JURNAL KAJIAN AKUNTANSI
p-ISSN: 2579-9975 | e-ISSN: 2579-9991

http://jka.ugj.ac.id/index.php/jka

CONTROLLING FUNCTION OF CORPORATE GOVERNANCE TO THE RELEVANCE OF ACCOUNTING EARNINGS INFORMATION

Azolla Degita Azis[1(*)], Huriyaturrohman[2], Muhammad Imam Sundarta[3], Muhamad Nur Rizqi[4]

[1,2,3,4]Department Accounting, Faculty of Economic and Business, Universitas Ibn Khaldun Bogor, Kota Bogor, Jawa Barat, Indonesia

Correspondence Author[(*)]**:** *azolladegita@gmail.com*

Abstract

The relevance of accounting earnings information is needed to help users of financial statements to make a decision. This research intends to expand previous empirical studies by examining more comprehensive corporate governance variables, which are the proportion of audit committees and commissioners, the role of financial accounting experts in the audit committee, and ownership structure to increase the relevance of accounting earnings information. The aim of this research is to examine whether controlling function held by the company in order to perform good corporate governance can affect to the informativeness of accounting earnings in Indonesia. This research method uses Pooled Least Square (PLS) with total sample 327 firm-year observations of Indonesian public companies from 2017 to 2019. The result shows that the existence of effective controling function by multiple large shareholder, accounting expert, audit committee, and board size can increase the relevance of earnings information that rely on financial statement. This research findings could be as an additional literature in financial accounting and corporate governance area, and also for practitioners in manufacturing company in Indonesia that if a firm has good controlling function, it can provide relevant information about earnings to shareholders.

Keywords: *Corporate governance; Information relevance; Accounting earnings.*

Abstrak

Informasi laba akuntansi yang relevan diperlukan untuk membantu pengguna laporan keuangan dalam pengambilan keputusan. Penelitian ini bermaksud untuk memperluas studi empiris sebelumnya dengan mengkaji variabel tata kelola yang lebih komprehensif, yaitu proporsi komite audit dan komisaris, peran ahli akuntansi keuangan dalam komite audit, dan struktur kepemilikan untuk meningkatkan relevansi informasi laba akuntansi. Penelitian ini bertujuan untuk menguji apakah fungsi pengendalian yang dimiliki oleh perusahaan dalam rangka melaksanakan tata kelola perusahaan yang baik dapat mempengaruhi relevansi informasi laba akuntansi di Indonesia. Metode penelitian ini menggunakan metode Pooled Least Square (PLS) dengan jumlah sampel 327 firm-year observasi perusahaan publik Indonesia dari tahun 2017 sampai dengan tahun 2019.Hasil penelitian menunjukkan bahwa adanya fungsi pengendalian yang efektif oleh multiple large shareholders, pakar akuntansi, komite audit, dan independensi dewan komisaris dapat meningkatkan relevansi informasi laba pada laporan keuangan. Temuan penelitian ini dapat menjadi tambahan literatur di bidang akuntansi keuangan dan tata kelola perusahaan, dan juga bagi praktisi di perusahaan manufaktur di Indonesia, bahwa apabila perusahaan memiliki fungsi pengendalian yang baik, dapat memberikan informasi yang relevan bagi pemegang saham.

Kata Kunci: Tata kelola; Relevansi informasi; Laba akuntansi.

Chronicle of Article: Received (1 April 2023); Revised (11 June 2023); and Published (31 December 2023)

Profile and corresponding author: *Azolla Degita Azis from Department Accounting, Faculty of Economic and Business, Universitas Ibn Khaldun Bogor.*

INTRODUCTION

The accounting information contained in the financial statements is considered to be able to help users of financial statements to be able to make a decision. Although in fact not all accounting information can be used by decision makers. The accounting information is said to have relevance if it can help investors in estimating the capital owned by the company which is reflected in the rate of return on shares and market value (Almujamed and Alfraih, 2020).

One of the information that can be used by these investors is the earnings information contained in the financial statements. However, companies sometimes carry out various earnings manipulations that can affect the relevance of accounting earnings information. This will lead to information asymmetry among investors. Good corporate governance in a company is considered to be used as a mechanism to reduce the opportunistic nature of management to manipulate earnings, reduce expropriation of minority shareholders, improve reporting quality, and can also increase firm value (Lo et al., 2010).

In fact, Mitton (2002) revealed that companies whose ownership structure is dispersed and have higher disclosure quality will have better stock values than other companies during the financial crisis in the South East Asia region. Elshandidy (2014) revealed that on average, countries that have low governance are countries that have poor governance have an inferior legal system.

Several previous studies have tried to prove the influence of corporate governance, such as the existence of multiple large shareholders (two or more largest shareholders), the proportion of the board of commissioners, and an independent audit committee as supervisor of the company's management is considered to reduce information asymmetry among investors and can increase the relevance of corporate accounting earnings information (Woidtke and Yeh, 2013; Krismiaji & Surifah, 2020; Almujamed and Alfraih, 2020). However, Almujamed and Alfraih (2020) found that the presence of non-executives on the board had a negative correlation with market value (not significant). Besides, there has been no previous research that tested auditor committee size on the relevance of accounting information. Thus, it still remains unclear whether the proportion of the board of commissioners will affect the value relevance of earnings.

The important supervisory function is carried out in order to enforce good governance in a company. The existence of the board of commissioners and audit committee in a company is believed to be one of the supervisory functions of the company's management decisions that have the potential to expropriate the rights of minority shareholders. In addition, the findings of Attig et al. (2008) and Woidtke and Yeh (2013) that the presence of financial accounting experts in an audit committee and multiple large shareholders (two or more largest shareholders) can reduce information asymmetry among investors and can increase the relevance of company accounting earnings information. Because if the share ownership is concentrated, the company has the opportunity to expropriate minority shareholders.

