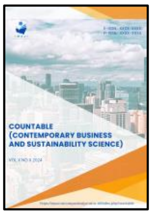

Countable
(Contemporary Business and Sustainability Science)
Vol. 1 No. 1 March 2024: 75-87
E-ISSN : XXXX-XXX, P-ISSN : XXXX-XXXX
https://ejournal.masyarakatjurnal.or.id/index.php/countable

Accrual Quality, Corporate Governance, and Performance

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Article Info:	**Abstract**

Keywords:
Accrual Quality;
Corporate Governance;
Tobin-q;
Performance;

This study investigates the effect of accrual quality and corporate governance on performance. The company's performance is in proxy with an accounting base represented by asset return while the market base is represented by Tobin-q. using a sample of manufacturing companies included in the 100 companies with the largest capitalization according to IICD obtained 57 observations consisting of 19 companies per year from 2015-2017. This study used statistical analysis, using a purposive sampling method with multiple regression. It was found that corporate governance has a positive and significant influence on accounting performance, while the quality of accrual and corporate governance has a positive and significant influence on market performance.

Article History:
Received : 19-05-2024
Revised : 25-05-2024
Accepted : 25-05-2024

Article DOI :
http://dx.doi.org/

How to cite :

INTRODUCTION

In the current era of globalization, firm performance is an important issue that is the center of attention of stakeholders in achieving company goals. Stakeholders are a society, group, community, or individual who has interests and power over an organization or company. There are several examples of stakeholders including shareholders, employees, consumers, communities, creditors, and other general public. These stakeholders can see the firm performance in the financial statements presented. Financial statements consist of statements of financial position, income statements, statements of changes in capital, and statements of cash flows, as well as notes to financial statements.

Firm performance means the results of a management activity during a certain period. In the financial statements, which contain all important information presented by management in assessing developments in the company, achievements can be assessed by what has been achieved by the company in the past, present and future plans. The amount of management

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

success to develop the company is used as a benchmark for firm performance. The greater the results achieved, the stronger the firm performance is going well. Good firm performance can improve the welfare of stakeholders, especially shareholders. This is because the company is able to provide benefits on its assets, equity, and debt. One of the factors that affect the performance or performance of the company's work is Accrual quality.

According to Marlinah (2015), Accrual quality is one indicator that shows the quality of financial statements produced by a company. Quality good financial statements provide relevant and reliable information for its users. The better the accrual quality, the higher the firm performs in ensuring the accruals change into cash flow compared to companies with low accrual quality. Accrual quality is also used as a measure of information risk related to profits. The use of accrual quality can be seen from the magnitude of the provision of working capital accruals into the realization of operating cash flow so that the quality of profits reported by the company can be clearly seen (Francis et al., 2005).

The use of accrual quality models is based on one of the accounting principles, namely accrual-based accounting. Some of the accrual components include income and expenses whose recognition is based on certain criteria. One of the criteria in revenue recognition is income that can be recognized if there is a high possibility of having future economic benefits that flow to the company and can be measured reliably (PSAK No. 23). Recognition of income and expenses involves estimation, selection of accounting policies and justification of management. In relation to these estimates, accrual quality is influenced by the calculation of errors in assessing accrual estimates regardless of intention factors in management.

The results of research from Francis et al. (2005) on companies in America regarding accrual quality are two components or factors that affect accrual quality, including discretionary and innate factors. Discretionary factors are a component of accrual quality that can reflect choices in management policies, such as profit management practices in manipulating company profits in financial statements. While the innate factor is a component of accrual quality that can reflect on environmental factors, economic fundamentals, or the company's business model. One example of the innate factor is when the debtor company experiences an increase in revenue, the company can change the estimate on recognition of bad debts by making adjustments to the debtor's receivables. After conducting research on the differences between the two components, Francis et al. (2005) stated that the innate factor can have a greater influence than the discretionary factor that affects the cost of capital covering the cost of debt and costs of equity.

In addition to accrual quality factors, another factor that affects firm performance is corporate governance. According to Nasution, M., & Setiawan (2007) corporate governance is a concept proposed to improve firm performance through the supervision or monitoring of management performance and can ensure management accountability to stakeholders based on the regulatory framework. The concept of corporate governance itself is proposed to achieve transparent company management for all users of financial statements. In corporate governance, there is a concept of separation consisting of ownership and control of the company. The implications of the separation can cause problems caused by differences in interests between shareholders and management as company managers.

