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Managerial Capability and Foreign Ownership: Mechanisms for Increasing Company Value

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Abstract

The purpose of this study is to investigate the effect of managerial ability and foreign ownership on the quality of financial reporting, investigate the effect of managerial ability, foreign ownership and quality of financial reporting on firm value, and investigate the effect of managerial ability and foreign ownership on firm value mediated by the quality of financial reporting. This type of research is an explanatory research (explanatory research) and the main theory used in this study is the Stakeholder Theory and there is also a supporting theory used in this research, namely Agency Theory. Population used is the whole company public listed in Indonesia Stock Exchange period 2016-2018. Number of samples are 270 firms each year, was selected by purposive sampling method and using secondary data, i.e. the annual report and financial statements. The analytical method used is path analysis and hypothesis mediation analysed by using Sobel test. The results of this research show that managerial ability has a negatiive and significant impact on financial reporting quality and foreign ownership has a positive and not significant on financial reporting quality. Managerial ability has a positive but not significant effect on firm value and foreign ownership has a positive and significant effect on firm value, and financial reporting quality has a positive but not insignificant effect on firm value. This study also shows that the quality of financial reporting does not play a role in mediating managerial ability and foreign ownership of firm value.

Keywords: Managerial Ability; Foreign Ownership; Quality of Financial Statements; Firm Value

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1. Introduction

The level of investor confidence is highly dependent on the level of achievement of a company in carrying out all its operational activities. Increasing the company's value is an achievement, as well as the desire of stakeholders who have an interest in the company. Firm value is usually associated with investors' perceptions of stock prices. The higher the investor's confidence is in a company, the more investors tend to increase their investment in the company. Thus, the stock price of the company will be higher (Harrison & Wicks, 2013).

The increase in company value can be seen from the increase in stock prices supported by the ability and integrity of management in managing resources, making good decisions, and presenting quality financial reports (Holland, 2002). The quality of financial statements is a reference used by investors to make decisions about investing in a company (Rahim et al., 2020). Quality financial reports can be assessed when the report can provide quality information, is free from any error elements, or tends to reflect the actual situation (Ahmad et al., 2018). Thus, investor confidence will increase, making decisions to invest in the company (Arsyad et al., 2021).

In Indonesia, the case that occurred in the company PT. Garuda Indonesia Tbk indicates that the financial statements published in 2018 are not under the Statement of Financial Accounting Standards (PSAK). Garuda Indonesia Group posted a net profit of USD 809.85 thousand or equivalent to 11.33 billion rupiahs (www.economy.okezone.com). This figure jumped sharply compared to 2017, which suffered a loss of USD216.5 million. The impact of presenting financial statements that are not by the Statement of Financial Accounting Standards (PSAK) has caused the company's reputation and share value of the Garuda Indonesia Group to decline on the Indonesia Stock Exchange. This phenomenon explains that the quality of financial statements in a company will affect investors' assessment of the company because investors tend to invest in companies that can provide quality information or reflect the actual situation. Companies that present poor quality financial reports or do not match the actual situation tend to be viewed as unfavorable by investors to cause the company's stock price and company value to decline. It happens because investors will see the results of the company's performance process in its financial statements. If the financial statements are free from any element of discretion to reflect the actual situation, then investor confidence will tend to increase in the company.

The importance of financial statements, as stated by Belkaoui, (1993) states that financial statements are a means to account for what is done by managers on the owner's resources. One of the essential parameters in measuring managers' ability is the presentation of quality financial reports so that they tend to increase the value of the company so that it has an impact on the company's reputation. Companies with a high value tend to improve their reputation on the Indonesia Stock Exchange (IDX) and provide an overall increase in the Indonesian Stock Price Index (IHSG). Conversely, if the company has a low value and the quality of its financial statements is not transparent, it will reduce the reputation and value of the company's shares. According to Garc & Emma (2018), managerial ability has an essential role in presenting quality financial reports where a manager can increase income in the company's financial statements. A good company's financial statements tend to be reflected in increased income due to increased value of company assets, a decrease in the value of debt, and suitable operating activities to form an excellent report quality. According to Johanes (2013), managerial ownership strengthens the influence of managerial skills on firm value, and it can also be used as a consideration for the company.

Managers must have a high ability to efficiently manage company assets, improve the efficiency of the use of free cash flow, and consider changes in foreign exchange rates in carrying out their operational activities (Ng & Daromes, 2016). Thus, the manager managing the company can increase a company's profits optimally. It will undoubtedly form a quality financial report, so it tends to increase the value of the company. In this case, the manager tries to show the company's owner that he can manage the company well. Demerjian et al., (2012) suggest that a high manager's ability causes a manager to be more concerned with his reputation than having to do with earnings management. Managers who are more concerned with reputation tend not to implement policies to present quality financial reports. The study conducted by Ng & Daromes, (2016) stated that good managerial ability would reduce discretionary accruals in financial statements. According to Devi et al. (2017), the managerial ability is information that stakeholders require when assessing the company's prospects. This belief encourages investors to trade shares so that the volume of stock trading will increase. However, Siregar (2019) provides an inconsistent statement that managerial ability does not affect firm value.