However, there are still some limitations in previous studies, namely the elements of governance variables used by researchers in testing their relationship with the relevance of accounting earnings information are still partially done. Like Vafeas (2000) who only looked at the proportion of the board of directors, Attig et al. (2008) only looked at multiple large shareholders, while Woidtke and Yeh (2013) only looked at the role of the audit committee. Previous research that has been conducted by Almujamed and Alfraih (2020) uses the Ohlson Valuation Model which measures earnings per share, while this study uses a Return-Model which has also been used in previous studies because this measurement can describe earnings informativeness and its correlation with stock returns, thus it can describes investors' perceptions of the relevance of earnings accounting (Woidtke and Yeh, 2013).

Thus, this study intends to expand fill the gap and inconsistency research results from previous empirical studies by examining more comprehensive corporate governance variables, which are proportion of audit committees and commissioners, the role of financial accounting experts in the audit committee, and ownership structure to increase the relevance of accounting earnings information that can assist investors in making good decisions.

This study takes a sample in the manufacturing industry listed on the stock exchange in Indonesia, because Indonesia is one of the developing countries located in the South East Asia region, where most of the corporate governance is still weak. In addition, the manufacturing industry sector has the same characteristics in terms of government policies and regulations compared to other industries in Indonesia, such as the primary industrial sector (agriculture, mining) and the tertiary/service sector (finance, property, infrastructure).

Meanwhile, research in Indonesia that examines the relevance of accounting earnings still uses earnings persistence ratios or growth opportunities such as the research by Jalil (2013) and Sopini (2017) who found that earnings persistence and growth opportunities, as well as firm size have no significance to value relevance of accounting earnings.

Thus, this paper contributes to the ongoing literature in two main aspects. First, it provides empirical support for the theoretical prediction that the control function of boards, diverse ownership structures, and audit independence committees characterized by the presence of financial accounting experts, and board size can increase the value relevance of accounting information. Second, this study hides the relationship between corporate governance characteristics and values the relevance of accounting information in Indonesia by using the Return-Model measurement.

The implication of the findings in this study is the manufacturing entities listed on the stock exchange are expected to pay attention to the governance carried out by the company because it can affect the level of investor confidence in the earnings information which will be reflected in the stock price. The systematics of writing in this study consists of five parts, namely part one regarding the introduction, part two is a literature review, part three research methods, part four describes the results of the study, while the last part, part five is the conclusion of this research.

LITERATURE REVIEW

Corporate Governance in Indonesia

In agency theory, it is said that there is a conflict of interest between the agent (company management) and the principle (company owner) if the ownership structure becomes dispersed, such as in countries with good capital markets such as the US (Woidtke and Yeh, 2013). However, in the context of Indonesia, there is a conflict of interest between the controlling shareholder (agent) and minority shareholder (principle) if the ownership structure is concentrated.

The Organization for Economic Co-operation and Development (OECD) has observed the importance of implementing good governance in a company. Several principles related to governance in a company state that there must be equal rights between minority shareholders and controlling shareholders, and the board of commissioners must also be able to oversee the business strategy carried out by management (Badu and Appiah, 2018).

Companies are also required to always apply the principles of Transparency, Accountability, Responsibility, and Fairness in their business activities to increase the relevance of financial statements (Krismiaji & Surifah, 2020). Financial statements are said to be relevant if the accounting information contained in them can be used by investors to estimate the value of the company's capital (firm's equity), and not to reflect the firm's value. Financial statements are said to be relevant if there is a relationship between accounting information and market value and market returns.

Good governance is believed to help reduce conflicts of interest among stakeholders. The implementation of good governance (GCG) is important in a company because it will affect the survival of the company if conflicts of interest continue to occur. GCG in a company can also be used as a mechanism to reduce the opportunistic nature of management to manipulate earnings (Lo et al., 2010). Such manipulation can certainly lead to information asymmetry among investors which can affect the relevance of the value of earnings in a company. Thus, a good supervisory function is needed from the board of commissioners and the audit team so that corporate governance can run well. In addition, transparency is needed to reduce information asymmetry that occurs among investors in assessing company performance.

Most corporate leaders in Indonesia regard the existence of corporate governance as an obstacle that must be complied. Corporate governance is not considered as the maximum regulation to prevent risks and disasters, but only a formality that requires large costs. This assumption arises because training and implementation of corporate governance usually costs a lot of money. The process is quite long and its application is not necessarily in accordance with the company's culture. According to Damayanti and Firmansyah (2021) the implementation of governance in Indonesia is still administrative and has not been implemented by companies properly.

Corporate governance that is carried out according to procedures functions as one of the parameters for assessing organizational performance. One example of binding corporate governance in Indonesia is the Financial Services Authority, which regulates registered financial companies. Whereas non-financial companies have not yet disclosed corporate governance, there is still no strict supervision and the disclosure is still voluntary in the company's annual report. Financial Services Authority needs to improve policies and monitor issuers related to governance implementation (Damayanti and Firmansyah, 2021).

Accounting Earnings Relevance

Accounting information is the information content that can be obtained from the company's financial statements through fundamental analysis techniques (Omokhudu et al., 2015). Fundamental analysis or analysis of financial statements (financial statements analysis) aims to provide company-related data needed in the process of making investment decisions. The concept of value relevance of accounting information and the concept of decision usefulness of accounting information are interrelated.

Value relevance is the reporting of accounting numbers that have a prediction related to the market values of equity. The concept of value relevance cannot be separated from the relevant criteria of financial accounting standards because the amount of an accounting number will be relevant if the amount presented reflects information that is relevant to the valuation of a company (Damayanti and Firmansyah, 2021).