Chen et al. (2007) state that implementing effective corporate governance will improve company performance. In understanding corporate governance, the basis of the perspective of agency theory is used. In this theory, the principal as the owner of the company hands over his authority to the agent (management). Agents who have risk-averse will tend to be selfish and will allocate resources to things that do not increase the value of a company (Kawatu, 2009). This problem can be an indication that the value of the company will increase if the company

DOI: 10.22441/countable.2024.v1i1.001

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

owner is able to control management behavior to utilize resources properly in the form of improper investments and in the form of shirking. Therefore, corporate governance is a system that regulates and can control a company that is expected to provide and increase corporate value to stakeholders, especially shareholders. More effective corporate governance in the long term can improve firm performance and provide benefits to shareholders.

Another argument was made by Black et al. (2003) which states that there are two causes of corporate governance to improve firm performance. First, companies with good management can be more profitable so that they can get high dividends. Second, it can be caused by the existence of outside investors who can assess the same earnings or dividends and with higher ones for companies that implement a corporate governance system. Based on these two causes, it shows that a company that has implemented corporate governance can be more profitable and provide higher dividends than companies that do not implement or implement corporate governance. This opinion is supported by research conducted by Francis et al. (2005) which states that the mechanism of corporate governance can improve the quality of profits and can reduce the cost of equity in a company.

The corporate governance mechanism is characterized by institutional ownership, management ownership, the existence of an audit committee, and independent commissioners. Management ownership and institutional ownership can be believed to limit the behavior of managers in carrying out profit management which can be proven by Darmawati (2003) research. Meanwhile, management is very dominant in a company which makes management often go out of the limits of what has been determined and can forget the essence of the existence of management, namely by improving the welfare of company owners. Research conducted on companies in America shows that there are ancient principles of corporate management, which should be the basis of the behavior of the board of directors that are much forgotten in its implementation (Reitenga & Tearney, 2003).

This research is a development of previous research by developing the influence of accrual quality and corporate governance on firm performance. The companies that are the object of research are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in order to prevent bias in the calculation of accrual quality discretionary factors to detect profit management. Based on the results of research by Hutchinson et al. (2008), states that the greater the managerial ownership, the lower the discretionary factor of accruals. This is in accordance with the theory that states that the greater the ownership of management, the more management will try to improve its performance so that the quality of the reported financial statements will be better.

In addition to other variables that affect discretionary accrual quality (discretionary accrual) factors, namely leverage (O'Sullivan et al., 2008). This is because leverage is a mechanism that can reduce agency problems, namely through bonding mechanisms. Discretionary accrual itself has a negative relationship with company value. Therefore, this supports the statement that accrual quality positively affects firm performance as seen from various factors used including leverage, firm size, firm age, and conservatism.

Another supportive study is Chan et al. (2001), where leverage is one of the levels of a company's ability to use assets or those that have fixed expenses (debt or preferential shares) that can realize the company's goal of maximizing the wealth of company owners. In addition, leverage has a significant positive effect on company value because leverage is a mechanism to reduce conflicts of interest between lenders (bondholders) and managers. Therefore, leverage has an influence on firm performance.

Another factor that affects firm performance is firm size. According to Prasetyo & Sampurno (2013) Firm Size is a big or small picture of a company that can be shown in total

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

assets, number of sales, and average sales. Meanwhile, according to Bukhari et al. (2022), Firm Size is an important variable in company management. firm size reflects how much total assets are owned by the company. The total assets owned by the company can describe the capital and the rights and obligations owned by the company. The larger the firm size, it can be ascertained that the larger the funds managed and the more complicated the management. A large company tends to get more attention from the wider community. Thus, large companies have a tendency to always maintain the stability and condition of the company. To maintain this stability and condition, the company will strive to maintain and continue to improve its performance So it can be concluded that firm size affects firm performance.

Another factor related to firm performance is firm age. Firm age is the time that has been achieved from the beginning of the company to an unlimited time. Companies that already have a relatively more age, will usually be better at collecting, processing, and producing information, it is because a company already has a lot of working hours. (Owusu-Ansah, 2000). While companies that have less age can be prone to failure due to lack of experience. Iyoha (2012) & Almilia & Setiady (2006) research found that firm age has a positive influence on the timeliness of submission of a financial statement and it also affects Firm Performance.

