THE INFLUENCE OF INVESTMENT OPPORTUNITY SET AND MECHANISME OF CORPORATE GOVERNANCE TOWARDS QUALITY OF PROFIT

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ABSTRACT

This study aims to analyze the effect of investment opportunity set, and corporate Gavernance mechanism on earnings quality. This study uses a sample of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange during the period 2016 to 2019. The number of companies sampled in this study are 53 companies with 4 years of observation. Based on the purposive sampling method, the total sample of this study was 173 financial and annual reports.

The data collection method used is secondary data, obtained from www.idx.co.id and the data analysis used is multiple linear regression analysis which is processed using SPSS 20. Multiple linear analysis includes classical assumption test, hypothesis testing and coefficient of determination. Based on the analysis results show that the investment opportunity set has a significant positive effect on earnings quality, the audit committee has a significantly positive effect on earnings quality, independent commissioners have a significantly negative effect on earnings quality, institutional ownership has no significant positive effect on earnings quality, managerial ownership has no significant negative effect on earnings quality. earnings quality and investment opportunity set and corporate governance mechanism have a significant effect on earnings quality.

Keywords : *Investment opportunity set, audit committee, independent commissioner, institutional ownership, managerial ownership, earnings quality*.

Introduction

Financial statements have an important role for a company or its stakeholders. Financial statements are the final process of the accounting process which plays an important role in measuring and assessing the performance of a company. The purpose of financial statements is to provide information related to the financial position, company performance, and provide information related to changes in financial position that is useful for a large number of users of interest in making future economic decisions IAI (2002), in Sujiyantho (2007). Financial statements must be prepared based on the actual conditions of the company for the sake of decision making. Financial reports are also made as a form of accountability by the Manager to stakeholders such as investors, creditors, government, society et all.

The current phenomenon, based on the monitoring of the Indonesia Stock Exchange (IDX), is regarding the investigation (AISA) with LPKR's profit of Rp. 695 billion (www.bareksa.com). In addition, it was also found from the financial statements of PT Tiga Pilar Sejahtera Food Tbk that there had been an inflated accounting post of Rp 4 trillion. Further information is related to the issuer

of drinking water provider PT Akasha Wira International Tbk (ADES) in 2019 related to its 2018 financial report (www.bareksa.com). ADES sales decreased but was able to increase profits by approximately 39% compared to 2017. After investigation it was found that interest income at pt Akasha Wira Internasional Tbk was recognized as company income so that profits increased.

Investment Opportunty Set is an investment made by a company or a growth obsession. Smith and Watts 1992 (in Irma Adriani, 2011) state that investment opportunity management requires making decisions in an uncertain environment and managerial actions becoming more unobservable. This action will certainly result in the principal not knowing whether the manager has carried out actions and tasks that are in accordance with the principal's wishes or not. Companies with a very good level of investment opportunity set tend to have good prospects for future growth of the company so as to produce quality profits that are profitable for the company.

According to agency theory, there is a separation between agents and principals which results in conflicts that will affect earnings quality. Earnings quality will be guaranteed if the company implements the Corporate Gavernance mechanism with four elements, namely fairness, transparency, responsibility and accountability. Good Corporate Gavernance which is often used to reduce agency conflict is audit committee, independent commissioner, institutional ownership, and managerial ownership.

Previous research on earnings quality has been carried out by Reynard Xaverrius Talatas Shanti (2011) which states that the investment opportunity set has a negative effect on earnings quality, in contrast to the results of research by Fransisca Listiyaningsih (2013) which states that it has a positive effect. Siti Wulandari (2018) states that the audit committee has a negative effect on earnings quality, which is different from the results of the research by Lestari Setiyaningsih (2018) which states that it has a positive influence. Independent commissioners are said to have a negative influence on earnings quality by Siti Wulandari (2018), while Rosalia Octaviani (2018) states that they have a positive influence.

