

THE EFFECTS OF CORPORATE GOVERNANCE, FIRM SIZE, PROFITABILITY, AND GROWTH OPPORTUNITIES ON THE VALUE RELEVANCE OF ACCOUNTING EARNINGS – A STUDY OF THE INDONESIA STOCK EXCHANGE

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Abstract— Capital market serves as an alternative financing-wise and as a means investment-wise. Relevance of accounting information comes out as profound to investors as can be observed within the financial statements of a company. The aim of this study was to figure out the effects of corporate governance, firm size, profitability, and growth opportunities on the value relevance of accounting earnings. The present research used a quantitative method and secondary data in the form of annual reports, and the objects hired were 22 companies listed on the LQ45 index (August of 2018–January of 2019) of the Indonesia Stock Exchange for the period 2015–2017. Analysis was conducted by a descriptive statistical method. The results obtained showed that the variable profitability, which was measured on return on asset, affected the value relevance of accounting earnings, while the variables good corporate governance, firm size, and growth opportunities did not affect the value relevance of accounting earnings. Companies' management is advocated to optimize the management of the assets in place as it was found in this research that return on asset had an effect on earnings response coefficient. This is necessary so that the companies are able to generate earnings response coefficients to which investors can respond positively.

Keywords: Earnings Response Coefficient, Firm Size, Good Corporate Governance, Growth Opportunities, Indonesia, Return On Asset

1. INTRODUCTION

Capital market is not the only propeller of Indonesian economy, but it undeniably serves as an alternative finance-wise and as a means investment-wise. Relevance of accounting information comes out as profound to investors as can be observed within the financial statements of a company. A company's stock price is influenced by its financial performance. This is reflected in its financial statements as well. The concept of the value relevance of accounting information thus becomes an essential issue to be considered in investment decision-making (Puspitaningtyas, 2012).

Earnings have value relevance if they are related to stock price statistically, in which case the decrease and increase in earnings correspond to the decrease and increase in stock price (Hung, 2018). The value relevance of accounting earnings may offer critical information to

investors, creditors, or any other users in making predictions on historical or future events or on the level of ability to confirm or correct expectations for a company.

The value relevance of accounting earnings can be gauged by taking a look at the magnitude of the relationship between earnings and stock return. This is what is referred to as earnings response coefficient (ERC). Earnings response coefficient is a measure of abnormal return on a security in response to unexpected earnings component reported by the issuing company.

Good corporate governance encompasses liaison between stakeholders involved and the corporate governance purpose. Virtually all around the world the theme corporate governance becomes a prominent issue either academically or in practice. Simply put, corporate governance is inclusive of individual decision-making elements, in particular when it comes to financial factors. In essence, corporate governance is how a company is supposed to be run for the sake of achieving goals (Prasetyantoko, 2013). Good corporate governance is tied to the value relevance of accounting earnings in a financial statement. If a company applies good corporate governance, it is expected of it to have good value relevance in every piece of information presented in its financial statements.

Firm size also contributes to corporate financial structure. Companies of larger sizes tend to need funds in greater amounts than smaller ones. Such funds may be sourced from stock issuance or corporate debt. Driven to procure such funds, the management will be tempted to engage in earnings management practices. Financial statements featuring high-value earnings statements will draw investors or creditors toward investing in the company.

According to Kasmir (2015), profitability is a company's ability to generate profits. It will provide an illustration of how effective a company's management is; the higher the profits earned, the more effective the company is. Profitability, too, bears association with the value relevance of accounting earnings in a financial statement as it is one of the influencers of investment decision-making. Higher profitability indicates greater depth in the information provided by the management as it strives to convince investors or creditors of the company's profitability.

Company growth is desirable to both internal and external parties to a company. From an investor's perspective, company growth is a beneficial aspect, so rate of return shows favorable growth. Growth opportunities explain the prospect of the company's future growth. The greater the company's opportunity to grow, the greater the opportunity is for the company to generate earnings in future times. This certainly will influence the value relevance of accounting earnings as well. As stated by Linda & Ningsih (2012), information on earnings will come as handy if it can render a change in investors' beliefs and actions. How useful such information is will be measurable from the extent to which price changes follow earnings information publication.

The research question formulated in this research is: Do good corporate governance, firm size, profitability, and growth opportunities affect the value relevance of accounting earnings?

2. THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

2.1 Theoretical Framework

The stakeholder theory emerges from the elevated awareness and understanding that a company has stakeholders, i.e., parties interested in a company (Freeman, 2001). This theory states that stakeholders reserve the right to be provided with information regarding how an organization's activities influence them in performing a constructive role in the organization's life (Ulum 2017). This theory posits that a company is not an entity that operates solely for its own interest but one that must benefit all stakeholders. The value relevance of information is

of an extreme importance to the trust of stakeholders, in this case communities and shareholders.

Accounting information should have an influence on decision-making. If the information lacks such influence, it is said to be irrelevant. A relevant piece of information will assist its users in predicting the final outcome of an event in the days to come. A critical component in a financial statement that can be used as an instrument to acquire information on the company's performance is earnings. Earnings are regarded as having value relevance if they are related to stock price statistically. The value relevance of accounting earnings can be gauged by taking a look at the magnitude of the relationship between earnings and stock return. Earnings response coefficient measures abnormal return on a security in response to unexpected earnings component reported by an issuing company (Scott, 2015). A high-quality financial statement should be able to improve the information that can be of use to decision-making for the sake of capital market efficiency improvements (Perotti & Wagenhofer, 2014).

