value. With the impression of growth and positive performance created, these managerial owners will send positive signals to the market to attract investor interest. This is in accordance with signalling theory, where earnings management practices are used to communicate information to the market. These results support research conducted by Aulia (2023).

Audit quality affects firm value through earnings management. Larger public accounting firms have more resources and experienced employees in their field. With sufficient resources, they can avoid unauthorised and manipulative earnings management practices by conducting more in-depth and careful investigations and examinations of the company's financial statements. Good financial reports will increase investors', shareholders' and the market's confidence in their financial statements. In addition, tighter supervision will make management more careful in using earnings management practices. This is supported by agency theory, which explains that the role of Public Accountant Firm with a larger size will be able to overcome agency conflicts that may occur because Public Accountant Firm has a function as an independent agent who aims to protect the interests of shareholders. Using a larger Public Accountant Firm also provides a positive signal that the company is serious about maintaining the quality of its financial statements and shows its commitment to stakeholders that the company will provide reliable and accurate financial information. So, the trust of stakeholders will impact positive perceptions and increase Firm Value; this is in line with signalling theory, which describes how the company's actions or choices can signal the market. These results support Darmawan (2020) and Helmi et al. (2023) research.

## **Conclusions**

From the discussion of the previous results, it was found that four factors affect firm value in this study: board size, managerial ownership, audit quality and earnings management. However, the board of commissioners's size has a negative effect on firm value. This study also mentions that one factor affects earnings management, namely audit quality, but the effect is negative. From the results of this study, it is hoped that further research will include additional variables that affect earnings management and firm value. In addition, the research sample will be expanded to include more companies in the energy sector listed on the ISSI. It is intended that the research results can be applied directly to energy sector companies in Indonesia.

## **References**

- Agsari, R. D. (2020). the Effect of Managerial Ownership, Profitability, Solvability and Company Sizes on Profit Management in Property and Real Estate Companies In the Indonesian Stock Exchange Period 2013 – 2017. *Primanomics: Jurnal Ekonomi & Bisnis*, 18(2), 82. <https://doi.org/10.31253/pe.v18i2.354>
- Agustina, D. (2018). Pengaruh corporate governance dan variabel keuangan terhadap nilai perusahaan. *Jurnal Bisnis Dan Akuntansi*, 19(1), 13–26. <https://doi.org/10.34208/jba.v19i1.61>
- Al-ahdal, W. M., & Hashim, H. A. (2022). Impact of audit committee characteristics and external audit quality on firm performance : evidence from India. 22(2), 424–445. <https://doi.org/10.1108/CG-09-2020-0420>
- Alda Nadya Mastuti, & Prastiwi, D. (2021). Pengaruh Kepemilikan Institusional Dan Ukuran Dewan Terhadap Nilai Perusahaan Melalui Profitabilitas. *Jurnal Penelitian Teori & Terapan Akuntansi (PETA)*, 6(2), 222–238. <https://doi.org/10.51289/peta.v6i2.501>
- Alfarizi, M. A. (2020). The Effect of Good Corporate Governance on Earnings Management of Manufacture Companies Listed in Indonesia Stock Exchange. *Journal UIB*, 1(1), 45–58.
- Angga. (2014). Saham Hampir “Gocap”, Nilai Perusahaan Tambang Bakrie Tinggal Rp 2,8 Triliun. *Detikfinance*. <https://finance.detik.com/bursa-dan-valas/d-2768555/saham-hampir-gocap-nilai-perusahaan-tambang-bakrie-tinggal-rp-28-triliun>

