

INVESTMENT OPPORTUNITY SET TO EARNING QUALITY AND FIRM'S VALUE: CORPORATE GOVERNANCE MECHANISM AS MODERATING VARIABLE

Bambang Bemby Soebyakto*, Kencana Dewi*, Mukhtaruddin*, Shendy Arsela*

*Economics Faculty, Sriwijaya University, Palembang, Indonesia



Abstract

How to cite this paper:

Soebyakto, B. B., Dewi, K., Mukhtaruddin, Arsela, S. (2017). Investment opportunity set to earning quality and firm's value: Corporate governance mechanism as moderating variable. *Corporate Ownership & Control*, 14(4-2), 435-448. <http://doi.org/10.22495/cocv14i4c2art9>

Copyright © 2017 The Authors

This work is licensed under the Creative Commons Attribution-NonCommercial 4.0 International License (CC BY-NC 4.0). <http://creativecommons.org/licenses/by-nc/4.0/>

ISSN Online: 1810-3057

ISSN Print: 1727-9232

Received: 03.01.2017

Accepted: 26.05.2017

JEL Classification: G32, M41

DOI: 10.22495/cocv14i4c2art9

This study aims to see the effect of Investment Opportunity Set (IOS) to earnings quality and firm value with corporate governance mechanisms (frequency of audit committee meeting, the composition of Independent board of commissioners, institutional ownership, and managerial ownership) as the moderating variable. In this study population was manufacturing companies listing from year 2009 until 2012. The samples were selected by using of purposive sampling method. After the selecting population based on the certain criteria, there are 15 companies sampled. The data analysis technique used in this study is multiple regression analysis.

The result frequency of audit committee meeting, the composition of Independent board of commissioners, institutional ownership, and managerial ownership) does not influence the earnings quality but significantly influence the firm value. Based on the testing of partial, IOS does not effect on the earnings quality but significantly effect on the firm value and IOS which moderated by corporate governance mechanisms (frequency of audit committee meeting, the composition of Independent board of commissioners, institutional ownership, and managerial ownership) does not effect on the earnings quality and the firm value.

Keywords: Investment Opportunity Set, Corporate Governance Mechanism, Audit Committee, the Composition of the Board of Commissioners, Institutional Ownership, Managerial Ownership, Earnings Quality and Firms Value

1. INTRODUCTION

1.1. Background

Agency relationship occurs when one or more individuals who are called principals hire another individual or organization is referred to as an agent to perform a number of services and delegates the authority to make decisions to the agent (Bringham andHouston, 2006). In the agency relationship sometimes conflicting called agency conflict. Investment Opportunity Set (IOS) is acompany whose value depends on the amount of expenses set forth in the management of the future, whichis currently the investment options that are expected to result in a larger return (Gaver and Gaver, 1993). Smith and Watts (1992) (the Putri and Abdul, 2012) states that the IOS requires decision making in an uncertain environment and consequently become more unobservable managerial actions. The

unobservable of managers actionc an cause the principal can not know whether the manager has to act in accordance with the wishes of the principal or not. Basically, the manager has morally responsible for optimizing the benefit of the owners, but on the other hand managers also have an interest in maximizing their welfare. Thus there are two different interests in the company in which each party seeks to achieve or maintain a desired level of prosperity. So there is most likely agents do not always act in the best interests principle (Jensen and Meckling, 1976). Decision making in an uncertain environment for investment can provide an opportunity for managers to act in accordance with the interests of the principal, or even contrary to the interests of principals to maximize their own interests. This can lead to agency conflicts with in the company. Conflict can be engineered profit agency that conducted the manager to increase or decrease the rate of accrual in the income statement. Agency conflict that caused the

opportunistic nature of management would result in lower earnings quality (Putri and Abdul, 2012).

The quality of the earnings generated by the company will affect the market reaction to corporate earnings information reported. In other words, earnings are reported to have a power of response. The strong market reaction to earnings information reflected in the high Earning Response Coefficient (ERC) shows that reported earnings quality. Conversely, weak market reaction to earnings information reflected in the low of ERC, showed no reported earnings or less qualified (Inrawati and Lillia, 2010). In this study, the ERC is using as an alternative to measure of the earnings quality.

To mitigate agency conflicts in investment decision, then the company needs to implement a corporate governance mechanism in the control system and management. The mechanism of corporate governance as a system of regulating and controlling the company is expected to provide oversight of management in managing the company so that it can convince the principal that they will get a return on funds invested (Putri and Abdul, 2012). In addition, according to Boediono (2005), corporate governance mechanism has the capability in terms of generating a financial report contains earnings information. Forum for Corporate Governance in Indonesia (FCGI, 2001) states the purpose of corporate governance is to create added value for all interested parties. There are four corporate governance mechanisms are often used in a variety of research on corporate governance that aims to reduce the agency conflict, namely the audit committee, the independence of board of commissioners, institutional ownership and managerial ownership (Rachmawati and Triatmoko, 2007).

The audit committee is responsible for overseeing financial reporting, overseeing the external audit, internal control system and observe that is expected to reduce the opportunistic nature of management that does earnings management. The audit committee also plays an important role in carrying out the functions of monitoring and maintaining the credibility of the process of preparing financial statements. In the presence of an audit committee, oversight of the company will be better, so the agency conflicts arising from management's desire to improve their personal interests can be minimized (Rachmawati and Triatmoko, 2007). Thus, the active audit committee meeting is expected to minimize the negative effects that can be caused by IOS on the quality of information the reported earnings. The independence of boards of commissioner are relating to the information content of earnings. Through its role in oversight, independent board of commissioners can influence the management in preparing the financial statements in order to obtain a qualified earning (Boediono, 2005). The existence of commissioners from the outside can reduce the possibility of fraudulent financial reporting. In this case, the independence of board of commissioner is expected to reduce the tendency of managers to be done by their wishes. So as to reduce the negative effects that can be caused by IOS on the quality of information the reported earnings.

Institutional ownership (IO) has a very important role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional investors is considered capable of being effective monitoring mechanisms in any decisions are made by the manager. This is due to the institutional investors involved in strategic decision-making that is not easy to believe the earnings manipulation (Jensen and Meckling, 1976). High levels of IOS will lead to greater oversight efforts by institutional investors so as to preclude opportunistic behavior of managers (Putri and Abdul, 2012). In this case, a high level of institutional ownership is expected to reduce the negative effects that can be caused by IOS on the quality of information the reported earnings.

Managerial ownership (MO) works out to be a mechanism to reduce the agency problem of managers to align the interests of managers and shareholders (Jensen and Meckling, 1976). Ross et.al (1999) (in Siallagan and Machfoedz, 2006) states that the greater the MO will tend to strive to improve its performance for the benefit of shareholders and for their own interests. In this case, their level of MO expected to minimize the potential for agency conflicts that may affect the quality of reported earnings. So as to reduce the negative effects that can be caused by IOS on the quality of information the reported earnings.

Many companies are investing to create a positive sentiment for investors, so the company's stock price to increase (Solihah and Taswan, 2002), which have an impact on the increased firm's value (Sujoko and Soebiantoro, 2007). Companies have a high IOS will continue to expand the business and as such will always require external funding (Taman and Bily, 2011). In this regard, to facilitate the acquisition of external funds and debt investment and lower the cost of capital, then the company will try to improve the implementation of corporate governance mechanisms. Due to the existence of corporate governance mechanisms proxied by the audit committee, IBC, IO and MO are believed to increase the confidence of investors to invest in the company. The higher interest of investors to invest, the stock price will increase and ultimately enhance shareholder value.

