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The Effect of Financial Performance and Corporate Governance Mechanisms on Earnings Quality

(Empirical Study on Non Financial Comapanies Listed on the IDX for the 2019 – 2021 Period)

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Abstract: Earnings quality is a criteria considered in measuring how far the information presented in the financial statements can describe the actual condition of the company. This study aims to analyze the effect of profitability, liquidity, leverage, managerial ownership, and institutional ownership on earnings quality in non-financial companies listed on the Indonesian stock exchange for the 2019-2021 period. The sampling technique used in this study was purposive sampling. A total of 83 companies that have met the criteria as observation units. The analysis method used is multiple linear regression analysis. The results of the study provide empirical evidence that profitability and leverage affect earnings quality. While liquidity, managerial ownership, and institutional ownership have no effect on earnings quality.

Keywords: Earnings quality, Profitability, Liquidity, Leverage, Managerial ownership, Institutional ownership.

1. Introduction

Financial statements are a way to assess company performance to provide company financial information that is useful for investors and creditors in making decisions to invest or provide credit to the company. Substantially, in the financial statements, there are elements of the income statement that provide important information about the amount of profit companies; for stakeholders and investors, earnings information is the basis for decision making (Choi, at all 2013). In connection with this profit-loss information, many companies, especially IPO companies, strive to present the best financial statements, presentation methods, and financial analysis tools to provide good quality annual reports.Earnings quality indicates the ability of earnings information to provide a market response (Ginting 2017). The quality of earnings information is important because it is considered a manifestation of the actual realization of the company's financial performance, which is reflected by earnings in the financial statements and is important information for investors to make decisions in investing their funds or to predict future company profits. Profit is one of the meaningful elements in a financial report. Profit can assess how a company has performed during one period (Fitriani et al., 2020).Profit can be used as one of the considerations of users of financial statements in drawing a conclusion. Earnings are considered quality when the earnings are presented synchronously in accordance with the company's proper financial performance and avoid interference from certain parties (Taruno, 2013). With quality earnings, it shows that the company's performance in terms of finance is in good condition. (Azizah & Asrori, 2022).

Earnings quality indicates the ability of earnings information to provide a market response (Ginting 2017). The quality of earnings information is important because it is considered a manifestation of the actual realization of the company's financial performance, which is reflected by earnings in the financial statements and is important information for investors to make decisions in investing their funds or to predict future company profits. Profit is one of the meaningful elements in a financial report. Profit can assess how a company has performed during one period (Fitriani et al., 2020). Financial reports are an issue in the misuse of information that is very detrimental to users of financial statements. The case related to earnings quality is used as a gap phenomenon in this study because earnings quality has an important role in the company which will be used as material in considering decisions for related parties. If the profit reported by the company does not have authenticity or does not match the real situation of the company, it will have low quality.

The financial reporting scandal case that occurred at PT Hanson International, which in the records of the Financial Services Authority (OJK), PT Hanson International was proven to have manipulated in presenting the annual financial statements for 2016. The examination conducted by OJK found findings related to the sale of ready to build lots (KavlingSiapBangun/Kasiba) with a gross value of IDR 732 billion, making the company's revenue increase. PT Hanson violated the Financial Accounting Standards on Accounting for Real Estate Activities (PSAK 44). Cases regarding earnings quality also occur at the company PT Garuda Indonesia, where in the financial statements of PT Garuda Indonesia Tbk irregularities have been found. Starting from the 2018 financial statements, it recorded a net profit of US$ 809 thousand, which is equivalent to IDR 11.22 billion when compared to 2017 PT Garuda Indonesia lost US$ 216.58 million.

Based on the previously described cases, it can be seen that the quality of reported earnings is very low. With the company's financial statements that do not match the condition of the company so that the company's performance is considered poor and results in low quality corporate earnings. The impact is of course that investors will be hesitant to invest in the company. And if the company does not get an injection of funds from outside parties, the company's funding will decrease which will have an impact on the company's business continuity. There are several factors that can influence investor responses in making decisions, researchers focus on financial performance factors, namely profitability, liquidity, leverage, and corporate governance mechanism factors, such as managerial ownership and institutional ownership.