Good corporate governance (GCG) is a set of relationship governance between corporate management, directors, commissioners, shareholders, and other stakeholders. A chief goal of GCG is to ensure transparency and accountability to those involved in the implementation of organizational policies through a mechanism with the purpose of reducing agency conflicts (Wahyudin & Solikhah, 2017). In the context of corporate business, GCG is an overarching concept which incorporates all aspects of corporate life, including the ethics tasks of employees, communities, and the world as a whole (Siswanto, 2014).

A large company is perceived as able to take on uncertainties, thus a risk-averse investor will tend to make judgments on company size. From an investor's point of view, a major company is able to make improvements to its corporate performance and enable acceleration of earnings increase. Company size is also determinant of bargaining power in financial contracts. Big companies are usually in better position to select funding from various forms of debt, including more profitable special offerings, than smaller ones. In the stakeholder theory, for communities as external stakeholders companies with considerable assets are expected to disclose relevant information on accounting earnings in their financial statements (Subroto, 2014).

Profitability ratio is one that measures management's overall effectiveness and indicates the amount of profits generated with respect to sales or investment (Fahmi, 2014). Profitability is a gauge of a company's ability to make profits on its business activities. Higher profitability ratios are representative of better ability to generate profits.

Growth opportunities are the prospect of a company growing in the future. A company predicted to enjoy rapid growth in the future will prefer its stock that is used to fund its operations. A company with growth opportunities will need a great amount of capital for financing its future growth. Shareholders will demonstrate more eager response to companies with more ample growth opportunities. This is because companies with plenty of growth opportunities will give a lot of benefits to investors (Scott, 2015).

Faradilla, Shodiq, & Junaidi (2016) used profit persistence, growth opportunities, and firm size as independent variables and value relevance of accounting earnings as a dependent variable. The results of their research unraveled that the variables profit persistence, growth opportunities, and firm size had a simultaneous, significant effect on earnings response coefficient (ERC). But partially, the variables profit persistence and firm size did not have any significant effect on ERC.

Jalil, (2013) used identical independent and dependent variables to those used by Faradilla, Shodiq, & Junaidi (2016). However, he found that profit persistence and growth

opportunities had a positive effect on the value relevance of accounting earnings, while firm size lacked an effect on the value relevance of accounting earnings.

In a separate study, Sari, Handajani, & Saiful (2016) discovered that tax avoidance positively influenced value relevance and that corporate governance mechanism demeaned tax avoidance's effect on value relevance. Another finding of this study suggested that firm characteristics negatively affected value relevance.

Meanwhile, Alamsyah (2017) drew a number of conclusions: profitability had a significant, positive effect on dividend policy and firm value but did an insignificant, positive effect on the value relevance of accounting information; profitability had an insignificant, negative effect on investment opportunities, and value relevance of accounting information had an insignificant, negative effect on firm value; investment opportunities and dividend policy had an insignificant, positive effect on firm value; and value relevance of accounting information, investment opportunities, and dividend policy were unable to mediate profitability's effect on firm value.

Murwaningsari, Utama, & Rossieta (2015) investigated the relationship between the use of financial derivatives after the implementation of PSAK (Indonesian Financial Accounting Standards) 55 on the use of discretionary accruals and the effect of derivatives and discretionary accruals on the value relevance of earnings and equity. The results of the study showed that the use of financial derivatives and discretionary accruals were positively related. Meanwhile, between derivatives and the value relevance of earnings under price and return models was a relationship in a negative direction, but there was an absence of effect of derivatives on the value relevance of equity. The relationship of discretionary accruals to the value relevance of earnings under the return model and its relationship to the value relevance of equity under the price model were both in a negative direction.

Wang (2015) used Taiwanese tourism industrial sector as a sample and presented the relationship between the value relevance of Tobin's Q (ratio of firm asset's market value), firm valuation, and corporate governance. The study applied the multiple regression model to discuss the effect of value relevance of intellectual capital on corporate governance and found that the effect was positive. Corporate governance was gauged using size of board of directors, percent meetings of board of directors with management, percent ownership of external shareholders, and rate of deviation with control rights.

Meanwhile, the empirical results of Iddon, Hettihewa, & Wright (2015) indicated a strong correlation between relevance of accounting values and other variables in the junior mining sector (JMS). This research examined the correlation between the accounting values in the financial statements of junior mining firms and stock market value. It involves fundamental analysis, a paradigm that uses financial and non-financial factors in economy to draw an inference on the intrinsic value. A fundamental analysis uses certain variables to research how accounting factors are related to market value. Total asset valuation, or a firm-size-based valuation, had a positive effect on the disclosure of the relevance of accounting values.

2.2. Hypothesis Formulation

2.2.1. The effect of the competence of the board of commissioners on the value relevance of accounting earnings

The facts concerning Indonesia's capital market explained by Subekti (2012) are considered to still feature characters of weak protection for minority investors. It was thus deemed necessary to carry out a study to investigate the effect of corporate governance mechanism on the value relevance of accounting information. It is a given that the matters

related to the implementation of corporate governance principles bear relationship with the value relevance of accounting earnings. If the implementation by companies in Indonesia is good, the value relevance of accounting earnings will also be good.

The competence of the board of commissioners, expected to improve the quality of control activities within the company, can be measured based on how long it has been in service. The longer it is in service, the better the company's internal control is. Effective control activities can enhance the quality of earnings disclosure as suggested by the company's stock price. Additionally, the presence of the commissioners signals independence from majority-shareholder's interests. It is then expected of the board of commissioners to be aware of and pay attention to stakeholders' interest. Based on the description above, the first hypothesis proposed in this research is as follows.

