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Influence of Fair Value Measurement and Board Effectiveness on Earnings Quality through Corporate Governance in Indonesian Listed Companies

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ABSTRACT

This study investigates the influence of Fair Value Measurement and Board Effectiveness on Earnings Quality through the mediating role of Corporate Governance in Indonesian public companies. Employing a quantitative approach, the research collected data from 185 firms listed on the Indonesia Stock Exchange (IDX). Data were gathered through structured questionnaires using a five-point Likert scale and analyzed with Structural Equation Modeling–Partial Least Squares (SEM-PLS 3). The results show that both fair value measurement and board effectiveness have significant positive effects on corporate governance, which in turn has a substantial impact on earnings quality. Corporate governance is also found to mediate the relationship between the independent variables and earnings quality, emphasizing its pivotal role as an institutional bridge that connects accounting transparency and managerial oversight to reporting credibility. The findings contribute to the literature by providing empirical evidence from an emerging market context and offer practical insights for policymakers, regulators, and corporate leaders to strengthen governance mechanisms and fair value disclosure practices. Overall, this study confirms that effective governance and transparent accounting standards are essential for achieving high-quality earnings and sustaining investor trust in Indonesia's capital market.

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1. INTRODUCTION

Financial reporting plays a vital role in conveying a company's economic reality to stakeholders, where accuracy and reliability of financial information ensure market confidence, efficient capital allocation, and corporate sustainability. A key determinant of reporting credibility is earnings quality, which reflects the extent to which reported earnings present a true and fair view of financial performance and aid decision-making. High-quality earnings reduce information asymmetry, strengthen investor trust, and support sound governance, while poor earnings quality can lead to misinterpretation, manipulation, and loss of confidence. Earnings quality encompasses attributes such as persistence, informativeness, sustainability, and predictability, ensuring that earnings remain relevant and useful for stakeholders.

Transparency in financial reporting helps minimize asymmetry and improve market confidence, with web-based disclosures enhancing earnings quality through greater accessibility and timeliness [1]. Governance attributes also influence earnings quality, as effective boards mitigate manipulation and promote transparency [1]. Conversely, opportunistic earnings management reduces reliability [2]. High-quality earnings strengthen investor trust and improve analyst forecast accuracy, stabilizing markets [3], while their contextual nature highlights the need to tailor financial reports to meet diverse stakeholder information needs [4].

In the context of Indonesia's capital market, maintaining high earnings quality has become increasingly important following the convergence of national accounting standards with the International Financial Reporting Standards (IFRS), which emphasize fair value measurement [5], [6]. The adoption of fair value aims to improve the relevance of financial information by reflecting current market conditions rather than historical costs; however, it also introduces subjectivity and estimation uncertainty that may affect earnings reliability. Studies have shown that fair value accounting can enhance transparency and comparability when properly applied but may also create opportunities for managerial discretion and earnings management if governance mechanisms are weak. Research indicates that IFRS convergence has led to a higher earnings response coefficient, suggesting improved investor confidence in earnings quality under IFRS compared to previous Indonesian GAAP [7], and that the value relevance of earnings has increased in the post-IFRS period, particularly in advanced implementation stages [8]. However, other studies found no significant direct impact of IFRS adoption on earnings quality, highlighting the nuanced and context-dependent nature of its effects [9], [10]. The role of corporate governance is therefore crucial, as effective governance enhances earnings quality under IFRS by reducing managerial discretion and mitigating earnings management practices [11]. Governance also acts as a moderating factor that significantly influences the relationship between IFRS adoption and accounting quality, emphasizing that strong governance structures are essential to realizing the benefits of IFRS convergence [10]. Despite its potential advantages, IFRS adoption introduces estimation uncertainty and subjectivity, which can be exploited in the absence of robust oversight mechanisms [11]. These mixed findings underscore that the impact of IFRS convergence on earnings quality in Indonesia largely depends on the maturity of corporate governance practices and the specific institutional characteristics of the Indonesian capital market [9], [10].

