External Audit Quality, Accounting Information Quality, Earnings Power, and Islamic Value-Based Company Performance

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Abstract. This research analyzes the determining factors of company performance included in the Indonesian Sharia Stock Index (ISSI). This research builds upon previous research examining company performance, focusing on external audit quality, accounting information quality, and earnings power as determinants. The development of this research involved refining the proxy for external audit quality, which originally only used dummy variables. Four proxies were utilized instead: audit firm size, audit fees, non-audit service fees, and audit partner tenure. Additionally, this research included control variables such as Operating Cash Flow, Revenue Growth, and Company Losses. This research is based on Agency Theory, a theory in finance that states conflicts of interest occur in company management. Managers are obligated to maintain the company's performance well in the eyes of investors. The population and research sample consist of public companies included in the ISSI. The research method employed is Quantitative Research with the Partial Least Squares (PLS) analysis technique. The variable that significantly contributes to Company Performance (KP) is Earnings Strength (KL). The moderating variables that contribute are LAGROE on the KAE route to KP and KL to KP. Additionally, the moderating variables that contribute are PP on the KAE route to KP and KIA to KP.

Keywords: Firm Performance, External Audit Quality, Accounting Information Quality, Earnings Power, Agency Theory

1. Introduction

The company's financial performance is obtained from the historical performance achieved by a company. Therefore, the data in financial performance will be historical. However, even though this data is historical, financial data will be very useful as a basis for predicting the future state of the company. This financial data can come from the company's financial statements. The company's financial statements consist of a combination of financial data in the form of ratios and comparisons of the growth of the company's financial indicators such as revenue, expenses, profit, assets, liabilities, and equity.

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Company performance reflects the performance of company management. Agency Theory states that company owners (stakeholders) have a conflict of interest with company management (Agents). This conflict of interest is triggered by company performance indicators that can be generated by company management, so that company management focuses on consistently improving company performance. Companies can focus on External Audit Quality, Accounting Information Quality, and Earnings Power in maximizing Financial Performance [1]–[7]. Conversely, the company does not pay much attention to the quality of external audit but must pay attention to the quality of the audit committee and the quality of internal audit if it wants to maximize company performance [8]–[10]. The differences in the results of previous research show that there is still a need for further research on the topic of company performance.

ISSI is the index with the lowest value compared to other indices, so this problem arises for companies included in ISSI. The index value will reflect the company's market performance. Companies included in the ISSI will S the impact of negative assessments from investors due to its lowest market value compared to other indices. Therefore, to increase the value of the company's market performance in the ISSI index, the supporting factors must be known, such as the quality of external audits, the quality of accounting information, and the strength of corporate earnings [1]–[3], [5]–[7], [9], [10]. So, it is expected that the company's performance can increase, which in turn can boost the value of the ISSI.

This research is a development research based on a study conducted by [7] that examines the factors impacting company performance, specifically external audit quality, accounting information quality, and earnings power. The development was carried out by refining the proxy for the external audit quality variable, which initially only used dummy variables. It was then developed using four proxies, namely audit firm size, audit fees, non-audit service fees, and audit partner tenure. In addition, this study was developed by adding control variables in the form of Operating Cash Flow, Revenue Growth, and Company Losses. [9].

2. Literature Review

Agency Theory is a financial theory that states that there is a conflict of interest in managing the company [11]. Stakeholders, who act as owners of the company, entrust the company manager to act as an agent in managing the company. Company managers must periodically report on the growth of the company they manage to stakeholders. This reporting is a form of manager accountability to stakeholders regarding the mandate they have undertaken. At this point, managers must truly be able to manage the company's performance by paying attention to various determining factors. Public companies will have greater demands in the process of accountability for company management. This is due to the increasing number of stakeholders or shareholders of the company and involvement in government regulations. Managers are required to use an external audit to ensure that the company's financial statements are free from material misstatement. This demand will increase the burden on financial performance in terms of external audit costs that must be incurred [3]. A manager must also maintain the quality of accounting information submitted to stakeholders to preserve his reputation in the eyes of stakeholders [12]. Additionally, managers must always demonstrate the company's strength in generating profits (earning power) when managing the company to stakeholders [13].