Tabel 1

The Summary of Research Gap nfluence Invesment Opportunity Set and Mechanisme Corporate Gavernance Toward Quality of Profit

Research Gap	Hasil	Penelitian
Invesment Opportunity Set Toward Quality of Profit	Negative significance	Reynard Xaverius Talatas Shanti (2011) Eka Oktarya, Lili Syafitri, Trisnadi Wijaya (2014) Kurniawati (2016)
	Positive	Fransisca Listyaningsih (2013)
Commite audit Toward Quality of Profit	Negative	Siti Wulandari (2018)
	Positif	Lestari Setianingsih (2016)
Independent commissioner Toward Quality of Profit	Negative	Siti Wulandari (2018) Lestari Setianingsih(2016)
	Positif	Rosalia Octaviani (2018)
Institutional ownership Toward Quality of Profit	Negative	Fransisca Listyaningsih (2013) Lestari Setianingsih (2016) Siti Wulandari (2018)
	Positif	Kurniawati (2016) Lestari Setianingsih(2016)
Managerial ownership Toward Quality of Profit	Negative	Fransisca Listyaningsih (2013) Lestari Setianingsih(2016) Siti Wulandari (2018)

	Positive	Ade Oktaviany (2013)
Investment opportunity set and good corporate governance mechanism Toward Quality of Profit	Positive	Lestari Setianingsih(2016) Siti Wulandari (2018)

LITERATURE REVIIEW

Agency Theory

The Agency theory is the basis used to understand corporate governance. Agency theory concerns the contractual relationship between members in the company. Jensen and Meckling (1976) Jensen defines agency theory (Agency Theory) as an agency relationship in a cooperation contract (nexus of contract) where the principal uses an agent to manage the company. The principal is the shareholder or owner of the company, while the agent is the manager or management who is responsible for the company's activities. Principal invests funds for the company's operational needs, while the agent is in charge of managing the company with the aim of increasing company profits.

Invesment Opporunty Set (IOS)

The investment opportunity set is the present value and the company's choice to make investments in the future (Myers 1977). According to Gaver (1993), the choice of growth has a flexible meaning. According to Kallapur and Trombley (2001) in Mala (2011), the investment opportunity set is divided into three proxies, namely:

1. IOS proxies based on price (price-based proxies).

2. Investment-based IOS proxies.

3. IOS proxy based on variance (variance measures).

According to Sri Hasnawati (2005) and Agustina M. Nur (2007) in Irma Adriani (2011) stated that the investment opportunity set can be measured through the market value to book value of assets ratio. The ratio of market value to book value of assets is directly proportional to the value of the investment opportunity set, the greater the market value to book value of assets of a company, the better the value of the investment opportunity set.

Audit Committee

The audit committee is a committee formed by the Board of Commissioners in order to assist in carrying out its duties and functions. The audit committee consists of at least one Independent Commissioner and at least 2 other members from outside the issuer or public company. The audit committee has a very important and strategic role in maintaining the credibility of the process of preparing financial statements as well as maintaining the creation of an adequate corporate supervision system and the implementation of good corporate governance.

Independent Commissioner

According to KNKCG (National Committee on Corporate Governance policy) in Irma Adriani (2011), independent commissioners are members of the board of commissioners who are not affiliated with the Board of Directors, other members of the board of commissioners and controlling shareholders, and are free from business relationships or other relationships that may affect their ability to act independently or act solely in the interests of the company. The board of commissioners plays an important role in the implementation of Good Corporate Governance (GCG), because the

board of commissioners is the core of corporate governance whose task is to ensure the implementation of corporate strategy, supervise management in managing the company, and require accountability.

Institutional Ownership

Institutional ownership is ownership of company shares owned by institutions or institutions such as insurance companies, banks, investment companies and other institutional ownership. Institutional ownership has an important meaning in monitoring management because institutional ownership will encourage more optimal supervision.

Manjarial Ownership

Managerial ownership is the proportion of shareholders from management who actively participate in making company decisions (directors and commissioners) (Diyah and Erman, 2009). According to Jensen and Meckling (1976) in Irma Adriana (2011), when management's share ownership is low, there is a tendency for manager's opportunistic behavior to increase as well. With management's ownership of the company's shares, it is considered to be able to harmonize the potential differences in interests between management and other shareholders so that problems between agents and principals are assumed to disappear if a manager is also a shareholder.

METHODOLOGY

The population of this research is all manufacturing companies in the consumer goods industry which are listed on the Indonesia Stock Exchange during the period 2016 – 2019. The sample selection is based on the purposive sampling method with the aim of getting a representative sample according to the specified criteria. The criteria for companies that are sampled in this study are:
1. Included in the type of manufacturing company in the Consumer goods Industry sector listed on the Indonesia Stock Exchange during the 2016 – 2019 period.
2. Issued financial statements for the period ended December 31 during the 2016 – 2019 research period.
3. The financial statements are presented in rupiah and all the data needed for this research is available in full.