This research is a development of research conducted by Lestari and Khafid (2021). The development carried out is that researchers add two independent variables, namely managerial ownership and institutional ownership. The reason researchers add managerial ownership and institutional ownership variables is that companies with large levels of managerial ownership tend to strive to improve company performance or increase company profits which will benefit the managers themselves. Meanwhile, institutional ownership plays an important role in the supervisory mechanism and makes policies that will affect the quality of the company's earnings. The second novelty, this study expands the scope of observations on non-financial companies listed on the IDX for the 2019-2021 period.

2. Literature Review and Hypothesis

2.1 Agency Theory

Agency theory is a theory that explains agency relationships where one or more people (principals) engage other people (agents) to perform some services on their behalf which involves delegating some decision-making authority to the agent (Jensen and Meckling 1976). Agency theory also assumes that each individual, either principal or agent, has a motivation that is invested in their own self-interest, which will lead to a conflict of interest between the principal and agent (Ardianti 2018). This difference in interests will lead to conflicts between shareholders and managers, which are called agency problems. One of the indicators used to measure company performance is earnings information, where earnings information is a component of the company's financial statements that, if the reporting is not done correctly, will have an impact on the quality of a company's earnings. This theory will be very useful in this study because it is explained that the implementation of the existing system in the company has several frauds which will have an impact on earnings quality. This is in line with the function of earnings quality which is intended for investors or shareholders so that they understand the company's performance. The use of agency theory is in line with earnings quality which is the topic of my research. Earnings quality has a relationship with financial statements that can result in problems between the agent and the principal.

2.2 Signalling Theory

This theory arises because of the information asymmetry between the agent, namely the manager, and the principal, namely the shareholder (Ross, 1977). This information asymmetry arises because of the inappropriate information from each party, so that to overcome this problem, the company must provide signals to investors (Lestari & Khafid, 2021). Signaling theory assumes that managers can provide information about the company regarding financial statements to investors based on investment return decisions. In this case, the manager or company is the party that is expected to know the value of the company in the future better than anyone else. Because if external parties have less information about the company, it can cause them to protect themselves by giving a low assessment of a company. Signalling theory emphasizes the information released by the company on the investment decisions of parties outside the company. This theory also states that good quality companies will signal excellence to the market and less qualified companies will disclose more information that is mandatory. Signaling theory has information that is closely related to information asymmetry.

2.3 Financial Statements

Stock Statement of Financial Accounting Standards (PSAK) No. 1 (2021) is about the presentation of financial statements. Financial statements are a structured presentation of the financial position and financial performance of an entity. Financial statements are the output of all transactions that occur during a certain period which contains all the company's financial information in a certain period. A complete financial statements includes a balance sheet, income statement, statement of changes in equity, cash flow statement, and notes to the financial statements. There are four main characteristics required by the Financial Accounting Standards (SAK) so that financial statement information is useful for users, namely understandable, relevant, reliable, and comparable. An important quality of the information contained in the financial statements is the ease with which it can be immediately understood by the user. Information is said to be relevant if it can influence users' economic decision making by helping them evaluate past, present and future events.

2.4 Earnings Quality

Earnings quality is a criteria considered in measuring how far the information presented in the financial statements can describe the real condition of the company. Information in finance must be able to be used in predicting the company's performance in the next period. The relationship between the information presented in the current financial statements and the company's future performance shows the quality of earnings presented in the financial statements (Scott, 2012). Earnings quality can assess a company, because it is one of the important information available to users of financial statements. Determination of earnings quality includes the company's business environment and the accounting principles used and applied in the company (Riswandi, 2015). Companies attract investors and creditors by presenting financial statements that contain profit results. Earnings quality in a company is a criteria that is considered when evaluating how much information is presented in the financial statements that can describe the company's actual position. Financial information must be used to estimate the company's income in the next period. The relationship between the information presented in the current financial statements and the future performance of the company indicates the quality of the performance presented in the financial statements.