- Anggraeni, F. (2022). Pengaruh asimetri informasi, esop, karakteristik perusahaan, dan rasio keuangan terhadap manajemen laba. *2*(1), 13–24.
- Asghar, A., Sajjad, S., Shahzad, A., & Matemilola, B. T. (2020). Role of discretionary earning management in corporate governance-value and corporate governance-risk relationships. *Corporate Governance (Bingley)*, *20*(4), 561–581. <https://doi.org/10.1108/CG-11-2019-0347>
- Aulia, L., & Safri, S. (2023). Pengaruh Return on Equity (Roe) Dan Debt To Equity Ratio (Der) Terhadap Harga Saham Pada Perusahaan Sub-Sektor Telekomunikasi Yang Terdaftar Di Bei. *Jima*, *3*(2), 1–23.
- Aygun, M., Ic, S., & Sayim, M. (2019). The Effects of Corporate Ownership Structure and Board Size on Earnings Management: Evidence from Turkey. *International Journal of Business and Management*, *9*(12), 123–132. <https://doi.org/10.5539/ijbm.v9n12p123>
- Butar Butar, S. (2020). The effects of Corporate Governance, Audit Quality, and Conservatism on Loan Collateral Requirements. *Jurnal Akuntansi Dan Keuangan*, *22*(1), 28–39. <https://doi.org/10.9744/jak.22.1.28-39>
- Buttang, M. E. (2020). Pengaruh Struktur Kepemilikan Asing Dan Kualitas Audit Terhadap Nilai Perusahaan Yang Dimediasi Oleh Myopic Behaviour. *Ajar*, *3*(02), 188–218. <https://doi.org/10.35129/ajar.v3i02.129>
- Chiahemba Ajekwe, C. (2017). Loan Loss Provisions, Earnings Smoothing and Capital Management Under IFRS: The Case of Deposit Money Banks in Nigeria. *American Journal of Management Science and Engineering*, *2*(4), 58. <https://doi.org/10.11648/j.ajmse.20170204.12>
- Cho, S., & Chung, C. (2022). Board Characteristics and Earnings Management : Evidence from the Vietnamese Market.
- Christian, H., & Addy Sumantri, F. (2022). Pengaruh Kepemilikan Manajerial, Perencanaan Pajak, Ukuran Perusahaan, Leverage Terhadap Manajemen Laba (Studi Empiris Pada Perusahaan Consumer Goods Yang Terdaftar Di Bursa Efek Indonesia 2017-2020). *Nikamabi*, *1*(2), 1–10. <https://doi.org/10.31253/ni.v1i2.1562>
- Dao, B. T. T., & Ngo, H. A. (2020). Impact of corporate governance on firm performance and earnings management a study on vietnamese non-financial companies. *Asian Economic and Financial Review*, *10*(5), 480–501. <https://doi.org/10.18488/journal.aefr.2020.105.480.501>
- Darmawan, I. P. E. (2020). Kualitas Audit Sebagai Pemoderasi Pengaruh Manajemen Laba Terhadap Nilai Perusahaan. *Jurnal Akademi Akuntansi*, *3*(2), 174–190. <https://doi.org/10.22219/jaa.v3i2.12269>
- Darmawang, SE., M.Ak., G., Suratno, S., & Yusuf, M. (2019). Mekanisme Good Corporate Governance, Kualitas Audit, Ukuran Perusahaan Dan Korelasinya Terhadap Nilai Perusahaan Dengan Manajemen Laba Sebagai Variabel Intervening. *Jurnal Akuntansi Dan Bisnis Krisnadwipayana*, *6*(2), 60–70. <https://doi.org/10.35137/jabk.v6i2.283>
- Dechow, P. M., Sloan, R. G., Sweeney, A. P., & Sloan, R. G. (2015). Detecting Earnings Management. *Asian Financial Statement Analysis*, *70*(2), 73–105. <https://doi.org/10.1002/9781119204763.ch4>
- Dessyana. (2023). Pengaruh kepemilikan manajerial, ukuran perusahaan, roa, dan der terhadap manajemen laba pada perusahaan keuangan yang terdaftar di bei periode 2017-2020. *8*(1). <https://doi.org/10.33021/firm.v8i1.4209>
- Febyani, E. (2017). Pengaruh Kepemilikan Manajerial terhadap Nilai Perusahaan melalui Manajemen Laba sebagai Variabel Intervening di Indonesia pada Perusahaan yang Terdaftar di Bursa Efek Indonesia (BEI). *Business Accounting Review*, *5*(2), 745–756.
- Gujarati. (2006). Basic Econometrics. In *The Economic Journal* (Vol. 82, Issue 326). <https://doi.org/10.2307/2230043>