The Influence of External Audit Quality on Company Performance

Agency Theory states that company owners always have the desire to maximize their wealth through agents (company managers) who have the duties and responsibilities of managing the company, but on the other hand agents (company managers) also have an interest in maximizing their income, resulting in a conflict of interest. [14]. Managers are required to prepare a financial report as a form of accountability to the company owner. To minimize conflicts of interest, owners need guarantees or warranties for the financial reports prepared by managers, so they need external audit services, namely parties who are independent in assessing the fairness of the financial reports presented. In this situation, a quality external audit is really needed. So that the guarantee provided for financial reports is of a high level.

Previous research has provided support that external audit quality can be the key to optimizing company performance [1]–[7]. Therefore, this research forms the following hypothesis:
H_1 : The quality of external audits influences company performance

The Influence of Accounting Information Quality on Company Performance

Agency Theory states that company owners always have the desire to maximize their wealth through agents (company managers) who have the duties and responsibilities of managing the company, but on the other hand agents (company managers) also have an interest in maximizing their income, resulting in a conflict of interest. [14]. Managers are required to prepare a financial report as a form of accountability to the company owner. The financial report is an accounting process carried out. So that financial reports contain accounting information. Accounting information is classified as quality accounting information if the accounting information does not contain misstatements or is processed based on applicable regulations [15].

Previous research has provided support that the quality of accounting information is a factor that must be considered in optimizing company performance [8], [12], [15]–[17]. Therefore, this research forms the following hypothesis:
H_2 : The quality of accounting information influences company performance

The Influence of Earnings Power on Company Performance

Agency Theory states that company owners always have the desire to maximize their wealth through agents (company managers) who have the duties and responsibilities of managing the company, but on the other hand agents (company managers) also have an interest in maximizing their income, resulting in a conflict of interest. [14]. Managers are required to prepare a financial report as a form of accountability to the company owner. Company managers must maintain consistent profit growth, because the main goal of company owners is to maximize their wealth, so managers must be able to generate strong profits in running the company's business, so that managers remain considered competent by company voters.

Previous research has provided support that earnings strength can optimize company performance [10], [13], [18], [19]. Therefore, this research forms the following hypothesis:
H_3 : Profitability influences company performance

3. Research Method

The population in this study are public companies listed on the Indonesia Stock Exchange (IDX). The sample for this research is public companies included in the Indonesian Sharia Stock Index (ISSI) from 2018-2022. ISSI is the index with the lowest value compared to other indices on the IDX. The ISSI value for the last 4 years was below IDR 210,- compared to SriKehati which was above IDR 400,-; IDX30 is worth over IDR 450,-; JII is worth over IDR 510,- and LQ45 is worth over IDR 900. This small value indicates that the market performance of companies included in the ISSI index is of small value, so to overcome this problem it is necessary to know the indicators that need to be considered in optimizing company performance, so that companies included in the ISSI can increase their company performance.

The data collection technique in this research is using panel data techniques during 2018-2022. Secondary data will be obtained from various websites, such as: www.idx.co.id, www.stocbit.co.id and so on. Then the secondary data obtained will be tabulated in Excel into panel data.

The PLS (Partial Least Square) model will be used with the help of WarpPLS 4.0 software to analyze the data. Sholihin and Ratmono (2013:7) state that PLS is a causal modeling approach which aims to maximize the variance of the criterion latent variable which can be explained (explained variance) by the predictor latent variable. PLS can be used to explain whether there is a relationship between latent variables (predictors) and to confirm the theory [20].

4. Result dan Discussion

Table 1 presents the results of outer loading after re-estimation. Based on the outer loading results after re-estimation, all indicators have a loading (λ) of more than 0.50 and a p-value <0.05 so they meet the requirements for convergent validity.