2.5 Profitability

Profitability is the main goal of all companies. Without profitability, the company will not survive in the long term. Therefore, measuring current, past, and also projecting future profitability is very important for a company. In a company, profitability is used to see how much the company's ability to earn profits or profits compared to all the assets owned by the company (Lie & Santioso, 2020). The company is considered capable of generating high profits or profits if the level of profitability in a company is increasing from time to time.The high profit owned by the company shows that the company has good performance. This good performance will also have an impact on increasing the quality of earnings owned by the company (Magdalena & Trisnawati, 2022). Profitability is measured by income and expenses. Revenue is money generated from business activities. However, money coming into the company from borrowing money does not generate income.Companies that have a high level of profitability tend to use relatively small debt. This is because the company has large internal funds. Conversely, a company that has a low level of profitability will use a large amount of debt if the company does not have sufficient internal funds. In other words, profitability is a ratio measuring the internal ability of a company to seek profit or profit and measuring how much management effectiveness in a company (Hakim et al., 2020).

The results of research by Lie & Santioso (2020), Indriana & Handayani (2021), and Mergia et al. (2021) provide empirical evidence that profitability has an influence on the earnings quality of a company. Based on the description above, the first hypothesis of this study is:

H_1: Profitability affects earnings quality

2.6 Liquidity

Liquidity is a ratio used by a company to measure the company's ability to pay off its short-term debt obligations (Murniati 2018). Short-term debt itself is debt that the company has in a period of less than one year. If a company has liquidity, it shows that the company is able to pay off its short-term debt and is also able to finance the company's operational activities. In a company, liquidity can provide benefits for various interested parties. For company owners, liquidity is very useful for assessing their own performance capabilities. As for creditors, liquidity is useful to see how much security over the return of funds loaned.Companies with good financial performance can be seen from the company's ability to pay short-term debt. If the company can pay short-term debt, the company can be said to be good. The company may not manipulate earnings. High liquidity means that the company can fulfill its short-term obligations before maturity, so the company's financial results are good. At the same time, a company with low liquidity indicates that the company cannot meet its short-term obligations. The liquidity of a company can describe how the turnover of cash flow in the company is in using cash to meet company debt. A company that has sufficient ability to fulfill its obligations shows that it has good survival. This condition will be used by management to signal the condition of the company to the market. A strong market reaction will indicate that the company's earnings are of good quality because liquidity is one of the criteria for assessing the performance of a company (Mulyati et al., 2021).

Research by Hasanuddin et al. (2021) and Ardianti (2018) provides empirical evidence that liquidity affects earnings quality, which means that the higher the level of liquidity owned by the company, the higher the creditor's trust in the company. Based on the description above, the second hypothesis of this study is:

H_2: Liquidity affects earnings quality

2.7 Leverage

According to Sumardi and Surharyono (2020), leverage is defined as the use of funds, where as a result of the use of these funds the company must spend fixed costs. Leverage is a metric used to determine how a company's assets are financed by debt. Leverage is used as a measure of capital structure. Leverage is the source of debt used by the company to finance assets other than capital and equity. The higher the debt ratio, the higher the company's debt, which is a situation where the debt ratio is greater than its assets (Andriyani et al., 2014).With the assumption that if the company's leverage level is low, the company indicates that the use of assets is financed by internal capital. However, if the company's leverage level is high, it will show that the assets in the company are more heavily financed by debt from external parties. Therefore, companies that are heavily financed by debt will result in the role of investors in the company decreasing. The higher the level of leverage of a company will result in lower quality corporate earnings (Darmayanti & Fauziati 2019).The company publishes financial reports as information material that will be used for external parties of the company, with the intention of showing good performance to creditors or investors in order to obtain additional capital and creditors or investors feel confident that the funds provided will be guaranteed. This will encourage an entity to carry out financial reporting with good earnings quality, so that external parties are confident in the performance of an entity.