Definisi Operasional dan Pengukuran Variabel

a. Qualty of Profit

Earnings quality can be measured through discretionary accruals (DACC) which is calculated by differentiating total accruals (TACC) and non-discretionary accruals (NDACC). According to Dechow et al. (1995) in calculating DACC, used the Modified Jones Model because this model is considered better than other models to measure earnings management. The calculation model is as follows:

1. Total Accruals

Total accruals in this study are defined as the difference between net income before tax (earnings before tax/extraordinary items and discontinued operations) and cash flows from operating activities (operating cash flow).

TACCit = EBXTit – OCFit
Dimana:

TACCit : *total accruals on year t*

EBXTit : *earnings before tax/extraordinary items and discontinued operations*

OCFit : *operating cash flow*

Estimasi dari parameter spesifik perusahaan, diperoleh melalui models analisisregresi OSL (Ordinary Least Squares) berikut ini:

TACCit/TAi,t-1 = α1 (1/ TAi,t-1) + α2 ((∆REVit - ∆RECit)/TAi,t-1) + α3 (PPEit/TAi,t-1) + εit

Dimana:

TACCit : *Total accruals* pada tahun t

TAi,t-1 : *Total assets* untuk sampel perusahaan i pada akhir tahun t-1

∆REVit : *revenue* of company from t-1 to t

∆RECit : *net receivable* of company from t-1 to t

1. Non *Discretionary Accruals*

The *Modified Jones Model*, non *discretionary accruals is*:

NDACCit = α1 (1/ TAi,t-1) + α2 ((∆REVit - ∆RECit)/ TAi,t-1) + α3 (PPEit/ TAi,t-1)

NDACCit : Non *discretionary accruals* on year t
TAi,t-1 : *Total assets to sample of company to t*
∆REVit : *revenue* on company

∆RECit : *net receivable* on company from t-1 to t

PPEit : *Gross property, plant and equipment* company

2. Discretionary Accruals

total accruals consist of discretionary accruals or non-discretionary accruals, then discretionary accruals can be formulated as follows:

DACCit = (TACCit/TAi,t-1) - NDACCit

DACCit : Discretionary accruals

***Invesment Opportunty Set* (X1)**

The measurement of the investment opportunity set in this study uses the market value to book value of assets ratio as a proxy for the investment opportunity set with the following formulation:

$$MVBVA = \frac{Total\ Assets\ - Total\ Ekuitas + (jml\ Saham\ Beredar\ x\ Closing\ Price\ )}{Total\ Assets}$$

c. Corporate Gavernance Mechanism (X2)

There are four corporate governance mechanisms used in this study, namely:

a. The proportion of independent audit committees, defined as the percentage of the number of independent audit committees with the total number of audit committees in the composition of the audit committee.

b. The composition of the Independent Commissioners is calculated by the percentage of the total number of commissioners in the composition of the Board of Commissioners (Rachmawati and Triatmoko, 2007).

c. Institutional Ownership is company shares owned by institutions or institutions such as insurance companies, pension funds or other companies. Institutional ownership is calculated by the percentage of shares owned by institutional investors (Pranata and Machfoedz, 2003).

d. Managerial Ownership is the percentage of share ownership by the board of directors, management, commissioners or any party directly involved in making company decisions. Managerial ownership is calculated by the percentage of shares owned by management who are actively involved in making company decisions (commissioners and directors) (Pranata and Machfoedz, 2003)

RESULTS

Pada tabel 2 menunjukan statistik diskriptif masing – masing variabel yaitu *Invesment opportunity set*, komite audit, komisaris independen, kepemilikan instirusional, kepemilikan manajerial dan kualitas laba.

Tabel 2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
IOS	58	.45	1429764.98	25251.2814	187663.01616
Koomite Audit	58	.25	.33	.3245	.02045
Komisaris Independen	58	.20	.50	.3709	.07747
Kep. Institusional	57	.56	1.00	.8282	.11746
Kep. Manajerial	38	.00	.63	.0282	.10131
Kualitas Laba	58	-1.36	1.83	-.0608	.59398
Valid N (listwise)	37				

From the results of the descriptive statistics test, the minimum investment opportunity set value is 0.45, while the maximum value is 1429764.98, the mean value is 25251,2814 and the standard deviation value is 187663.01616. The minimum value of the audit committee variable is 0.25. While the maximum value is 0.33. The average value is 0.3245. The value for the standard deviation is 0.02045. The minimum value of the independent commissioner variable is 0.20. While the maximum value is 0.50. The average value is 0.3709 and the value for the standard deviation is 0.07747. The minimum value for the institutional ownership variable is 0.56. As for the maximum value of 1.00. The average value is 0.8282. and the standard deviation value is 11746. The minimum value for the managerial ownership variable is 0.00. While the maximum value is 0.63. The average value is 0.0282. The standard deviation value is 0.10131. The minimum value for the earnings quality variable is -1.36. While the maximum value is 1.83. The average value is -0.0608 and the value of the standard deviation is 0.59398.