- Gumanti, T. A., Herda, N., & Abdullah, N. (2020). Corporate Governance Mechanism and Financial Performance: Role of Earnings Management. *7*(4), 3395–3410.
- Hendra, A. (2022). The application of corporate governance to the earnings management of the banking industry in Indonesia in the 2005- 2007 period. *1*(1), 17–23.
- Hessayri, M., & Saihi, M. (2017). Monitoring earnings management in emerging markets: IFRS adoption and ownership structure. *Journal of Economic and Administrative Sciences*, *31*(2), 1–25.
- Indah, N. N., & Pratomo, D. (2022). Pengaruh Dewan Komisaris Independen , Kepemilikan Institusional Dan Komite Audit Terhadap Manajemen Laba Dengan Variabel Kontrol Profitabilitas Dan Leverage ( Studi Empiris Pada Perusahaan Sektor Industri Dasar Dan Kimia Yang Terdaftar Di Bursa Efek Indo. *E-Proceeding of Management*, *9*(2), 486–493.
- Institut Akuntan Publik Indonesia. (2021). Kode Etik Profesi Akuntan Publik. Ikatan Akuntan Publik Indonesia. <https://iapi.or.id/kode-etik-profesi-akuntan-publik/>
- Juliani, S., Yuniarti, R., Riswandi, P., Bengkulu, U. M., Bengkulu, U. M., & Bengkulu, U. M. (2023). Nilai Perusahaan Dengan Corporate. *01*(01), 30–34.
- Julita Pinondang Tamba, A. S. A. (2021). Pengaruh Good Corporate Governance , Profitabilitas ,. *Jurnal Ilmu Dan Riset Akuntansi*, *10*(1), 131–138.
- Karina, R. (2018). The Effect of Financial Distress and Audit Quality on Earnings Management. *Global Financial Accounting Journal*, *2*(1), 63–70.
- Kementerian ESDM. (2022). Sektor Energi Indonesia Masih Menarik Bagi Investor. Direktorat Jenderal Minyak Dan Gas Bumi. <https://migas.esdm.go.id/post/read/sektor-energi-indonesia-masih-menarik-bagi-investor>
- Krisnadewi, K. A., Krisnadewi, K. A., Soewarno, N., & Agustia, D. (2020). Optimum Board Size to Achieve Optimal Performance in Indonesia\*. *Journal of Asian Finance, Economics and Business*, *7*(11), 231–239. <https://doi.org/10.13106/jafeb.2020.vol7.no11.231>
- Liana Susanto, A. A. (2022). Pengaruh Corporate Governance Terhadap Manajemen Laba Dengan Ukuran Perusahaan Sebagai Variabel Moderasi. *Jurnal Paradigma Akuntansi*, *4*(1), 414. <https://doi.org/10.24912/jpa.v4i1.17561>
- Mahadewi, A. A. I. S., & Krisnadewi, K. A. (2017). Pengaruh Kepemilikan Manajerial, Institusional Dan Proporsi Dewan Komisaris Independen Pada Manajemen Laba. *E-Jurnal Akuntansi*, *18*(1), 443–470.
- Maharani, Y. (2022). Faktor – Faktor Yang Mempengaruhi Nilai Perusahaan. *Jurnal Riset Akuntansi Dan Manajemen Malahayati*, *10*(2), 97–103. <https://doi.org/10.33024/jrm.v10i2.4902>
- Mahesa, G. N. (2019). The Effect of Ownership Structure and Governance on ( Empirical Study on Manufacture Companies listed on the Indonesia Stock Exchange in 2015-. 139–154.
- Maulana, I., Haryadi, B., & Arief, M. (2022). The Corporate Governance Mechanism on Earnings Management and Firm Performance. *AKRUAL: Jurnal Akuntansi*, *14*(1), 1–16. <https://doi.org/10.26740/jaj.v14n1.p1-16>
- Nafiah, Z., & Sopi, S. (2020). Pengaruh Kepemilikan Internal, Kualitas Audit Dan Kebijakan Hutang Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Stie Semarang*, *12*(1), 69–78. <https://doi.org/10.33747/stiesmg.v12i1.397>
- Novi Ayu Arthasari, & Agustina Ratna Dwiati. (2022). Effect of Managerial Ownership, Audit Committee, Profitability and Leverage on Accounting Conservatism. *Jae (Jurnal Akuntansi Dan Ekonomi)*, *7*(1), 63–72. <https://doi.org/10.29407/jae.v7i1.16994>
- Nurhidayanti, F., Listari, S., & Efrianti, D. (2023). Pengaruh Good Corporate Governance Terhadap Kinerja Keuangan Dan Nilai Perusahaan. *Jurnal Ilmiah Akuntansi Kesatuan*, *11*(1), 239–250. <https://doi.org/10.37641/jiakes.v11i1.1769>