Benefits of corporate governance will be seen from the premium investors are willing to pay the equity of the firm (market price). If you find that investors are willing to pay more, then the market value of companies that implement of GCG will also be higher than companies that do not apply or disclose their corporate governance practices (Kusumawati and Riyanto, 2005). This study aimed to analyze the effect of IOS on earnings quality and firm's value with corporate governance mechanisms as a moderating variable in the manufacturing companies listed on the Indonesia Stock Exchange during the period 2010 to 2012. This study is a replication of Putri and Abdul research (2012). In that study, the independent variable is the IOS and corporate governance mechanisms, while the dependent variable is the quality of earnings and the value of the company. Research results prove that (1) earnings quality (discretionary accruals) does not effect on the firm's value; (2) IOS has negatively effect on the quality of earnings and the other side positively influence on the firm's value; (3) The

number of audit committee meetings have positively effect on the quality of earnings but do not effect on the firm's value; (4) The composition of independent commissioner does not effect the quality of earnings but positively effect on the firm's value; (5) IO has positively effect on the quality of earnings and the firm's value; (6) MO does not effect on the quality of earnings but positively effect on the firm's value; (7) Control variables: firm's size and leverage do not effect on the quality of earnings and the firm's value.

In Putri and Abdul research (2012), the authors suggest that further researchers are using corporate governance mechanisms as a moderating variable to determine its effect of IOS on the quality of earnings and firm's value. Thus, in this study is using of IOS as an independent variable, the quality of earnings and firm's value as the dependent variable and corporate governance mechanisms as a moderating variable. The difference of this study to Putri and Abdul (2012) lies in the period of the study and measurements of IOS and earnings quality. In previous studies, IOS is measured by ratio of market value to book value of equity, where as in this study IOS was measured by Market to Book Value of Assets Ratio (MBVA). In previous studies of earnings quality is measured by discretionary accruals, where as in this study measured by ERC. In addition, there are also differences in the use of corporate governance mechanisms as a moderating variable. Object of this study is a manufacturing company, this is due to a manufacturing company is the largest issuer in providing the opportunity for investors to invest, so that the manufacturing company has always got the attention of investors. Quality earning is generated by manufacturing companies also indicated may effect on the market response was measured by the method of the ERC.

The structure of this article are (1) introduction to this study and the aims of the study, (2) literature reviews, the hypothesis development, and the theoretical framework, (3) research methodology, (4) result of study and discuss, and (5) conclusions and recommendations.

2. LITERATURE REVIEW

2.1. Agency Theory

In the agency relationship sometimes conflicting called agency conflict. Perspective agency relationship is the basis used to understand corporate governance. Jensen and Meckling (1976) states an agency relationship is a contract between managers (agents) to investors (the principal). Eisenhardt (1989) states that the agency theory of human nature using three assumptions: (1) human being, in general, self-serving (self-interest), (2) humans have limited thinking about the future perception (bounded rationality), and (3) humans always avoid risk (risk averse). Based on the assumption of human nature, the agent and the principal are both trying to maximize their personal interests respectively. Shareholders as the principals want the maximum return on the investment they have invested. Manager of the agency authorized by the principal to manage the company, expecting compensation or incentives profusely for performance. This ultimately led to managers not

acting in accordance with the interests of shareholders (Putri and Abdul, 2012).

Agency conflict can be reduced by an oversight mechanism. Oversight mechanisms are used corporate governance mechanisms. The mechanism of corporate governance as a system of regulating and controlling the company is expected to provide oversight of management as the agent in managing the company so that it can convince the principal that the agent has acted in accordance with the interests of the principal (Putri and Abdul, 2012). Investment opportunity set

IOS was first introduced by Myers in 1997. IOS according to Myers (1997) is a combination of company-owned assets (assets in place) and the selection of an investment in the future with Present Net Value (NPV) positive (Taman and Bily, 2011). IOS can include capital expenditures for the introduction of existing products, alternative expenditures for restructuring costs as well as the company's benefits choices of accounting policy choices (Taman and Bily, 2011). Meanwhile, according to Gaver and Gaver (1993), IOS is the value of a company depends on the amount of expenditure specified in the management of the future, which is currently the investment options that are expected to result in a larger return. Future investment choice is not merely indicated by the projects supported by their search and development activities, but also the company's ability to exploit the opportunity to take advantage as compared to other companies in a similar industry group. The ability of these companies are higher unobservable, so it needs to be chosen a proxy that can be associated with other variables in the company (Putri and Abdul, 2012). Firm's value is affected by two things, the current assets and the option to invest in the future. Investment options in the future can be obtained if the company has a project with a positive NPV (Kallakapur and Trombley in Taman and Bily, 2011). Keep in mind that IOS is not the real growth achieved by the company at this time, but an opportunity to grow the company in the future. So the size of the IOS is essentially associated with the project in addition to favorable, it maybe associated with investment mainly in research and development and fixed assets in a company. By investing in research and development and fixed assets, it is likely the company will enjoy the real growth in the future (Taman and Bily, 2011).

2.2 Earnings Quality

Earnings quality information may be indicated as the responsive ability to market earnings (Boediono, 2005). In other words, earnings are reported to have power of response. Generally, earnings quality can be measured by the ERC, which is a form of information content in earning reflected higher earnings reported. ERC indicates quality of earning (Indrawati and Lilla, 2010). ERC measure how much stock returns in response to earnings reported by the company. In other words, the ERC is a reaction to earnings announced. This reaction reflects the quality of their reported earnings of the company. High and low of ERC is determined by the strength of the reflected responsive information contained in earnings (Boediono, 2005). Cho and Jung (1991)

classify the ERC theoretical approaches into two groups: (1) assessment model based on economic information. This model was developed by Verrecia and Holthausen (1988) and Lev (1989) in Indrawati and Lilla (2010) which indicates the strength of the response of investors to the ERC is a function of the uncertainty in the future. The greater the noise in the company reporting system (the lower the quality of earnings) and the smaller ERC, and (2) an assessment time series base valuation models.

2.3. Firm's Values

Value investors' perception of the company associated with stock price (Sukojo and Soebiantoro, 2007). High stock price makes the value of the company was also high (Ayuningtias and Kurnia, 2013). Meanwhile, according to Keown, et. al. (2007) the firm's value is the market value of debt and outstanding equity of company. The price is paid by the prospective buyer is willing to be interpreted as the market price of the company itself. In the stock market, the market price means the price that investors are willing to pay for each share of the company. Therefore it can be said that the value of investors' perception of the company is a company that has always been associated with the stock price. High value of the company will make the market believe not only in the firm's current performance, but also on the future prospects of the company (Putri and Abdul, 2012). One alternative is used in assessing the firm's value is Tobin's q. According Sukamulja (2004), Tobin's q is considered the most can provide best information, as in Tobin's q includes all the elements of debt and equity of the company. By incorporating, all the assets of a company means the company is not only focused on one type of investor that the invest of stocks, but also the creditors as a source of financing of the company's operations. Combined the market price of equity and debt (Putri and Abdul, 2012).

2.4. Corporate Governance Mechanisms

According to Boediono (2005), the view of agency theory where there is a separation between the agent and the principal. It is resulting in the appearance of potential conflict can effect the quality of reported earnings. The management who has particular interest earnings will tend to prepare a report in accordance with the purpose and not for the sake of the interests of the principal. In these circumstances, they need a control mechanism align the interests of the difference between the two sides. Corporate governance mechanism has capability in terms of generating a financial report contains information return (Boediono, 2005). According to the Indonesian Institute of Corporate Governance (IICG), Good Corporate Governance (GCG) is defined as the structure, systems and processes are used by company in an effort to add value to the company's sustainable in the long term by taking into account the interests of other stakeholders by regulations and norms (IICG, 2009). Corporate governance is essentially a relationship of participants in determining the direction and performance. Corporate governance is also a condition for the existence of the device structure to achieve the objectives and monitoring performance