The last factor affecting firm performance is conservatism. conservatism is a precautionary principle in financial reporting in which a company gradually recognizes and measures assets and profits as well as debts and losses that may occur (Watts, 2003). The application of this principle can result in the selection of accounting methods for reporting lower profits or assets, as well as higher corporate debt. Therefore, conservatism can affect a firm’s performance.

LITERATURE REVIEW

The perspective of agency theory is the basis used to understand corporate governance and earning management issues. Agency theory results in an asymmetrical relationship between owners and managers, to avoid an asymmetric relationship requires a concept, namely the concept of Good Corporate Governance which aims to make the company healthier. The application of corporate governance is based on agency theory, namely agency theory can be explained by the relationship between management and owners, management as an agent is morally responsible for optimizing the profits of the owners (principal) and in return will get compensation in accordance with the contract. Agency theory is the theoretical basis that underlies the company's business practices that have been used so far. The theory originated from a merger of economic theory, sociological decision theory, and organizational theory. Agency theory was first proposed by Jensen and Meckling in 1976.

Jensen & Meckling (1976) explain agency relations in agency theory that a company is a collection of contracts (nexus of contract) between the owner of economic resources (principal) and managers (agents) who take care of the use and control of these resources. According to Messier Jr et al. (2017) this agency relationship causes two problems, namely: (i). The occurrence of information asymmetry, where management generally has more information about the actual financial position and operating position of the entity than the owner. (ii). The occurrence of conflicts of interest due to inequality of goals, where management does not always act in accordance with the interests of the owner. As a result of this information asymmetry, it can cause two problems caused by the difficulty of the principal monitoring and controlling the actions of agents. Jensen & Meckling (1976) stated that these problems are: (i). Moral Hazard, which is a problem that arises if the agent does not carry out the things mutually agreed upon in the employment contract. (ii). Adverse Selection is a situation where the principal cannot know whether a decision taken by the agent is based on information he has

DOI: 10.22441/countable.2024.v1i1.001

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

obtained or occurs as a dereliction of duty. With this, there are two different interests in the company where each party will strive to achieve the desired prosperity so that information asymmetry arises between management and owners that can provide opportunities for managers to carry out profit management in order to mislead owners about the company's economic performance.

The Influence of Corporate Governance on Firm Performance

Corporate governance is a mechanism to direct and control a company, which aims to reduce the interests of shareholders and other stakeholders. The existence of corporate governance principles such as transparency, accountability, responsibility, and fairness are carried out by the company, and corporate governance mechanisms minimize conflicts of interest between managers and shareholders of the company. There is transparency and good supervision to prevent managers from expropriating. A good system will provide effective protection to shareholders to recover their investments fairly, appropriately, and efficiently, and ensure that management acts properly in the interests of the company. Based on agency theory, the existence of good corporate governance managers can be monitored properly and agency costs can be reduced.

The firm performance of a company can be determined by the extent of seriousness in implementing corporate governance. Handayani (2021) states that as many as twenty top-ranked companies implementing corporate governance well can indirectly increase the value of their shares. According to research conducted by Hamdani (2016), institutional ownership does not have a significant influence on profit management and profit management does not have a significant influence on the company's financial performance (cash flow return on assets), in contrast to research conducted by Bhagat et al. (2008) , corporate governance has an influence on firm performance and the same research conducted by Kyereboah-Coleman (2007) in Africa shows that corporate governance has an influence on firm performance. In another previous study conducted by Siallagan & Machfoedz (2006) corporate governance statistically has an influence on company value, the same research conducted by Kawatu (2009) corporate governance has an influence on company value. Theoretically, if corporate governance practices run effectively and efficiently, the entire process of company activities will run well and which can further improve firm performance and reduce possible risks, namely by making a decision that benefits yourself. Corporate governance can increase investor confidence to invest which will have an impact on company performance.

H1: There is a positive influence of Corporate Governance on Firm Performance.

The Effect of Accrual Quality on Firm Performance

The relationship between the accrual quality of financial statements and information risk is the focus of several studies, Sirait & Veronica Siregar (2014) revealed that the level of accrual quality has no effect on the cost of debt and the level of accrual quality has an effect on the cost of equity, while research conducted by Iskandrani et al. (2020), revealed that accrual quality has a direct influence on cash holding and other research conducted Candra & Ekawati (2015) accrual quality has an influence on the cost of capital. While the research conducted by McDonald (2015) and Gray et al. (2009) stated that investors value company stocks based on valuation and analysis of future cash flow, so both studies use a measure that can measure the uncertainty of information in cash flow, namely accrual quality. The reason for using accrual quality in the second model of research is the information on accrual components in profits reported in the financial statements.