Research conducted by Lestari & Khafid (2021) and Yulius & Susanto (2022) provides empirical evidence that leverage affects earnings quality. The quality of earnings in a company will increase if the company can maintain the company's leverage level. Conversely, the company's earnings quality will decrease if the company's leverage level is low. Based on the description above, the third hypothesis of this study is:

H_3: Leverageaffects earnings quality

2.8 Managerial Ownership

Managerial ownership is the ownership of a share by a company's management. Managerial ownership is usually measured by the percentage of shares owned by management (Candradewi & Sedana, 2016). The existence of management ownership in a company will lead to an interesting conjecture that the quality of corporate earnings increases as a result of increased management ownership. Ownership by large management will encourage managers to try as much as possible to take actions that can maximize their prosperity. With the managerial ownership mechanism in the company, the agent will be more careful in making decisions. Agents as determinants of accounting policies and procedures used by the company will also bear the risk of unqualified financial information due to earnings management. In addition, agents will increasingly try to improve their performance as well as possible, so that both owners and agents will benefit from the amount of profit. The percentage of ownership of company shares by company managers will be listed in the financial statements. Financial statements that record this information are very important for future users of financial statements. This is because the information will be disclosed in a financial report or financial note. When looking at agency theory, there are interesting things about this managerial ownership. The interesting thing is contained in the framework contained in agency theory, where there is a description of the relationship between company managers and shareholders as an agent and principal relationship (Schroeder et al., 2014).

Theoretically, when the interests of the owner and agent are aligned due to the managerial ownership mechanism, the motivation to carry out earnings management will decrease. This situation results in the financial information reported will produce quality earnings. This is supported by research conducted by Hidayatul et al. (2022) with results showing that managerial ownership affects the quality of corporate earnings. Based on the description above, the fourth hypothesis of this study is:

H_4: Managerial ownership affects earnings quality

2.9 Institutional Ownership

In general, institutional ownership is defined as a proportion of share ownership owned by blockholders, namely individual ownership on behalf of individuals and institutional owners, such as banks, investment companies, insurance companies, and including other institutions calculated at the end of the year.In agency conflicts that arise in agency theory, institutional ownership has an important role in minimizing agency conflicts, namely conflicts that occur between shareholders and managers (Jensen & Meckling, 1976). Institutional ownership plays an important role in monitoring management. This is because with institutional ownership, it can increase supervision so that the supervision and monitoring process becomes more optimal. Institutional ownership has the ability to control management through an effective monitoring process so as to reduce management's actions in earnings management. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision made by managers. Institutional ownership acts as a party that monitors the company in general and managers as company managers in particular. The greater the institutional ownership, the more efficient the utilization of company assets and is also expected to act as a prevention of waste committed by management.

The results of research by Muid (2009), Adriani (2011), Puteri & Rohman (2012), and Darabali & Saitri (2016) state that institutional ownership affects earnings quality. Based on the description above, the fifth hypothesis of this study is:

H_5: Institutional ownership affects earnings quality

3. Methodology and Procedures

3.1 Population dan Sample

Table 1: Research Sample Selection Process

No	Criteria	Total
1	Non-financial companies listed on the Indonesia Stock Exchange (IDX)in the 2019 – 2021 period.	608
2	The sample companies have published financial report for three years, namely 2019-2021	(139)
3	Non-financial companies that did not experience losses in the observation period 2019-2021	(249)
4	Companies that provide data information that will be used as a factor analysis of each variabeldurimg the observation period 2019-2021	(137)
Totalofresearchsamples=83 x3 years		249
Outlierdataduringprocessingtime		(15)
Totalresearchsamples		**234**

Source: Data Process 2023

Based on the sample selection table above, the data used in this study are secondary data, in the form of profitability, liquidity, leverage, managerial ownership, and institutional ownership and earnings quality, obtained through the documentation method by taking through the annual report of each non-financial company which can be accessed through the website www.idx.co.id and the company's official website. The object of this research is all non-financial companies listed on the Indonesia Stock Exchange (IDX) that publish annual reports from 2019-2021. Based on the sample criteria that have been determined in this study, a research sample of 83 companies was obtained for each year. So that the total number of samples used is 249. Outliers were 15 samples, so that the sample that met the criteria was 234 samples.

