Good Corporate Governance on Stock Liquidity with Earnings Quality as an Intervening Variable

Maristina Ayu

(Lecturer at the Faculty of Economics, Sang Bumi Ruwa Jurai University)

(Email: maristiana@saburai.ac.id)

ABSTRACT

Good corporate governance also has a good impact as a consideration for investment decisions for investors. The study aims to find empirical evidence of the role of earnings quality as a mediator between corporate governance (GCG) and stock liquidity, with samples of large-capitalization companies and small and medium-capitalization companies. The results of the study prove that corporate governance has a direct effect on stock liquidity, corporate governance has an effect on profit quality both measured by accrual quality and profit predictability, profit quality measured by accrual quality does not affect stock liquidity, but measured by profit predictability has an effect and corporate governance mediated by profit quality measured by accrual quality has an effect on stock liquidity, but measured by profit predictability indirectly cannot provide an effect. The conclusion that corporate governance (GCG) is indirectly mediated by earnings quality is useful for investors, especially in controlling managers to reduce the occurrence of agency problems and reduce the high level of risk in investing, which will ultimately increase stock liquidity in the capital market.

Keywords: **Good Corporate Governance, Stock Liquidity, Profit Quality**

INTRODUCTION

The existence of financial information that does not fully reflect all changes in the operational activities of a business activity (Lev & Zarowin, 1999), therefore companies must pay more attention to the importance of managing non-financial information to external parties (Faysal, Salehiet, and Moradi 2021). Non-financial information is complementary information

such as in the implementation of good corporate governance (GCG) (Istianingsih, 2020; Istianingsih, et al. 2020) this information is contained in the annual report of companies that sell their shares on the Indonesia Stock Exchange (IDX).

Corporate governance is a tool that coordinates various interests between principals and agents, which will certainly create added value for the parties responsible for these interests, especially shareholders, so that high-quality profits will be created that can provide opportunities for investors to invest their capital.

In order to maintain high profits so that investors are interested, company management often commits fraud.(Wulandari, 2018)Based on agency theory, in this study, if the company experiences poor earnings quality, it can cause the company manager to deviate or carry out earnings management in presenting financial reports. This causes agency conflicts and problems ((Puji, RD, et al 2023). Based on the above, it is necessary for companies to carry out good corporate management and be able to control and supervise company performance in order to control actions that can harm the company. The impact of implementing good corporate governance (GCG) can be seen directly in increasing business, but indirectly it can also be seen through the quality of profits generated (Kwong, Mohammad, and Keong, 2020). When the implementation of GCG in a company is exemplary, the supervisory function which is the essence of GCG for management will run well (Alazemi and Al Omari, 2020), so that the quality of financial reports will be better which is indicated by high profit quality.

Profit quality is the most important thing in measuring a company's ability to carry out its business activities because profit is a tool to identify operational performance, financial performance and financial health (Hasan, Omar and Hasan, 2018). A quality Profit Report illustrates the potential for operational growth which means the company's ability to carry out company operations sustainably, this illustrates information to shareholders and investors about how important it is to have good quality profits. The existence of quality profit information will attract investors to invest in a company, this will certainly increase the volume of stock trading, as well as in research (Ayu, 2022) states that quality profit information is related to information that brings good news, so that it will provide a signal for investors to invest and ultimately change investor expectations in ownership of an issuer's shares. Changes in investor expectations will cause reactions to stock trading volume transactions, as explained in the research of Bamber et al. (2010) which states that trading volume reactions capture changes in investor expectations.

Stock trading volume is an indicator in seeing the size of stock trading transactions in a period, so that the liquidity of a company's shares will increase of course because the profit information conveyed has a quality profit value. In the study of farichah (2018), Chen and Sami (2008) showed an investor reaction at the time of the profit announcement as evidenced by the increase in stock trading volume in the short term, similar to the study conducted by Bar Yose and Prencipe (2013) which showed that if the company's profit is low, it will affect investors to sell their shares which ultimately affects the decrease in stock trading volume. However, in a study conducted by Ayu et al. (2019) which shows that profit announcements have a negative effect on stock trading volume. This shows that the profit value informed by management has less influence on investors, but supported by a good GCG mechanism in its management, it will certainly have a positive impact on the level of sales and purchase transactions for company shares, such as in research conducted by Faliana & Utami (2021) which shows that governance mechanisms are one of the factors influencing investor interest in responding to a share in the