Table 1. Outer Loading After Re-estimasi

	KP	KAE	P Value
EPS	(0,986)	0,000	<0,001
ROE	(0,774)	0,000	<0,001
Tobin's Q	(0,986)	0,000	<0,001
M/B	(0,986)	0,000	<0,001
BA	0,000	(0,948)	<0,001
BSJA	0,000	(0,948)	<0,001

Source: Warp PLS

Based on the results presented in Table 1, it is known that the EPS indicator has a greater loading to the KP construct, namely 0.986 compared to the cross-loading value to the KAE construct, namely 0.000. The ROE indicator has a greater loading on the KP construct, namely 0.774, compared to the cross-loading value on the KAE construct, namely 0.000. The Tobin's Q indicator has a greater loading on the KP construct, namely 0.986, compared to the cross-loading value on the KAE construct, namely 0.000. The M/B indicator has a greater loading to the KP construct, namely 0.986 compared to the cross-loading value to the KAE construct, namely 0.000. The BA indicator has a greater loading on the KAE construct, namely 0.948, compared to the cross-loading value on the KP construct, namely 0.000. The BSJA indicator has a greater loading on the KAE construct, namely 0.948, compared to the cross-loading value on the KP construct, namely 0.000.

The results presented in Table 2 represent another method of testing discriminant validity. The condition for discriminant validity is met if the AVE root shown in brackets for each construct is greater than the correlation between the construct and other constructs in the model (Ghozali, 2008:42).

Table 2. Correlation and Root AVE

	KP	KAE
KP	(0,938)	0,938
KAE	0,938	(0,948)

Source: Warp PLS

Based on the results shown in Table 2, it can be concluded that the root AVE of the KP construct is 0.938, which is higher than the correlation between the KP construct and KAE which is only 0.938. Likewise, the root AVE of the KAE construct is 0.948, which is higher than the correlation between the KAE construct and KP which is only 0.938. So, all constructs in the estimated model meet the discriminant validity criteria.

Reliability testing in PLS can use two methods, namely: Cronbach's alpha and Composite reliability. The requirement for a reliability test is that the alpha or composite reliability value must be greater than 0.70, although a value of 0.6 is still acceptable. Table 3 presents the results of the reliability test with values indicated by Cronbach's alpha and Composite reliability.

Table 3. Latent Variable Coefficient

	KP	KAE
Composite Reliability	0,967	0,947
Cronbach's Alpha	0,951	0,888
Avg. Var. Extrac.	0,879	0,899

Source: Warp PLS

Based on the results shown in Table 3, the Cronbach's alpha and Composite reliability values for the KP and KAE constructs are above 0.70. So, it can be concluded that all constructs have good reliability.

The results of the outer model test that have been carried out produce valid and reliable constructs. The next test that will be carried out is the inner model test. The inner model test is a test of the goodness of fit model. Testing the goodness of fit of the model is carried out by looking at the General SEM Analysis Results results on the Warp PLS output and calculating the predictive-relevance value (Q2).

Table 4 shows the results of testing the goodness of fit of the research model. The Model fit and quality indices section displays the three most important fit indicators, namely average path coefficient (APC) and average R-squared (ARS). The criteria for fulfilling the goodness of fit model for the p value for APC and ARS must be smaller than 0.05 or significant.

Table 4. General SEM Analysis Results

Average path coefficient (APC)=0,189, P<0,001
Average R-squared (ARS)=-0,945, P<0,001

Source: Warp PLS

Based on the results presented in Table 4, the APC value is 0.189 and ARS is -0.945 and is significant at $p<0.05$. So that the model meets the model of fit.

Table 5 presents the results of calculating the coefficient of determination (R2) and the Stoner-Geisser Coefficient (Q2). The coefficient of determination (R2) value shows the percentage of variance in the endogenous construct/criterion that can be explained by what is hypothesized to influence it (exogenous/predictor). The higher R2 indicates a good model (Sholihin and Ratmono, 2013:72). The Stoner-Geisser Coefficient (Q2) value is used to assess the predictive validity or relevance of a set of latent predictor variables on the criterion variable. A model with predictive validity must have a Q2 value greater than zero (Sholihin and Ratmono, 2013: 72-73).

Table 5. R^2 and Q^2 Structural Model

	KP
R^2	0,945
Q^2	0,980

Source: Warp PLS

Table 5 presents the coefficient of determination (R2) value of the Firm Value (KP) construct of 0.945, indicating that the variance of External Audit Quality (KAE), Accounting Information Quality (KIA) and Earnings Strength (KL) can be explained by 94.50% by External Audit Quality (KAE), Accounting Information Quality (KIA) and Earnings Strength (KL). The Stoner-Geisser Coefficient (Q2) value of 0.980 means that the research model has good predictive validity because the Q2 value>0.