(Taman and Bily, 2011). According to regulatin of the Minister of State and the Capital Market Supervisory No.S.106/M.PM.P.BUMN/2000 about SOEs in the Putri and Abdul (2012), the notion of corporate governance is all things related to effective decision making that comes from culture company, ethics, values, systems, business processes, policies and organizational structure of the company which aims to encourage and support the development of company, and risk management resources more efficiently and effectively, as well as corporate accountability to shareholders and other stakeholders. Based on the above description, it can be concluded that corporate governance is aset of systems that are used by companies to control all activities in accordance with the organization's vision and mission and the wishes of the shareholders. National Committee on Governance (NCG) in Putri and Abdul (2012) developed a guideline referenced in the application of GCG. NCG explained in the guidelines of GCGe principles as follows (1) Transparency. To maintain objectivity in running the business, the company must provide information that is material and relevant in a way that is easily accessible and understood by stakeholders. Companies must take the initiative to reveal not only the problem that required by legislation, but also important for decision-making by shareholders, creditors and other stakeholders, (2) Accountability. Companies should be accountable for its performance in a transparent and fair. Thus, a company must be properly managed, scalable, and in accordance with the company's interests while taking into account the interests of shareholders and other stakeholders. Accountability is a necessary requirement to achieve sustainable performance, (3) Responsibility. Companies must comply with the laws and responsibilities towards society and the environment so that business continuity can be maintained in the long term and to be recognized as a good corporate citizen, (4) Independency. To expedite the implementation of the principles of GCG, the company should be managed independently of each organ, tcompanies do not dominate each other and can not be intervensed by other parties, and (5) Fairness and equality. In its work, the company should always consider the interests of shareholders and other stakeholders based on the principles offairness and equality. There are four corporate governance mechanisms are often used in a variety of research on corporate governance that aims to reduce the agency conflict, namely the audit committee, the independence of board of commssioners, institutional ownership and managerial ownership (Rachmawati and Triatmoko, 2007).

2.4.1. Audit committee

The audit committee is very important role and strategic in terms of maintaining the credibility of the financial reporting process as well as keep the company's creation of an adequate supervisory system and the implementation of GCG. With the passage of audit committee functions effectively, the control of the company will be better, so the agency conflict that occurs as a result of management's desire to increase their own welfare

can be minimized (Rachmawati and Triatmoko, 2007). According to the Audit Committee of the Association of Indonesian in Putri and Abdul (2012), the audit committee is a committee that works professionally and independently established by the board of commissioners. Thus, the task is to assist and strengthen the function of the board of commissioners (or board of trustees) in oversight the financial reporting process, risk management, audit and implementation of GCG in the companies. The audit committee is considered as a link between the shareholders and the board of commissioners with management in dealing with control problems. Chairman of Security Advisory Decree number 24/PM/2004 in Putri and Abdul (2012) requires that the audit committee held a meeting with the same frequency with the provisions of commissioners meeting minimum frequency specified in the articles of association. Anderson et al. (2003) in Inrawati and Lilla (2010) found that audit committee characteristics (independence, activity, and the size of the audit committee) effects the information content of earnings are measured by the ERC. The increasing activity of the audit committee has positive effect on the information content of earnings. Effect of an increase in the independence of the audit committee on the wane at the time of the audit committee is active. Bryan et al. (2004) found that the ERC is stronger with the presence of audit committee members and experts in the field of finance. Audit committee financial expert in the field of signal perception is the credibility and quality of better corporate earnings (Inrawati and Lilla, 2010). Profit credible and good quality will be responded stronger.

2.4.2. Independence of Board of Commissioner

Based on the decision of the board of directors Indonesian Stock Exchange number 305/BEJ/07-2004 in Putri and Abdul (2012), in the framework of the implementation of GCG, listed companies are required to have independent commissioners proportion. The number of independent commissioner are at least 30% of the total number of commissioners. The independence of the commissioner is one of the characteristics of the board relating to the information content of earnings. Through its role in oversight, board of commissioners have influence the management in preparing the financial statements in order to obtain a qualified profit (Boediono, 2005). The statement is supported by the results of the study Vafeas (2000) and Anderson et al. (2003) which stated that the composition of the board of commissioners in the company may effect the quality of reported earnings. Barry Reiter role in Putri and Abdul (2012) states that outsider commissioner can help provide continuity and objectivity needed for a company growth. Outsider commissioners help plan long-term strategy of the company and periodically review the implementation of the strategy (Barry Reiter role in Putri and Abdul, 2012). Meanwhile, research Beasley (1996) found companies whom commit of fraud have external commissioners percentage was significantly lower compared to companies did not commit of fraud (Beasley, 1996) in Inrawati and Lilla (2010). The existence of

commissioners from the outside can reduce the possibility of fraudulent financial reporting. In this case, the independent commissioner overseeing role that management actions are expected to reduce the likelihood of earnings management.

2.4.3. Institutional Ownership

Institutional ownership is the percentage of shares held by the holders of institutional owners (>5%) such as insurance, banks, investment companies, and other ownership unless the subsidiary companies and other institutions that have a special relationship (Stice et al., 2009). Through institutional ownership, the effectiveness of resource management by the management can be ascertained from the information generated by the market reaction over the announcement of earnings. Certain percentage of shares owned by institutions can influence the process of preparing financial statements do not rule out the possibility that there is actualization in accordance with the interests of management (Boediono, 2005). High levels of institutional ownership is also considered to pose greater oversight efforts by the investors so as to opportunistic behavior of managers. This is because institutional investors are involved in strategic decision-making that is not easy to believe the earnings manipulation actions (Jensen and Meckling, 1976). According to Bushee (1998) institutional ownership has the ability to reduce the incentives of self-interested managers through intense level of scrutiny. Institutional ownership may suppress the tendency to utilize discretionary management in the financial statements so as to provide the quality of reported earnings (Boediono, 2005). Institutional ownership has a very important role in minimizing agency conflicts. The existence of institutional investors is considered capable of being an effective monitoring mechanism in any decisions are made by the manager. High levels of institutional ownership will lead to greater oversight efforts by institutional investors so as to preclude opportunistic behavior of managers (Putri and Abdul, 2012).

2.4.4. Managerial Ownership (MO)

According to Downes and Goodman (1999) in Putri and Abdul (2012) managerial ownership is a shareholder also means in this case as the owner of the management company that actively participate in decision-making in a company concerned. Jensen and Meckling (1976) states the agency is to minimize conflict by increasing managerial ownership. Shares are owned by management can indicate the presence of a common interest between management and shareholders. Ownership of the management is deemed to align the potential divergence of interests of shareholders and management. The problem will disappear when the agency assumed a manager also as an owner (Putri and Abdul, 2012). The quality of reported earnings can be affected by managerial ownership. Pressure from capital markets cause companies with low managerial ownership will choose the method of accounting for the increase reported earnings and do not reflect the actual economic situation of the company (Boediono, 2005). MO works out to be a mechanism to reduce the agency problem of

managers to align the interests of managers and shareholders (Jensen and Meckling, 1976). Ross, et al (1999) in Siallagan and Machfoedz (2006) states that the greater the managerial ownership, the management will tend to strive to improve its performance for the benefit of shareholders and for their own interests.

2.5. Hypothesis Development

2.5.1. Effect of IOS on Earnings Quality and Firm's Value

IOS is an opportunity to grow the company. IOS requires decision making in an uncertain environment because humans have limited thinking about the future perspectives (Einshard, 1989) and consequently become more unobservable managerial actions (Smith and Watts, 1992 in Putri and Abdul, 2012). This can lead to agency conflicts with in the corporate as unobservable actions that managers can cause the principal can not know whether the manager has to act in accordance with the wishes of the principal can or can not provide opportunities for managers to act in accordance with their interests. Conflict can be engineered profit agency that conducted the manager to increase or decrease the rate of accrual in the income statement. Practices have an impact on the quality of reported earnings (Boediono, 2005). IOS of a company can influence the world view of managers, owners, investors and creditors of the company. Companies have high growth opportunities are considered to generate a high return anyway (Novianti, 2012). Because many companies are investing to create a positive sentiment for investors, so the company's stock price to increase (Soliha and Taswan, 2002), which have an impact on the increased value of the company (Sujoko and Soebiantoro, 2007). Based on the description, the hypothesis can be put forward are as follows

Hypothesis 1: IOS negatively effects earnings quality.