capital market so that it can affect the share price which of course will affect the volume of share trading.
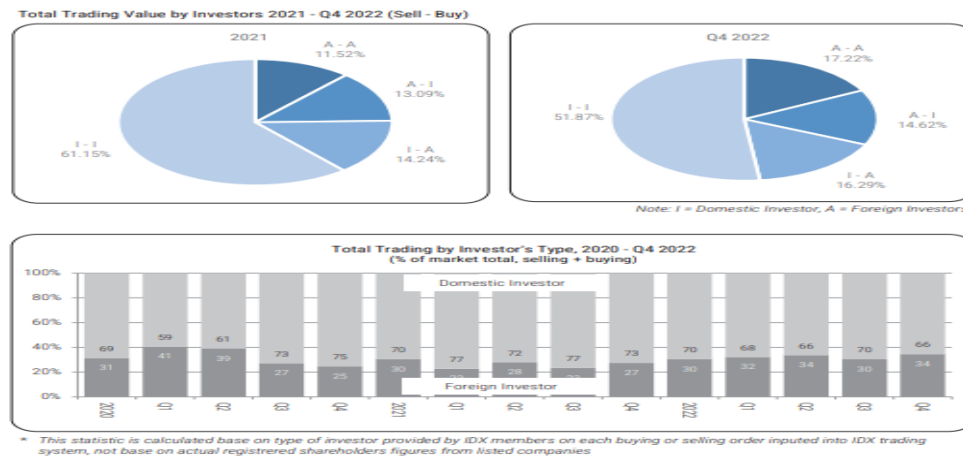
Source: IDX Statistics, 2022

Figure 1. Local and Foreign Investor Data according to IDX, 2022

Table 1: Average Stock Trading Activity 2018-2022

Year	Volume	Increase Rate (%)
2018	8,500.36	
2019	9,105.36	1,071
2020	9,209.91	1,011
2021	13,372.20	1,452
2022	14,706.90	1,099

Source: IDX Statistics, 2022

From the data in table 1 above, it is clear that the performance of stock trading, namely the volume of stock trading, shows an increase in trading performance over the past 5 (five) years, even though economic stability has been affected by the economic downturn during the Covid period, but since 2022 it has begun to show economic recovery. On this basis, it shows evidence of investor interest in owning company shares, of course, this interest sees the performance of company management from a financial report, especially the company's profit and implementing good corporate governance, this will certainly make a positive decision for investors in investing in a company.

An effective corporate governance mechanism will improve financial performance and company value which will certainly have an impact on increasing stock liquidity as in research conducted in several countries, namely research by Farooq, et al. (2024), Akhter, W., & Hassan, (2024), Lubis, et al, (2024) which showed a positive influence as well as research by Napisah (2023) which stated that good corporate governance is a guideline in improving company performance which will ultimately have an impact on stock liquidity.

However, there are several other studiessuch as Ayu, et al. (2023) who proved that corporate governance as a control variable has a negative influence on stock trading volume,

Waani, A., & Natsir, (2022) research which proves that the GCG mechanism has a negative effect on stock liquidity, as well as Liu, W., & Suzuki (2024) research that corporate governance does not provide improvements and has an effect on stock liquidity, especially in small-scale companies (SMEs) and Rezaee, Z., & Safarzadeh (2023)provides evidence that corporate governance affects the quality of earnings and Praja's research (2016) which proves that CG does not directly affect capital market performance but indirectly through earnings quality, this shows that with good corporate governance supported by earnings quality, it will have a positive effect on the capital market, especially investors, so that it will increase stock liquidity, especially stock trading volume. Other facts from the survey results of the 2022 ACGA report showed that the increase in the implementation of GCG from 2018 to 2022 had not shown a significant value, which still reached 35% below the target of 80%, so it is necessary to question the implementation of GCG in Indonesia, even though in Indonesia there have been changes to GCG policies(Istianingsih, 2021).