Table 6. Coefficient and P-Value Path Model

	Coefficient	P-value
KAE	-0,016	0,355
KIA	0,000	1,000
KL	-1,004	<0,001
SIGROA*KAE	0,000	1,000
SIGROA*KIA	0,000	1,000
SIGROA*KL	0,000	1,000
DER*KAE	0,000	1,000
DER*KIA	0,000	1,000
DER*KL	0,000	1,000
LNTA*KAE	0,000	1,000
LNTA*KIA	0,000	1,000
LNTA*KL	0,000	1,000
STDP*KAE	0,000	1,000
STDP*KIA	0,000	1,000
STDP*KL	0,000	1,000
LNAGE*KAE	-0,012	0,394
LNAGE*KIA	-0,028	0,258
LNAGE*KL	0,000	1,000
LAGROE*KAE	-0,112	0,005
LAGROE*KIA	0,000	1,000
LAGEROE*KL	-0,107	0,007
NP*KAE	0,000	1,000
NP*KIA	0,000	1,000
NP*KL	0,000	1,000

	Coefficient	P-value
AKO*KAE	0,000	1,000
AKO*KIA	0,000	1,000
AKO*KL	0,000	1,000
PP*KAE	-0,123	0,002
PP*KIA	0,109	0,006
PP*KL	0,000	1,000

Source: Warp PLS

Table 6 It is known that the path model testing results show that the variable that contributes significantly to Company Performance (KP) is Profit Strength (KL) with a coefficient of -1.004 and a p-value <0.001. The contributing moderating variables are LAGROE on the KAE path to CP and KL to CP with coefficients of -0.112 and -0.107 with p-values of 0.005 and 0.007. In addition, the contributing moderating variables are PP on the KAE path to KP and KIA to KP with coefficients of -0.123 and 0.109 with p-values of 0.002 and 0.006.

The results of this study do not support the research conducted by [1]–[7]. This implies that external audits are only used as a basis or basis by company investors in providing confidence in using the company's financial information, but are not used as a basis for assessing company performance. This statement is in line with research conducted by [21]. Investors will only use the quality of the external audit as a guarantee that the Financial Reports issued by the Company are free from material misstatement. The auditor's opinion regarding the fairness of the presentation of financial statements cannot guarantee that financial statements are free from the risk of fraud committed by company management.

Agency Theory states that agency costs incurred by company management aim to minimize conflicts of interest. This minimization does not guarantee good company performance. This is because it is still possible for companies to carry out earnings management within it. Therefore, the quality of external audits can only minimize company management from committing fraud behind the business activities carried out.

Variables that can moderate the influence of KAE on KP are LAGROE and PP. This is because the quality of the external audit will be considered by investors in determining company performance if the ROE growth value increases, because the returns investors get when they invest in a company are measured by the size of the ROE. [22]. So when ROE increases and there is a guarantee of quality external audits, investors will be more confident in the company's performance. The Revenue Growth (PP) variable can moderate Company Performance (KP) because when the company's Revenue Growth continues to grow, equipped with quality external audits, it will increasingly convince investors that the company's performance is getting better. Income growth will be an important value for investors in maximizing their profits [23]. High revenue growth of a company will show that the company is in a healthy condition and able to compete with external audit guarantees carried out by Public Accounting Firms which are included in The Big 4.

The results of this study do not support the research conducted by [8], [12], [15]–[17]. This implies that the published accounting information must still be guaranteed by some other supporting information [24]. Other supporting information can be in the form of Revenue Growth, which, as in the results of this research, shows that revenue growth is able to moderate the influence of the quality of accounting information on company performance. So that the quality of accounting information that is confirmed by constant revenue growth will convince investors to assess the high performance of the company.

Agency Theory states that company management must be able to minimize conflicts of interest between company management and company owners. Therefore, company management must be able to display quality accounting information and be equipped with efforts to create high company revenue growth. Because the more the company's income grows, the more the wealth of the company owner, namely the company's investors, will increase.