One factor causing the decline in the company's value is the presentation of financial statements that are not the truth, caused by policy or discretion. The impact of financial statement misstatements has begun to erode investor confidence, reducing the percentage of ownership of both domestic and foreign companies. As a result, because it affects the company's share price, quality financial reports can be judged by selecting appropriate methods, accounting policies, transparency, and the ability to provide factual information. Owners of local and foreign companies tend to have the ability to carry out a good monitoring system by limiting the use of limited economic resources (capital and labor), access to influential media, and regulating the company (Ghozali & Chariri, 2007).

Jensen & Meckling, (1976) stated that foreign ownership is one of the corporate governance mechanisms that can help control agency problems. The presence of foreign investors is considered capable of being an effective monitoring mechanism for every decision taken by the manager. However, local and foreign investors often experience problems regarding the lack of more transparent information that causes the quality of financial reports to become low. Foreign investors demand more disclosure of financial information compared to local investors, who have easier access to the financial information they need. Mangena & Tauringana, (2007) stated that foreign investors tend to want to be part of insider shareholders to have control over the company. It will impact weak corporate governance and result in low levels of disclosure. According to Djuitaningsih, (2007), companies with a high percentage of foreign ownership tend to improve company performance because foreign ownership can focus on managing the efficiency of company assets, good supervision processes, and improving the quality of financial reports so that the ability to maximize performance is achieved more quickly.

Research on foreign ownership on the quality of financial statements has been carried out by An, (2015), which states that foreign ownership increases conservatism in the quality of financial statements. A higher proportion of foreign ownership encourages companies to increase transparency and provide higher quality financial reports. So, the report does not contain an element of discretion, and the trust of stakeholders will increase and indirectly increase the company's value. Stakeholders are groups or individuals who can influence or be influenced by the company's activities to achieve its goals (Freeman, 1984). Stakeholder power is determined by the size of the power they have over resources. These advantages can include limiting the use of limited economic resources (capital and labor), access to influential media, and the ability to regulate businesses (Ghozali & Chariri, 2007).

Jensen & Meckling, (1976) define the relationship between principals who use managerial ability to carry out operational activities is defined as agency conflict. Managers often have different and possibly conflicting objectives on the part of the shareholders. Conflicts between managers and shareholders are triggered by differences in interests. So, managers tend to apply a policy (discretionary) to each report to the shareholders. In this case, the manager carries out the policy to meet the manager's goals and will affect the quality of financial reports, affecting the quality of shares that will be outstanding (shareholders) on the stock market or stock exchange.

This study is a development of research conducted by Ng & Daromes (2016). In determining the firm's value, this study considers managerial ability and foreign ownership variables. The difference between this study and Ng & Daromes (2016) research is that the development of this research emphasizes quality financial reports because of quality financial reports. It can be assessed by selecting accounting methods and policies that do not include discretion to reflect the actual situation, resulting in clearer and broader information. It can help increase confidence in local and foreign investors and focus on the profit aspect. We add the foreign ownership variable as a consideration when the high percentage of foreign ownership tends to improve the company's performance because foreign ownership can help managers focus on managing company assets' efficiency, good supervision processes, and improving the quality of financial reports. It will improve the quality of financial reports, increase information transparency, and exclude discretionary elements of its value. It will increase the value of share prices (shareholders) on the Indonesia Stock Exchange, which impacts the company's value. In managing the company, managers are expected to take policies that can create profitable business between companies and investors, namely by eliminating elements that contain policies or discretion in each report.

According to Freeman (1984), stakeholders are groups or individuals who can influence or be influenced by the activities carried out by the company to achieve its goals. The word "stakeholder", for which the term is now used, first appeared in 1963 in an internal memorandum at the Stanford Research Institute (now referred to as SRI International, Inc.). The term is meant to challenge the idea that shareholders are not the only ones to which managers must be responsive. The focus of stakeholder theory refers to managerial decision-making that makes companies provide helpful information to their stakeholders (Lasmaria, 2014). Clarkson (1995) suggests that stakeholder groups are divided into primary and secondary stakeholders. Primary stakeholder groups are groups without their participation, and the company will not continue as a going concern. This group consists of shareholders, investors, workers, customers, suppliers, governments, and various communities. Meanwhile, secondary stakeholders are those who influence or are influenced by the company. However, they are not related to the company's transactions and are not related to the company's survival. This second group consists of the media.