The existence of different results related to the corporate governance monitoring mechanism on stock liquidity and the still low target of GCG implementation in Indonesia has given rise to researchers' interest in further examining the influence of corporate governance on stock liquidity as seen from the volume of stock trading with earnings quality as an intervening variable to determine the strength of earnings quality on the influence of corporate governance on stock liquidity.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency Theory assumes that each person is only motivated by their own interests, which gives rise to disputes between the principal and the agent who has more information than the principal.(Jensen, M., & Meckling, 1976)so that in the difference in information causes agents to take advantage opportunistically which maximizes welfare, this has an impact on the quality of profit. The importance of financial information in making considerations that improve the quality of profit and can provide investor confidence due to the opportunistic behavior of agents, there needs to be a good governance mechanism as a form of supervision of the company's financial management system so that the quality of profit becomes better and investors will be interested in the shares of a company.

Overcoming the agency theory problem, it is necessary to have a form of supervision through a governance mechanism that can reduce agency conflicts, the implementation of strong corporate governance provides encouragement for management to convey better corporate disclosures, thereby reducing information asymmetry between management and investors, this reduces risk perception (Bui, H., & Krajcsák, 2024) and (Dang, V. C., & Nguyen, 2024). which can increase stock liquidity as seen in the increasing stock trading volume.

The direct relationship between agency theory and corporate governance serves as a framework for implementing governance in influencing investor behavior.

This theory is a form of answering the relationship between agents as company management and shareholders as principals who maintain balance, so good corporate governance is needed so that the level of investor confidence in investing becomes better, which will ultimately increase the volume of stock trading.

SignallingTheory

In signal theory, signal theory is closely related to information asymmetry, a theory introduced by Stigler, G. J., and Becker (1977), which states that high information costs lead to inappropriate decision making. When the capital or financial market is relatively new, of course the intensity of asymmetric information will generally be higher, so that signal theory will play a role. While Asymmetric Information on the Stock Exchange will always exist, because even though the information comes from the same source with the same format, analysts and public investors will generally interpret the information differently, so that the information captured by the public will always be different.

The application of this theory answers the role of earnings quality as an information signal to investors regarding the company's success in terms of the financial performance achieved, thereby reducing information asymmetry.

Corporate governance (GCG)

It is a system designed to direct the management of the company professionally based on the principles of transparency, accountability, responsibility, independence, fairness and equality. The implementation of GCG commitment is contained in the company's mission to create a trusted, credible financial infrastructure, to realize an orderly, fair and efficient market that can be accessed by all stakeholders and provide quality information to the public.

CG can be seen directly in the increase in company value. However, indirectly it can also be seen through the quality of profits generated.(Mohamad et al (2020)) .The implementation of GCG in a company is worthy of being an example, so that the supervisory function which is the essence of GCG for management will run well. (Alazemi, M., & Al Omari, (2020)). Then the quality of financial reporting increases, of course this has an impact on the level of investor confidence and will ultimately increase the level of stock liquidity which is reflected in the volume of stock trading.

Earning Quality (EQ)

Profit quality is a criterion that must be considered in measuring the extent to which the information presented in the financial report describes the actual condition of the company.(Scott; 164). Quality profit information that is stated in the financial report can be used to predict the company's performance in the following period. The influence of high profit quality provides a level of investor confidence which ultimately has an impact on stock movements, especially on the level of stock returns and stock trading volume, in line with research conducted by Young, D., and Guenther (2003) which states that high profit quality will increase the attractiveness of external investors to invest in the company's shares and can increase market liquidity.

Stock Liquidity

Stock liquidity is the number of stock buying and selling transactions in the Capital Market in a certain period. If the stock is more liquid, the frequency of stock transactions is higher. Stocks can be said to be liquid if the stock is easy to trade, easy to liquidate so that many people are

interested in it and the liquidity of the stock can be measured by the frequency and reaction of stock trading volume in the capital market.

Trading volume can be interpreted as the ratio between the number of shares traded at a certain time to the number of shares outstanding at a certain time. The more liquid a company's shares are, the easier it is for the company to obtain funds because investors are interested in buying the company's shares. The increase in trading volume is an increase in the buying and selling activity of investors on the Stock Exchange. The greater the volume of supply and demand for a share, the greater its influence on the movement of the share price on the stock exchange, and the increasing volume of stock trading indicates that the public is increasingly interested in the share.