There are two components of profit, namely the accrual component and the cash flow component. Profit from the accrual component is the profit generated from accounting policies

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

to recognize an economic transaction, both income and expenses as a report without cash flow. Profit from the cash flow component is profit that is recognized in accounting and there is physical cash flow. The accrual component has greater uncertainty than the cash flow component because accrual is the valuation, forecast, and allocation from management, while the cash flow component is income that has already been allocated. So, it is concluded that accrual quality can be one of the factors that affect firm performance, where the higher the level of accrual quality, the better the performance of a company.

H2: There is a positive influence of Accrual Quality on Firm Performance.

METHOD

The form of research carried out is an explanatory research model with a purposive sampling method. The model will be tested for influence between the main variable, namely Firm Performance, with supporting variables, namely Accrual Quality and Corporate Governance. To complement the study, control variables were added to the study, namely Size, Age, Leverage, and Conservatism. The companies studied are companies listed on the Indonesia Stock Exchange (Indonesian Stock Exchange) with manufacturing company specifications with a range of 2015-2017. The data of this study used secondary data. Secondary data is obtained from the annual report, Indonesian Capital Market Directory (ICMD) in 2015 – 2017, and historical shares in 2015-2017. The secondary type of data is panel data (pooling) where the data used is a combination of times series data consisting of several years of observation and cross-sectional data consisting of several companies. Data obtained from the Indonesian Stock exchange and Indonesian Capital Market Dictionary. For sample selection using purposive sampling, namely the determination of samples with specified criteria. Here are for samples, variable sizes, and references:

Table 1. Sample Selection

Number of Companies listed on the Indonesia Stock Exchange until December 2017	555 companies
Observation Period	3 Years
Number of non-available CG index (manufacturing)	-536 companies
Number of sample Companies	19 companies
Total sample in the study (3 Years X 19 Companies)	57 companies

Table 2. Measurement Variable and Source

Variable	Reference	Formula	Source
Performance (Market)	(Klapper & Love, 2004)	TobinQ=(MVE+Debt)/TA	Annual report and ICMD
Performance (Internal)	(Saleh et al., 2020)	ROA=EAT/TA	Annual report and ICMD
Accrual Quality	(Dechow & Dichev, 2002)	ACCt/At-1 = α(1/At-1) + β1(ΔRevt/At-1) +β2(PPE/At-1) +εt ACCt=ΔCAt-ΔCLt-ΔCasht-ΔSTDt-DEPt	Annual report and ICMD
Corporate Governance	(IICD, 2017)	Level 1,2 Score = (No. of item scored by PLC x Maximum attainable score of the part (in points)/Total no. of questions	Annual report and ICMD

DOI: 10.22441/countable.2024.v1i1.001

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

Size	(Ibhagui & Olokoyo, 2018)	Size=LnTA	Annual report and ICMD
Age	(Apriliani & Dewayanto, 2018)	Age=Year of observation – a year of listing	Annual report and ICMD
Leverage	(Tambunan & Prabawani, 2018)	Lev= (Total Debt/Equity) x100%	Annual report and ICMD
Conservatism	(Ahmed & Duellman, 2007)	Conserv=Total Equity/Listed share	Annual report and ICMD

The analysis method used is to use descriptive statistical testing, normality test, classical assumption test, hypothesis test through t-test, F test, and coefficient of determination. By equation:

FP (Tobin Q) = ß0 + ß1AQ+ß2CG + ß3Size+ ß4 Age + ß5Lev+ ß6Conserv +εi, t... (1)

FP (ROA) = ß0 + ß1AQ+ß2CG + ß3Size+ ß4 Age + ß5Lev+ ß6Conserv +εi, t.......(2)

Information:

FP: Firm Performance; AQ: Acrrual Quality; CG: Corporate Governance; Size: Company Size (Size); Age: Age of the Company (Age); Lev: Leverage; Conserv: Conservatism; ß0: Constant ß1, ß2, ßn: Coefficient of the variable

RESULTS AND DISCUSSION

Results

The descriptive statistical results shown in table 3 show the mean value and standard deviation of each variable, both the dependent variable and the independent variable, calculated based on the overall data. This result has gone through previous outlier tests so that the data contained in table 3 are the data used for research discussions.