Hypothesis 2: IOS negatively effects firm's value.

2.5.2. Effect of IOS on Earnings Quality and Firm Value are Moderated by Frequency Audit Committee Meeting

According appears logical Indonesian Institute of Accountants, audit committees assists the board of commissioners and strengthen the function of oversight of financial reporting process, rehearsal management, audit and implementation of corporate governance in the company (Putri and Abdul, 2012). With the passage of audit committee functions effectively, the control of the company will be better, so the agency conflict that occurs as a result of management's desire to increase his own welfare can be minimized (Rachmawati and Triatmoko, 2007). This was confirmed by the results of the study Vafeas (2005) in Putri and Abdul (2012) who found that when the audit committee meets more and more independent, the manager did not raise the possibility of profit. In the presence of an audit committee, oversight of the company will be better, so the agency conflicts arising from

management's desire to improve their personal interests can be minimized (Rachmawati and Triatmoko, 2007). Thus, the active audit committee meeting is expected to minimize the negative effects that can be caused by IOS on the quality of information the company reported earnings. IOS of a company can influence the world view of managers, owners, investors and creditors of the company. Companies have high growth opportunities are considered to generate a high return anyway (Novianti, 2012). The audit committee is considered as a link between the shareholders and the board of commissioners with management in dealing with control problems (Putri and Abdul, 2012). In this case, the audit committee is regarded as a neutral party who is trusted by the shareholders and the board of commissioners can resolve the control handle, so the existence of an audit committee with in the organizational structure of the company is expected to increase the confidence of investors. The higher interest of investors, the stock price will higher and can ultimately enhance shareholder value. In this case, the presence of an audit committee with in the organizational structure is expected able to increase the confidence of investors or the suppliers and increase the firm's value. Based on the above, it can be formulated as the following hypothesis:

Hypothesis 3: Frequency of audit committee meeting has positively affected on IOS to earnings quality relationship.

Hypothesis 4: Frequency of audit committee meeting has positively affected on IOS to firm's value relationship.

2.5.3. Effect of IOS on Earnings Quality and Firm's Value are Moderated by Independent Board of Commissioner

The independence of board of commissioner is one board characteristic related to earnings information content. Through its role in oversight, independence of board of commissioners can influence the management in preparing the financial statements in order to obtain a qualified profit (Boediono, 2005). The existence of commissioners from outside (independent) can reduce the possibility of fraudulent financial reporting (Putri and Abdul, 2012). In this case, the independence board of commissioner is expected to reduce the tendency of managers to be act accordance with their wishes. So as to reduce the negative effects that can be caused by IOS on the quality of information the company reported earnings.

Barri Reiter in Putri and Abdul (2012) states outsider commissioner can help to provide continuity and objectivity needed for a company growth. An outsider commissioner helps plan long-term strategy of the company and periodically reviews the implementation of the strategy. Thus, the mechanism of corporate governance is proxied by independent board of commissioner expected of improving investor confidence or the suppliers and can increase the firm's value. Based on the above description, it can be formulated as the following hypothesis:

Hypothesis 5: Independent board of commissioner has positively affected on IOS and earnings quality relationship.

Hypothesis 6: Independent board of commissioner has positively affected on IOS and firm's value relationship.

2.5.4. Effect of IOS on Earnings quality and Firm's Value are Moderated Institutional Ownership

According to Bushee (1998), institutional ownership has the ability to reduce the incentives of self-interested managers through intense level of scrutiny. This is because institutional investors are involved in strategic decision-making that is barriers to do of the earnings manipulation (Jensen and Meckling, 1976). High levels of institutional ownership will lead to greater oversight efforts by institutional investors so as to preclude opportunistic behavior of managers (Putri and Abdul, 2012). In this case, a high level of institutional ownership is expected to reduce the negative effects that can be caused by IOS on the quality of information the reported earnings. Slovin Sushkasan (1993) in Wahyudi and Pawestri (2006) states the firm's value can be increased if the institution is able to be an effective monitoring tool. The higher the level of institutional ownership, the stronger level of control carried out by external parties against the company, so the agency cost occurring with in the company and the diminishing value of the company also increased (Jensen and Meckling, 1976). Thus, the presence of high levels of institutional ownership is expected to increase the confidence of investors or the suppliers and can increase the firm's value. Based on the above, it can be formulated as the following hypothesis:

Hypothesis 7: Institutional Ownership has positively affected on IOS and earnings quality relationship.

Hypothesis 8: Institutional Ownership has positively affected on IOS and firm's value relationship

2.5.5. Effect of IOS on Earnings quality and Firm's Value are Moderated by Managerial Ownership

Jensen and Meckling (1976) states the agency is to minimize conflict by increasing managerial ownership. The agency assumed the problem would disappear if a manager is also the owner as well as (Putri and Abdul, 2012). In addition, pressure from capital markets cause the company has low MO will choose accounting methods that increase reported earnings, which in fact does not reflect the actual state of the economy (Boediono, 2005). In this case, their level of managerial ownership is expected to minimize the potential for agency conflicts that may affect the quality of reported earnings. So as to reduce the negative effects that can be caused by IOS on the quality of information the reported earnings. Wahyudi and Pawestri (2006) state the effect of MO on firm value. This study proves that the proportion of shareholding controlled by managers can influence company policy. Managerial owners make to align the interests of management and shareholders, the manager will directly benefit from the decision and bear the losses as a consequence of making the wrong decision (Putri and Abdul, 2012). In this case, a high level of MO is expected to reassure investors or the suppliers to invest in the company and thereby increasing the

firm's value. Based on the above, it can be formulated as the following hypothesis:

Hypothesis 9: Managerial ownership has positively affects on IOS to earnings quality relationship.

Hypothesis 10: Managerial ownership has positively affects on IOS to firm's value relationship.

3. RESEARCH METHODOLOGY

3.1. Population and Sample

The population in this study is a manufacturing company that is listed on the Indonesia Stock Exchange (IDX) during the period 2010 to 2012. Sampling method used was purposive sampling; the sampling is done based on the criteria. Based on predetermined obtained samples are 18 companies listed on the Stock Exchange. Observations made during the period of 3 (three) years, ie 2010-2012. Therefore, the total sample of 54 annual reports companies listed on the Stock Exchange.

3.2. Operational Definition and Measurement of Variables

Investment Opportunity Set (IOS). IOS according to Myers is a combination of company-owned assets (assets in place) and the selection of investments in the future with a positive NPV (Myers, 1997) in the park and Bily (2011). Because of the inherent nature of the IOS that can not be observed then the proxy should be used in measuring the company's IOS to be viewed conjunction with other variables. In this study IOS proxied by market to book value of assets ratio (MBVA) as used in the research park and Bily (2011) and Rachmawati and Triatmoko (2012). The fundamental reason is the use of the ratio MBVA with the premise that the growth prospects of the company is reflected in the stock price and market assess companies that are growing (the value of the stock price) is greater than its book value (Parks and Bily, 2011). The statement is supported by the results of research Kallapur and Trombley (1999) which states that the ratio of book value to market value of assets leads to realisation investment. Thus, the ratio of MBVA expected to reflect the company's investment opportunities. Mathematically, the formula book value to market value of assets is as follows (Isnaeni, 2005):

$$MBVA = (TA - TE + (Outstanding Share \times Stock's Closing Price)) / (TA)$$

Earning squality. Earnings quality is measured by the ERC. ERC is the relationship between reported earnings with stock returns. The indicator is the regression coefficient between return and market adjustment earnings per share divided by the share price (Boediono, 2005).