Corporate governance of stock liquidity

Effective corporate governance in supervising managers, thus preventing managers from taking inefficient actions by taking advantage and hiding information, as research shows. Deng et al (2010)states that a strong corporate governance system can increase transparency and reduce information symmetry and according to Prommin, P., & Jiraporn (2014)Stronger corporate governance has better stock liquidity.

This shows that corporate governance as a form of good supervision will certainly have a positive influence on investors in making decisions to invest in shares in a company and will ultimately increase the selling and buying value of shares, of course it will increase the liquidity of shares which is seen in the volume of stock trading.

Research conducted Malik, MS, & Makhdoom (2016), And Karmani, M., & Ajina (2012)which proves that independent boards have a positive effect on stock liquidity, as does research Obradovich, J., & Gill (2013) found that the number of audit committees has a significant positive effect on stock liquidity. This shows that corporate governance mechanisms have a positive effect on stock liquidity (Bui, H., & Krajcsák, 2024), although there are several studies Rhee, SG, Wang (2009) And Wu, F et al., (2011) found that corporate governance mechanisms, namely state ownership and foreign ownership, negatively affect stock liquidity.

The effectiveness of corporate governance mechanisms can increase the liquidity of company shares and attract investors to invest in the company so that the level of stock trading volume increases.

Based on the research above, the hypothesis development is:
H1: Corporate governance has a positive effect on stock liquidity.

Corporate governance on earnings quality

The purpose of GCG is to improve the quality of the company for stakeholders. This concept focuses on two parts, namely shareholders have the right to obtain the necessary information correctly and on time, then the company has an obligation to show actual, timely and not cover up information on the financial performance of both owners and shareholders.(Santoso, E.B., & Tan, 2011).

A good governance structure helps to ensure that management has appropriately utilized its resources for the benefit of the owners and reported fair financial conditions. This shows that financial performance, especially the resulting profit report, will provide good quality value.

Study Nurhidayah (2020); Puji, RD, et al (2023), Putri, K. D., & Imron, (2022) proves that good corporate governance has an influence on profit quality, as does research Hashim, HA and Devi (2008) And Kamarudin, et al (2012) shows a significant positive influence between institutional supervision and CEO quality on earnings quality.

Based on several research results that prove the influence of governance on profit quality, the hypothesis that was formed is:

H2a: Corporate governance has a positive effect on earnings quality (Accrual Quality)

H2b: Corporate governance has a positive effect on earnings quality (earnings predictability).

Profit Quality Against Stock Liquidity

Profit quality is the level of company profits that have high profit figures and are useful for decision-making purposes. (Dechow, P., & Schrand, 2004), further revealed that high-quality earnings when the earnings figures accurately reflect the company's current operating performance, and are a good indicator of future operating performance and are a good summary measure for assessing the company. This is in line with the expectations and goals of investors to have stocks with a low risk level.

Bhattacharya, et al (2013) investigate in detail how earnings quality, measured as accrual quality or abnormal accruals, affects asymmetric information, using effective spreads and trading price impacts as measures of sectional risk that harms uninformed investors and specifically finds that earnings quality measures increase disproportionately for firms with poor earnings quality, especially in the days surrounding earnings announcements.Young, D., and Guenther (2003) found that high earnings quality will increase the attractiveness of stocks to outside investors and increase the quality of market liquidity. Increased market liquidity shows a positive signal that the company can be said to be financially healthy with a small risk of loss, this condition will be responded to by investors to be interested in buying shares of a company, so that the volume of stock trading is expected to increase. Research Fate (2014)stated the same thing that the quality of earnings measured by two dimensions of earning opacity and discretionary accrual has a positive influence on stock liquidity.

This research forms the following hypothesis:

H3a: Earnings quality (Accrual Quality) has a positive effect on stock liquidity.

H3b: Earnings quality (earnings predictability) has a positive effect on stock liquidity.