Board effectiveness is a crucial factor influencing earnings quality, as it ensures that management actions align with shareholders' interests, uphold ethical standards, and maintain the integrity of financial reporting [12], [13]. In Indonesia, where the corporate landscape is often characterized by concentrated ownership, family control, and limited regulatory enforcement, effective boards play a central role in mitigating agency problems and enhancing transparency. Key elements of board effectiveness include independence, competence, diversity, and the active functioning of audit and risk committees. Independent directors can reduce earnings management by challenging managerial decisions and ensuring accountability [14], while board competence—especially financial expertise—strengthens oversight and improves the informativeness of earnings [15]. Additionally, gender and professional diversity provide broader perspectives that prevent financial misreporting [16], and effective audit committees significantly enhance the monitoring of financial reporting processes, particularly when the board of commissioners is less effective [15].

Corporate governance, meanwhile, acts as the institutional mechanism linking accounting practices and board oversight with overall earnings quality through frameworks of accountability, control, and transparency [17]. Strong governance mechanisms based on the principles of transparency, accountability, responsibility, independence, and fairness—outlined by the Indonesian Financial Services Authority (OJK)—are vital for improving the quality and credibility of financial statements [14], [18]. Effective governance not only ensures consistent and objective fair value measurement, reducing opportunities for bias and manipulation, but also mediates the relationship between accounting policies and firm performance by establishing robust monitoring mechanisms that reinforce reporting integrity and investor confidence.

Despite increasing attention to fair value accounting and governance reform in Indonesia, empirical evidence on their combined impact on earnings quality remains limited, as most prior studies have examined these factors independently. Fair value accounting, particularly for non-current assets, tends to increase audit fees due to the complexity and higher risk associated with valuation procedures that demand extensive verification for accuracy and compliance [19]. The existence of independent commissioners and audit committees also contributes to higher audit costs because these governance bodies require greater audit rigor and accountability [19]. Furthermore, corporate governance attributes—such as board independence and ownership concentration—positively influence firm value by improving decision-making and reducing agency conflicts [20]. Good corporate governance moderates the relationship between financial performance and firm value, reinforcing the positive effects of financial achievements on market valuation [21]. The value relevance of fair value measurements is also strengthened under effective corporate governance, which ensures transparency and fairness in financial disclosures [22]. Strong governance structures reduce agency conflicts, enhance credibility, and increase the value relevance of accounting information [22]. However, few studies have integrated these perspectives into a unified analytical model to evaluate how fair value measurement and board effectiveness interact through governance mechanisms to influence earnings quality—an especially important issue in emerging markets like Indonesia, where institutional environments and regulatory enforcement differ significantly from those in developed economies.

This study therefore investigates the effect of fair value measurement and board effectiveness on earnings quality through the mediating role of corporate governance in Indonesian public companies. Employing a quantitative approach, the research analyzes data from publicly listed firms using Likert-scale questionnaires administered to management and governance representatives. The data are processed using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3) to assess both direct and indirect relationships among the variables. The findings are expected to provide empirical insights into the mechanisms that shape financial reporting quality in Indonesia's capital market. Theoretically, the study contributes to the literature by integrating fair value accounting and governance theories into a cohesive framework of earnings quality, while practically offering implications for regulators, investors, and corporate leaders to strengthen governance structures and enhance transparency. By linking fair value measurement, board effectiveness, and governance mechanisms, this research underscores the significance of institutional and managerial integrity in shaping credible financial reporting within emerging market contexts.

2. LITERATURE REVIEW

2.1 *Fair Value Measurement and Earnings Quality*

Fair value measurement, as defined by IFRS 13, is a market-based approach designed to provide a more accurate reflection of an asset or liability's current economic value than historical cost accounting. It enhances the relevance and comparability of financial information by incorporating real-time market conditions, which is essential for stakeholders in making informed decisions. Fair value improves transparency and global harmonization, as its adoption under

IFRS 13 facilitates comparability across international borders [23]–[25]. However, challenges arise when active markets are absent, as reliance on internal models and estimates can introduce subjectivity and increase the risk of earnings manipulation [24], [26]. This issue is particularly pronounced in emerging markets such as Indonesia, where limited liquidity and valuation expertise complicate the balance between relevance and reliability [24], [27]. Therefore, strong governance and regulatory frameworks are vital to mitigate these risks and ensure that fair value measurement strengthens rather than undermines earnings quality [24], [26].