$$AR_{it} = \beta_0 + \beta_1 EPS_{it} / P_{it-1}$$

Firm's Values. Firm's value is willing to pay the price that a potential buyer when the company will be sold or someone decides to make an investment. Firm value is measured by Tobin's q as used by Putri and Abdul (2012). Tobin's q ratio used in this study

was calculated using the formula developed by Chung and Pruitt (1994), as follows:

$$Q = \frac{\{(CP \times \text{Outstanding Share}) + TL + I\} - CA}{TA}$$

3.3. Moderating Variables

Audit Committee. The audit committee is meeting or the number of meetings held by the audit committee within one year. The number of meetings of the audit committee is able to improve the management action to control behavior (Xie et.al, 2003). The audit committee has a very important role and strategic in terms of maintaining the credibility of the financial reporting process as well as keep the company's creation of an adequate supervisory system and the implementation of GCG. Vafeas (2005) in Sanjaya (2008) found that when the audit committee meets more and more independent, the manager did not raise the possibility of profit. Therefore, it can be concluded that more frequent audit committee meetings and direct observation is expected to reduce the level of earnings management. Frequency Audit Committee Meetings (FACM) was measured by the number of audit committee meetings held on the listed company's annual report on corporate governance report and the audit committee report (Putri and Abdul, 2012). **Independent Board of Commissioner (IBC).** IBC is a comparison of the number of independent board commissioner is owned by the number of board members (Boediono, 2005). Commissioner can act independently mediate in disputes between managers and oversee the management policy and provide advice to management (Ujiyantho and Scout, 2007). IBC is measured by the percentage of the number of independent board commissioner to the total number of commissioners present in the composition of the board of commissioners.

$$EQ = a + b_1IOS + b_2IOS * FACM + b_3IOS * IBC + b_4IOS * IO + b_5IOS * MO + e_1 \quad (1)$$

2. To prove H2, H4, H6, H8 and H10, namely IOS has positively affect on firm's value and IOS is moderated by corporate governance mechanisms

$$FV = a + b_1IOS + b_2IOS * FACM + b_3IOS * IBC + b_4IOS * IO + b_5IOS * MO + e_1 \quad (2)$$

3.3.2. Moderating Variables Analysis

The hypothesis was tested by regression analysis by comparing the level of significance. For H3 - H10, when significance of the independent variable coefficients smaller than 0.05 means that the hypothesis is accepted. This means moderating variables that corporate governance mechanisms have significantly affect the IOS relationship with earnings quality and firm value.

3.3.3. Coefficient of Determination

The coefficient of determination is essentially measures how strong the model's ability to explain variation in the dependent variable. The coefficient of determination is between zero and one. If R2 is small, means the ability of independent variables explaining the dependent variable is very limited.

Institutional ownership (IO). IO is shares owned by the institution (Boediono, 2005). IO has the ability to control the management through effective monitoring process in order to reduce earnings management. Certain percentage of shares owned by institutions can influence the process of preparing financial statements do not rule out the possibility that there is in the interests of management (Boediono, 2005). IO is measured by the percentage of shares owned by institutional investors.

Managerial ownership (MO). MO is the number of shares are owned by the management (Boediono, 2005). The high stock is owned by management is assumed to reduce the opportunist behavior of managers that reported earnings quality will be better. The high share is owned by management can also increase the firm's value, because management tends to work harder for the benefit of shareholders who incidentally are their-self (Putri and Abdul, 2012).

3.3. Methods of Data Analysis

3.3.1. Hypothesis Testing

Hypothesis testing is done to determine whether there is significant relationship between financial performance (IOS) on firm value and earning quality. The basis of this hypothesis-making is done by the 5% level of significances. The analysis model was used to test the hypothesis using a multiple linear regression with interaction. Linear regression models were used for each hypothesis is as follows:

1. To prove H1, H3, H5, H7 and H9, namely IOS have negatively affect on earning quality and IOS is moderated by corporate governance mechanisms (FACM, IBC, IO and MO) have positively affect on earning quality, it will be tested by regression model with the following interaction:

(FACM, IBC, IO and MO) have positively affect on firm's value, it will be tested by regression model with the following interaction:

Value close to one, means that the independent variables provide almost all the information needed to predict the variation in the dependent variable (Ghozali, 2001).

4. RESULTS AND DISCUSSION

4.1. Coefficient of Determination

4.1.1. Test Results of Coefficient of Determination: Model 1

R2 test results to the regression model equation 1 is to test the effect of IOS on earnings quality and IOS are moderated by corporate governance mechanisms (FACM, IBC, IO and MO) that indicated adjusted R2 value is -0.063. If the value is negative, then the value is considered to be 0, it means the independent variables (IOS) and IOS is moderated by

corporate governance mechanism unable to explain the variability of earnings quality.

4.1.2. Test Results of Coefficient of Determination: Model 2

The test results of the R² for second equation regression models to test the influence of IOS to firm's value and IOS is moderated by corporate governance mechanisms found that adjusted R² is 0.896. This means that the independent variable (IOS) and IOS is moderated by corporate governance mechanisms able to explain the variation of the earning quality.

4.2. Result of Testing

4.2.1. Simultaneous Test

F test is used to test whether together all independent variables have a significant influence on the dependent variable. If significant < 0.05, hypothesis is rejected and if significant > 0.05, hypothesis is rejected.

4.2.1.1. Test Results of Simultaneous: Model 1

The test results of the simultaneous equation regression model 1, which is examining the effect IOS on earnings quality and IOS is moderated by corporate governance mechanisms, the p-value of 0.788 is greater than 0.05, hypothesis is rejected, which means together is not a significant affect of IOS and IOS is moderated by corporate governance mechanisms on earning quality. The earning quality can not be explained by IOS and IOS is moderated by moderated by corporate governance mechanisms.

4.2.1.2. Test Results of Simultaneous: Model 2

The test results of the simultaneous equation regression model 2, which is examining the effect IOS on firm's value and IOS is moderated by corporate governance mechanisms, the p-value of 0.000 is smaller than 0.05 then hypothesis is accepted. The firm's value can be explained by IOS and IOS is moderated by corporate governance mechanisms.

4.2.1.3. Partial test results: Model 1

Significant results of individual parameters to the regression model equation 1 is examining the effect of IOS to earning quality and IOS is moderated by corporate governance mechanisms shown in the following table:

Table 1. Results of regression model 1

Variables	Coefficient	Significant	Decision
IOS	-3,949	0,314	H1 rejected
IOS*FACM	0,103	0,782	H3 rejected
IOS*IBC	1,400	0,879	H5 rejected
IOS*IO	1,388	0,758	H7 rejected
IOS*MO	8,556	0,565	H9 rejected

4.2.2. Partial Testing

Significant results of individual parameters to the regression model equation 2 is to examining the effect of the IOS to firm's value and IOS is moderated by corporate governance mechanisms shown in the following table:

Table 2. Results of regression model 2

Variables	Coefficient	Significant	Decision
IOS	0,974	0,000	H2 accepted
IOS*FACM	0,010	0,353	H4 rejected
IOS*IBC	-0,268	0,315	H6 rejected
IOS*IO	0,002	0,988	H8 rejected
IOS*MO	0,331	0,439	H10 rejected

4.3. Hypothesis Testing Results

The results of research by testing various states as final conclusions are presented in the following table:

Table 3. Results of regression analysis model 1

Variables	Coefficient	t-value	p (Sig.)	Sig. Confirm
IOS	-3,949	-1,020	0,314	Unsignificant
IOS*FACM	0,103	0,279	0,782	Unsignificant
IOS*IBC	1,400	0,153	0,879	Unsignificant
IOS*IO	1,388	0,311	0,758	Unsignificant
IOS*OM	8,556	0,581	0,565	Unsignificant

$R^2 = 0,058$, $F=0,481$, $P(\text{sig.})=0,788$, $\text{Constant}=8,035$
 Note: $EQ = 8,035 - 3,949IOS + 0,103 IOS*FACM + 1,400 IOS*IBC + 1,388 IOS*IO + 8,556 IOS*MO$