The Influence of GCG on Stock Liquidity Mediated by Earnings Quality

The quality of corporate governance (GCG) is an important factor in stock liquidity (Ali, et al. 2016). Companies that have good GCG quality encourage increased transparency and reduce the occurrence of information asymmetry between managers and investors. Increased GCG provides supervision and monitoring of the company's internal so that it can reduce managers' actions in hiding or distributing information. The smaller the occurrence of information asymmetry between internal and external parties, the more it will help investors reduce errors in decision making. Research Sidhu, MK, & Kaur, (2019) states that the role of governance can increase stock market liquidity so that it can help investors in decision making, but this is different from research Liu, W., & Suzuki (2024) which proves that continuous improvement in corporate governance can reduce stock liquidity for small and medium companies, this is in line with research Biswas (2020) which proves that when the quality of governance increases, it causes a decrease in the market liquidity ratio, which shows that the direct relationship between

governance and stock liquidity has a low influence value, so that in order to increase stock liquidity in the capital market, there needs to be a strong role in the company's profit capability, namely profit quality, in line with research El-Sayed Ebaid (2013) states that strong corporate governance is associated with high earnings quality which increases investors' perceptions of financial reporting quality. Elzahaby (2021) proves the same thing that governance has a significant indirect effect on market-based financial performance through profit quality, where market-based financial performance has an impact on stock trading volume.

Based on the description above, the formulation of the hypothesis that is outlined is:

H4a: Corporate governance (GCG) has an effect on stock liquidity which is mediated by earnings quality (Accrual Quality)

H4b: Corporate governance (GCG) has an effect on stock liquidity which is mediated by earnings quality (earnings predictability).

This is reflected in the research model, namely:
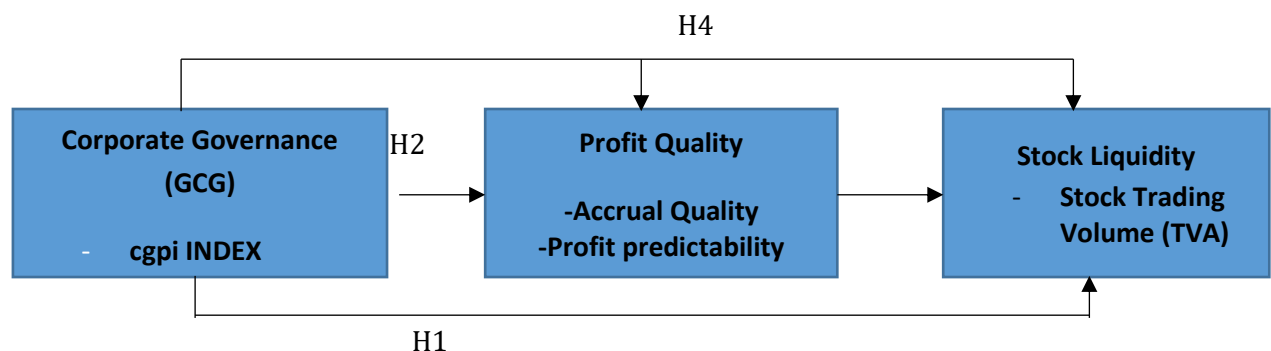
RESEARCH METHODS

Research Sample

The sample in the study was 61 companies listed on the Indonesia Stock Exchange (IDX)on the website www.idx.co.id, Yahoo Finance, and the company's official website, both large and small and medium companies, which are divided into 16 large-cap companies and 45 small and medium-cap companies. The sample used is based on criteria in accordance with the problems, objectives and research hypotheses using the purposive sampling method.Neuman (2014; 273-274) The data used is cash flow report data, profit, GCG/governance index and stock movement volume from 2014 - 2022.

Sample selection is based on research Dainelli et al, (2013)which states that it will provide a good signal regarding the information provided regarding the condition of the large capitalization market, while the statement Ecker, et al (2013), the use of size-based sampling gives better results.

Company sample data of 549 observations from a sample of 61 companies over 9 years.

Research variables

Dependent Variable

Dependent variables or bound variables are variables that are influenced by other variables.(Sekaran, Uma.& Bougie, 2018;44). The dependent variable in this study is stock

liquidity which is measured by stock trading volume. Changes in stock trading volume are a form of investor reaction to profit information conveyed by the company.