And one of the most paid attention to accounting information in financial statements is profit (Holthausen & Watts, 2001). The market that reacts to the announcement of earnings shows that the profits announced by the company contain information. This indicates the relevance of the value of accounting earnings to stock prices as a form of market reaction. To test the information content of earnings, there are two approaches taken, namely the association approach and the event approach. Association studies are often referred to as earnings response coefficient (ERC) studies. Several factors affect the value relevance of accounting earnings as measured by the earnings response coefficient, including: earnings persistence, growth opportunities in capital structure, company size and tax allocation between periods (Faradilla and Junaidi, 2017).

Controlling Functions of Corporate Governance on Accounting Earnings Relevance

The ownership structure of companies in the Asian region is generally still in the hands of the controlling shareholder or ultimate owner. Controlling shareholders will have a greater incentive to expropriate wealth from minorities. In addition, shareholders can predict a negative relationship between earnings informativeness and divergence between cash flows and voting rights (Woidtke and Yeh, 2013).

When controlling shareholders assign directors to audit committees, they can potentially enhance the credibility of accounting earnings reports, and hence the informativeness of earnings, by selecting financial and legal experts if the objectivity and professional background of these members is seen to have contributed to high quality financial reports. Because investors can observe the information effect associated with the increased transparency and overall accounting quality associated with this designation.

In addition, according to Woidtke and Yeh (2013) the proportion of the board of commissioners represented by controlling families appears to be a good proxy for the quality of corporate governance at the company level when investor protection is relatively weak and it is difficult to determine the degree of separation between ownership and control. Board size is one of the most widely discussed board characteristics in the literature (Alfraih, 2016). It is argued that large boards are more likely to have the knowledge, skills, and experience at their disposal than their smaller counterparts, resulting in superior resources for sharing that make the appearance of peer-to-peer influence more feasible.

According to Lo et al. (2010), companies with boards that have a higher proportion of independent boards or have different people occupying chair and CEO positions, or have financial experts on their audit committees, are less likely to be involved in earnings management setting transfer prices.

Hence in this study, to the extent that more reported financial disclosures are associated with more reliable earnings, we might expect a diverse ownership structure (multiple large shareholders), board size, and the presence of independent directors with financial or accounting expertise on audit committees, in particular, to be related positive with accounting earnings relevance (See Figure 1).

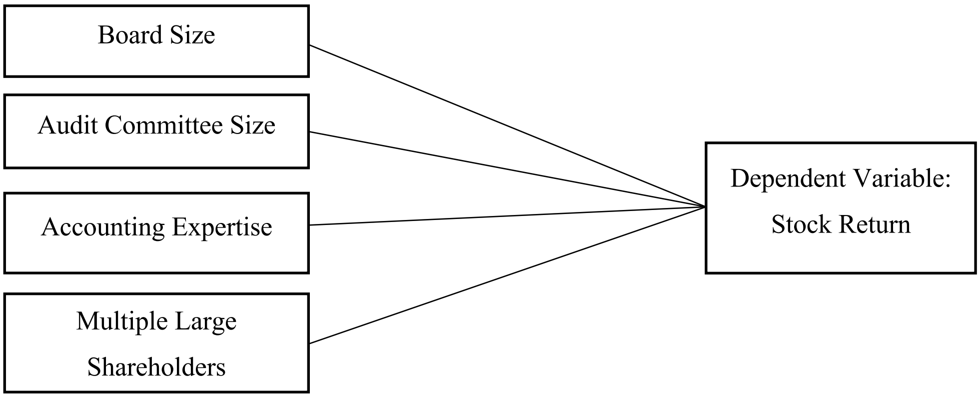

Figure 1. Research Conceptual Framework

Hypothesis Development

Board Size to the Relevance of Accounting Earnings Information

Previous research found that the proportion of the board of commissioners is considered to reduce information asymmetry among investors and can increase the relevance of corporate accounting earnings information (Woidtke and Yeh, 2013; Krismiaji and Surifah, 2020; Almujamed and Alfraih, 2020). When investor protection is relatively weak and it is difficult to determine the degree of separation between ownership and control.

Woidtke and Yeh (2013) state that the proportion of the board of commissioners represented by controlling families appears to be a good proxy for the quality of corporate governance at the company level. According to Alfraih (2016), one of the most frequently discussed characteristics of boards is their size. It is argued that larger boards are more likely to have the knowledge, skills, and experience they need than smaller boards. As a result, they have more resources for sharing, which makes peer-to-peer influence appear more likely.
H_1: Board size has positive effect to the relevance of accounting earnings information.

Audit Committee Size to the Relevance of Accounting Earnings Information

Woidtke and Yeh (2013) suggested that the characteristics of the audit committee have relevance to accounting information, whereas according to Mutmainnah and Wardhani (2013) the size of the audit committee has a significant negative effect on the predictability of earnings as measured using earnings per share. Auditor size will strengthen the function monitoring

carried out by the committee audits. With high audit quality then the audit committee will be assisted in perform better oversight and improve control financial reporting.
H_2: Audit committee size has positive effect to the relevance of accounting earnings information.

Accounting Expertise on Audit Committee to the Relevance of Accounting Earnings Information

Based on Woidtke and Yeh (2013) the presence of financial accounting experts on an audit committee can reduce investors' information asymmetry and increase the relevance of earnings information from a company's accounting. Accounting experts have a deep understanding of accounting principles, standards, and regulations. By applying their expertise, they can ensure that accounting earnings are calculated correctly.