Harrison & Wicks (2013) argue that companies that tend to apply stakeholder theory will become better companies and maintain stakeholder support and participation will develop over time. According to Donaldson & Preston, (1995), stakeholder theory is related to organizational management in recommending attitudes, structures, and practices that are carried out simultaneously to form stakeholder management. As a party that carries out company activities, management is required to protect its stakeholders' interests and maintain and regulate the relationship between management and stakeholders. The role of stakeholder management is that managers with the knowledge, experience and abilities can plan and implement business processes that satisfy all interested groups in an organization. Managers who pay attention to stakeholder interests will create value for the company.

Agency theory is a contract under one or more that involves agents to perform some services for them by delegating decision-making authority to agents (Jensen & Meckling, 1976). Agency theory is based on a contractual relationship between members in a company, where the principal and agent are the main actors. The principal is the party that mandates the agent to act on behalf of the principal, while the agent is the party whom the principal mandates to run the company. Thus, a good work contract between the principal and the agent is a work contract that explains what managers must do in managing the invested funds and the profit-sharing mechanism in the form of profits, returns, and risks that both parties have agreed. According to Eisenhardt (1989), the agency theory is based on several assumptions. These assumptions are divided into three types: assumptions about human nature, organizational assumptions, and information assumptions. The assumption of human nature emphasizes that humans have self-interest, have bounded rationality, and do not like risk aversion. Based on these assumptions, the information submitted by the agent to the principal does not give a signal about the actual condition of the company. It causes agents to be motivated by their interests to take earnings management actions. The organizational assumption emphasizes the conflict between members of the organization and information asymmetry between the principal and the agent. In contrast, the information assumption emphasizes that information is a commodity that can be traded. According to Fama (1980), the essential role of shareholders is to monitor and control managers' work and economic decision-making. It is done to reduce the risk borne by the shareholders as owners of the company. Managers use human capital owned by the company to support its performance to generate profits for the owners because there are concerns among managers that their performance will not generate profits for the owners. The most crucial role of the owner is to monitor and control the work and economic decisions made by managers. It is done to reduce the risk borne by the owner.

Agency problems can occur because of the moral hazard that occurs when the agent acts outside the terms of the contract mutually agreed with the principal. Likewise with the adverse selection condition, which is a condition where the principal can not ensure whether the agent's actions are followed by his ability to carry out the responsibilities contained in the work contract (Eisenhardt, 1989). According to Dharwadkar, (2000), agency conflict occurs in companies with a concentrated ownership structure between controlling and non-controlling shareholders. This conflict occurs when the controlling shareholder, who has the right to control the company, makes a policy that ignores the interests of the non-controlling shareholders.

According to Gitman (2006), firm value is the actual value per share that will be received if the company's assets are sold according to the stock price. Furthermore, Brigham & Erdhadt (2005) explained that firm value is the present value of free cash flow in the future at a discount rate according to the weighted average cost of capital. Christiawan and Tarigan (2007) explain several concepts to explain a company's value, including nominal value, market value, and intrinsic value. The nominal value, formally stated in the company's articles of association, is explicitly stated in the company's balance sheet and is also clearly written on the collective share certificate. Market value is often called the exchange rate, namely the price that occurs in the bargaining process of the stock market. This value can only be determined if the company's shares are sold on the stock market. Intrinsic value is an abstract concept because it refers to the company's actual value. The company's value in the concept of intrinsic value is not just the price of a set of assets but the value of the company as a business entity that can generate profits in the future. Book value and book value are calculated based on accounting concepts. It is calculated by dividing the difference between total assets and total debt by the number of shares outstanding. Liquidation value is the selling value of all company assets after deducting all obligations that must be met. The liquidation value can be calculated in the same way as calculating the book value, namely, based on the performance balance prepared when a company liquidates.

Managerial ability is a manager's expertise in taking and implementing decisions that can lead the company to a high-efficiency level (Demerijan et al., 2013). Efficiency is the minimum use of resources to achieve optimum results. Efficiency can be created because of the managerial ability to make strategic decisions to achieve company goals using optimal methods. Managers with high ability will be able to use company assets efficiently, increase the efficiency of using free cash flow, and consider changes in carrying out their operational activities (Ng & Daromes, 2016). In this case, the manager tries to show investors or principals that he can manage the company well. Credible and informative financial reports will reduce miscommunication between stakeholders and reduce user skepticism related to manager decisions such as agency costs (Iatridis, 2011). Belkaoui (1993) expresses the significance of financial statements by stating that financial statements are a means of accounting for what managers do with the owner's resources. One of the essential parameters in measuring managers' ability is improving the quality of financial reports to increase the company's value and to increase the company's reputation.

Some of the principles of financial reporting can be viewed from two perspectives. The first view states that the quality of financial reports is closely related to the company's performance, which is carried out by a manager who can improve the quality of financial reports manifested in the company's profits earned in the current year. Financial statements are said to be of high quality or quality if the current year's profit can be a good indicator of the company's earnings in the future (Lev & Thiagarajan, 1993). The second view states that the quality of financial statements is related to the company's shares in the capital market. The stronger the relationship between earnings and market rewards, the higher the financial statement information, so that it will affect the number of foreign investors (Lev and Thiagarajan, 1993).