H1: The competence of the board of commissioners has a positive effect on the value relevance of accounting earnings.

2.2.2 The effect of the competence of the audit committee on the value relevance of accounting earnings

A company with good corporate governance will certainly regard as important the value relevance of its information. This has implications on the trust level of all stakeholders along with external parties interested in making investments to the company.

According to Subekti (2012), the most frequent issue present in Indonesian companies in general is the conflict between controlling and minority shareholders. Such conflict is referred to as type II agency problem. A company belonging to a business group has the chance of concealing its actual financial performance, leading to diminishing relationship between accounting information and its market value.

The audit committee has the duty of evaluating the internal processes and control of a company for it to generate high-quality financial statements (Rezaee, 2003). The presence of an audit committee with accounting expertise will contribute to the decrease in management fraud and the increase of investor trust with regard to the value relevance of the information contained in a financial statement. Profits disclosure is an indispensable factor in the disclosure of the value relevance of accounting earnings as it impacts on stock value. Based on the description above, the second hypothesis proposed is as follows.

H2 : The expertise of the audit committee has a positive effect on the value relevance of accounting earnings.

2.2.3 The effect of firm size on the value relevance of accounting earnings

In financial statements, an accounting item to which a large amount of attention is directed is earnings value. A capital market reacting to a company's earnings announcement carries information and indicates relationship of value relevance of accounting earnings to stock price. Suprihatin, & Tresnaningsih (2013) revealed that many studies have been performed on the value relevance of financial statement information, suggesting that stock market value is linked to book value of equity and earnings.

As stated by Faradilla, Shodiq, & Junaidi (2016), firm size is one of the things investors take into consideration in making investment decisions. While Jalil (2013) discovered that firm size did not have any effect on the value relevance of accounting profits, Faradilla, Shodiq, & Junaidi (2016) found the reverse. This is based on the grounds that the majority of investors believe the bigger the company, the smaller the risk is posed. Firm size also serves as a proxy of the informativeness of stock price as it reflects the management of earnings generated. A larger company will tend to have a greater amount of information than

smaller ones. Based on the description above, the third hypothesis proposed in this research is as follows.

H3 : Firm size has a positive effect on the value relevance of accounting earnings.

2.2.4 The effect of profitability on the value relevance of accounting earnings

In the research study by Murwaningsari, Utama, & Rossieta (2015), it is espoused that Indonesia is in the midst of a financial crisis upon a speculative activity under a particular scheme. According to an analysis of the financial statements of public companies within a sample period, 54.2% of the public companies reported losses of derivatives. This will undoubtedly raise the potential of financial infringement and pressures within a debt contract. The implementation of this speculative action is marked with a high revenue volatility, setting an obstruction to the value relevance of earnings. Accounting information will have relevance if stock price movement is related to the information disclosed (Ernest & Oscar, 2014).

Profitability ratio, known as a company's ability to generate earnings, reflects to which extent the company succeeds in running its business processes. As pointed out by Alamsyah, (2017), the use of accounting information on profitability is taken into account in investment decision-making. Research results support the hypothesis that profitability portrays information on the value of a company. A company with good and stable profitability has its value relevance of accounting earnings lifted. This can be owed to sound profits and assets management. Based on the description above, the fourth hypothesis proposed in this research is as follows.

H4 : Profitability has a positive effect on the value relevance of accounting earnings.

2.2.5 The effect of growth opportunities on the value relevance of accounting earnings

According to Puspitaningtyas (2012), the accounting information contained in the financial statements of a company is reflective of the company's management performance quality. Performance quality is reflected in the company's stock price. Analysis of accounting information can be useful for investors in predicting the risk of investing to a company. The information can be used to estimate the value expected of the return and risk of a security. If the accounting information lacks value relevance, there will be no revised trust after the information is received, and as a result, there will be no stimulation of purchase decisions, trade volume, and stock price change (La Torre et al, 2020). Growth opportunities for a company can be seen in the profits on the management of the assets obtained in the current year and before (Chesbrough, 2010). A change in the management value may have an impact on the price of the outstanding stock and, in turn, the ERC.

As posited by Faradilla, Shodiq, & Junaidi (2016), growth opportunities explain future growth prospect. Investors are inclined to invest to companies with high levels of growth opportunities as it is believed that those companies will have massive opportunities to generate earnings and cause ERC to rise. Based on the description above, the fifth hypothesis proposed in this research is as follows.

H5 : Growth opportunities have a positive effect on the value relevance of accounting earnings.

According to the above-explained, the model of this research is presented below.