This study use the following for each variables measurements:

Table 2: Measurement of variable

Variable	Indicators	Source
Earnings Quality	$\text{Earnings Quality} = \frac{Operating\ Cash\ Flow}{Net\ Income}$	Abdhelghany (2005)
Profitability	$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}}$	Kusumawati dkk. (2018: 45)
Liquidity	$Current\ Ratio = \frac{\text{Current Asset}}{\text{Short Term Liabilities}}$	Ginting(2017)
Leverage	$\text{DAR} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$	Kusumawati dkk. (2018: 44)
Managerial Ownership	$\text{MO} = \frac{\text{Management Share Ownership}}{\text{Number of Share Outstanding}}$	Novieyanti(2016)
InstitutionalOwnership	$\text{IO} = \frac{\text{Number of Shares Owned by Institution}}{\text{Number of Share Outstanding}}$	Novieyanti(2016)

3.2 DataAnalysisTechnique

In this study, hypothesis testing used multiple regression analysis. The multiple linear regression method is used to determine the correlation of each independent variable to the dependent variable.

$$\mathbf{EQ = \alpha + \beta_1 P + \beta_2 L + \beta_3 LE + \beta_4 KM + \beta_5 KI + \mathit{e}}$$

4. Result and Discussion

4.2 Discussion

Normality testing in this study uses the CLT (Central Limit Theorem) test, which means that if the amount of data observed is large enough (n more than 30), the data results are closer to normal. The larger the sample size, the closer the sample distribution is to the normal distribution. Of course, this is also influenced by how to select the sample taken. It can be concluded that sample size (n) and sampling design are important issues in sampling (Sekaran & Bougie, 2019). This study has a total n of 249 and is greater than 30. This shows that the data in the study is normally distributed. The normality test using Kolmogrov-Smirnov and Shapiro Walk shows that the data is not normally distributed in accordance with the basis of analysis on Kolmogrov-Smirnov and Shapiro Walk, namely the amount of significance is less than 0,05.

The multicollinearity test results are carried out by looking at the variance inflation factor (VIF) value of less than 10, namely between 0,082-0,490 and a tolerance value of 0,671-0,955 which shows that all independent variables are more than 0,10. So it can be concluded that the regression model is free from multicollinearity.For autocorrelation test results using Durbin Waston, it is worth 1,933. If the DW value is below -2, then there is a positive autocorrelation. If the DW value is above 2, then there is a negative autocorrelation. If the DW value is located between -2 and 2, then there is no autocorrelation. (Santoso, 2012). The DW value according to the test results above is 1,933, so it can be concluded that no autocorrelation occurs. The results of the heteroscedasticity test in this study using the Spearman Rho test. The results of the heteroskedasticity test show that the unstandardized residual value has a significance value greater than 0,05, so it can be concluded that the regression model is free from heteroskedasticity.

In this study, hypothesis testing was carried out using a multiple linear regression analysis model. The following is a table of multiple linear regression analysis:

Tabel 4: Result of Multiple Linier Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-225,62	501,563		-,450	,653
	Profitability	-2,577	1,022	-,159	-2,521	,012
	Liquidity	,001	,007	-,010	,162	,871
	Leverage	2,633	,538	,316	4,891	,000
	Managerial Ownership	,383	,769	,037	,499	,618
	InstitutionalOwnership	1,114	,679	,141	1,923	,056
	F				8,824	,000[b]
	Adjusted R Square					,144

Source: Data Process, 2023

Based on Table 4, the results of the F test simultaneously show a significance value of 0.000. The significance value generated by the F test is less than 0.05, so it can be concluded that all independent variables, namely profitability, liquidity, leverage, managerial ownership, and institutionalownershipare qualified and can be said to fit regression models. The coefficient of determination shows the adjusted R square value of 0.144 or 14,4%.This shows that independent variables, namely profitability, liquidity, leverage, managerial ownership, and an independent board of commissioners, can explain the variation of dependent variables, namely environmental disclosure, to the tune of 0,144 or 14,4%, while the remaining 85,6% is explained by other variables that are not included in this study.