2.2 *Board Effectiveness and Earnings Quality*

The board of directors plays a crucial role in corporate governance by mitigating agency conflicts and aligning management actions with shareholder interests. According to Agency Theory, effective boards are defined by independence, diversity, and financial expertise, which together enhance transparency and reduce opportunistic behaviors such as earnings management. Independent directors provide unbiased oversight that minimizes abnormal accruals and ensures managerial decisions align with shareholder goals [28], [29], while independent audit committees strengthen monitoring and improve transparency in financial reporting [30]. Board diversity, particularly gender diversity, has been found to reduce agency costs by improving information symmetry and minimizing conflicts of interest, suggesting that diverse boards are better equipped to address complex governance challenges [31]. However, the influence of educational and age diversity on agency costs remains context-dependent [31]. Furthermore, financial expertise among board members enhances their ability to detect financial manipulation and ensure accurate reporting, thereby upholding the integrity of financial statements and protecting shareholder interests [28], [32]. In Indonesia, although regulations require independent commissioners and audit committees, true board effectiveness depends on commitment and independence in decision-making, underscoring the importance of board characteristics in fostering ethical governance and higher earnings quality.

2.3 *Corporate Governance as a Mediating Mechanism*

Corporate governance in emerging markets plays a crucial role in enhancing earnings quality by serving as a mediating variable between fair value measurement, board effectiveness, and financial reporting. This framework promotes accountability and transparency, essential for mitigating agency conflicts and reducing information asymmetry. Empirical evidence shows that strong governance mechanisms—such as board independence, institutional ownership, and effective audit committees—improve financial reporting quality and curb earnings manipulation. In Indonesian public companies, board independence and audit committee effectiveness significantly reduce earnings management, as indicated by lower discretionary accruals [14], while institutional ownership and independent commissioners also help minimize opportunistic behavior and improve financial performance [33]. Governance further strengthens financial disclosure quality by ensuring transparency and accountability [34], with diverse board skills and independent audit committees shown to enhance reporting reliability in sub-Saharan African markets [35]. Moreover, in Indonesian transportation firms, institutional ownership and audit committees positively influence earnings quality, with firm size amplifying these effects [36].

2.4 *Earnings Quality*

Earnings quality is a vital component of financial reporting, reflecting the accuracy, transparency, and sustainability of a firm's reported earnings. It is shaped by factors such as corporate governance, managerial discretion, and accounting standards, with high-quality earnings reducing information asymmetry and improving predictability of future cash flows. Effective corporate governance enhances earnings quality by promoting transparency and mitigating manipulation risks, thereby increasing firm value through better oversight [37]. Moreover, the adequacy and consistency of governance practices are linked to superior accrual quality and earnings predictability [38]. Conversely, earnings management can either enhance informativeness or distort performance, depending on whether it is used for communication or opportunistic purposes [2]. In Indonesia, IFRS adoption has not automatically improved earnings quality, as investors often consider other valuation factors like net dividends more relevant [39]. However, increased transparency through web-based financial disclosures positively affects market perception and strengthens earnings quality, underscoring the need for robust reporting practices [1].

2.5 *Theoretical Framework and Hypothesis Development*

This study is grounded in Agency Theory and Stakeholder Theory. Agency Theory explains that information asymmetry and conflicts of interest between managers (agents) and shareholders (principals) can be mitigated through effective governance mechanisms [40]. Fair value measurement provides market-based information that helps reduce information asymmetry but simultaneously requires robust governance to prevent opportunistic valuation practices. Meanwhile, Stakeholder Theory [41] broadens this perspective by asserting that transparent reporting and effective governance not only serve shareholders but also benefit creditors, regulators, and the broader community. Based on the literature, fair value measurement and board effectiveness are expected to positively influence both corporate governance and earnings quality, while corporate governance itself positively affects earnings quality and mediates the relationships between fair value measurement, board effectiveness, and earnings quality. This conceptual framework thus integrates the interactions between accounting practices and governance mechanisms in shaping earnings quality.