Table 3. Descriptive Statistic

Variables	Mean	Minimum	Maximum	Std. Dev.
AQ	0.000	-2.830	2.653	0.896421
CG	60.28062	35.613	93.373	13.247957
TOBINQ	3.93837	0.130	23.286	4.961990
ROA	0.12212	-0.039	0.527	0.117769
SIZE	30.60805	27.989	33.320	1.202266
AGE	9.13969	7.555	10.671	0.520972
LEV	0.89368	0.038	2.820	0.752452
CONSERV	7.26605	4.803	9.995	1.251475

Note: AQ: Accrual Quality, CG: Corporate Governance, SIZE: Company Size, AGE: Company Age, LEV: Leverage, CONSERV: Conservatism

Source: SPSS 25.0 processing data

E-ISSN: xxxx-xxxx
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Table 4 the effect of accrual quality and corporate governance on performance (ROA)

Performance = α0+β1AQ+β2CG+β3SIZE+β4AGE+β5LEV+β6CONSERV+εi, t

Variables	Predictions	Coefficients	P-value		Colinearity	
					Tolerance	VIF
C		-0.410	0.457			
AQ	+	0.025	0.130		0.838	1.193
CG	+	0.003	0.006	***	0.736	1.359
SIZE	-	-0.013	0.456		0.425	2.351
AGE	+	0.084	0.005	***	0.827	1.210
LEV	+	0.011	0.569		0.813	1.231
CONSERV	-	-0.008	0.615		0.485	2.064
R^2	0.356					
Adj-R^2	0.279					
Prob(F-statistic)	0.0000			***		
Kolmogrov Smirnov	0.023					
Durbin Watson	1.463					
Observation	57					

Significant at the level of 1 percent; ** Significant at the level of 5 percent and * Significant at the level of 10 percent Note: AQ: Accrual Quality, CG: Corporate Governance, SIZE: Company Size, AGE: Company Age, LEV: Leverage, CONSERV: Conservatism

Table 5 the effect of accrual quality and corporate governance on performance (Tobin -q)
Performance (Tobin-q) =α0+β1AQ+β2CG+β3SIZE+β4AGE+β5LEV +β6CONSERV+εi, t

Variables	Predictions	Coefficients	P-value		Colinearity	
					Tolerance	VIF
C		-16.819	0.460			
AQ	+	1.439	0.037	**	0.838	1.193
CG	+	0.137	0.007	***	0.736	1.359
SIZE	-	-0.008	0.991		0.425	2.351
AGE	+	1.892	0.111		0.827	1.210
LEV	+	2.245	0.008	***	0.813	1.231
CONSERV	-	-0.901	0.161		0.485	2.064
R^2	0.381					
Adj-R^2	0.307					
F-Statistic	5.140					
Prob(F-statistic)	0.0000			***		
Kolmogrov Smirnov	0.012					
Durbin Watson	1.492					
Observation	57					

Significant at the level of 1 percent; ** Significant at the level of 5 percent and * Significant at the level of 10 percent
Note: AQ: Accrual Quality, CG: Corporate Governance, SIZE: Company Size, AGE: Company Age, LEV: Leverage, CONSERV: Conservatism

Accrual quality variable, this variable produces a minimum value of -2.830, a maximum value of 2.653, a mean of 0, a standard deviation value of 0.896421, and with several

DOI: 10.22441/countable.2024.v1i1.001

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

observations as many as 57 companies. This shows that the companies sampled have positive values and negative values. The standard deviation value of accrual quality is greater than the mean value, this shows that this variable is not good enough because the deviation of data on the company's value is relatively high. In corporate governance, this variable produces a minimum value of 35.613, a maximum of 93.373, and a mean of 60.28062, with a standard deviation value of 13.247957 and with a total of 57 observations. Tobin Q, this variable returns a minimum value of 0.130 and a maximum value of 23.286, mean 3.93837, with a standard deviation value of 4.96199 and with 57 observations. A standard deviation value that is greater than the sample mean indicates that the deviation of data on this variable is relatively high.

ROA variable, this variable produces a minimum value of -0.039, a maximum value of 0.527, a mean of 0.12212, a standard deviation value of 0.117769, and several observations of 57. A smaller standard deviation value compared to the sample mean indicates that the data deviation in this variable is relatively low (0.11 < 0.12). Size, this variable produces a minimum value of 27,989, a maximum of 33.320, a mean of 30.60805 with a standard deviation value of 1.202266, and several observations of 57. Age variable, this variable produces a minimum value of 7.555, a maximum of 10.671, a mean of 9.13969 with a standard deviation value of 0.520972, and several observations of 57. The standard deviation value is much smaller than the average of the sample company, which is 0.520972 this means that the data deviation in this variable is relatively small so the data is quite good. The average company observed to have a company age score above 5 means that the company has become a company with a good company age and has run the company effectively and efficiently.