According to Lo et al. (2010), earnings management is less likely to be involved when boards have financial experts on their audit committees. The presence of independent directors with financial or accounting expertise with Ak/CFA/CPA titles in their audit committees on audit committees, in particular, to be positively correlated with accounting earnings relevance in this study to the extent that more reported financial disclosures are associated with more reliable earnings.
H_3: Accounting expertise has positive effect to the relevance of accounting earnings information.

Ownership Structure to the Relevance of Accounting Earnings Information

In most Asian businesses, the controlling shareholder or ultimate owner still controls the ownership structure. Minority-owned businesses will be more likely to be taken over by shareholders in control. Company with multiple large shareholders (two or more largest shareholders) can also reduce investors' information asymmetry and increase the relevance of earnings information from a company's accounting (Woidtke and Yeh, 2013). Because the company has the ability to expropriate minority shareholders if the ownership of shares is concentrated.
H_4: Multiple large shareholder has positive effect to the relevance of accounting earnings information.

RESEARCH METHOD

The source of data in this study is secondary data taken from the Datastream Worldscope Database and the annual report of the company's financial statements. Table 1 shows that the total sample that can be used is 327 observations consisting of 109 manufacturing issuers. The data analysis model used to test the hypotheses is Multiple Linear Regression analysis with panel data using Common Effect Model or Pooled Least Square (PLS). The sampling selection process in this study used the purposive sampling method which can be seen in table 1.

The population in this study are companies engaged in the manufacturing industry listed on the Indonesia Stock Exchange in 2017 to 2019. This is because the manufacturing industry has the same characteristics in terms of government policies and regulations compared to other industries in Indonesia, such as the primary industrial sector (agriculture, mining, etc.), and the tertiary/service sector (finance, property, infrastructure). In addition, Indonesia is one of the countries in the South East Asia region, where corporate governance is still weak.

This study uses several proxies to assess the supervisory function in the enforcement of governance in a company, using the measures that have been used in the research of Woidtke and Yeh (2013). In this study, to test the hypothesis using a Return-Model that has also been used by Alali and Foote (2012) to examine the relationship between corporate governance and accounting earnings information.

$$R_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 \Delta E_{it} + \beta_3 E_{it} * CG_{it} + \beta_4 \Delta E_{it} * CG_{it} + \beta_5 E_{it} * ROA_{it} + \beta_6 \Delta E_t * ROA_{it} + \beta_5 E_{it} * SIZE_{it} + \beta_6 \Delta E_t * SIZE_{it} + \beta_7 SIZE_{it} + \beta_8 ROA_{it} + u_{it} \text{..........................(1)}$$

Where the dependent variable R_{it} is stock return in company i for a period of 12 months in year t; the share price of company i in year t minus the share price of company i in year t-1 divided by the share price of company i in year t-1. Independent variable earnings E_{it} is earnings before tax in year t divided by total assets of company i in year t-1. ΔE_{it} is earnings before tax in year t minus earnings before tax in year t divided by total assets of company i in year t-1. MLS_{it} is 1 if multiple large shareholders; there are 2 or more shareholders whose shares are >20%, 0 otherwise.

There are four proxies of corporate governance controlling function used in this study, namely BOARD_SIZE shows the size of the number of commissioners in a company, KOM_SIZE shows the size of the number of audit committees in a company, EXPERT is a dummy variable, 1 if the audit committee has accounting experts who get accounting certification (Ak., CFA, CPA) and 0 otherwise.

MLS is a dummy variable that shows multiple large shareholders, 1 if the company has two or more shareholders whose share ownership is more than 20 percent. Control Variables are size of the company and profitability, $SIZE_{it}$ is market capitalization; stock price in year t times the number of shares outstanding in company i in year t. $ROA_{it}$is return on assets of company i in year t.

While the descriptive statistics can be seen in table 2. It can be seen that the average positive stock return variable is 0.31 with the highest return of 30.25 and the minimum return of -0.56. Meanwhile, the average earnings in the study period was also positive at 0.07 with a standard deviation of 0.13. The size of the commissioners in a company is quite varied, from two to 11 commissioners serving in a company, with an average of 4 people in each company.

In the multicollinearity test, it can be seen that there is no strong correlation between variables in the research model, because the value does not reach more than 0.8. From the results of descriptive statistics, it is also known that on average, manufacturing companies in Indonesia do not have many accounting experts with Ak/CFA/CPA titles in their audit committees and also that most of the ownership structures are still concentrated (single shareholder). Since the absence of publicly available data makes it impossible to directly measure the level of accounting expertise in a given firm (e.g., expertise of the accounting department and outside consultants), we use the accounting expertise on its audit committee as a proxy for a firm's overall level of accounting expertise.

Table 1. Sample Selection

	Firm - Year	Total Firms
Total manufacturing companies listed on the IDX	420	140
Less:		
- Not listed in DataStream's manufacturing index	18	6
- Companies that IPO after 2017 based on manufacturing index	30	10
- Data not available	45	15
Total Observations	**327**	**109**

Table 2. Descriptive Statistics and Pearson Correlation

Panel A: Descriptive Statistics

	n	Mean	Std.Dev	Median	Max	Min
R_{it}	327	0.31	1.87	0.03	30.25	-0.56
E_{it}	327	0.07	0.13	0.05	0.71	-0.57
ΔE_{it}	327	0.00	0.08	0.00	0.79	-0.33
$Board\_Size_{it}$	327	4.2	1.7	4	11	2
Kom_Size_{it}	327	3.1	0.4	3	6	2
$Expert_{it}$	327	0.3	0.4	0	1	0
MLS_{it}	327	0.3	0.4	0	1	0