- Nuryono, M., Wijanti, A., & Chomsatu, Y. (2019). Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional, Komisaris Independen, Komite Audit, Serta Kualitas Audit Pada Nilai Perusahaan. *Jurnal Ilmiah Edunomika*, 3(01), 199–212. <https://doi.org/10.29040/jie.v3i01.457>
- Porter dan Gujarati. (2009). *Dasar-Dasar Ekonometrika*. Salema empat.
- Pratama, A. (2022). Putin Umumkan Daftar Musuh Rusia. *CNBCIndonesia*. <https://www.cnbcindonesia.com/news/20220308185227-16-321096/putin-umumkan-daftar-musuh-rusia>
- Ramashar, W., & Hasan, A. (2018). Pengaruh Kepemilikan Institusional dan Profitabilitas Terhadap Nilai Perusahaan Dengan Manajemen Laba Sebagai Variabel Intervening The Effect of Institutional Ownership and Profitability on Firm Value with Profit Management as Intervening Variable. *Jurnal Akuntansi & Ekonomika*, 8(1), 32–40.
- Ridho, S. M., Kamaliah, & Taufik, T. (2017). Pengaruh Mekanisme Good Corporate Governance Terhadap Nilai Perusahaan Dengan Manajemen Laba Sebagai Variabel Mediasi Pada Perusahaan Manufaktur Yang Terdaftar Di Bei (2010–2015). *Jurnal Ekonomi*, 25(4), 30.
- Rizki, M. (2020). Pengaruh Reputasi KAP, Ukuran KAP, Dan Biaya Audit Terhadap Kualitas Audit (Studi pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2015-2017). *Diponegoro Journal of Accounting*, 9(3), 1–11.
- Rohim, M., Prabu, S., & Satriawi, W. (2018). The Effect of Ownership Structure on Firm Value with Profitability as a Moderating Variable. 413–427.
- Roslita, E., & Daud, A. (2019). Pengaruh Kepemilikan Saham, Profitabilitas, Leverage, dan Pajak Tangguhan Terhadap Manajemen Laba Dengan Kualitas Audit Sebagai Variabel Pemoderasi. *Jurnal Manajemen Bisnis*, 22(2), 213–234.
- Sa'diyah, C., & Hilabi, I. I. (2022). The Effect of Corporate Governance on Firm Value in The Indonesia Stock Exchange and Sharia Stock in Indonesia. *Jurnal Aplikasi Bisnis Dan Manajemen*, 8(2), 404–415. <https://doi.org/10.17358/jabm.8.2.404>
- Saidat, Z., Silva, M., & Seaman, C. (2019). The relationship between corporate governance and financial performance: Evidence from Jordanian family and nonfamily firms. *Journal of Family Business Management*, 9(1), 54–78. <https://doi.org/10.1108/JFBM-11-2017-0036>
- Shan, Y. G. (2019). Managerial ownership, board independence and firm performance. *Accounting Research Journal*, 32(2), 203–220. <https://doi.org/https://doi.org/10.1108/ARJ-09-2017-0149>
- Situmorang, P. (2022). IHSG 2022 Torehkan Penguatan, Lonjakan Saham Sektor Energi 100%. *Investor*. Id. <https://investor.id/market-and-corporate/317870/ihsg-2022-torehkan-penguatan-lonjakan-saham-sektor-energi-100>
- Suyono, E., & Farooque, O. Al. (2018). Do governance mechanisms deter earnings management and promote corporate social responsibility? *Accounting Research Journal*, 31(3), 479–495. <https://doi.org/10.1108/ARJ-09-2015-0117>
- Syahrani, T. (2021). Pengaruh Profitabilitas, Kualitas Audit, Nilai Perusahaan, Dewan Komisaris Independen Dan Ukuran Dewan Komisaris Terhadap Manajemen Laba Perusahaan Manufaktur Yang Terdaftar Di Bei. *Jurnal Fairness*, 9(1), 45–58. <https://doi.org/10.33369/fairness.v9i1.15221>
- Syarif M Helmi, Kurniadi, A., Muhammad Khairul Anam, & Soraya Nurfiza. (2023). Pengaruh Profitabilitas Dan Kualitas Audit Terhadap Manajemen Laba Dengan Ukuran Perusahaan Sebagai Variabel Moderasi. *Jurnal Akuntansi Trisakti*, 10(1), 51–68. <https://doi.org/10.25105/jat.v10i1.15496>
- Thu, P. A., Hong, T., Khanh, T., Tran, N., Ha, T., & Khuong, N. V. (2018). Perceived Audit Quality , Earnings Management and Cost of Debt Capital : Evidence from the Energy Listed Firms on Vietnam's Stock Market. 8(6), 120–127.