Foreign ownership is the portion of the outstanding shares owned by investors or foreign ownership, namely companies owned by individuals, legal entities, governments, and parts with the total outstanding share capital (Farooque et al., 2007). Foreign ownership is one of the corporate governance mechanisms that help control agency problems (Jensen & Meckling, 1976). The presence of foreign investors is considered capable of being an effective monitoring mechanism for managers' decisions. However, local and foreign investors often experience problems regarding the lack of more transparent information, which causes the quality of financial reports to be lower. Foreign investors demand more disclosure of financial information compared to local investors, who have easier access to the financial information they need. According to Djuitaningsih (2007), companies with a high percentage of foreign ownership tend to improve company performance because foreign ownership can focus on managing the efficiency of company assets, improving the quality of financial reports so that the ability to maximize performance is achieved more quickly.

Achievement of company value is an illustration of stakeholder investor confidence in the company.

Increasing the company's value is an achievement that follows the wishes of the stakeholders. Firm value is an investor's perception of the company, often associated with stock prices. The higher the investor's confidence is in a company, the more investors tend to increase their investment in the company. Thus, the company's stock price will be higher. The increase in company value in the form of an increase in share prices is supported by the ability and integrity of management in managing resources, financial information, and financial reporting quality, which will become a reference for decisions by local and foreign investors (stakeholders).

Financial statements are a method of accounting for what managers do with stakeholder resources. One of the essential parameters for measuring managers' ability is in every report to investors. Managers do not apply discretionary elements, so the formation of quality financial reports can increase the company's value so that shareholder trust will increase and increase the company's reputation. With the existence of quality financial reports, foreign owners will carry out an effective monitoring system. Based on stakeholder theory, managers play an essential role in making decisions to make the company strive to achieve its goals and provide helpful information to its stakeholders. Stakeholder theory focuses on managerial decision-making, making companies provide helpful information to their stakeholders (Lasmaria, 2014). According to Freeman (1984), stakeholders are groups or individuals who can influence or be influenced by the activities carried out by the company to achieve its goals. Therefore, the power of stakeholders is determined by the size of the power they have over the source. These advantages can include limiting the use of limited economic resources (capital and labor), access to influential media, and the ability to regulate businesses (Ghozali & Chariri, 2007).

According to Fama (1980), the existence of an efficient contract allows one or more involved agents (managers) to manage the company optimally for shareholders by delegating decision-making authority to agents. Then, supported by them, the role of shareholders is to monitor and control the work and economic decision-making by managers. In this case, company managers must have high managerial skills by reducing discretionary actions in their reports to achieve common interests in fulfilling an efficient contract. Managers often have different and possibly conflicting objectives on the part of the shareholders. This difference in objectives between managers and shareholders results in a conflict commonly called agency conflict, namely the existence of policies in each report (discretionary), which will impact the quality of financial reports and reduce the value of the company. This potential conflict of interest makes it essential for a mechanism to be implemented that is useful for protecting the interests of shareholders (Jensen & Meckling, 1976). Ng & Daromes (2016) stated that high managerial ability causes the quality of company earnings to increase, which has implications for the quality of financial reports that can increase firm value. Given that financial statements are a source of information used by managers in planning and making good decisions and used by company owners (shareholders), there will be various conflicting interests between the management and the owners of local and foreign companies. Based on the theoretical framework above, the hypotheses of this research are:

H1: Managerial ability affects the quality of financial reports.
H2: Foreign ownership affects the quality of financial statements.
H3: Managerial ability affects firm value.
H4: Foreign ownership affects firm value.
H5: The quality of financial statements affects firm value.
H6: The quality of financial statements mediates the effect of managerial ability on firm value.
H7: The quality of financial statements mediates the effect of foreign ownership on firm value.

2. Research Design and Method

This study is explanatory research that builds a causal relationship between managerial ability and foreign ownership, firm value, and mediation, namely the quality of financial reports. The population is the total number of individual groups to be studied or investigated. The population in this study was of non-financial companies listed on the Indonesia Stock Exchange during the 2016-2018 period. The data required are financial reports and annual reports published by the company for 2016-2018. Determination of the sample uses the purposive sampling method by selecting samples that meet specific criteria according to the study's objectives.

The criteria used to determine the sample are non-financial companies continuously listed on the IDX during the 2016-2018 period and have a closing date of December 31. During the 2016-2018 period, the company issued a complete annual report on the rupiah currency. The report has the required information regarding data related to the variables studied, such as Managerial Ability, Foreign Ownership, Quality of Financial Statements, and Company Value. The source of data used in this study is secondary data. The source of data in this study comes from financial reports and annual reports that have been published on the Indonesia Stock Exchange database (www.idx.co.id). The data collection method used in this study is observation. It is a method of collecting research data through observation and analysis techniques of the content or message. This study analyzes the contents of the financial statements and annual reports of non-financial companies listed on the IDX in 2016 and 2018.