Stock trading volume is measured using the trading volume activity formulation formulated byFoster (1986)that is:

$$TVA = \frac{\text{The number of company shares traded at time t}}{\text{Number of Company Shares outstanding at Time t}}$$

This formulation is used to test the influence of stock trading volume movements on earnings announcements, especially Earnings Quality, and is a very important indicator for studying investor behavior in the capital market.(Hartono, 2010;Chordia, et al. 2001). The measurement of stock trading volume used follows the same measurement carried out by Statman et al, (2006), and is also used by Lindrianasari, L., & Alvi, (2017).

Independent Variables

Independent variables or free variables are variables that can influence other variables.(Sekaran, et al 2018; 181). The independent variable in this study is Good Corporate Governance (GCG) or corporate governance as measured by the Corporate Governance Perception Index (CGPI) which is a ranking of good corporate governance developed by IICG, in the form of a score for assessing the level of corporate governance implementation in the company with the following scores:

Score	Category
55.00 – 69.99	Quite Trustworthy
70.00 – 84.99	Trusted
85.00 – 100	Very Trusted

Good corporate governance shows the ability of management in managing the company. Companies with good governance certainly will not hesitate to open information as widely as possible to the public. Investors need accurate information for investment decision making. This can have an impact on the movement of capital market reactions. Research results Lindrianasari, L., & Alvi (2017), And Cheng, et al, (2019) shows that the implementation of corporate governance as a whole has information content and responds to the market.

Mediating Variables

According to Baron, R. M., & Kenny (1986), mediating variables are variables that explain the relationship between independent variables and dependent variables, and mediating variables are called intervening variables. The characteristics of this mediating variable are variables that are between the independent variable and the dependent variable and can be tested using the Sobel test.. The mediating variable in this study is earnings quality (Z) which is measured or proxied by accrual quality and earnings predictability, although earnings quality measurements are very numerous and varied, but according to (Pagalung & Sudibdyo, 2012), the measurement of Earnings Quality is proxied by accrual quality and earnings predictability which can provide better R^2 results according to research.Francis et al. (2004). This is because accrual quality maps current accruals to past, present, and future cash flows. Based on this, this study

uses accrual quality measurements to see the effect of earnings quality on trading volume and stock returns that refer toDechow, P.M., & Dichev (2002) as well as (Francis et al, (2008), with the formulation:

$$WCA = \alpha + \beta 1\ CFO\ t\text{-}1 + \beta 2\ CFOt + \beta 3\ CFO + \beta 4 \Delta REV + \beta 5\ PPE + e$$

Information:

WCA = working current accrual = Δ current assets - Δ current liabilities - Δ cash and cash equivalents,

CFOt-1 = operating cash flow in year t-1,
CFOt = operating cash flow in year t,
CFOt+1 = operating cash flow in year t+1,
ΔREV = change in income, and
PPE = company's fixed assets.

The formulation of accrual quality is based on the regression equation by finding the accrual working capital obtained from changes in current assets minus changes in current liabilities, changes in cash or cash equivalents, then divided by the average total assets. and then also looking for the residual value using the formula:

Y predicted – Y observed = Residual value

Information :

Y observation = obtained from WAC (as Y) observation data,
Y prediction = The coefficient of each variable multiplied by (x) the observation data

After that, the residual value obtained is absolute using the excel application, namely with the formula = abs (residual data). The residual result that has been absolute if the value obtained is below one (1) indicates quality profit, while if the absolute residual result is more than one (1) indicates non-quality profit.

The second measurement is by using profit predictability measurement, the formula for which is as follows:The results of profit predictability are obtained from profit persistence, namely:

$$Xit = \alpha + \beta Xit\text{-}1 + e$$

Information:

Xit = company i's profit in period t
Xit-1 = company i's profit in period t-1

Then Profit Predictability is measured by the residual standard deviation of the earnings persistence formulation (Brown and Sivakumar, 2001; Lipe, 1990). If the residual result value gets a lower value (less than 1) it indicates better earnings quality, and vice versa. This measurement is also adopted byFarinha et al, (2018);Raman et al, (2013);Pagalung & Sudibdyo (2012);Francis et al, (2008);Francis et al, (2004);Myers et al, (2003);Dechow, P.M., & Dichev (2002); AndFrancis et al, (2005).