Table 4. Results of regression analysis model 2

Variables	Coefficient	t-value	p (Sig.)	Sig. Confirm
IOS	0,974	8,752	0,000	Significant
IOS*FACM	0,010	0,941	0,353	Unsignificant
IOS*IBC	-0,268	-1,019	0,315	Unsignificant
IOS*IO	0,002	0,015	0,988	Unsignificant
IOS*OM	0,331	0,782	0,439	Unsignificant

$R^2 = 0,908$, $F=76,870$, $P(\text{sig.})=0,000$, $\text{Constant}=-0,265$
 Note: $FV = -0,265 + 0,974 IOS + 0,010 IOS*FACM - 0,268 IOS*IBC + 0,002 IOS*IO + 0,331 IOS*MO$

4.4. DISCUSSION OF RESULTS

4.4.1. IOS Has Effect on Earnings Quality

The results of statistical tests between IOS with Earnings Quality shows that the value of coefficient = -3.949 and signifikansi value = 0.314 > 0.05. This means that IOS has a negative but insignificant effect on the quality of earnings. The results are consistent with research Palupi (2006) which states that the growth opportunities are reflected in the IOS no significant effect on earnings quality as measured by the ERC. Nevertheless, the results of this study conflict with Rachmawati research and Triatmoko (2007) and Putri and Abdul (2012) which states that the IOS significant negative effect on earnings quality. This is because the existence of IOS is not the center of attention of investors in making investment decisions. Based on the results of statistical tests, overall company studied had ratios ranging from 0 to IOS 4. It means that there is not different between the book value to market values in terms of asset valuation. So that investors do not

pay attention to the value of IOS, but attention to the company's profit. Companies have a high value of IOS, not because the market value assets are higher than book value. Rather, the value of the company due to the low value and high value Aste negative equity. The reason is what causes the investor not only sees the value of IOS in making investment decisions. Based on the results of previous research, the reason no significant effect on the quality of earnings IOS is because investorst motivation is not for long-term benefit. But to get capital gains (short-term). Factors growth opportunities are seen from IOS is usually observed by investors who have a long-term perspective to get the yield from its investments (Palupi, 2006).

4.4.2. IOS Has Effect on Firm's Value

The results of statistical tests between IOS and firm's value shows the value of coefficient 0.974 and significancy value 0.000 is smaller than 0.05. This means that IOS has a positive and significant influence on firm's value. The results are consistent with research Rachmawati and Triatmoko (2007), and Putri and Abdul (2012) who found evidence that IOS has a significant and positive effect on firm's value. This study shows a positive direction and significant between IOS and firm's value. This is because companies tend to have a lot invested assets increased at any time or to increase their wealth. Companies that increase in size over time will be able to create a positive sentiment of investors, so the company's stock price will certainly increase. The increase stock prices is an indicator of the increasing firm's value. Established companies in the stock market is strongly influenced by investment opportunities. IOS direct effect on firm value is the result obtained through the investment itself through the selection of projects or policies such as creating a new product, the replacement machine and tools more efficient, development of research and development (Myers, 1977). The company's capital expenditure is very important to increase the value of the company because of the type of investment that gives a signal about the company's revenue growth is expected in the future and be able to increase the company's market value (Fama and French, 1998).

4.4.3. Moderated Effect of Frequency of Audit Committee Meeting to Relationship between IOS and Earnings Quality

The results of statistical tests of IOS is moderated by frequency of audit committee meeting on earnings quality shows that the value of coefficient as 0.103 and significancy value as 0.782 is greater than 0.05. IOS is moderated by frequency of audit committee meeting has no significant effect on earnings quality. The results of this study support the results of research Pamudji and Aprillya (2010) who found that the audit committee meets at least four times in one year are not able to reduce the occurrence of fraud in the financial reporting process. Nevertheless, the results of this study conflict with Rachmawati and Triatmoko (2007) research who found that active audit committee negatively with the level of earnings management.

Regular meetings of the audit committee is expected to reduce the negative effects that can be caused by IOS on the quality of information the company reported earnings. A meeting of the audit committee is an opportunity for management and external auditors to express the problems they found. In addition, the audit committee meeting is also an opportunity for the audit committee to discuss and find solutions to these problems. This study shows the results of a positive direction but not significant moderated affect of frequency of audit committee meeting to relationship between IOS and earnings quality. This is due to the formation of the company's audit committee is mandatory only to the existing regulations. This causes the audit committee has not been carrying out their duties and responsibilities to ensure their function and role is not effective. In addition, there is the possibility that the audit committee meetings are rarely attended by both management and the external auditors. Thus, there are problems in the financial reporting process is not revealed and is not known by the audit committee. This causes problems in the financial reporting process does not find a solution. The audit committee will have a lot of experience if they ever worked occupy important positions in several companies. However, if they are too much occupied important positions in various companies at the same time, it will decrease its effectiveness. This is due to the limited time they have to carry out the responsibilities as an audit committee. Core et al. (1999) in Pamudji and Aprillya (2010) argues that the effectiveness of the audit committee will be decreased when they serve a lot of companies. The experience gained while working at another company initially expected to enhance the effectiveness of the audit committee. However, the fact will turn around when they have served so many positions and companies (more than three). Thus, IOs are moderated by frequency of audit committee meeting does not significant effect on the quality of earnings.

4.4.4. Moderated Affect of Frequency of Audit Committee Meeting to Relationship between IOS and Firm's Value

The results of statistical tests of IOS is moderated by frequency of audit committee meeting and firm's value shows coefficient as 0.010 and the value of significancy as 0.353 is greater than 0.05. IOS is moderated by frequency of audit committee meeting has no significant influence on firm's value. The results are consistent with the results of research conducted Rachmawati and Triatmoko (2007), but contrary to the research conducted Herath (2008). The existence of an audit committee within the organizational structure of the company is expected to increase the confidence of investors to invest in companies so as to enhance shareholder value. Audit committee is regarded as a neutral party who is trusted by the shareholders and the board of commissioners to be able to solve the problem of control. This study shows the results of a direct but not significant between IOS moderated by frequency of audit committee meeting on firm's value. This is because often the audit committee meetings are rarely attended by both management and external parties. In addition, a meeting that

occurred on the audit committee as well as the ritual only attendance percentage change frequently so that the meeting that took place between the audit committee is less effective (Sharma. et al, 2009). Therefore, it is likely that the number of audit committee meetings that high performance is not a guarantee that the company will be better, so that the market considers the number of audit committee meetings is not a factor they consider in appreciating the value of the company. Thus, IOS is moderated frequency of audit committee meeting has no significant effect on firm's value.

4.4.5. Moderated Affect of Independent Board of Commissioner to Relationship between IOS and Earnings Quality

The results of statistical tests of IOS is moderated by IBC on earnings quality shows coefficient as 1.400 and significancy value as 0.879 is greater than 0.05. This means that IOS is moderated by IBC has significant influence but not positif to earnings quality. The results are consistent with research conducted Siregar and Main (2005) which states that a high proportion of independent directors who are not shown to limit earnings management by the company. However, these results conflict with studies Boediono (2005) which states that the proportion of independent board affects the quality of earnings. The high level of IBC is expected to reduce the tendency of managers to act in their interests, so the agency conflicts that may result from the presence of IOS can be reduced. Through its role in oversight, independent board is expected to influence the management in preparing the financial statements in order to obtain a qualified profit.

This study shows the results of a direct but not significant between IOS moderated by IBC on earnings quality. This is due to the decision of the Chairman of Bapepam Number: Kep-29/PM.2004 stipulates that every issuer required to have independent directors, the appointment of independent directors so that the company may only be carried out for regulatory compliance but is not intended to uphold good corporate within the company as well as the weak functions of the board of commissioners in carrying aspirations or interests of non-shareholder majority. This condition is also confirmed from the results of a survey of the Asian Development Bank (Boediono, 2005) which states that the strong control of the company's founder and majority shareholder makes no independent commissioners and monitoring functions are supposed to be the responsibility becomes ineffective. Thus, IOS is moderated by IBC has no significant effect on the quality of earnings.