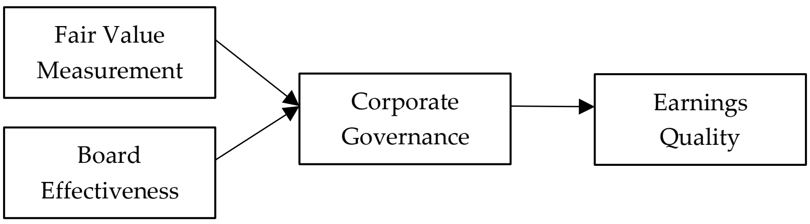

Figure 1. Conceptual and Hypothesis
Source: Literature Review, 2025

3. METHODOLOGY

3.1 *Research Design*

This study employs a quantitative, causal–explanatory research design to empirically examine the relationships between fair value measurement, board effectiveness, corporate governance, and earnings quality in Indonesian public companies. The approach aims to explain causal links among variables and assess the mediating role of corporate governance in these interactions. Structural Equation Modeling–Partial Least Squares (SEM-PLS) is utilized to analyze both direct and indirect effects, as it is well-suited for predictive models, accommodates non-normal data distributions, and effectively handles complex relationships involving latent variables measured by multiple indicators. Data analysis was performed using SmartPLS version 3.0.

3.2 *Population and Sample*

The population of this study comprises publicly listed companies on the Indonesia Stock Exchange (IDX) across various industry sectors, excluding banking and financial institutions due to their distinct regulatory frameworks and accounting standards. This selection focuses on firms that have adopted IFRS-based financial reporting to ensure comparability in fair value measurement and governance practices. Using a purposive sampling technique, samples were chosen based on specific criteria: companies listed on the IDX for at least five consecutive years (2018–2022), those disclosing fair value measurement practices in their financial statements, providing complete corporate governance disclosures (including board structure, audit committee, and governance reports), and having respondents from management or governance-related divisions willing to participate in the survey. Based on these criteria, 185 companies were selected as the final sample, with data collected through questionnaires distributed to representatives from accounting, finance, internal audit, and corporate governance departments.

3.3 *Data Collection Method*

This study uses primary data collected through a structured Likert-scale questionnaire distributed electronically via email and Google Forms to respondents from the selected companies. The questionnaire, adapted from established literature and adjusted to the Indonesian context, comprises four sections corresponding to the study's variables: Fair Value Measurement (FVM), assessed through indicators of relevance, reliability, verifiability, and transparency in applying fair value accounting [42], [43]; Board Effectiveness (BE), measured by board independence, diversity, expertise, meeting frequency, and oversight effectiveness [44], [45]; Corporate Governance (CG), evaluated based on the five principles of transparency, accountability, responsibility, independence, and fairness, consistent with OJK Regulation No. 21/POJK.04/2015; and Earnings Quality (EQ), gauged by persistence, predictability, reliability, and freedom from manipulation [46]. Each item was rated on a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. Prior to distribution, the questionnaire underwent expert validation by two academics and one practitioner to ensure construct clarity and contextual fit, followed by a pilot test with 30 respondents to verify internal consistency and reliability.

3.4 *Data Analysis Technique*

Data analysis was performed in two stages using SEM-PLS 3, namely Measurement Model Evaluation (Outer Model) and Structural Model Evaluation (Inner Model). The outer model was used to assess the validity and reliability of measurement indicators for each construct, where convergent validity was evaluated through factor loadings (> 0.70) and Average Variance Extracted (AVE) (> 0.50), while discriminant validity was tested using the Fornell-Larcker criterion and cross-loading analysis to ensure construct distinctiveness. Reliability was determined using Composite Reliability (CR) and Cronbach's Alpha values (> 0.70) to confirm internal consistency. The inner model examined the causal relationships among latent variables based on the research hypotheses, using path coefficients (β) to determine the strength and direction of effects, and t-statistics with p-values ($p < 0.05$) obtained via bootstrapping with 5000 resamples to test significance. Model quality was further evaluated through R^2 (coefficient of determination) to measure explained variance, Q^2 (predictive relevance) to assess predictive accuracy, and f^2 (effect size) to evaluate the relative influence of exogenous variables. Finally, a mediation test was conducted to verify whether corporate governance mediates the effects of fair value measurement and board effectiveness on earnings quality.