Firm value (Sartono and Agus, 2010) is the selling value of a company as an operating business. The existence of excess selling value above the liquidation value is the value of the management organization that runs the company. Firm value in this study was measured using Tobins' Q by the research of Gaio and Raposo (2011), which was calculated by the following formula:

$$Q_{i,t} = \frac{(BVA_{i,t} + MVE_{i,t} - BVE_{i,t})}{BVA_{i,t}}$$

Information:

Q	= firm value
BVA	= book value of total assets
MVE	= market value of common equity
BVE	= book value of equity

Credible and informative financial reports will reduce miscommunication between stakeholders and reduce user skepticism related to manager decisions such as agency costs (Iatridis, 2011). The measurement of the quality of financial statements used in this study follows Yasser et al. (2017), namely discretionary revenue (McNichols and Stubben (2008) model, which uses discretionary income as a proxy for revenue management).

$$\Delta ARi,t = \beta_0 + \beta_1 \Delta Salesi,t + \varepsilon i,t$$

Information:

$\Delta ARi,t$	= annual change in receivables of company i in year t
$\Delta Salesi,t$	= the annual change in the earnings of firm i in year t. All variables are divided by the total assets of the previous year.

Managerial ability is a manager's expertise in making and implementing decisions that can lead the company to a high-efficiency level. Efficiency is the minimum use of resources to achieve optimum results. The DEA calculation equation refers to the research of Demerjian et al. (2012) as follows:

$$Max_v \theta = \frac{Sales}{v_1 CoGS + v_2 SG\&A + v_3 PPE + v_4 OpsLease + v_5 R\&D + v_6 Goodwill + v_7 OtherIntan}$$

Information :

Sales	= Sales / Revenue
CoGS	= Cost of goods sold

SG&A = Total Load
PPE = Fixed assets (Plain, Property, Equipment)
Opslease = Operating Lease
R&D = Research & Development
Goodwill = Goodwill
Otherintan = Intangible Asset

Demerjian et al. (2012) apply the second stage of the analysis of the efficiency generated by the DEA to ensure the measurable value of the company's capabilities – specific characteristics that affect the efficiency value.

$$Firm\ Efficiency = \alpha_0 + \beta_1 ln(Total\ Assets) + \beta_2\ Market\ Share_i + \beta_3\ Free\ Cash\ Flow\ Indicator_i + \beta_4\ In\ (Age)_i + \beta_5 Business\ Segment\ Concentration_i + \beta_6\ Foreign\ Currency\ Indicator_i + \varepsilon i$$

Keterangan :
Total Asset = the total value of the company's assets at the end of the financial year.
Market Share = net profit margin, which is the proportion of profit to sales.
Free Cash Flow = i.e. 1 if the company does not have a negative free cash flow value and 0 if the company has a negative free cash flow value.
Firm Age = that is, the company is listed on the stock exchange.

Foreign ownership is the portion of the outstanding share owned by investors or foreign ownership, namely companies owned by individuals, legal entities, governments, and parts thereof with the total outstanding share capital (Farooque et al., 2007). Foreign ownership is measured by the percentage of foreign ownership as seen from the company's annual financial statements.

$$Foreign\ ownership = \frac{Total\ Foreign\ Ownership\ of\ Shares}{Outstanding\ Company\ Shares}$$

3. Results and Discussion

Statistical Result

According to Ghozali (2016: 96), the F test shows whether all independent or independent variables included in the model have a joint influence on the dependent variable.

Table 1. F -Test Results (Simultaneous Test)

Endogenus Variable	Eksogenus Variable	F	Sig.
Quality Report Finance	Managerial Ability Foreign Ownership	4,371	0,013
Company Value	Managerial Ability Foreign Ownership Quality of Financial Statements	6,303	0,000

Table 1 shows the results of testing the effect of managerial ability and foreign ownership on the quality of financial statements having a significance of 0.013 (smaller than 0.05). It shows an influence between managerial ability and foreign ownership simultaneously on the quality of financial statements. The effect of managerial ability, foreign ownership, and quality of financial statements on firm value shows a significant probability of 0.000 (less than 0.05). It shows a simultaneous influence of managerial ability, foreign ownership, and financial reports on firm value.