Panel B: Pearson Correlation

	R	E	ΔE	$Board\_Size$	Kom_Size	$Expert$	MLS
R	**1.00**						
E	0.04	**1.00**					
ΔE	0.07	0.46***	**1.00**				
$Board\_Size$	-0.03	0.16***	-0.01	**1.00**			
Kom_Size	0.00	0.22***	-0.03	0.27***	**1.00**		
$Expert$	-0.02	0.13**	0.02	-0.01	0.06	**1.00**	
MLS	-0.07	-0.06	-0.01	-0.23***	-0.05	-0.05	**1.00**

Variabel Descriptions:
R_{it}= stock return in company i for a period of 12 months in year t; the share price of company i in year t minus the share price of company i in year t-1 divided by the share price of company i in year t-1. E_{it} = earnings before tax in year t divided by total assets of company i in year t-1. ΔE_{it}= earnings before tax in year t minus earnings before tax in year t divided by total assets of company i in year t-1. MLS_{it} = 1 if multiple large shareholders; there are 2 or more shareholders whose shares are >20%, 0 otherwise. $SIZE_{it}$ = market capitalization; stock price in year t times the number of shares outstanding in company i in year t. ROA_{it}= return on assets of company i in year t. The signs ***, **, and * indicate the significance level of 0.01, 0.05, and 0.10.

From the results of descriptive statistics, it is also known that on average, manufacturing companies in Indonesia do not have many accounting experts with Ak/CFA/CPA titles in their audit committees and also that most of the ownership structures are still concentrated (single shareholder). Since the absence of publicly available data makes it impossible to directly measure the level of accounting expertise in a given firm (e.g., expertise of the accounting department and outside consultants), we use the accounting expertise on its audit committee as a proxy for a firm's overall level of accounting expertise

Since the absence of publicly available data makes it impossible to directly measure the level of accounting expertise in a given firm (e.g., expertise of the accounting department and outside consultants), we use the accounting expertise on its audit committee as a proxy for a firm's overall level of accounting expertise.

RESULTS AND DISCUSSION

Before testing the data, the researcher tested whether the regression results were free from autocorrelation and heteroscedasticity problems. The researcher has eliminated the problem of non-constant variance and autocorrelation in the error with controls the standard error. The Durbin Watson value from the return model shows in the range of number 2 which indicates that the regression results are free from autocorrelation problems. The data analysis model used in this study is Multiple Linear Regression analysis with panel data (pooled data) which includes cross section and time series data. From the results of the Chow test and Hausman test, panel data analysis used Common Effect/PLS.

Table 3 shows the influence of the supervisory function in governance in a company to increase investor perceptions of current earnings information. The results of the four corporate governance variables used show a significant positive. The coefficient value of the E*Board_Size variable is 0.32 with a significance level 1%. This shows that the size of the board of commissioners can affect investors' perceptions of earnings information.

This is in line with the statement from Vafeas (2000) which says that the size of the board of commissioners can affect the value relevance of earnings information. When the company has a small board of commissioners, the relevance of earnings information will be smaller, because the cost of monitoring is large because it is unable to monitor the quality of the company's financial statements.

While the coefficient value for the size of the audit committee in a company is 0.95 with a significance level of 5%. This also shows that the more audit committee teams and the board of commissioners, the better the supervisory function will be, so that investors' perceptions of earnings information in a company will also increase.

The coefficient value of the E*Expert variable which is significantly positive at 0.77 with a significance level of 5%. This is also in line with the findings of Woidtke & Yeh (2013) that if there are financial accounting experts in the composition of the audit committee, it can increase the relevance of earnings information, because the possibility of companies to manipulate earnings can be supervised by these accounting experts.

From the results of the E*MLS variables shows a significant positive result of 1.17 with with a significance level 1%. However, information on corporate governance can not directly affect the increase in stock returns, but information on good governance in a company can increase the confidence of investors regarding earnings information in a company.

This is in accordance with Attig et al. (2008) if there are two or more largest shareholders in a company, the second shareholder can supervise the first largest shareholder, so as to reduce the company's cost of equity capital. The existence of the second largest shareholder is important, because it can monitor the possibility of expropriation of minority shareholders in family companies.

Large shareholders often come from diverse backgrounds and have different investment objectives. By leveraging their ownership positions, they can engage in constructive dialogue with management, encouraging transparency and accountability in financial reporting. This influence can drive management to prioritize the integrity and relevance of accounting earnings information, as failure to do so may lead to a loss of shareholder confidence and support.

From the results of the research in Table 3 show that the importance of diverse ownership structures, the size of the board of commissioners and the independence of having experts in financial accounting are effective in monitoring managers, limiting agency conflicts and reducing agency costs which have been discussed in previous studies on corporate governance. Shareholders demand continuous updating of financial information from managers to evaluate their performance.

Therefore, company with a good board of commissioners and audit committee structure can be carried out resulting in better quality financial reporting in the perception of investors. The findings in this study are consistent with the findings of Lo et al. (2010) that accounting experts on audit committees have a positive influence on the relevance of accounting earnings. This is because it is companies that acquire accounting experts to advise management on strategic and operational matters, rather than companies that intentionally acquire these experts to reduce the risk of negative reporting results.