The results of this research support research that has been carried out by [10], [13], [18], [19]. Earnings power will indeed be the main focus of investors in assessing company performance. Creating profit power will involve company management efforts in two main activities, namely: ensuring maximum company income and ensuring the costs incurred by the company are minimal. This activity requires company management to maximize effectiveness and efficiency in every company activity [25].

These results support the concept of Agency Theory which states that owners always have the goal of maximizing their wealth and company management has the goal of maximizing company performance in order to get a good assessment from the owner. So that by company management being able to maintain the company's profit power, this conflict of interest can be resolved to the mutual benefit of the company owner and management.

The LAGROE variable succeeded in moderating the influence of Earnings Strength on Company Performance. This is because the profit that the company successfully creates will influence the size of the company's ROE value [21]. The higher the company's profit, the higher the company's ROE. ROE will be the basis for an investor in assessing the returns from investing in a company. The higher the ROE, the better investors will assess the company's performance.

5. Conclusion

This research is a development research from research that has been carried out by [7] regarding company performance using external audit quality, accounting information quality and earnings power as determinants. The development was carried out by refining the external audit quality variable proxy which initially only used dummy variables, so it was developed using 4 proxies, namely audit firm size, audit fees, non-audit service fees and audit partner tenure. Apart from that, this research was developed by adding control variables in the form of Operating Cash Flow, Revenue Growth and Company Losses [9].

Agency Theory states that company owners (stakeholders) have a conflict of interest with company management (Agents). This conflict of interest is triggered by company performance indicators that can be produced by company management. So that company management focuses on improving company performance consistently. Companies can focus on External Audit Quality, Accounting Information Quality and Profitability in maximizing Financial Performance [1]–[7]. On the other hand, companies do not really pay attention to the quality of external audits but must pay attention to the quality of the audit committee and the quality of internal audits if they want to maximize company performance [8]–[10]. The differences in the results of previous research indicate that there is still a need for further research on the topic of company performance.

The method used in this research is path analysis using the Path Model with the help of Warp PLS analysis. The SEM model uses 9 moderating variables to support the direct influence between External Audit Quality (KAE), Accounting Information Quality (KIA) and Profit Quality (KL) on Company Performance (KP).

Data quality tests, namely validity and reliability, have been fulfilled in accordance with established regulations. The variable that contributes significantly to Company Performance (KP) is Earnings Strength (KL) with a coefficient of -1.004 and p-value <0.001. The moderating variables that contribute are LAGROE on the KAE route to KP and KL to KP with coefficients of -0.112 and -0.107 with p-values of 0.005 and 0.007. Apart from that, the Moderation variables that contribute are PP on the KAE Route to KP and KIA to KP with coefficients of -0.123 and 0.109 with p-values of 0.002 and 0.006.

The quality of the External Audit will be considered by investors in determining Company Performance if the ROE growth value increases, because the returns that investors get when they invest in a company are measured by the size of the ROE [22]. So when ROE increases and there is a guarantee of quality external audits, investors will be more confident in the company's performance. The Revenue Growth (PP) variable can moderate Company Performance (KP) because when the company's Revenue Growth continues to grow, equipped with quality external audits, it will increasingly convince investors that the company's performance is getting better. Income growth will be an important value for investors in maximizing their profits [23]. High revenue growth of a company will show that the company is in a healthy condition and able to compete with external audit guarantees carried out by Public Accounting Firms (KAP) which are included in The Big 4.

The published accounting information must still be guaranteed by several other supporting information [24]. Other supporting information can be in the form of Revenue Growth, which, as in the results of this research, shows that revenue growth is able to moderate the influence of the quality of accounting information on company performance. So that the quality of accounting information that is confirmed by constant revenue growth will convince investors to assess the high performance of the company.

Earnings power will indeed be the main focus of investors in assessing company performance. Creating profit power will involve company management efforts in two main activities, namely: ensuring maximum company income and ensuring the costs incurred by the company are minimal. This activity requires company management to maximize effectiveness and efficiency in every company activity [25].

This research has limitations that are a consideration for future researchers. The limitation of this research is that many companies were not included in the research sample due to the criteria set in the sampling method, so that future researchers are expected to be able to maximize the number of research samples.

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