Table 2. Results of Path Equation Analysis

Struktur Model	*Standardized Coefficients*	Sig.	Info
Substruktur 1 (The Influence of Managerial Ability and Foreign Ownership on the Quality of Financial Statements)			
Managerial Ability	-0,117	0,003	Significant
Foreign Ownership	0,001	0,973	Not significant
Substruktur 2 (Effect of Managerial Ability, Foreign Ownership, and Quality of Financial Statements on Company Value)			
Managerial Ability	0,065	0,104	Not significant
Foreign Ownership	0,161	0,000	Significant
Quality of Financial Statements	0,022	0,573	Not significant

The t-test shows how far the influence of the independent variables individually in explaining the variation of the dependent variable. If the probability value (p-value) is less than 0.05 (significance level = 5%), then there is a significant partial effect of the independent variables on the dependent. The test results in this study indicate that managerial ability has an effect of -0.117 with a significant probability of 0.003, less than 0.05, on the quality of financial reports. It means that managerial ability has a negative and significant influence on the financial report quality variables. Thus, the first hypothesis (H1) in this study, which states that managerial ability has a significant effect on the quality of financial statements, is accepted. Foreign ownership has an effect of 0.001 with a significant probability of 0.973, greater than 0.05, on the quality of financial statements. It means that foreign ownership has a positive and insignificant effect on the financial statement quality variable. Thus, the first hypothesis (H2) in this study, which states that foreign ownership has a significant effect on the quality of financial statements, is rejected. The managerial ability has an effect of 0.065 with a significant probability of 0.104, greater than 0.05, on the firm's value. It means that managerial ability has a positive and insignificant effect on the firm's value variables. Thus, the third hypothesis (H3) in this study, which states that managerial ability has a significant effect on firm value, is rejected. Foreign ownership has an effect of 0.161 with a significant probability of 0.000, less than 0.05, on firm value. It means that foreign ownership has a positive and significant effect on the firm's value variables. Thus, the third hypothesis (H4) in this study, which states that foreign ownership has a significant effect on firm value, is accepted. The quality of financial statements affects 0.022 with a significant probability of 0.573, greater than 0.05, of the firm's value. It means that the quality of financial statements positively and insignificant affects the firm's value variables. Thus, the third hypothesis (H5) in this study, which states that the quality of financial statements has a significant effect on firm value, is rejected.

Table 3. Sobel Test Results

Pengaruh antar Variabel	A	B	SEa	SEb	Probability	Info
X1 against Y2 through Y1	-0,011	0,187	0,004	0,115	0,161	Not significant
X2 against Y2 through Y1	0,000	0,831	0,006	0,204	0,867	Not significant

Table 3 shows the effect of managerial ability (X1) on firm value (Y2) through the quality of financial statements (Y1), obtaining a significant probability of 0.161, greater than 0.05. It shows that the quality of financial statements cannot mediate the managerial ability variable on firm value. Thus, the sixth hypothesis (H6) in this study which states that managerial ability has a significant effect on firm value through the quality of financial statements as an intervening variable, is rejected. For the effect of foreign ownership (X2) on firm value (Y2) through the quality of financial statements (Y1), it has a significant probability of 0.867, greater than 0.05. It shows that the quality of financial statements cannot mediate the variable of foreign ownership on firm value. Thus, the seventh hypothesis (H7) in this study which states that foreign ownership has a significant effect on firm value through the quality of financial statements as an intervening variable, is rejected.

Discussion

The Effect of Managerial Ability on the Quality of Financial Statements

The statistical test results in this study state that managerial ability has a negative and significant effect on the quality of financial reports. It indicates that managerial ability tends to reduce the quality of financial reports. The higher the manager's ability in a company, the quality of the financial statements that will be presented tends to be of low quality. Managerial abilities possessed by managers include knowledge and experience of the company's activity processes. The manager's ability is reflected in the changes made, such as increasing the income and receivables of a company. As a result, managers who can do this have an element of discretion that allows them to overstate or understate income or accounts receivable to reduce the quality of financial reports. It will make the financial statements presented to shareholders, not the actual situation so that the quality of financial reports will decrease.

The quality of financial reports can be demonstrated through the low level of DREV. DREV is a measure of discretionary income as a proxy for income management. The smaller the DREV, the better the quality of the financial statements. Management's freedom is getting smaller to choose various methods that can maximize its utility so that it can affect earnings quality. For example, revenue management actions will ultimately affect the quality of financial statements. However, the DREV in the descriptive statistical table shows a high value, and this means that there is an overstated effect, where managers tend to exercise discretion over financial statements. The level of discretionary income as a proxy for measuring the level of deviation made by a manager can be seen in terms of changes in income from the previous year to the amount of income this year. If the difference in income changes is significant, the level of proxy for income management is high. So, in this case, the manager overstates the income in the report, which will be presented to shareholders. The results of this study are inconsistent with the research of Garc & Emma, (2018), which reveals that managerial ability has a positive and significant effect on the quality of financial statements. A manager has an essential role in shaping the quality of financial statements. Managers who have high skills or abilities tend to manage income without any element of discretion in which each value of income and receivables is by the transactions that occur. Their recognition is based on the applicable accounting standards' principles.

The inconsistency of this study indicates that the influence of managerial ability reduces the quality of financial reports and is also due to aspects of normality that are not normally distributed, causing the outlier data to be biased. It can be caused by a manager who says he will carry out revenue management proxies to fulfill his responsibilities to shareholders so that he is judged to fulfill all his responsibilities. One of them is by overstating or understating income and receivables. The annual difference will be different from recognizing the cost of goods sold, where the cost of goods sold is not recognized by delaying its recognition. On the expense side, where all operating expenses are not recognized, it tends to increase the management's income proxy, reducing the quality of financial statements.