4.4.6. Moderated Affect of Independent Board of Commissioner to Relationship between IOS and Firm's Value

The results of statistical tests relationship between IOS and FV moderated by IBC shows coefficient = -0.268 and sgnifikansi value = 0.315 > 0.05. This means that IOS are moderated by IKI has a negative but insignificant effect on firm value. The results are consistent with research conducted Rachmawati and

Triatmoko (2007) which says that the proportion of independent board has no effect on firm value. However, these results conflict with studies conducted Putri and Abdul (2012) which says that the proportion of independent board has a positive effect on firm value. IKI can assist management in planning the company's long-term strategy and to review the implementation of the strategy. IBC high is expected to boost the confidence of investors to invest in companies that can increase company value. This study shows that the results are not in the same direction and not significant relationship between IOS FV moderated by IBC. This is because the removal or addition of IBC in companies in Indonesia may only meets the formal provisions in Indonesia alone, are not intended to uphold good corporate governance mechanisms (Boediono, 2005). In addition, interesting things can be seen with regard to independence, there is a phenomenon in Indonesia that the office of the commissioner to a person not based on competence and professionalism, but only as a tribute and appreciation (Solar and Yustivanda, 2006).

These results prove that the commissioner's role in the company have not been up to monitor the performance of management, so that IBC has not been able to increase the value of the company. Strong control remains with the owner and majority shareholder, making the monitoring function performed independent board members komisars ineffective. Thus, moderated of IBC are no significant effect on relationship between IOS and the firm's value.

4.4.7. Moderated Affect of Institutional Ownership to Relationship between IOS and Earning Quality

The results of statistical tests relationship between IOS and earning quality moderated by IO shows coefficient = 1.388 and the value sgnifikansi = 0.758 > 0.05. That is moderated by IO has a positive direction but not significant to relationship between IOS and earnings quality. The results are consistent with research hasi Rachmawati and Triatmoko (2007) who found that KI does not affect the quality of corporate earnings. However, these results conflict with studies conducted Boediono (2005) which states that KI have an impact on earnings quality. IO is a high level is expected to reduce the negative effects that can be caused IOS to the quality of information the company reported earnings. KI is a high level of effort will lead to intense scrutiny in order to deter opportunistic behavior of managers (Princess and Abdul, 2012). This is because institutional investors are involved in strategic decision-making pengambilak not trusting of earnings manipulation actions (Jensen and Meckling, 1976). This study shows the results of a positive direction but not significant to relationship between IO and earning quality moderated by IO. This is due to the assumption that institutional investors are able to reduce the level of earnings management is sophisticated institutional investor. In reality, not all institutional investors are sophisticated investors. This is especially true in terms of the proportion of institutional ownership is very little. However, with the increasing number of institutional investors will increasingly restrict management actions to perform earnings

management. In addition, institutional investors will use the financial statements as a basis for making decisions without having the power to influence what is reported to management in the financial statements as well as the quality of earnings.

4.4.8. Moderated Affect of Institutional Ownership to Relationship between IOS and Firm's Value

The results of statistical tests relationship between IOS and firm's value moderated by IO shows coefficient = 0.002 and significance value = 0.988 > 0.05. That is moderated by IO has positive but not significant to relationship between IOS and FV. The results are consistent with the results of research and Pancawati Sofyaningsih (2011) which concludes that a large number of shareholders are not effective in monitoring the behavior of managers in the company. However, these results contradict the results of research and Triatmoko Rachmawati (2007) and Princess and Abdul (2012).

This study showed a positive but not significantly affect of IO. These results are inconsistent with the notion that high KI can act as parties to monitor company, so managers will be efficient in the use of company assets. This occurs because of the information asymmetry between investors and managers. Investors do not necessarily have the information that is fully owned by the manager (as the manager of the company) so it is difficult to control managers by institutional investors. In addition, IOS large with an average above 50% is a majority owner. According to Pound (In Sofyaningsih and Pancawati, 2011), the majority of institutional investors have a tendency to compromise or side with the management and ignore the interests of minority shareholders. The notion that management often take actions or policies that are non-optimal and likely to lead to self-interest results in a strategic alliance between institutional investors with management responded negatively by the market. This is certainly an impact on the company's stock price declines. According to Lee et al. (in Rachmawati and Triatmoko, 2007), institutional investor is the temporary investor and just focus on profit now. Changes in income can effects institutional investor decisions. If these changes are not deemed favorable by the investor, then the investor can withdraw their shares. Thus, IOS are moderated by IO have not significant effect on the firm's value.

4.4.9. Moderated Affect of Managerial Ownership to Relationship between IOS and Earning Quality

The results of statistical tests relationship between IOS and earning quality moderated by MO shows coefficient = 8.556 and significance value = 0.565 > 0.05. That is moderated by MO has positive but not significant influence. The results are consistent with research Rahmawati (2013) which states that MO had no effect on earnings quality. However, these results conflict with studies Boediono (2005) it states that MO effect on earnings quality. Jensen and Meckling (1976) stated that the agency is to minimize conflict by increasing managerial ownership. In this case, the level of managerial ownership is expected to minimize the potential to affect the quality of earnings and reduce the

negative influences on relationship between IOS and earnings quality. This study shows the results of a positive but not significant moderated by MO on relationship between IOS and earning quality. This is likely due to the sample used has a low number of managerial ownership and questionable to indicate of MO effect to earnings quality. Thus, The effect of IOS that moderated by MO does not significantly the quality of earnings.

4.4.10. Moderated Affect of Managerial Ownership to Relationship between IOS and Firm's Value

The results of statistical tests the influence IOS that moderated by MO to firm's value shows coefficient = 0.331 and significance value as 0.439 > 0.05. That is moderated by MO to influence IOS to firm's value has positive but not significant. Results are in line with research Dhyah and Aryanto (2013) who found that MO does not affect the value of the Company. Nevertheless, the results of this study conflict with Rachmawati research and Triatmoko (2007) and Princess and Abdul (2012) which states that the IOS has a positive influence on firm's value. MO make align the interests of management and shareholders, so that the manager will directly benefit from the decision and bear the losses as a consequence of making the wrong decision (Putri and Abdul, 2012). Thus, the greater the proportion of MO in the company is expected to managers will tend to work harder for the benefit of the stock which is actually owner's itself and thereby increasing the value of the company. This study shows the results of a positive but not significant the effect of IOS to firm's value that moderated by MO. This is because MO in manufacturing companies in Indonesia tends to be quite low. Low MO lead management lead management has yet to feel involved and make performance management companies tend to be optimized so as not to affect the value of the company. Thus MO moderated IOS does not affect the firm's value.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusion

Based on the analysis of regression models 1 and 2 regression models that have been conducted on 15 companies listed in Indonesia Stock Exchange (IDX), it can generally be summed that simultaneously IOS and IOS are moderated by Corporate Governance Mechanisms (FACM, IBC, IO, and MO) has no effect on earnings quality, but significant effect on the firm's value. Partially, IOS and IOS are moderated by corporate governance mechanisms has no effect on earnings quality. IOS positive and significant impact on firm's value, but IOS is moderated corporate governance mechanisms (FACM, IBC, IKI, IO and MO) does not affect the firm's value.

5.2. Limitations of Research

This study has some limitations such as the sample is confined to the manufacturing company so that research results are less showing the reality and can not be generalized. Relatively short observation period for only 3 years (2010 to 2012), so the lacks

of research result indicates the reality and can not be generalized. This study uses only one independent variable, which is expected in future studies could add another variable and fixed using the mechanism of corporate governance as a moderating variable.

5.3. Suggestions

The advice can be given in this study are next researcher should add another variable to represent the IOS that play a role in influencing earnings quality and firm's value. To obtain the research results better next research should expand the study sample and testing a longer observation so as to give better results. For future studies should use a larger sample size and a really represent all companies listed on the Indonesia Stock Exchange.