- Trafalgar, J., & Africa, L. A. (2019). The effect of capital structure, institutional ownership, managerial ownership, and profitability on Firm Value in manufacturing companies. *The Indonesian Accounting Review*, 9(1), 27. <https://doi.org/10.14414/tiar.v9i1.1619>
- Ullah, K., & Bagh, T. (2019). Finance and Management Scholar at Riphah International University Islamabad, Pakistan, Faculty of Management Sciences. 10(4), 49–58. <https://doi.org/10.7176/RJFA>
- Utama, & Utama. (2018). BOC in CG Firm Performance & Ownership Structure. 12(2), 111–136.
- Wilson, & Prasetyo, A. (2020). Pengaruh Mekanisme Good Corporate Governance, Leverage, Dan Ukuran Perusahaan Terhadap Manajemen Laba. *Jurnal Akuntansi*, 9(1), 59–72. <https://doi.org/10.46806/ja.v9i1.652>
- Wulanda, M., & Aziza, N. (2019). Pengaruh Corporate Governance Terhadap Nilai Perusahaan dan Manajemen Laba Sebagai Variabel Intervening. *AKTSAR: Jurnal Akuntansi Syariah*, 2(1), 83. <https://doi.org/10.21043/aktsar.v2i1.5518>
- Yudha, A. M., Yulia, Y., Intan, P., & Sari, P. (2022). The Influence of Managerial Ownership and Company Growth on Firm Value through Institutional Ownership as a Moderation Variable. 7(2), 169–177.
- Zahrawani, D. R., Sholikhah, N., Pratama, P., & Surakarta, M. (2021). Analisis Penerapan Good Corporate Governance (GCG) dan Pengaruhnya Terhadap Kinerja Lembaga Bank Syariah. *Jurnal Ilmiah Ekonomi Islam*, 7(03), 1799–1818.