The Effect of Foreign Ownership on the Quality of Financial Statements

The statistical test results in this study state that foreign ownership has a positive and insignificant effect on the quality of financial statements. It indicates that foreign ownership tends to improve the quality of financial statements. The greater the foreign ownership, the quality of the financial statements presented tends to be high quality. Foreign ownership increases conservatism in financial statement quality. Conservatism in the quality of financial reports limits the opportunistic behavior of managers. It reduces discretion and full disclosure by monitoring so that there is no proxy for income or receivables. There is no absolute difference in changes in income or receivables by managers in the presentation of financial statements between this year and the previous year, implying that the mechanism for the quality of financial reports will improve. Investor confidence will increase in the company. Thus, a higher proportion of foreign ownership encourages companies to increase transparency and provide higher quality financial reports. There will be an element of full disclosure, and they can provide information about the actual situation in their reports to investors. These study results state that foreign ownership has a positive and insignificant effect on the quality of financial statements. It indicates that foreign ownership tends to understand better-choosing methods, accounting policies, and the ability to process quality financial statements that will provide accurate information and monitoring systems for companies. However, the percentage level of foreign ownership or non-domestic origin is less than twenty percent. It means that foreign investors have no control or influence over the company's management, prompting foreign investors to request quarterly financial reports in the future. To companies so that foreign investors can understand the company's accounting policies and know the direction of the company's accounting strategy policies.

The Effect of Managerial Ability on Company Value

The statistical test results in this study state that managerial ability has a positive and insignificant effect on firm value. It indicates that managerial ability tends to increase the firm's value. The higher the manager's ability in the company, the company's value tends to increase. The results of this study are also in line with research conducted by Ng & Daromes, (2016), which states that managerial ability has a positive influence on the firm's value. It indicates that managers who have efficient company management abilities can have more precise decision-making processes. Thus, investor confidence will tend to increase, and the company's value will be better in the eyes of investors. Fundamentally, managers must continually improve their capabilities by using their insights and information to create better corporate value. One of them tends to reduce the element of discretion in each report. So, the perspective of investors or company owners will have a good effect on the company, indicating that managers who can manage the company can fulfill their responsibilities to the shareholders. Thus, investor confidence will tend to increase, and the company's value will be better in the eyes of investors. A manager's ability is measured by how efficient the manager is in using company resources to produce optimal output.

The Effect of Foreign Ownership on Firm Value

The statistical test results in this study state that foreign ownership has a positive and significant effect on the firm's value. It indicates that foreign ownership tends to increase the firm's value. The greater the company's foreign ownership, the more the company's value has the potential to increase. The results of this study are in line with the research of Ferris & Park (2005), which states that at a substantial level of foreign share ownership, an increase in the percentage of foreign ownership will lead to an increase in firm value. Most of the growth in firm value was due to increased foreign ownership in independent companies. It shows that the percentage level of a company's value can increase when non-domestic investors invest in a company. One of the roles of foreign ownership in a company is to carry out a good monitoring system in the company. Having a better understanding of choosing methods, accounting policies, and processing quality financial statements will provide accurate information. So, suppose the report does not contain any discretionary and full disclosure between the manager and shareholders to reflect the actual situation. In that case, the trust of stakeholders will increase and indirectly increase the company's value.

The Effect of Quality Financial Statements on Company Value

The statistical test results in this study state that the quality of financial statements has a positive and insignificant effect on the firm's value. It indicates that the quality of financial statements tends to increase the firm's value. The higher the quality of the financial statements in a company, the company's value will also increase. The results of this study are inconsistent with the research of Siagian (2013), which states that the relationship between the quality of financial statements and firm value has a negative effect. This statement shows that companies with lower values tend to disclose more information in the financial statements of public companies. One statement is that companies with high scores think that compliance with the financial statements of public companies is not essential. On the other hand, low-value companies may see this as an opportunity to gain good market value. This study states that the quality of financial statements positively and insignificant affects the firm's value. It indicates that the company's value will increase if the financial statements presented are of high quality because the quality of the report is related to the monitoring system carried out by investors. Investors will try to understand the direction of policies carried out by a company to gain confidence to invest and increase the value of equity in the company.

A quality financial report can be said when the report does not contain an element of discretion. One of the cases that can occur in a company is an income management proxy. To match a fair report or by applicable accounting standards, the difference between this year's income and the previous year's income should not be much different so that actions to overstate or understate the revenue or accounts receivable side do not occur. As for the cost recognition of goods sold, the cost of goods sold is not recognized by delaying its recognition. So the impact of this action can provide information that is not about the actual situation. If this action does not occur, it will gain investor confidence, which will indirectly increase its value. However, confident investors also do not trust the financial statements. They think that the financial statements are not of high quality or contain discretion.