Classic assumption test

a. Normalitas Test

There are two analyzes to detect whether the residuals are normally distributed or not, namely by graphical and statistical analysis.

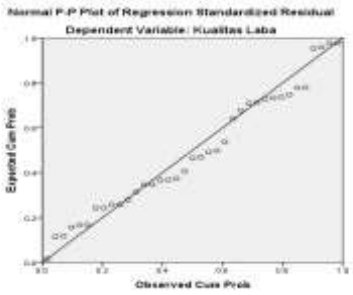

Figure 1. Normalitas P-P Plot Test

From the picture above, it can be seen that the pattern is approaching the diagonal line and not too far away from the existing line, so it can be said that the research data is normal. In addition to the P-P test, the normality test plot can be seen with the Kolmograv Smimov test. Kolmograv Smimov test. It is said to be normal if the sig value is more than 0.05.

Tabel 3
Normalitas Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		37
Normal Parametersa,b	Mean	0E-7
	Std. Deviation	.30650410
Most Extreme Differences	Absolute	.096
	Positive	.096
	Negative	-.073
Kolmogorov-Smirnov Z		.585
Asymp. Sig. (2-tailed)		.884

Source : Output SPSS 20 (2021)

From the table above, it can be seen that the normality test using the Kolmogrov Smimov statistical test shows a statistical result of 0.884 with a significant level above 0.05 so it can be concluded that the research data is normal.

b. Multikolinearitas Test

Tabel 4
Multikolinearitas Test

Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-2.860	1.007		-2.840	.008		
IOS	.001	.000	.536	4.364	.000	.729	1.371
Audit Committee	7.205	2.541	.346	2.836	.008	.740	1.351
Independent Commissioner	-1.050	1.122	-.170	-.935	.357	.335	2.985
Kep. Institusional	1.219	.755	.276	1.614	.117	.375	2.664
Kep. Managerial	-10.855	4.107	-.304	-2.643	.013	.833	1.201

Source :Output SPSS 20 (2021)

The table above shows that the IOS, audit committee, independent commissioners, institutional ownership and managerial ownership variables have a VIF value of less than 10 and a TOL value greater than 0.01 so it can be concluded that the regression model does not indicate multicollinearity.

c. Heterokedasticity Test

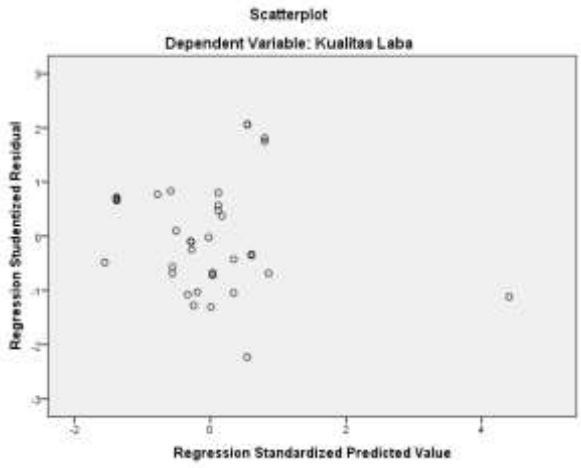

Figure 2. Heterokedasticity Test

Based on the picture above, it can be seen that basically there are no points that form a certain regular pattern, and nothing shows a clear pattern, so it can be concluded that there is no heteroscedasticity problem.

d. Autokolerasi Test

Tabel 5
Autokolerasi Test

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.812a	.659	.604	.33030	.835

Based on the results of the Durbin-Watson study of 0.835 with n of 58 and the number of independent variables studied (k) of 5. With the durbin value of 0.835, it can be concluded that the analysis model does not occur autocorrelation because it is located between -2 and +2 this is appropriate with the theory of Singgih Santoso (2012).