Table 3. Regression Test Results of Model I Corporate Governance on Increasing Investor Perceptions of The Relevance of Earnings Information

Variables	Pred.	Dependen Variabel: Return Saham			
		Board Proportion (1)	**Audit Committee Proportion (2)**	**Accounting Expert (3)**	**Multiple Large Shareholder (4)**
Intercept		-0.99*** (-4.15)	-0.14 (-0.42)	-1.21*** (-4.92)	-0.27 (-0.91)
E		7.69*** (4.24)	4.74*** (2.46)	10.54*** (6.17)	5.50*** (2.96)
ΔE		-11.23*** (-3.78)	-11.7*** (-3.34)	-11.38*** (-4.32)	-10.1*** (-3.63)
*E*Board_Size*	+	**0.32*** (2.91)**			
*ΔE*Board_Size*		-0.10 (-0.48)			
*E*Kom_Size*	+		**0.95** (2.26)**		
*ΔE*Kom_Size*			0.09 (0.92)		
*E*Expert*	+			**0.77** (2.14)**	
*ΔE*Expert*				-0.65 (-0.82)	
*E*MLS*	+				**1.17*** (4.12)**
*ΔE*MLS*					-1.50*** (-2.52)
*E*ROA*		-0.03 (-0.65)	0.00 (0.05)	0.01 (1.45)	-0.00 (-0.11)
*ΔE*ROA*		0.03***	0.03***	0.02	0.04***

	(2.98)	(2.61)	(1.29)	(3.35)
*E*Size*	-0.89*** (-3.81)	-0.77*** (-3.87)	-1.15*** (-5.68)	-0.56*** (-2.61)
*ΔE*Size*	1.53*** (3.74)	1.50*** (4.46)	1.54*** (4.86)	1.44*** (4.22)
Board_Size	-0.09*** (-7.87)			
Kom_Size		-0.20*** (-2.21)		
Expert			-0.08*** (-1.71)	
MLS				-0.20*** (-4.63)
Size	0.17*** (5.52)	0.10*** (3.73)	0.15*** (5.29)	0.05* (1.66)
ROA	0.00*** (3.29)	0.00*** (2.57)	0.00*** (2.75)	0.00*** (2.50)
Total Observations	327	327	327	327
F-Statistic	22.6	18.02	17.65	21.14
R^2	0.44	0.38	0.38	0.42
Adjusted R^2	0.42	0.36	0.35	0.40

Variabel Descriptions:
R_{it}= stock return in company i for a period of 12 months in year t; the share price of company i in year t minus the share price of company i in year t-1 divided by the share price of company i in year t-1. E_{it} = earnings before tax in year t divided by total assets of company i in year t-1. ΔE_{it}= earnings before tax in year t minus earnings before tax in year t divided by total assets of company i in year t-1. MLS_{it} = 1 if multiple large shareholders; there are 2 or more shareholders whose shares are >20%, 0 otherwise. $SIZE_{it}$ = market capitalization; stock price in year t times the number of shares outstanding in company i in year t. ROA_{it}= return on assets of company i in year t. The signs ***, **, and * indicate the significance level of 0.01, 0.05, and 0.10.

Accounting experts in the audit committees influences the effectiveness of audit committees in monitoring financial reporting, because of the influence of the independence on the ability of commissioners to effectively monitor corporate financial reporting. The effectiveness of audit committees strengthens the value relevance of estimating the fair value of assets (Krismiaji and Surifah, 2020). The financial report quality and IFRS Convergence benefits also rely on the motivation power for financial reporting compliance on the enforcement from the board. High quality financial report is associated with strong corporate governance because it provides information transparency for both shareholders and other stakeholders.

In addition, it can be seen that E*Size has negative effect to the value-relevance of accounting earnings information. This finding is consistent with Faradilla and Junaidi (2017) that found firm size has no significant effect on value relevance of accounting earnings. Therefore, investor's perceptions of big size company are not really matter with to increase the value of accounting profit information contained in financial reports.

The importance of earnings information accounting (conventional profit) for investor stated clearly in the Statement of Accounting Standards, income statement which is main report to report performance a company during a period certain. Investors use accounting earnings information to evaluate a company's profitability. Earnings reflect the company's ability to generate revenue and control expenses, indicating its financial health and viability. By analyzing earnings, investors can assess the company's ability to generate consistent profits over time and compare its profitability to competitors or industry benchmarks. This information helps investors determine the potential return on their investment.

Information about a performance company, especially about profitability, needed for make investment decisions for investors in the future. Financial statements also reflect the company's performance, so the report Financial statements must be made by management on a regular basis current parameter (Puspitaningtyas, 2012): Furthermore, accounting earnings information serves as a basis for forecasting future cash flows. Investors often use earnings as a proxy for a company's ability to generate positive cash flows in the future.

Additional Tests

This research also conducted additional tests using the same model as Woidtke & Yeh (2013) in looking at the relevance of accounting earnings information to see the consistency results. The difference between the Alali & Foote (2012) model and the model used by Woidtke & Yeh (2013) lies in the absence of the ΔEit variable in the model. So, the research model in this additional analysis is as follows:

$$Rit = \beta0 + \beta1\ Eit + \beta2\ Eit * CGit + \beta3\ Eit * ROAit + \beta4\ Eit * SIZEit + \beta5\ SIZEit + \beta6\ ROAit + eit \quad (2)$$

Where R is stock return in company i for a period of 12 months in year t; the share price of company i in year t minus the share price of company i in year t-1 divided by the share price of company i in year t-1. E is earnings before tax in year t divided by total assets of company i in year t-1. MLS is 1 if multiple large shareholders; there are 2 or more shareholders whose shares are >20%, 0 otherwise. SIZE is market capitalization; stock price in year t times the number of shares outstanding in company i in year t. ROA is return on assets of company i in year t.

The results in table 4 show consistently with the main results, that the variables E*Board_Size, E*Kom_Size, E*MLS show significant positive results. Board size and audit committee size can play crucial roles in improving the relevance of accounting earnings information. A larger board size can facilitate improved monitoring of management's actions. Directors have a fiduciary duty to act in the best interests of shareholders, and a larger board can allocate more resources to monitoring financial reporting processes, internal controls, and compliance with accounting standards. This increased scrutiny promotes greater transparency and accountability in the disclosure of accounting earnings information.