Based on the results of multiple regression tests, the calculation results of each variable can describe the influence of each independent variable on the dependent variable, namely as follows:

The calculation results of each variable can describe the influence of each free variable on the bound variable, namely that profitability has a significance value (sig t) of 0,012, which is smaller than the significance level of 0,05 (0,012 < 0,05) and **H_1 received**. Profitability affects earnings quality. Financial information is one of the important information that can be an important signal from the company to interested parties regarding the good and bad performance of the company. Profitability itself is one component of financial information that the higher the profitability of a company, it will provide a positive signal to investors and creditors. Indirectly, this also increases the company's chances of generating good profits in the future, thus showing the company has good earnings quality. Profitability shows the company's ability to earn profits that can be obtained from various ratios, one of which is Return On Assets (ROA). This ratio shows the amount of return investors can get on their money. A high ROA value indicates that the company receives a high level of profit. This means investors get a greater return on their investment. The higher the ROA value of a company indicates that the profitability of the company is also high, the greater the company's earnings response coefficient and the quality of the company's earnings. Especially if the company is able to generate large profits stably. ROA as one of the profitability ratios can also be a measure of a company's performance. With the higher ROA of a company, it can prove that the company generates a large amount of profit and excellent company performance. A high ROA also means that the company generates high cash flow from operation. High performance and operating cash flow ultimately have an impact on the quality of earnings, where profits are close to the initial planning or even exceed the target of the initial planning.This study provides empirical evidence that profitability affects earnings quality. This is consistent with the research of Erawati& Sari (2021), Zatira et al. (2020), and Mergia et al. (2021) which concluded that profitability affects earnings quality.

The test results state that liquidity has a significance value of 0,871, where the value is greater than 0,05 (0,871 > 0,05), and **H_2 is rejected**. Liquidity has no effect on earnings quality. Companies with high liquidity are not a guarantee that a company has good operational activity management. The company's ability to fulfill better debts and obligations does not mean that the company has good earnings quality as well. Therefore, liquidity has no influence on earnings quality. This is also supported by where earnings quality and earnings come from. Earnings quality is obtained from the movement of operating cash flow, while earnings are based on the ending balance obtained from the balance of current assets and current liabilities. So, if the company's liquidity is high, it does not necessarily mean that the company's earnings quality is also higher, because the company's profits can decrease after the company fulfills its obligations, which means that earnings quality can decrease. This study provides empirical evidence that liquidity has no effect on earnings quality. Earnings quality is obtained from good company management. It can be said that the high and low level of liquidity of a company is not a benchmark for creditors in providing loans to the company. This is because the creditors already have confidence in the company in paying its debts. Companies with large liquidity values indicate that the company's management of current assets is less than optimal, making the company's financial performance poor and allowing earnings manipulation to beautify the earnings information. So it can be concluded that the size of liquidity has no effect on earnings quality.This study provides empirical evidence that liquidity has no effect on earnings quality. This is consistent with the research of Zatira (2020) and Sinaga et al. (2022) which concluded that liquidity has no effect on earnings quality.

The test results state that leverage has a significance value of 0,000, where the value is smaller than 0,05 (0,000< 0,05), and **H_3 is accepted**. Leverage affects earnings quality. Debt as a source of funding that brings profit to the company is more often an option than other sources of funding. This is because debt has another function, namely tax interest can be used to reduce the tax burden. The high debt of a company makes the company more dynamic as seen from the high level of Debt to Equity Ratio (DER). This dynamism is seen from the utilization of debt properly in an effort to fund each of the company's operations, thus allowing the company to generate large profits to be able to pay off debt. In the end, this makes the company's earnings quality high.The amount or size of a company's debt used in financing its operations will affect the quality of the company's earnings. The quality of the company's earnings will increase if the company can maintain the company's leverage level. Conversely, the quality of the company's earnings will decrease if the company's leverage level is low. A high level of leverage will encourage management to improve its performance, so that the company's debt can be paid off. Indirectly, the company will move quickly, resulting in an increase in profits and finally the quality of earnings to increase. This study provides empirical evidence that leverage affects earnings quality. This is consistent with the research of Herninta&Ginting (2020), Lestari &Khafid (2021), and Alvin & Susanto (2022) who concluded that leverage affects earnings quality.