Results and Analysis

To test the hypothesis of an indirect relationship between Good Corporate Governance (GCG) and stock liquidity as measured by stock trading volume (TVA) through earnings quality, panel data was used from a sample of 61 companies for 9 years from 2014 to 2022 or as many as 549 observations with the best estimation model, namely the Random Effect Model (REM) estimation model which has been carried out with the Chow test, Hausman test and Langrange

test..Due to the estimation model with General Least Square (GLS), the classical assumption test (multicollinearity test, heteroscedasticity, and autocorrelation) is not used (Gujarati & Porter, 2009) but only the normality test. The Normality Test conducted in eviews 12 shows the probability result from Jarque Bera of 18.793015 with a probability of 0.1012320 or greater than 0.05 which proves that the data is normally distributed.

Table 1. Results of Mediation Regression Test

Information	The similarities	Results	Hypothesis
GCG on Stock Liquidity (Independent Variable Against Dependent Variable)	$Log\_TVA = \alpha + \beta 1 Log\_GCG + \varepsilon$	0.0285 <0.05 and coefficient 1.30798 R-square= 0.0875 /8.8%	Proven to have a positive effect
GCG Against the quality of earnings measured by accrual quality (Independent variable against the mediation variable)	$Log\_EQAccrual = \alpha + \beta LogGCG + \varepsilon$	0.0049 <0.05 Coefficient 0.04406 R-square 0.0872 / 8.7%	Proven to have a positive effect
GCG Against Profit Quality Measured by Profit Predictability (Independent Variable Against Mediating Variable)	$Log\_EQpREDIK = \alpha + \beta Log\_GCG + \varepsilon$	0.035< 0.05 Coefficient 0.01261 R-square= 0.179/ 17.9%	Proven to have a positive effect
Earnings quality (EQAccrual) to TVA (Stock liquidity) (Mediation variable to dependent variable)	$Log\_TVA = \alpha + \beta 1 Log\_GCG + LogEQAccrual + log EQPredict + \varepsilon \beta 2 \beta 3$	0.1572 > 0.05 Coefficient 0.03135 R-square 0.435/43.5%	No effect
Earnings quality (EQPredik/ predictability) on TVA (Stock liquidity) (Mediating variable on dependent variable)	$Log\_TVA = \alpha + \beta 1 Log\_GCG + \beta 2 LogEQAccrual + \beta 3 log EQPredict + \varepsilon$	0.0156 < 0.05 Coefficient 0.10641 R-square 0.435/43.5%	Positive influence

Sobel test between the results of the GCG equation against EQakrual and the TVA equation against EQAkrual

Looking at the indirect effect test | Sab = b2sa2 + a2sb2 + sa2sb2√

Tcount = ab/ Sat | Tcount = 2.127 > 2.001717 (Ttable) | The effect of GCG on stock liquidity through earnings quality (EQAccrual) |
| Sobel test between the results of the GCG equation against EQpredik and the TVA equation against Eqpredik

Looking at the indirect effect test | Sab = b2sa2 + a2sb2 + sa2sb2√

Tcount = ab/ Sat | Tcount 1.3786 < 2.00171 (Ttable) | GCG has no effect on stock liquidity through earnings quality (EQpredik) |

Based on table 1 above, it provides the results of hypothesis 1 which directly looks at the effect of GCG on stock liquidity as measured by stock trading volume, providing evidence that this hypothesis has a positive effect on stock liquidity. This shows that good corporate governance provides investor confidence in the company, thus having an impact on increasing the level of stock liquidity as measured by the increasing stock trading volume.

In the results of hypothesis test 2a, looking at the influence of GCG on the mediation variable, namely the variable of earnings quality measured by accrual quality, it gives a positive influence on GCG. Likewise, in hypothesis test 2b in testing the influence of GCG on earnings quality measured by earnings predictability, it gives the same result, GCG has a positive influence on earnings quality measured by earnings predictability,This shows that hypothesis 2 is proven, which means that good corporate governance (GCG) provides good profit quality values measured by accrual quality and profit predictability.