Multiple Linear Regression Analysis Test

Table 6
Multiple Linear Regression Analysis Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.860	1.007		-2.840	.008
	IOS	.001	.000	.536	4.364	.000
	Audit Committee	7.205	2.541	.346	2.836	.008
	Independent Commissioner	-1.050	1.122	-.170	-.935	.357
	Kep. Institusional	1.219	.755	.276	1.614	.117
	Kep. Manajerial	-10.855	4.107	-.304	-2.643	.013

From the table above, multiple linear regression equations can be arranged as follows:
KL= -2,860 + 0,001 IOS + 7.205 KA – 1.050 KI +1.219 KEPIN -10.855 KEPMAN+e

Table 7
The Result of the Coefficient of Determination R2

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812a	.659	.604	.33030

Table 8
F Test (Simultan)

ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.529	5	1.306	11.969	.000b
	Residual	3.382	31	.109		
	Total	9.911	36			

Based on the table above, it is influenced by R Square or R2 of 0.659 or 65.9%. So it can be interpreted that the earnings quality of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2016 – 2017 can be explained by the investment opportunity set, audit committee, independent commissioner, institutional ownership and managerial ownership variables of 0.659 or 65.9% . The remaining 0.341 or 34.1% is determined by other variables not included in this study.

Table 9
Result of T Test (Persial)

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.860	1.007		-2.840	.008
	IOS	.001	.000	.536	4.364	.000
	Audit Committee	7.205	2.541	.346	2.836	.008
	Independent Commissioner	-1.050	1.122	-.170	-.935	.357
	Kep. Institusional	1.219	.755	.276	1.614	.117
	Kep. Managerial	-10.855	4.107	-.304	-2.643	.013

The results of hypothesis testing regarding the effect of the investment opportunity set show a positive direction, with a significance value of 0.000 which means less than 0.05 and a t-count value of 4.364 which is greater than t-table 2.009. This shows that the investment opportunity set has a significant effect on earnings quality. Judging from the t-count the direction is positive, which means that the more opportunities the company has in investing, the higher the quality of the company's earnings. So

the conclusion is that the investment opportunity set has a significant positive effect on earnings quality, so the hypothesis is accepted.

The significant value of the audit committee on earnings quality is 0.008<0.05 and the t-count value is 2.836>2009, then Ho is rejected and Ha1 is accepted. So it can be concluded that the audit committee has a significant positive effect on earnings quality, so the hypothesis is accepted. From the value of t-count which shows a positive direction, it shows that the more the number of audit committees in a company, the quality of earnings will increase, because employees will feel supervised so that it will minimize employees in managing earnings so that earnings quality is guaranteed.

The test results regarding the effect of independent commissioners on earnings quality show a negative direction with a significant value of 0.357 which means greater than 0.05. This shows that the independent commissioner has a significant effect on earnings quality. Judging from the negative t-count (-0.935) which is less than 2,009 from the t-table, the direction is negative, meaning that the higher the number of independent commissioners, the lower the earnings quality. It can also be interpreted that the existence of an independent commissioner is only a formality and the performance of the commissioner is less effective. So it can be concluded that the independent commissioner has a significant negative effect on earnings quality.

The significant value of institutional ownership on earnings quality is 0.117>0.05 and the t-count value is 1.614<2009, so Ho is accepted and Ha1 is rejected. So it can be concluded that institutional ownership does not have a significant effect on earnings quality, although the results of the t-table test are not significant, however, if viewed from the table results show a positive direction, the more institutional stock ownership the higher the company's earnings quality.

The significant value of managerial ownership on earnings quality is 0.013 <0.05 and the t value is -2. 643<2009 then Ho is rejected and Ha1 is rejected. So it can be concluded that managerial ownership has no significant effect on earnings quality. Judging from the t count which shows a negative direction, it can be interpreted that the number of share ownership is less than 5% so that a little managerial share ownership cannot affect earnings quality.

KESIMPULAN

Based on the data analysis and discussion that has been carried out, some conclusions can be drawn as follows:

1. Investment opportunity set has a significant positive effect on earnings quality in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2016 – 2019, so the hypothesis is accepted.
2. The audit committee has a significant positive effect on earnings quality in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2016-2019, so the hypothesis is accepted.
3. Independent commissioners have a significant negative effect on earnings quality in manufacturing companies in the consumption rod industry sector listed on the Indonesia Stock Exchange in 2016 – 2019, so the hypothesis is rejected.
4. Institutional ownership does not have a significant positive effect on earnings quality in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2016 – 2019, so the hypothesis is rejected.
5. Managerial ownership does not have a significant negative effect on earnings quality in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2016 – 2019, so the hypothesis is rejected.
6. Investment opportunity set and corporate governance mechanism have a significant positive effect on earnings quality in consumer goods industrial manufacturing companies listed on the Indonesia Stock Exchange in 2016 – 2019, so the hypothesis is accepted.

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