The test results state that managerial ownership has a significance value of 0,618, where the value is greater than 0,05 (0,618 > 0,05), and **H_4 is rejected**.Managerial ownership has no effect on earnings quality. This is due to the low managerial ownership of most companies listed on the IDX. The low percentage of managerial ownership as the owner of the company has no impact on earnings quality. The low managerial ownership in Indonesia is due to investors' unfavorable assessment of the Employee Stock Ownership Program (ESOP). This program by Bapepam Regulation number IX.A.7 and IX.D.4 makes employees entitled to priority share allotment up to 10% of the number of outstanding shares and employees have preemptive rights. Share ownership by employees makes the profit received by shareholders decrease, along with the increase in the number of shares outstanding. The small average number of shares owned by the company's management is not able to improve the quality of the company's earnings, so it has no effect on earnings quality. It is known that the average managerial ownership of companies in Indonesia is still below 10%. In addition, some managerial ownership structures in several companies in Indonesia still have family relationships (relations) and have high and strategic positions in the company's organizational structure. This increases the opportunity for earnings management actions in an effort to increase company profits, so that earnings quality cannot reflect the actual state of the company. This study provides empirical evidence that managerial ownership has no effect on earnings quality. The managerial ownership mechanism has no effect on earnings quality. This is due to the small proportion of share ownership allocated to managers, so that ownership is spread rather than concentrated in one group. More diffuse managerial ownership in the company, creating greater rewards for management, so as to reduce managers' motivation to manipulate earnings. Managerial ownership arises because of the interests of management and majority shareholders of the company. The lack of effect of managerial ownership means that with decreasing share ownership by management, it will make earnings less qualified.This study provides empirical evidence that managerial ownership has no effect on earnings quality. This is consistent with Mergia's research (2021) which concluded that managerial ownership has no effect on earnings quality.

The test results state that institusional ownershiphas a significance value of 0,056, where the value is greater than 0,05 (0,056> 0,05), and **H_5 is rejected**. Institutional ownership has no effect on earnings quality due to the lack of effective institutional ownership of companies on the IDX in monitoring and reducing management actions on earnings quality. This indicates that the level of institutional share ownership as a controlling mechanism for preparing earnings reports has little influence on the market through earnings information. In addition, earnings management that is still opportunistic is also the cause of low earnings quality. Institutional ownership has the task of forcing management to improve company performance by increasing profits from company operations. However in reality, institutional ownership is not oriented towards current earnings. Institutional investors as institutional owners are more concerned with the company's performance in the long term, so institutional share ownership can be an obstacle to managers' opportunistic behavior.This study provides empirical evidence that institutional ownership has no effect on earnings quality. This is consistent with research by Alatas&Wahidahwati (2022) and Dewi (2020) which concluded that institutional ownership has no effect on earnings quality.

5. Conclusion

Based on the results of data analysis and discussion of the effect of profitability, liquidity, leverage, managerial ownership, and institutional ownership on earnings quality in non-financial companies listed on the Indonesia Stock Exchange (IDX) for the period 2019 to 2021, it can be concluded that only profitability and leverage affect earnings quality, while liquidity, managerial ownership, and institutional ownership have no effect on earnings quality.

Based on the test results obtained, there are several limitations, namely this research was only conducted within the scope of non-financial companies listed on the Indonesia Stock Exchange for a period of only three years 2019-2021. In addition, the coefficient of determination test results show that the dependent variable explains the variation in the dependent variable, namely accounting conservatism, by 0.162 or 16.2%, while the remaining 83.8% is explained by other variables not included in this study.

Further research is recommended to get even better results. Further research can pay attention to other variables that also affect earnings quality, for example the size of the board of commissioners, audit committee, company size, and capital structure. Other than measuring the quality of earning ratio, it can further clarify the effect of the independent variable on the dependent variable. Finally, extend the research time, so that the amount of data obtained increases and there will be an opportunity to get better data processing results.

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