4. RESULTS AND DISCUSSION

4.1 *Descriptive Statistics*

The survey produced complete responses from 185 Indonesian public companies representing various non-financial sectors listed on the Indonesia Stock Exchange (IDX). Respondents primarily included financial managers, internal auditors, and governance officers with over five years of experience in financial reporting and corporate governance. Descriptive analysis showed that Fair Value Measurement (FVM) had an average score of 4.12, indicating a high level of implementation and understanding among firms, while Board Effectiveness (BE) averaged 4.08, reflecting effective supervisory and strategic performance. Corporate Governance (CG) recorded an average of 4.15, suggesting adherence to sound governance practices, and Earnings Quality (EQ) scored 4.10, implying that most financial reports are perceived as reliable and useful for decision-making. Standard deviations ranged from 0.45 to 0.58, showing low response variability and consistent perceptions among participants. These results suggest that Indonesian public firms have increasingly institutionalized fair value reporting, governance compliance, and board oversight mechanisms aligned with international standards.

4.2 *Measurement Model (Outer Model)*

a. Convergent Validity

Convergent validity measures the extent to which indicators of a construct share a high proportion of common variance, assessed through factor loadings (LF), Average Variance Extracted (AVE), Composite Reliability (CR), and Cronbach's Alpha (α). In this study, all indicator loadings exceeded 0.70, and AVE values were above 0.50, confirming strong convergent validity. Additionally, all constructs achieved Composite Reliability values greater than 0.90, surpassing the minimum threshold of 0.70, indicating excellent internal consistency among measurement items.

b. Convergent Validity

Table 1. Measurement Model

Variable	Indicator and Code	LF	VIF
Fair Value Measurement	Cronbach's Alpha = 0.923, Composite Reliability = 0.945, AVE = 0.813.		
	Proportion of Fair Value Assets (FV_PROP)	0.899	2.075
	Fair Value Disclosure Level (FV_LEVEL)	0.917	2.927
	Frequency of Revaluation (FV_FREQ)	0.942	2.971
	Disclosure Quality (FV_DISC)	0.845	2.298
Board Effectiveness	Cronbach's Alpha = 0.888, Composite Reliability = 0.918, AVE = 0.692.		
	Board Size (B_SIZE)	0.769	1.962
	Board Independence (B_IND)	0.884	2.279
	Board Meeting Frequency (B_MEET)	0.884	2.285
	Financial Expertise (B_EXP)	0.838	2.292
	Average Tenure (B_TENURE)	0.775	1.617
Corporate Governance	Cronbach's Alpha = 0.883, Composite Reliability = 0.919, AVE = 0.740.		
	Ownership Concentration (CG_OWN)	0.862	2.330
	Audit Committee Effectiveness (CG_AUDIT)	0.864	2.476
	Disclosure Transparency (CG_TRANS)	0.850	2.347
	Audit Quality (CG_AQ)	0.866	2.356
Earnings Quality	Cronbach's Alpha = 0.885, Composite Reliability = 0.920, AVE = 0.743.		
	Discretionary Accruals (EQ_ACC)	0.871	2.031
	Earnings Persistence (EQ_PERS)	0.850	2.818
	Earnings Predictability (EQ_PRED)	0.852	2.960
	Earnings Smoothness (EQ_SMOOTH)	0.874	2.028

Source: Data processing results (2025)