The audit committee is a subset of the board of directors responsible for overseeing the financial reporting process, internal controls, and external audit. A larger audit committee size can contribute to the relevance of accounting earnings information. This is in line with Mutmainnah and Wardhani (2013) that size of audit committee can increase earnings quality. A larger audit committee can accommodate a diverse range of skills, knowledge, and experience relevant to financial reporting and auditing. This expertise is crucial in understanding complex accounting issues, assessing the quality of earnings, and evaluating the adequacy of internal controls. Furthermore, a larger committee can potentially include more independent members, minimizing conflicts of interest and enhancing objectivity.

The coefficient value of the E*Board_Size variable in model II is greater than that of model I, by 0.35. Meanwhile, the coefficient value of the E*Kom_Size variable is smaller than that of model I, only 0.85. The same thing also happened to the coefficient value of the E*MLS variable in table 4 of 0.67. However, the E*Expert variable showed positive but not significant results.

Multiple large shareholders can indeed improve the relevance of accounting earnings information. When a company has multiple large shareholders, each with a significant ownership stake, there is a higher likelihood of active monitoring of financial reporting practices. Large shareholders have a vested interest in the company's performance and financial health. They are motivated to ensure accurate and reliable accounting earnings information as it directly affects the value of their investments. These shareholders closely scrutinize the financial statements and disclosures, challenging management if they suspect any misrepresentation or manipulation. This vigilant monitoring acts as a check on the quality of reported earnings, enhancing their relevance.

Multiple large shareholders have the potential to exert significant influence on corporate governance practices (Woidtke and Yeh, 2013). They can actively participate in shareholder meetings, voice their concerns, and advocate for transparent and accurate financial reporting. This influence can lead to the establishment of robust corporate governance mechanisms, such as strong internal controls, independent auditing, and the appointment of qualified directors. These practices, in turn, enhance the reliability and relevance of accounting earnings information.

The E*ROA variable in table 4 shows a positive coefficient value. In addition, the E*SIZE variable shows consistently significant negative results in both models. So, the result is that ROA and SIZE are able to increase the relevance of earnings information to investors. Profitability and size of a firm can improve the relevancy of accounting earnings to investors. When a firm is more profitable, it signifies that it is generating higher earnings from its operations. Investors are primarily interested in earning a return on their investment, and higher profitability suggests that the firm has the potential to provide greater returns. Accounting earnings reflect the profitability of the firm and can help investors assess the financial health and performance of the company. A firm with consistent and increasing profitability is more likely to attract investors' attention.

The size of a firm can also influence the relevancy of accounting earnings to investors. Larger firms often have more resources, market presence, and stability compared to smaller companies. Accounting earnings of larger firms can be more reliable and indicative of their performance due to the broader scope of their operations. Investors often consider the growth potential of a company, and larger firms may have greater opportunities for expansion, which can lead to higher earnings in the future. Thus, accounting earnings of larger firms can provide valuable insights into their growth prospects.

This increased visibility and comparability make it easier for investors to evaluate and benchmark the firm's performance against industry peers. When investors can compare a company's earnings with similar firms, it enhances the relevancy of accounting earnings as a basis for investment decision-making.

Table 4. Regression Test Results Model II of Corporate Governance on Increasing Investor Perceptions of The Relevance of Earnings Information

Variables	Pred.	Variable Dependent: Stock Return			
		Board Proportion (1)	Audit Committee Proportion (2)	Accounting Expert (3)	Multiple Large Shareholder (4)
Intercept		-1.29*** (-4.28)	-0.34 (-0.89)	-1.21*** (-4.54)	-0.47* (-1.81)
E		9.98*** (6.04)	6.15*** (2.72)	9.73*** (5.99)	7.14*** (5.42)
*E*Board_Size*	+	**0.35*** (6.04)**			
*E*Kom_Size*	+		**0.85*** (8.24)**		
*E*Expert*	+			0.28 (1.43)	
*E*MLS*	+				**0.67*** (2.62)**
*E*ROA*		0.02** (2.25)	0.03*** (3.38)	0.03*** (4.51)	0.02*** (4.84)
*E*Size*		-1.16*** (-5.96)	-0.90*** (-3.78)	-1.02*** (-5.24)	-0.72*** (-4.89)
Board_Size		-0.09*** (-13.99)			
Kom_Size			-0.21*** (-2.95)		
Expert				-0.05 (-1.41)	
MLS					-0.18*** (-4.19)
Size		0.21*** (5.66)	0.12*** (4.00)	0.15*** (4.55)	0.07*** (2.70)
ROA		0.00*** (13.78)	0.00*** (4-15)	0.00*** (4.50)	0.00*** (3.23)
Total Observations		327	327	327	327
F-Statistic		40.78	23.45	19.68	25.99
R^2		0.47	0.33	0.30	0.36
Adjusted R^2		0.46	0.32	0.28	0.34

Variabel Descriptions:
R_{it}= stock return in company i for a period of 12 months in year t; the share price of company i in year t minus the share price of company i in year t-1 divided by the share price of company i in year t-1. E_{it} = earnings before tax in year t divided by total assets of company i in year t-1. ΔE_{it}= earnings before tax in year t minus earnings before tax in year t divided by total assets of company i in year t-1. MLS_{it} = 1 if multiple large shareholders; there are 2 or more shareholders whose shares are >20%, 0 otherwise. $SIZE_{it}$ = market capitalization; stock price in year t times the number of shares outstanding in company i in year t. ROA_{it}= return on assets of company i in year t. The signs ***, **, and * indicate the significance level of 0.01, 0.05, and 0.10.