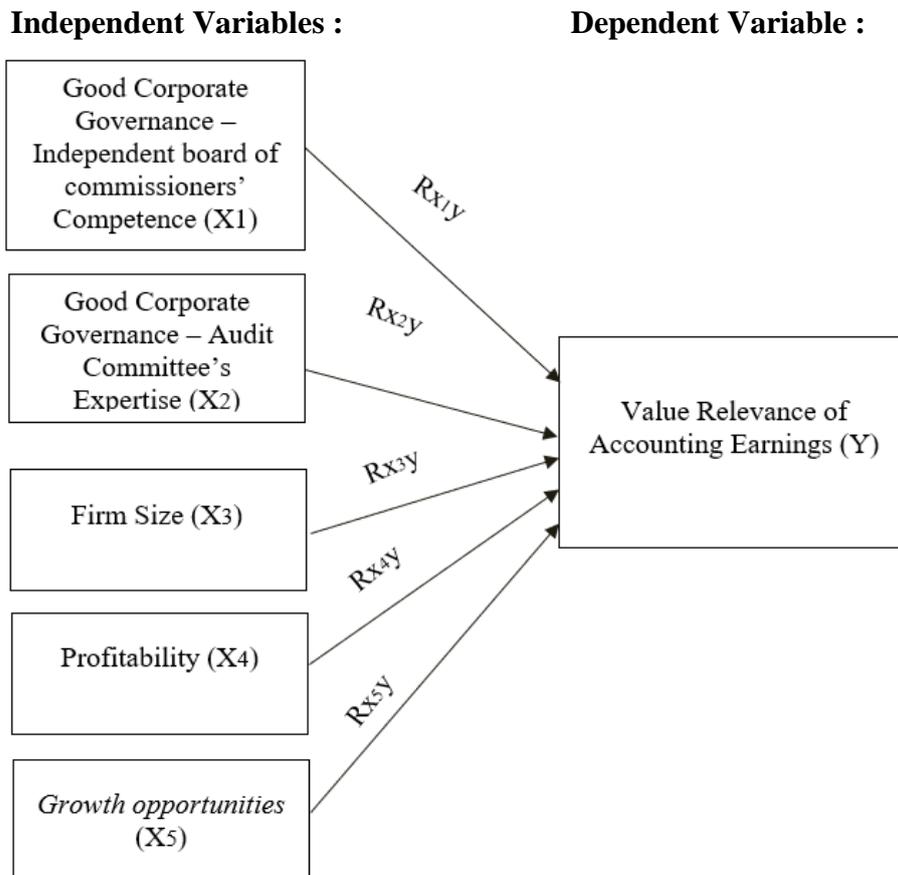


Figure 1. Research Model

3. RESEARCH METHOD

The data collected in this research were secondary data from the annual reports accessed on Indonesia Stock Exchange's website. The annual report components supporting this research were some information items within audited companies' financial statements such as total asset value, net profits value, stock price index, directors' performance assessment, and corporate governance principle.

The population in this research was all LQ45 index companies (August of 2018 through January of 2019) listed on the Indonesia Stock Exchange (IDX) in the period 2015–2017. All of the data in this research were secondary data from the official website of PT. Bursa Efek Indonesia, www.idx.co.id, and the website of each company. The listed population was composed of 45 companies. A sample is a portion of the size and characteristics of a population to be used in a research study. The sampling technique employed was the purposive sampling technique. Sample units in this research were selected as per the following criteria:

1. Companies listed on the LQ45 index (August of 2018 through January of 2019) of the Indonesia Stock Exchange (IDX) in the period 2015–2017.
2. Companies listed on the non-financial LQ45 index (August of 2018 through January of 2019) of the Indonesia Stock Exchange (IDX).

3. Companies listed on the non-financial LQ45 index (August of 2018 through January of 2019) of the Indonesia Stock Exchange (IDX) which used rupiah in their published financial statements.
4. Companies listed on the non-financial LQ45 index (August of 2018 through January of 2019) of the Indonesia Stock Exchange (IDX) which published annual reports and financial statements over the period 2015–2017.
5. Companies listed on the non-financial LQ45 index (August of 2018 through January of 2019) of the Indonesia Stock Exchange (IDX) which did not perform stock split on their stock value.

3.1 Variable Operationalization

In this study, the dependent variable was the value relevance of accounting earnings, which was measured with earnings response coefficient (ERC). ERC was obtained from the regression between cumulative abnormal return (CAR) as a proxy of stock price and unexpected earnings (UE) as a proxy of accounting earnings used in indicating and explaining the response of stock price to earnings information. CAR was calculated using the cumulative abnormal return model. Abnormal return (AR_{it}) can be calculated using the following formula (Suwardjono, 2014):

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

$$R_{mt} = \frac{IHS G_t - IHS G_{t-1}}{IHS G_{t-1}}$$

$$AR_{it} = R_{it} - R_{mt}$$

Source: (Suwardjono, 2014)

where,

AR_{it} : the abnormal return for company i on day t,

R_{it} : the daily return of company i on day t,

R_{mt} : market index return on day t,

P_{it} : stock price of company i on day t,

P_{it-1} : stock price of company i on day t-1,

IHS G_t : Jakarta Composite Index on day t, and

IHS G_{t-1}: Jakarta Composite Index on day t-1.

Unexpected earnings (UE) is a proxy of accounting earnings which represents a company's performance over a given period. UE can be calculated using the following formula (Suwardjono, 2014):

$$UE = \frac{E_{it} - E_{it-1}}{E_{it-1}}$$

Source: (Suwardjono, 2014)

where,

UE : the unexpected earnings of company i in period t,

E_{it} : the net earnings of company i in period t, and

E_{it-1} : the net earnings of company i in period t - 1.

After the CAR and UE values were obtained, the linear regression model to be used for determining ERC was formulated. ERC was to be calculated from slope b (UE) within the relationship of a company's cumulative abnormal return to unexpected earnings using the following formula (Suwardjono, 2014):

$$CAR_{it} = a + bUE_{it} + \epsilon_{it}$$

Source: (Suwardjono, 2014)

where,

CAR_{it} : the cumulative abnormal return of company i during the period of observation of the published financial statement,

UE_{it} : unexpected earnings, and

ϵ_{it} : error component in the model of company i during period t.