Table 1 presents the results of the measurement model evaluation, demonstrating that all constructs in the study meet the required standards for validity and reliability. For the Fair Value Measurement construct, the factor loadings (LF) range from 0.845 to 0.942, exceeding the threshold of 0.70, with a high Cronbach's Alpha of 0.923, Composite Reliability (CR) of 0.945, and Average Variance Extracted (AVE) of 0.813. These results indicate strong internal consistency and excellent convergent validity. Similarly, Board Effectiveness shows factor loadings between 0.769 and 0.884, with Cronbach's Alpha of 0.888, CR of 0.918, and AVE of 0.692, confirming that the indicators consistently represent the construct. The Corporate Governance construct also demonstrates robustness, with loadings ranging from 0.850 to 0.866, Cronbach's Alpha of 0.883, CR of 0.919, and AVE of 0.740, showing high reliability and validity. Finally, Earnings Quality records loadings between 0.850 and 0.874, a Cronbach's Alpha of 0.885, CR of 0.920, and AVE of 0.743, indicating that its indicators effectively capture the construct's dimensions. All Variance Inflation Factor (VIF) values range from 1.617 to 2.971—well below the cut-off value of 5—suggesting no multicollinearity issues among the indicators. Overall, these results confirm that each measurement construct in the model exhibits strong reliability, validity, and independence, making them suitable for subsequent structural model analysis.

c. Internal Multicollinearity

To further validate the model's stability, internal multicollinearity was assessed among the predictor variables. The results are shown in Table 2.

Table 2. Internal VIF

Variable	VIF
Board Effectiveness → Corporate Governance	2.238
Corporate Governance → Earnings Quality	1.000
Fair Value Measurement → Corporate Governance	2.238

Source: Data processing results (2025)

Table 2 presents the results of the internal Variance Inflation Factor (VIF) analysis, which assesses potential multicollinearity among the latent variables in the structural model. The VIF values for Board Effectiveness → Corporate Governance and Fair Value Measurement → Corporate Governance are both 2.238, while Corporate Governance → Earnings Quality records a VIF of 1.000. All values are well below the acceptable threshold of 5.0, indicating that no multicollinearity exists among the predictor variables. This suggests that Board Effectiveness and Fair Value Measurement contribute uniquely and independently to the prediction of Corporate Governance, without overlapping explanatory power. Likewise, Corporate Governance serves as an independent predictor of Earnings Quality, reinforcing the model's robustness. Overall, these results confirm that the structural model is statistically sound and that the relationships among variables can be interpreted reliably without bias from multicollinearity effects.

d. Discriminant Validity

Discriminant validity tests whether a construct is truly distinct from other constructs by comparing the square root of AVE with inter-construct correlations. According to the Fornell-Larcker criterion, discriminant validity is achieved when the diagonal (square root of AVE) is greater than any correlation in its corresponding rows and columns.

Table 3. Discriminant Validity

Variable	Board Effectiveness	Corporate Governance	Earnings Quality	Fair Value Measurement
Board Effectiveness	0.832			
Corporate Governance	0.755	0.861		
Earnings Quality	0.799	0.844	0.862	
Fair Value Measurement	0.744	0.722	0.717	0.801
Board Effectiveness	0.832	0.782	0.761	0.781

Source: Data processing results (2025)

Table 3 presents the results of the discriminant validity test, which evaluates whether each construct in the model is empirically distinct from the others. The diagonal values, representing the square roots of the Average Variance Extracted

(AVE), are higher than the corresponding inter-construct correlations, confirming that all variables satisfy the Fornell–Larcker criterion. Specifically, Board Effectiveness (0.832), Corporate Governance (0.861), Earnings Quality (0.862), and Fair Value Measurement (0.801) each exhibit stronger correlations with their own indicators than with other constructs. The correlation coefficients among constructs—ranging from 0.717 to 0.844—remain below their respective AVE square roots, further indicating that multicollinearity is not an issue and that each variable measures a unique concept. Overall, these findings demonstrate that the measurement model possesses strong discriminant validity, ensuring that Board Effectiveness, Corporate Governance, Earnings Quality, and Fair Value Measurement are conceptually distinct yet interrelated constructs within the structural framework.