Leverage, this variable produces a minimum value of 0.038, a maximum of 2.820, a mean of 0.89368, a standard deviation value of 0.752452, and several observations of 57. In this variable, the standard deviation value is smaller than the average value of the sample which is 0.141228, the data deviation in this variable is relatively smaller and better. This variable conservatism produces a minimum value of 4.803, a maximum of 9.995, a mean of 7.26605 with a standard deviation value of 1.251475, and several observations of 57. The standard deviation value is much smaller than the average of the sample company, which is 1.251475, this means that the data deviation in this variable is relatively small so the data is quite good. A high level of conservatism is the principle of corporate prudence in financial reporting where companies are not in a hurry to recognize and measure assets and profits and immediately recognize losses and debts that have a possibility of occurring.

Discussion

The first hypothesis shows that accrual quality has a negative influence on firm performance by using ROA measurements as a result of partial statistical calculations seen in table 4. The results of ROA measurement are not by the hypothetical statement that accrual quality as an independent variable has a negative effect which means that when accrual quality is smaller, the firm performance will be higher, with a coefficient value of 0.025 and with a signification value of 0.130 > 0.05, meaning that there is no effect of accrual quality on firm performance, but it is different from using Tobin-q measurements, namely with accrual quality results have a positive and significant influence on firm performance and in this study, the measurement used is Tobin-q measurement. Table 5 shows results that are by the hypothetical statement that accrual quality as an independent variable has a positive effect which means that the accrual quality is greater, the higher the firm performance, with a coefficient value of 1.439 and with a signification value of 0.037 < 0.05, meaning that there is an influence of accrual quality on Firm performance so that in testing the first hypothesis is accepted. The theory of this hypothesis can

E-ISSN: xxxx-xxxx
P-ISSN: xxxx-xxxx

explain the relationship between companies with good performance. The greater the accrual quality, the higher the level of firm performance.

The results of this study are not in line with research conducted by previous studies due to differences in variables. Francis et al. (2005) said that accrual quality has a negative relationship with the cost of debt and accrual quality has a negative relationship with the cost of equity besides research conducted by Sirait & Veronica Siregar (2014) said the level of accrual quality does not influence the cost of debt and the level of accrual quality influences the cost of equity.

The second hypothesis shows that corporate governance has a positive and significant influence on measurement using ROA seen in table 4 which is by the hypothetical statement that corporate governance as an independent variable with a coefficient value of 0.003 has a positive influence on firm performance meaning that when corporate governance is getting bigger, then Firm performance is getting higher, with a significance value of 0.006 < 0.05, meaning that there is an influence between corporate government and firm performance. In addition, the measurement using Tobin-q is by the hypothetical statement that corporate governance as an independent variable with a coefficient value of 0.137 has a positive influence on firm performance, meaning that when corporate governance is getting bigger, the firm performance is higher, with a significance value of 0.007 < 0.05, meaning that there is an intermediate influence corporate governance to firm performance so that in testing the second hypothesis is accepted. The theory of this hypothesis can explain the relationship between companies with good performance. The greater the corporate governance, the higher the level of firm performance. The results of this study are in line with research conducted by previous research conducted by Bhagat et al. (2008) which said that corporate governance affects firm performance, similar research was also conducted by Kyereboah-Coleman (2007) said the level of corporate governance affects firms' performance.

CONCLUSION

The quality of accruals affects firm performance. The regression coefficient shows a positive value which means that the better the accrual quality, the better the firm performance. The results of this study are also by research conducted by Francis et al. (2005) and Gray et al. (2009). Corporate governance affects the company's performance. The regression coefficient shows a positive value, which means that the better the corporate governance, the better the firm performance. The results of this study are also by research conducted by Black et al. (2003). Future research is expected to use samples from all companies listed on the Indonesia Stock Exchange, as well as use a longer research period. This research is limited to answering the influence of accrual quality and corporate governance on firm performance. For investors and potential investors, the results of this research can be used as a consideration in investing their capital in manufacturing companies and for companies expected to pay attention to and improve accrual quality and corporate governance mechanisms that can affect firm performance.

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