CONCLUSION

This study discusses the impact of the supervisory function in the context of enforcing good corporate governance on the relevance of accounting earnings information contained in financial statements in the manufacturing industry in Indonesia from 2017 to 2019. From the tests that have been carried out, it is consistently found that good governance in a company can affect the increase in the relevance of earnings information contained in the financial statements. The more boards of commissioners and audit committees in a company, it can increase the value relevance of the earnings information.

In addition, if there are accounting experts in the audit committee and the ownership structure is multiple large shareholders, it can increase the value relevance of the earnings information, because the supervisory function carried out by the company runs well. Thus, it can be concluded that the supervisory function in a company plays an important role in enforcing good governance in a company that can increase investor perceptions of the relevance of earnings information in financial statements.

The findings in this study can be used as input for the development of research in financial accounting and corporate governance in measuring the value relevance of earnings information. In addition, these findings can be used as input for the standards board and the government to enforce good governance and legal system in Indonesia. Because poor governance in a company can have an impact on investor distrust of company earnings information.

Of course, this research still has limitations, such as the observation period which is only three years, and the corporate governance variable used is only limited to four variables. Thus, future research is expected to expand and fill these gaps by adding corporate governance variables or using the corporate governance index to see its impact on the relevance of accounting earnings information.

REFERENCES

Alali, F. A., & Foote, P. S. (2012). The value relevance of international financial reporting standards: Empirical evidence in an emerging market. The international journal of accounting, 47(1), 85-108. https://doi.org/10.1016/j.intacc.2011.12.005.

Almujamed, H. I., & Alfraih, M. M. (2020). Corporate governance and value relevance of accounting information: Evidence from Kuwait. International Journal of Ethics and Systems, 36(2), 249-262. https://doi.org/10.1108/IJOES-08-2019-0140.

Alfraih, M. M. (2016). The effectiveness of board of directors' characteristics in mandatory disclosure compliance. Journal of Financial Regulation and Compliance. 24(2), 154-176. https://doi.org/10.1108/JFRC-07-2015-0035.

Attig, N., Guedhami, O., & Mishra, D. (2008). Multiple large shareholders, control contests, and implied cost of equity. Journal of Corporate Finance, 14(5), 721-737. https://doi.org/10.1016/j.jcorpfin.2008.08.008.

Badu, B., & Appiah, K. O. (2018). Value relevance of accounting information: an emerging country perspective. Journal of Accounting & Organizational Change. 14(4), 473-491. https://doi.org/10.1108/JAOC-07-2017-0064.

Damayanti, N., & Firmansyah, A. (2021). Peran tata kelola perusahaan dalam kinerja operasional dan kinerja pasar di Indonesia. Jurnal Ekonomi, 26(2), 206-222. https://doi.org/10.24912/je.v26i2.746.

Elshandidy, T. (2014). Value relevance of accounting information: Evidence from an emerging market. Advances in Accounting, 30(1), 176-186. https://doi.org/10.1016/j.adiac.2014.03.007.

Holthausen, R. W., & Watts, R. L. (2001). The relevance of the value-relevance literature for financial accounting standard setting. Journal of accounting and economics, 31(1-3), 3-75. https://doi.org/10.1016/S0165-4101(01)00029-5.

Jalil, M. R. (2013). Pengaruh Persistensi Laba, Growth Opportunities, Dan Ukuran Perusahaan Terhadap Relevansi Nilai Laba Akuntansi (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di PT. BEI). Jurnal Akuntansi, 1(3). https://ejournal.unp.ac.id/students/index.php/akt/article/view/665.

Krismiaji, K., & Surifah, S. (2020). Corporate governance, compliance level of IFRS disclosure and value relevance of accounting information–Indonesian evidence. Journal of International Studies, 13(2), 191-211. https://www.ceeol.com/search/article-detail?id=980245.

Lo, A. W., Wong, R. M., & Firth, M. (2010). Can corporate governance deter management from manipulating earnings? Evidence from related-party sales transactions in China. Journal of Corporate Finance, 16(2), 225-235. https://doi.org/10.1016/j.jcorpfin.2009.11.002.

Mitton, T. (2002). A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. Journal of financial economics, 64(2), 215-241. https://doi.org/10.1016/S0304-405X(02)00076-4.

Mutmainnah, N., & Wardhani, R. (2013). Analisis dampak kualitas komite audit terhadap kualitas laporan keuangan perusahaan dengan kualitas audit sebagai variabel moderasi. Jurnal Akuntansi dan Keuangan Indonesia, 10(2), 80. https://doi.org/10.21002/jaki.2013.08.

Omokhudu, O. O., & Ibadin, P. O. (2015). The value relevance of accounting information: Evidence from Nigeria. Accounting and Finance Research, 4(3), 1-20. https://ideas.repec.org/a/jfr/afr111/v4y2015i3p20.html.

Puspitaningtyas, Z. (2012). Relevansi nilai informasi akuntansi dan manfaatnya bagi investor. EKUITAS (Jurnal Ekonomi dan Keuangan), 16(2), 164-183. https://doi.org/10.24034/j25485024.y2012.v16.i2.214.

Sopini, P. (2017). Pengaruh Laba Akuntansi dan Arus Kas Terhadap Return Saham. Eksis: Jurnal Ilmiah Ekonomi dan Bisnis, 7(1), 69-79. http://dx.doi.org/10.33087/eksis.v7i1.6.

Vafeas, N. (2000). Board Structure and the Informativness of Earnings. Journal of Accounting and Public Policy, 19, 139-160. https://doi.org/10.1016/S0278-4254(00)00006-5.

Woidtke, T., & Yeh, Y.H., (2013). The Role of Audit Committee and the Informativeness of Accounting Earnings in East Asia. Pasific-Basin Finance Journal, 23. 1-24. https://doi.org/10.1016/j.pacfin.2012.12.002.