An independent variable, often referred to as predictor, is a stimulus variable or a variable that influences another variable. It is a variable whose variability is measured, selected, or manipulated by the researcher to determine the relationship between the phenomena researched (Sarwono, 2017). The independent variables in this research were good corporate governance (proxied by board of commissioner's competence and audit committee's expertise), firm size, profitability, and growth opportunities.

a. Board of commissioners' competence (X1)

The variable board of commissioners was to be measured using years of service of board of commissioners (competence). Board of commissioners' competence was calculated using the ratio of years of service of board of commissioners and independent commissioners to size of board of commissioners and independent commissioners (Makhdalena, 2013). The years of service of board of commissioners were derived from the summed profile contained in a company's annual report.

b. Audit committee's expertise (X2)

Audit committee's expertise was judged based on the educational background in the field of finance (economics and accounting) listed in the profite summary within a company's annual report. It can also be seen in the profile included in the company's website and the audit committee's LinkedIn account. The audit committee's expertise was calculated using the ratio of the number of audit committee members from educational background in the financial field to the number of all audit committee members (Makhdalena, 2013).

c. Firm size (X3)

In this research, the variable firm size was projected using natural logarithm, namely size = (Ln of total asset) (Murhadi, 2013).

d. Profitability (X4)

The variable profitability in this research was measured using return of asset (ROA). ROA was obtained by dividing operating earnings by total asset. The formula for profitability rate based on ROA is as follows:

$$ROA = \frac{Net\ earnings}{Average\ total\ asset}$$

Source: Zulfikar (2016).

e. Growth opportunitites (X5)

The variable growth opportunities was measured using the ratio of the difference between total asset in year t and total asset in year t-1 to total asset in year t-1 as the following formula [26]:

$$\text{Growth} = \frac{\text{Total Asset it} - \text{Total Asset it-1}}{\text{Total Asset it-1}}$$

Source: Yusrianti (2013).

where,

- Total Asset it : the total asset of company i in period t and
- Total Asset it-1 : the total asset of company i in period t-1

The data analysis techniques employed in this research was quantitative descriptive analysis and panel data regression analysis techniques. This descriptive research describes quantitative data on the subjects' conditions or the population's phenomenon (Sugiyono, 2015). Panel data regression analysis was utilized because the data used were collected from various companies within a three-year period.

The equation for the whole hypotheses in this research is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

where,

- Y : value relevance of accounting earnings,
- a : constant,
- b : regression coefficient,
- X1 : board of independent commissioners' competence,
- X2 : audit committee's expertise,
- X3 : firm size,
- X4 : profitability,
- X5 : growth opportunities, and
- e : error.

4. RESULT AND DISCUSSION

This research derived secondary data from the Indonesia Stock Exchange in the form of financial statements and annual reports within the period 2015–2017. Sample was selected by the purposive sampling method, in which sampling was performed based on predetermined characteristics and criteria. Below are the sampling criteria used in this research.

Table 1. Sampling Criteria

No	Description	Number
1	LQ45 index company population (August of 2018 through January of 2019) in the period 2015–2017	45
2	LQ45 index financing companies (August of 2018 through January of 2019)	-6
3	LQ45 index non-financing companies (August of 2018 through January of 2019) which used currencies other than rupiah in their published financial statements	-10
4	Companies inconsistently publishing annual reports and financial statements in the period 2015–2017	-4
5	Companies performing stock split on their stock value	-3

Total sample size	22
Number of years in the annual reporting period (2015–2017)	3
Number of sample data	66

Source: Processed data

4.1 Descriptive Statistics

According to Yusuf (2017), one of the primary characteristics of descriptive research is that it describes a situation or happening precisely and accurately for reasons other than finding cause and effect relationship. This research hired a sample of 22 LQ45 index companies and run for a three-year period from 2015 through 2017.

Table 2. Descriptive Statistics

	Y	X1	X2	X3	X4	X5
Mean	1.662458	4.419497	0.687626	31.06796	0.111445	0.16995
Median	0.046499	3.478333	0.666667	31.05827	0.069032	0.09639
Maximum	86.88927	11.20000	1.000000	33.32018	0.487754	1.41660
Minimum	-7311385	0.858333	0.333333	28.98925	-0.55035	-0.10516
Std. Dev	11.23501	2.906721	0.226518	1.043666	0.118956	0.25143
Observations	66	66	66	66	66	66

Source: Processed data (2019)

Table 2 displays the minimum and maximum scores, mean, and standard deviation of each variables, based on which the following conclusions were drawn.

Based on table 1.1, the maximum ERC was 86.88927, and the minimum -7.311385. The mean of the value relevance of accounting earnings computed using the ERC was 1.662458, while the standard deviation was upward of the mean, namely 11.2350.

The variable GCG that was proxied by the ratio of board of commissioners' competence had a maximum score of 11.2, suggesting that the competence of the board of commissioners or independent commissioners based on the years of service was high. The data processing using this descriptive statistical test generated a minimum score of 0.858333. This was the result of the high turnover rate of boards of commissioners and independent commissioners. The mean of the board of commissioners' competence in this research was 4.419497, and the standard deviation was smaller than the mean, namely 2.906721.

The maximum score of the variable GCG, which was proxied by audit committee's expertise, was 1. A score of 1 is the highest possible score, signing the entire audit committee of a company was of educational background in the financial field. In this research, 6 companies were found to achieve the maximum score of 1. Meanwhile, the minimum score of the variable audit committee's expertise was 0.333333. The mean was 0.687626, and the standard deviation was lower than the mean, namely 0.226518.

For the variable firm size, which was computed based on the natural logarithm of total asset, the maximum score was 33.3201839, while the minimum 28.928924799. The mean was 31.06796, and the standard deviation was well below the mean, namely 1.043666.