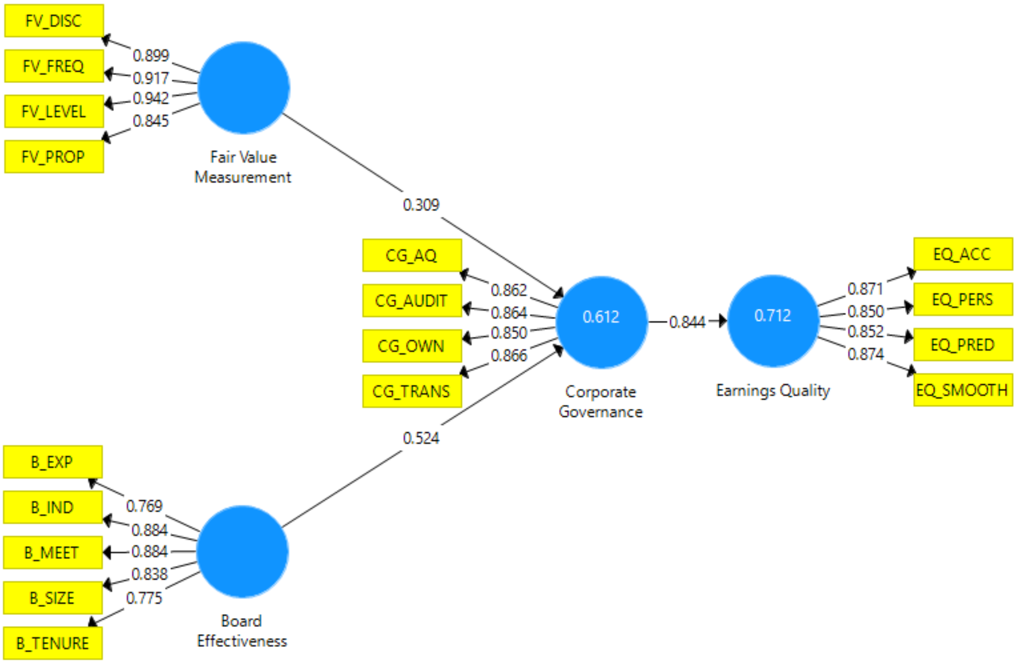

Figure 2. Structural Equation Model for Corporate Governance and Earnings Quality

4.3 *Structural Model (Inner Model)*

a. Hypothesis Testing

Table 4 presents the bootstrapping results for each hypothesized relationship. The model confirms significant relationships among all key constructs.

Table 4. Bootstrapping Test

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Board Effectiveness -> Corporate Governance	0.524	0.523	0.127	4.123	0.000
Corporate Governance -> Earnings Quality	0.844	0.846	0.024	34.965	0.000
Fair Value Measurement -> Corporate Governance	0.309	0.317	0.140	2.206	0.028

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Board Effectiveness -> Corporate Governance	0.524	0.523	0.127	4.123	0.000
Corporate Governance -> Earnings Quality	0.844	0.846	0.024	34.965	0.000
Fair Value Measurement -> Corporate Governance	0.309	0.317	0.140	2.206	0.028

Source: Data processing results (2025)

Table 4 presents the results of the bootstrapping test used to evaluate the significance of the hypothesized relationships in the structural model. The findings show that all hypothesized paths are statistically significant at $p < 0.05$, confirming strong empirical support for the proposed relationships. The path from Board Effectiveness → Corporate Governance has a coefficient of 0.524 with a t-statistic of 4.123 and p-value of 0.000, indicating that effective boards significantly enhance corporate governance practices through better oversight, independence, and strategic control. The relationship between Corporate Governance → Earnings Quality shows the strongest effect, with a coefficient of 0.844, a t-statistic of 34.965, and p-value of 0.000, suggesting that robust governance mechanisms substantially improve the reliability, transparency, and credibility of reported earnings. Meanwhile, Fair Value Measurement → Corporate Governance also shows a significant positive effect, with a coefficient of 0.309, t-statistic of 2.206, and p-value of 0.028, implying that the implementation of fair value accounting contributes to stronger governance practices by promoting transparency and accountability in financial reporting. Overall, these results confirm that both Board Effectiveness and Fair Value Measurement positively influence Corporate Governance, which in turn has a dominant and significant impact on Earnings Quality, supporting the mediating role of governance within the model.