The Mediation Role of Financial Report Quality on the Relationship of Managerial Ability to Company Value

The results of the Sobel test in this study indicate that the mediating variable quality of financial statements does not succeed in mediating the effect of managerial ability on firm value, indicated by a significant probability of less than 0.05. It means that managerial ability still does not significantly affect firm value even though the quality of financial reports has mediated it. The failure of the mediation role in this study indicates that the reduction of discretionary accruals in the financial reporting process carried out by managers will increase firm value. Managers with their abilities will try to fulfill their responsibilities to shareholders. One of the managers' responsibilities in fulfilling them is to generate high profits. It fulfills its responsibility to generate high profits for shareholders by overstating its revenue and delaying the receivables side of goods sold recognition to increase profits automatically. So, investors will look at the income or company receivables side to be used as a reference in making decisions to invest in the company.

The Mediation Role of Financial Report Quality on Foreign Ownership Relationships to Company Value

The results of the Sobel test (table 3) show that the financial report quality variable can not mediate the effect of foreign ownership on firm value, with a significant probability of greater than 0.05. It means that foreign ownership has an insignificant effect on firm value through the quality of financial statements. If not through the quality of financial statements, the direct influence of foreign ownership on firm value through the quality of financial statements shows a significance level of more than 0.05. The failure of the mediation role in this study indicates that foreign investors, in this case, tend not to look at the financial statements, which are only on the income and receivables side, because foreign investors focus more on the resource side of a company. Foreign investors generally have an extensive information network, considerable investment experience, and a good understanding of the applicable accounting standards to enable foreign ownership to carry out a better supervisory mechanism compared to domestic family and institutional ownership. With good supervision, foreign investors will not only carry out a supervisory system only on the income or company receivables side but will look at the other aspects of the assets or the company's operational side and will ultimately help improve the transparency and quality of information from financial statements that affect the quality of financial reports.

4. Conclusions

Theoretically, these study results are generally consistent with the theory that has been built by the researchers, except for the managerial ability variable. The researcher hopes that this research will contribute to scientific development and can be used to reference further research on the influence of managerial ability and foreign ownership on firm value, with the quality of financial statements as an intervening variable. The theoretical implications of this study are not in line with the stakeholder theory proposed by Freeman (1984), Donaldson & Preston (1995), and Harrison & Wicks (2013), which explains that the value creation process of a company is generally reflected in the management of company activities. The inconsistency of this study indicates that the influence of managerial ability reduces the quality of financial reports. A manager will carry out a revenue management proxy to fulfill his responsibilities to shareholders so that he is judged to fulfill all his responsibilities. One of them is by overstating or understating income and receivables so that the annual difference will be different. In addition, the theoretical implications in this study strengthen the agency theory proposed by Jensen & Meckling (1976), Fama (1980), and Eisenhard (1989), which explains that there needs to be an "efficient contract" between management and shareholders. Efficient contracts occur when shareholders hand over responsibilities to managers, and managers are tasked with coordinating activities within the company and positioning them appropriately in a competitive environment. Managers should make every effort to fulfill all of their responsibilities to stakeholders, even if they include high policies in each report to stakeholders. As a result, the report cannot provide information about the current situation.

For investors, the results of this study provide practical implications in the form of an overview of estimating the value to be obtained from the company through managerial ability, foreign ownership, and the quality of the financial reports. These three aspects are expected to help investors so that investors can make the right decisions about investing or wanting to invest in the company. The results of this study are also expected to be useful for investors to consider more discretionary accrual policies taken by companies before making decisions about investing, especially in publicly listed companies on the Indonesia Stock Exchange. In addition, these study results are expected to be useful for regulators in making rules related to discretionary accrual policies, namely, to find out what policies are made by a manager, one of which is overstating or understating income and receivables, or delaying price recognition and cost of goods sold, which will have an impact on the final value of profit. It will describe a situation that is not real so that, if you know the impact of the policy, it will create a profitable business between both parties, be it the company or the investor. The results of this study provide practical implications as a reference for company management to be motivated to improve their managerial abilities in managing company resources efficiently. In addition, managers must improve their managerial ability to reduce the element of discretionary accruals in the presentation of financial statements to increase firm value. Companies that can reduce discretionary accrual policies will boost investor confidence in future investments. It is because managerial ability and the quality of financial reports are not enough to significantly increase the firm's value.

This study has limitations that could also serve as a guide for future researchers in the future. The two substructures in this study are not normally distributed. There is one variable in each substructure that is detected as experiencing symptoms of heteroscedasticity. The quality of financial reports only uses discretionary revenue because this measuring tool only looks at income, receivables, and assets. Based on the findings and limitations of this study, some suggestions for future research can be put forward, namely that future researchers should use different measurement proxies. For example, value relevance and timeliness and future researchers should consider using mediating variables. The others, such as corporate social responsibility or audit quality, test the effect of managerial ability on firm value.

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