As for the variable profitability, which was computed based on the ROA, the highest score was obtained in the year 2015, namely 0.487753561. ROA was used to find the percent profits (earnings) generated by a company with respect to resources or total asset, suggesting the company's efficiency in its asset management. The lowest score was also obtained in 2015, namely -0.055035416. The company was in a negative state in its earnings, or was suffering a loss, showing that the capital invested in its entirety was still unable to generate

earnings. The standard deviation in the variable ROA was slightly above the mean (0.111445), namely 0.118956.

Lastly, for the variable growth opportunities, the maximum score was 1.416601121. Companies with rapid growth will require larger amounts of funds in the future, forcing them to increase their permanent assets and retain earnings more. Companies with high growth rates will have its retained earnings go up and rely more on debts to keep their targeted debt ratio. The lowest score for this variable was -0.105160084. The mean was 0.16995, and the standard deviation was 0.25143.

4.2 Panel Data Regression Model Selection

This research employed panel data modelling. Three tests were performed to determine which technique was the most appropriate for estimating the panel data regression. Firstly, the Chow test was used to choose between the common effect and the fixed effect models. Secondly, the Hausman test was used to choose between the fixed effect and the random effect models. Lastly, the Lagrange-Multiplier (LM) was used to choose between the common effect and the random effect models.

4.2.1 Chow Test

The Chow test as a statistical test was used to select whether to use the common effect or the fixed effect model under the conditions below.

H0 : Common effect method

H1 : Fixed effect method

The result of the Chow test in this research is displayed in the following table.

Table 3. Result of the Chow Test

Effects Test	Statistic	d.f.	Prob
Cross-section F	0.439648	(21,39)	0.9764
Cross-section Chi Square	14.023252	21	0.8686

Source: Eviews version 9 output

Based on the Chow test results, a chi-square of 0.8686 and an f-value of 0.8686 (above a significance level of 5%) were obtained, showing that the probability value (p-value) was >0.05. Thus, H1 was rejected in favor of H0. In other words, the common effect model was considered better to use than the fixed effect model.

4.2.1 Hausman Test

The Hausman test is a statistical test used to decide whether to use the fixed effect or the random effect model. Testing was conducted with the following hypotheses.

H0 : Random effect model

H1 : Fixed effect model

The result of the Hausman test in this research is displayed in the following table.

Table 4. Result of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	0.545983	5	0.9903

Source: Eviews version 9 output

From the Hausman test a probability value larger than the significance level of 5%, 0.9903, was obtained ($p\text{-value} > 0.05$). Thus, H_0 was accepted, and H_1 was rejected. In other words, the random effect model was preferred to the fixed effect model.

4.2.3 Lagrange-Multiplier Test

According to Widarjono (2013), the Lagrange-Multiplier test is intended to find out whether the random effect model is superior over the pooled least square method. The Lagrange-Multiplier test was based on the chi-square distribution with degrees of freedom as many as the number of independent variables. If the Lagrange-Multiplier statistical value was beyond the chi-square critical value, then H_0 was rejected, signifying that the appropriate estimation model to use for panel data regression was the random effect model.

Table 5. Result of Lagrange-Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	3.442392 (0.0635)	0.446442 (0.5040)	3.888834 (0.0486)
Honda	-1.855368	-0.668163	-1.784406
King-Wu	-1.855368	-0.668163	-1.185570
Standardized Honda	-1.205662	-0.366471	-5.542589
Standardized King-Wu	-1.205662	-0.366471	-3.563849
Gourierioux, et al.*	--	--	0.000000
			≥ 0.10
*Mixed chi-square asymptotic critical values			
	1%	7.289	
	5%	4.321	
	10%	2.952	

Source: Eviews version 9 output

From the Breusch-Pagan test, a probability value of 0.0486 was obtained. That the value was less than 0.05 showed that the random effect model was better than the common effect model.

4.3 Classical Assumption Testing

4.3.1 Normality Test

The following is the result of the normality test conducted in this research.

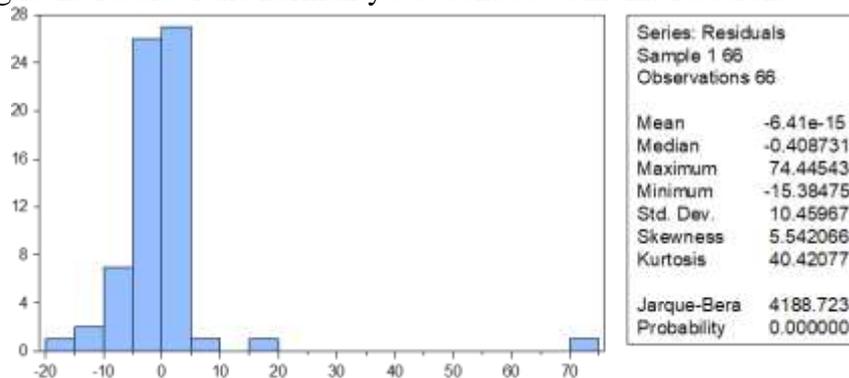


Figure 2. Result of Normality Test

Source: Eviews Version 9 Output

Based on the figure above, the probability value was found to be 0.000000 (smaller than 0.05), showing that the data were not normally distributed. It was then concluded that the data distribution between variables was not normal. Normality test is basically not a BLUE (best linear unbiased estimator) requisite (Basuki & Prawoto, 2016) and some believe that it is not mandatory.

4.3.2 Multicollinearity Test

The following is the result of the multicollinearity test conducted in this research.