REFERENCES

- Anderson, K. L., Deli, D. N., & Gillan, S. L. (2003). Board of directors, audit committee, and the information contents of earnings. Working Paper. September.
- Ayuningtias, D. dan K. (2013). Pengaruh profitabilitas terhadap nilai perusahaan: Kebijakan dividen dan kesempatan investasi sebagai variabel Antara. *Jurnal Ilmu dan Riset Akuntansi 1(1)*.
- Boediono, G. S. B (2005). Kualitas laba: Studi pengaruh mekanisme corporate governance dan dampak manajemen laba dengan menggunakan analisis jalur. Simposium Nasional Akuntansi VIII, Solo.
- Bushee, B. J (1998). Institutional investor, long term investment, and earnings management. *The Accounting Review*, 73(3), 305-333.
- Cho, L. Y., & Jun, K. (1991). Earnings response coefficients: A synthesis on theory and empirical evidence. *Journal of Accounting Literature*, 10, 85-116.
- Dhyah, Seryorini dan Wiwit Aryanto. (2013). Pengaruh Kepemilikan Manajerial, Institusional dan CSR terhadap Nilai Perusahaan Manufaktur Di BEI 2008-2010. *Jurnal Profita: Kanjian Ilmu Akuntansi, 1(1)*.
- Dunrev, A., Dan E., Han Kim. (2003). To steal or not steal: firm attributes, legal environment, and valuation. *The Journal of Finance*, LX(3), 1464.
- Fama, E. F., & French K. R. (1998). Taxes, financing decisions, and firm value. *Journal of Finance. American Finance Association*, 53(3), 819-843. <https://doi.org/10.1111/0022-1082.00036>
- Gaver, J .J dan K.M. Gaver. (1993). Additional Evidence on the Association between the Investment Opportunity Set and Corporate Financing, Dividend, and Compensation Policies. *Journal Accounting and Economics*, 16, 125-160. [https://doi.org/10.1016/0165-4101\(93\)90007-3](https://doi.org/10.1016/0165-4101(93)90007-3)
- Ghozali, I. (2001). *Aplikasi Analisis Multivariante dengan Program SPSS*. Semarang: Universitas Diponegoro.
- Herawati, V (2008). Peran praktek corporate governance sebagai moderating variable dari pengaruh earning management terhadap nilai perusahaan. *Jurnal Akuntansi dan Keuangan*, 10(20), 97-108.
- Herwidayatmo. (2000). Implementasi good corporate governance untuk perusahaan publik Indonesia. *Usahawan*, 10(XXIX), 29.
- Hidayati, N. N (2009). Pengaruh pengungkapan corporate social responsibility terhadap earning response coefficient pada perusahaan high profile. *Jurnal Bisnis dan Akuntansi. April*, 11(1), 1-18.
- Inrawati, Novita dan Lilla Yulianti. (2010). Mekanisme corporate governance dan kualitas laba. *Pekbis Jurnal*, 2(2), 283 - 291.
- Isnaeni, R. (2005). Analisis hubungan Investment Opportunity Set (IOS) dengan realisasi pertumbuhan serta perbedaan perusahaan yang tumbuh dan tidak tumbuh terhadap kebijakan pendanaan dan dividen di Bursa Efek Jakarta. *SMART*, 1(2), 41-60.
- Jensen, M. C., Meckling, W. H (1976). Theory of the Firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Myers, S. C (1977). Determinants of corporate borrowing. *Journal of Financial Economics*, 5, 147-175. [https://doi.org/10.1016/0304-405X\(77\)90015-0](https://doi.org/10.1016/0304-405X(77)90015-0)
- Novianti, R. (2012). Kajian kualitas laba pada perusahaan manufaktur yang terdaftar di BEI. *Accounting Analysis Journal*, 1(2), 1-6.
- Palupi, M. J (2006). Analisis faktor-faktor yang mempengaruhi koefisien respon laba: Bukti empiris pada bursa efek Jakarta. *Jurnal EKUBANK*, 3, 9-25.
- Pamudji, Sugeng dan Aprilya Trihartati (2010). Pengaruh independensi dan efektivitas komite audit terhadap manajemen laba. *Jurnal Dinamika Akuntansi*, 2(1), 21-29.
- Puteri, Paramitha Anggia dan Abdul Rohman. (2012). Analisis pengaruh Investment Opportunity Set (IOS) dan mekanisme corporate governance terhadap kualitas laba dan nilai perusahaan. Diponegoro. *Journal Of Accounting*, 1(2), 1-14.
- Rachmawati, Andri dan Hanung Triatmoko (2007). Analisis Faktor-Faktor yang Mempengaruhi Kualitas Laba dan Nilai Perusahaan. Simposium Nasional Akuntansi X, Makassar.
- Rachmawati, H. I. (2013). Pengaruh Good Corporate Governance (GCG) terhadap manajemen laba pada perusahaan perbankan. *Accounting Analysis Journal*, 2(1). doi:10.15294/aa.v2i1.1136
- Schipper, K., & dan Vincent, L (2003). Earnings Quality. *Accounting Horizons*, 97-110. <https://doi.org/10.2308/acch.2003.17.s-1.97>
- Sharma, Vineeta, Vic Naiker, and Barry Lee (2009). Determinants of audit committee meeting frequency: Evidence from a voluntary governance system. *Accounting Horizon*, 23. Retrieved October 18, 2010 from American Accounting Association Digital Library. <https://doi.org/10.2308/acch.2009.23.3.245>
- Siallagan, Hamonangan dan M. Machfoedz (2006). Mekanisme corporate governance, kualitas laba dan nilai perusahaan. Simposium Nasional Akuntansi IX, Padang.
- Siregar, S. V. dan S. Utama (2005). Pengaruh struktur kepemilikan, ukuran perusahaan dan praktek good corporate governance terhadap pengelolaan laba (Earnings Management). Simposium Nasional Akuntansi. September 2005. Solo.
- Sofyaningsih, Sri dan Pancawati Hardiningsih (2011). Struktur kepemilikan, kebijakan dividen, kebijakan hutang dan nilai perusahaan. *Dinamika Keuangan dan Perbankan*, 3(1), 68-87.
- Soliha, E. Dan Taswan. (2002). Pengaruh Kebijakan Hutang Terhadap Nilai Perusahaan Serta Beberapa

- Faktor yang Mempengaruhinya. *Jurnal Bisnis dan Ekonomi*, 9(2), 149-163.
30. Surya, Indra dan Ivan Yustiavandana. (2006). Penerapan *good corporate governance* mengesampingkan hak-hak istimewa demi kelangsungan uasaha. Jakarta: Kencana.
 31. Taman, Abdullan dan Bily Agung Nugroho. (2011). Determinan Kualitas Implementasi Corporate Governance Pada Perusahaan Yang Terdaftar Di Buesa Efek Indonesia (BEI) Periode 2004-2008. *Jurnal Pendidikan Akuntansi Indonesia*, 9(1), 1-23.
 32. Vaveas, N. (2000). Board Structre and Informativeness of Earnings. *Journal of Accountin and Public Policy*, 19, 139-160. [https://doi.org/10.1016/S0278-4254\(00\)00006-5](https://doi.org/10.1016/S0278-4254(00)00006-5)
 33. Vaveas, N. (2005). Audit committee, boards and the quality of reported earnings. *Contemporary Accounting Research*, 22(4), 10093-1122.
 34. Wahyudi, Untung dan Hartini Prasetyaning Pawestri. (2006). Implikasi Struktur Kepemilikan terhadap Nilai Perusahaan: Dengan Keputusan Keuangan sebagai Variabel Intervening. Simposium Nasional Akuntansi IX, Padang.
 35. Xie, B dan W.N. Davidson III, dan P1 Dadalt. (2003). Earning Management and Cormporate Governance: The Role of Board and the Audit Committee. *Journal of Corporate Finance*, 9(3), 295-316. [https://doi.org/10.1016/S0929-1199\(02\)00006-8](https://doi.org/10.1016/S0929-1199(02)00006-8)