The results of hypothesis tests 3a and 3b, which look at the mediating variables of earnings quality measured by accrual quality and earnings predictability on the dependent variable of stock liquidity measured by stock trading volume show different results, in hypothesis test 3a shows that accrual quality as earnings quality has no effect on stock liquidity while hypothesis 3b shows results that have a positive effect between earnings quality (earnings predictability) and stock liquidity, this proves that earnings quality by having a current profit value that can be predicted for the coming year shows results that provide a level of investor confidence so that it can increase the level of stock liquidity as seen from the level of stock trading volume. In contrast to hypothesis 3a which shows no effect, this causes the level of accrual quality which shows the ability of accrual to become cash flow to still be low so that the level of investor confidence in the company's stock ownership does not affect stock liquidity.

The results of the hypothesis test 4 which looks at the indirect influence of corporate governance (GCG) on stock liquidity through the mediation of earnings quality measured by accrual quality and earnings predictability show that the results of the Sobel test prove that corporate governance has a positive effect on stock liquidity through earnings quality measured by accrual quality, while the indirect influence of corporate governance (GCG) on stock liquidity through

earnings quality measured by earnings predictability does not have a positive effect. This shows that the mediation of earnings quality measured by accrual quality provides results that indicate that earnings quality can be an indirect link between corporate governance (GCG) and stock liquidity which has a strong influence with an R-square value of 43.5% compared to the partial test of each influence of corporate governance on earnings quality with an R-square value of 8.7 percent and 17.9% as well as the direct partial test of corporate governance on stock liquidity is only 8.8%, these results provide evidence that the direct influence between corporate governance (GCG) on stock liquidity has a very small influence indicating that the GCG variable less strong influence on stock liquidity, but if mediated by profit quality, it will have a stronger influence on stock liquidity, which means that corporate governance (GCG) mediated by accrual quality provides a very strong level of investor confidence in owning company shares, thus having an impact on higher stock liquidity.

DISCUSSION

Based on the research results, both seen in hypothesis 1 to hypothesis 4 have a positive effect both directly and indirectly through earnings quality on stock liquidity. However, hypothesis 3a does not provide an effect of earnings quality measured by accrual quality on stock liquidity directly, but seen directly with mediation on earnings quality measured by accrual quality between corporate governance (GCG) on stock liquidity gives positive results. These results prove that the role of GCG has a strength and investor confidence in their decision to own shares in a company. Corporate governance is a consideration for investors in controlling managers in managing the company which reduces the occurrence of agency problems. This study is in line with the results of El sayed Ebaid (2013) and Elzahaby (2021) showing that strong corporate governance is associated with earnings quality, increasing investors' views and perceptions so that they have a strong belief in the company's financial performance which reduces the level of risk for investing in a company and will ultimately increase the trading value of shares in a company.

In order to increase stock liquidity in the capital market, it is hoped that companies can further improve the implementation of better GCG, in accordance with the research results of Istianingsih (2021) and the 2022 ACGA report survey which shows that the implementation of GCG in Indonesia is still low at 35% below the target. And the results of this study provide benefits for investors to assess the company's financial performance and make the right decisions in investing so as to reduce the level of risk or low investment risk. In addition, the benefits for companies to be able to reduce earnings management which results in reduced profit quality value.

Conclusion

From the results of this study it can be concluded that corporate governance directly affects stock liquidity, corporate governance has a positive effect on earnings quality both measured by accrual quality and earnings predictability, earnings quality measured by earnings predictability affects stock liquidity but earnings quality measured by accrual quality does not affect stock liquidity. In addition, corporate governance indirectly mediated by earnings quality measured by accrual

quality affects stock liquidity. In the indirect relationship between corporate governance on stock liquidity and earnings quality measured by earnings predictability has no effect.

The limitation in this study is the sample data which is only 549 observations, which still requires data with a longer observation time so that it affects the generalization of the research results. In addition, the GCG measuring instrument is only seen from the size of the CGPI Index and does not see the GCG assessment mechanism in detail and completely, it is recommended that further research use a more complete and thorough method in the GCG mechanism.

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