Table 6. Result of Multicollinearity Test

	X1	X2	X3	X4	X5
X1	1.000000	0.072784	0.086380	0.033294	-0.418736
X2	0.072784	1.000000	-0.135757	0.232837	-0.095427
X3	0.086380	-0.135757	1.000000	-0.481095	0.079559
X4	0.033294	0.232837	-0.481095	1.000000	-0.157681
X5	-0.418736	-0.095427	0.079559	-0.157681	1.000000

Source: Eviews Version 9 Output

Based on the test results above, no independent variable had a value of above 0.9, indicating that the independent variables within this research were not intercorrelated or did not experience multicollinearity. The regression model of this research was a good regression model because no correlation between independent variables was found.

4.3.3 Autocorrelation Test

Autocorrelation testing was performed using the Breusch-Godfrey Serial Correlation LM test. If the probability value $\text{Obs}^*\text{R-squared} > 0.05$, no autocorrelation problem was present. The following is the result of the autocorrelation test in this research.

Table 7. Result of Autocorrelation Test

F-statistic	0.700911	Prob. F(2,58)	0.5003
Obs*R-squared	1.557533	Prob. Chi-Square(2)	0.4590

Source: Eviews Version 9 Output

From the autocorrelation testing a probability value of 0.4590 was obtained. The value was higher than 0.05, proving that this research was free of autocorrelation problem.

4.3.4 Heteroscedasticity Test

A White test was carried out by regressing squared residuals as dependent variable with the sum of the dependent variable and the squares of independent variables was added to the multiplication of an independent variable by another independent variable. If the probability value $\text{Obs}^*\text{R-squared} > 0.05$, then the data were void of heteroscedasticity.

Table 8. Result of Heteroscedasticity Test

F-statistic	2.040406	Prob. F(5,60)	0.0857
Obs*R-squared	9.591375	Prob. Chi-Square(5)	0.0877
Scaled explained SS	156.2394	Prob. Chi-Square(5)	0.0000

Source: Output Eviews Versi 9

From the heteroscedasticity test a probability value of 0.0877 was obtained. The probability value's being less than 0.05 indicated that the research data contained no heteroscedasticity. It was concluded that this research was free of heteroscedasticity problem.

4.4 Multiple Linear Regression Analysis

Based on the model testing results, it was concluded that the regression model appropriate to use in the present research was the random effect model. Based on the testing data presented earlier, the following panel data regression equation was formulated.

$$Y = -0.238720 + 0.105991X_1 + 1.228812X_2 + -0.048697X_3 + 11.38315X_4 + -1.162573X_5 + \varepsilon$$

4.5. Hypothesis Testing

4.5.1 Coefficient of Determination Testing (R^2)

From the common effect model testing an adjusted R-squared value of 0.153992 or 15% was found. This value indicated that the independent variables board of commissioners, audit committee, firm size, profitability, and growth opportunities could be influenced by the dependent variable earnings response coefficient (ERC) at 15%, while the remaining 85% influence was from variables not investigated in this research.

4.5.2 Simultaneous Significance Testing (Statistical F Test)

Simultaneous testing or F test was performed to investigate whether the independent variables simultaneously had a significant effect on the dependent variable. Based on the table, the probability value obtained was 0.009557. The value's being smaller than 0.05 led to the acceptance of H_0 . This means that board of commissioners, audit committee, firm size, profitability, and growth opportunities had a simultaneous, significant effect on the earnings response coefficient (ERC) of the sample LQ45 companies.

4.5.3 Individual Parameter Significance Testing (Statistical T Test)

4.5.3.1 The effect of good corporate governance proxied by the competence of the board of commissioners and the expertise of the audit committee on the value relevance of accounting earnings

The research on the effect of good corporate governance on the value relevance of accounting earnings was developed from the suggestion provided in Faradilla, Shodiq, & Junaidi (2016). Good corporate governance refers to the good governance of a company in the achievement of its primary goals. One of the principles in corporate governance is transparency. The transparency principle is linked to the value relevance of accounting earnings. Companies applying the GCG principle will never manipulate data to get investors interested and investing in it. In this research, GCG was measured based on board of commissioners' competence and audit committee's expertise.

In this research, the variable board of commissioners' competence gained a coefficient of 0.105991 and a t_{count} of 1.559583. The significance level was 0.1241, causing H_0 to be rejected. This shows that board of commissioners' competence had no effect on the value relevance of accounting earnings. Board of commissioners played a pivotal role in good corporate governance (GCG). Its function rose in importance after the emergence of large-scale fraudulent cases such as Enron and Worldcom cases which involved top-level management. One of the reasons was the weak supervisory function performance on the companies' directors which was supposed to be the responsibility of the board of commissioners. The board of commissioners' task was related to how the companies'

business process oversight affected their ability to survive. In practice, board of commissioners is expected neither to hold itself back nor delve too deeply into operational matters. The results of the present research revealed that the absence of effect from board of commissioners' competence on the value relevance of accounting earnings could be attributed to the years of service of the board of commissioners and the possibility of breach of the transparency principle within the company's GCG (Darmadi, 2011).

The results of this research showed that the variable audit committee's expertise gained a coefficient of 1.228812 and a t_{count} of 1.312524. The significance level was 0.1943, leading to the acceptance of H_0 . This means that audit committee's expertise did not have any effect on the value relevance of accounting earnings. This finding is in line with Lin, Li, & Yang (2006) research where the financial expertise of the audit committee did not have a significant impact on earnings quality. Audit committee's role was expected to give an added value to GCG implementation to reduce manipulation of the company's presented information. Audit committee is a committee in charge of overseeing and managing reporting, including international control system and accounting principle implementation. The absence of relationship between audit committee expertise and value relevance of accounting earnings could be due to the possibility of the audit committee members, with their educational backgrounds in the fields of economics and accounting, to violate the transparency principle in GCG.

4.5.3.2 The effect of firm size on the value relevance of accounting earnings

Firm size measures to what degree a company is able to face states of uncertainty. This will influence investors' decision to make investments. Firm size is considered to reflect the risk investors will encounter. The bigger the firm size, the smaller the risk to face. Larger companies are perceived to possess greater amounts of information than smaller ones. The calculation results showed that the coefficient for firm size in this research was -0.048697 and the t_{count} was -0.221785. A significance level of 0.8252 in other words, firm size did not affect the value relevance of accounting earnings.

These results are consistent with those of Faradilla, Shodiq, & Junaidi (2016), namely firm size did not partially affect earnings response coefficient (ERC) due to having a coefficient of greater than 0.05 (0.638). They are also in line with those of Jalil (2013), stating that firm size lacked a significant effect on the value relevance of accounting earnings. This could be because investors did not necessarily respond only to major companies. Most investors believed that big companies did not always have massive profits or insignificant amounts of debt. As a result, the risk level was not necessarily low. Companies with greater capitalization and high levels of trading on the exchange, over a consistent period, and hence with high liquidity, receive incentives to present more conservative information, but with less information and relevance than companies with lower capitalization (Yokoyama, Baioco, Sobrinho, & Neto, 2015).

4.5.3.3 The effect of profitability on the value relevance of accounting earnings

Profitability as indicated by ROA ratio is used to measure how efficient a company is in converting the money used to purchase into net profits. Higher ratios can represent companies' higher effectiveness in managing their assets to generate bigger net profits. ROA ratio is inextricably linked to the value relevance of accounting earnings as it can serve as a determinant to investors' investment-making. If the ROA ratio earned by a company is high, the company will have high value relevance of accounting earnings as well.

From a set of tests conducted, it was found that the coefficient for the variable profitability as computed based on the return on asset (ROA) ratio was 11.38315, the t_{count} was 3.474671, and the significance level was 0.0010 (<0.05). This means that return on asset or ROA influenced the value relevance of accounting earnings. In this research, high return on assets ratios showed that the companies were able to manage their assets efficiently and generated considerable profits for themselves. Return on asset (ROA) is an indicator of profitability used to measure a company's ability to generate profits with the assets at hand.

These results are in agreement with those of Alamsyah (2017) that profitability affected the value relevance of company information with a significance level of 0.021. However, Alamsyah (2017) proved that the effect of profitability on the value relevance of accounting information was insignificant. This insignificant effect of profitability on the value relevance of accounting information could be because even though the net profits generated had increased, the increase was insignificant, causing the net earnings information disclosed to be irrepresentative of the whole information required by investors. The results of this study also reinforce the results of Alnodel (2018)'s research which shows that the increase in the relevance of accounting information is positively influenced by company attributes, especially profitability.

4.5.3.4 The effect of growth opportunity on the value relevance of accounting earnings

Growth opportunities are an explanation for the prospect of a company's growth in the future. Shareholders will tend to respond more to companies with more growth opportunities than those with fewer growth opportunities. Market valuation on a company's growth opportunities is reflected in the stock price formed by the expectation of benefits to be received.

The results from a set of tests conducted showed that the coefficient for growth opportunities was -1.162573 and that the t_{count} was -1.234967. The significance level was 0.2217, meaning that H_0 should be rejected. This shows that growth opportunities did not have any effect on the value relevance of accounting earnings.

This is because plenty of growth opportunities did not necessarily translate to greater amounts of profits due to high levels of debt. Thus no effect was exerted on the stock price that represented expectation of profits in the future. These results deviated from those of Faradilla, Shodiq, & Junaidi (2016). In that research the variable growth opportunities gained a coefficient of 0.000 (<0.05), suggesting that growth opportunities partially had a significant effect on earnings response coefficient (ERC). Faradilla, Shodiq, & Junaidi (2016) was supported by Jalil (2013), who found from statistical data processing that growth opportunities positively affected the value relevance of accounting earnings.

The results of this study are also different from the results of Frank (2002)'s study which shows that growth opportunities have a negative effect on the value of accounting data. Frank (2002) explains that accounting data from companies that experience high growth can only capture fewer relevant event values than companies that experience slow growth.

5. CONCLUSIONS AND SUGGESTIONS

Based on the problem formulation, hypothesis testing, and discussion in earlier sections, conclusions regarding the partial testing results of this research are as follows.

- a. The variable GCG (good corporate governance) that was proxied by the variable board of commissioners' competence (X1) did not partially affect the value relevance of accounting earnings.

- b. The variable GCG (good corporate governance) that was proxied by the variable audit committee's expertise (X2) did not partially affect the value relevance of accounting earnings.
- c. The variable firm size (X3) did not partially affect the value relevance of accounting earnings.
- d. The variable profitability (X4) partially affected the value relevance of accounting earnings.
- e. The variable growth opportunities (X5) did not partially affect the value relevance of accounting earnings.

This study experienced limitations such as using only a few independent variables, namely Good Corporate Governance, which was proxied by the competence of the board of commissioners and the expertise of the audit committee, company size, profitability and Growth opportunities. In addition, this study only examined companies classified as non-financial LQ45 Index companies listed on the Indonesia stock exchange from 2015 to 2017. Future researchers are expected to use other variables to find out what can influence ERC, for example, default risk, audit quality, and leveraged beta, and alter the research object and research time span to hopefully gain higher adjusted R² values.

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