b. Coefficient of Determination (R^2)

The R^2 value indicates the proportion of variance in endogenous constructs explained by the independent variables. Results from SmartPLS show that Corporate Governance (CG) has an R^2 of 0.684, meaning that Fair Value Measurement and Board Effectiveness together account for 68.4% of the variance in corporate governance practices, while Earnings Quality (EQ) has an R^2 of 0.712, suggesting that Corporate Governance explains 71.2% of the variance in earnings quality. According to [47], these R^2 values are categorized as substantial, indicating that the model possesses strong explanatory power and effectively captures the relationships among the key constructs.

c. Predictive Relevance (Q^2) and Effect Size (f^2)

The Q^2 value obtained through the blindfolding procedure was 0.53, exceeding the recommended threshold of

0.35 and indicating high predictive relevance for the endogenous variables, thus confirming that the model possesses strong predictive accuracy. The effect size (f^2) analysis further supports this finding, showing that the impact of Board Effectiveness → Corporate Governance is large ($f^2 = 0.35$), Fair Value Measurement → Corporate Governance is medium ($f^2 = 0.18$), and Corporate Governance → Earnings Quality is large ($f^2 = 0.72$). These results demonstrate that Corporate Governance acts as a strong mediating mechanism, effectively translating accounting practices and board oversight into improved earnings quality and more credible financial reporting outcomes.

4.4 *Discussion*

a. Relationship Between Fair Value Measurement and Corporate Governance

The study found that Fair Value Measurement (FVM) has a significant positive effect on Corporate Governance (CG), indicating that the adoption of fair value principles strengthens governance quality within firms. When companies consistently apply fair value measurement in accordance with PSAK 68 (IFRS 13), they are required to use market-based evidence and transparent disclosures, which promote accountability, oversight, and information symmetry. This finding aligns with previous studies showing that fair value measurement provides relevant information for investors and effectively reflects risk management activities, particularly in Level 1 and Level 2 valuations [48]. Moreover, the implementation of IFRS 13 has improved financial reporting quality by enhancing the value relevance and informational content of disclosures [49]. In certain sectors, such as real estate, IFRS 13 has led to better disclosure practices despite some compliance challenges [50]. However, researchers also note that fair value accounting can increase managerial discretion in estimates, requiring stronger audit efforts and internal control systems [49], while its application to emerging areas like digital assets introduces valuation inconsistencies and risks of market manipulation [51].

In the Indonesian context, where IFRS adoption is still developing, these transparency requirements have compelled firms to enhance board and audit committee performance. The empirical evidence confirms that fair value accounting not only improves the informativeness of financial reports but also functions as a governance enhancer by subjecting valuation judgments to managerial accountability and independent oversight. Nevertheless, the relationship between fair value and governance quality is conditional—its positive impact depends on the effectiveness of board monitoring and the competence of audit committees. Without strong governance mechanisms, managerial discretion in Level 3 fair value estimates may lead to opportunistic reporting rather than genuine transparency. Thus, fair value measurement operates as both a disciplinary tool and a potential avenue for discretion, emphasizing the critical role of governance institutions in ensuring its proper application.

b. Influence of Board Effectiveness on Corporate Governance

The results reveal that Board Effectiveness (BE) exerts the strongest positive influence on Corporate Governance (CG), reinforcing the core principles of Agency Theory, which views boards as key control mechanisms that align managerial behavior with shareholder interests. An effective board—marked by independence, expertise, and active oversight—enhances transparency, accountability, and ethical compliance across all corporate functions. This finding aligns with previous studies showing that board independence and audit committee competence are critical determinants of governance quality [52], [53]. Independent directors play a vital role in challenging management decisions and safeguarding shareholder interests, while the financial and professional expertise of board members improves their ability to address complex governance challenges [52]. Structural reforms promoting board independence and leadership have been widely supported to strengthen governance systems and protect investor confidence [53]. Similarly, evidence from China shows that agency theory-based governance reforms have encouraged firms to optimize board structures, underscoring the global applicability of these governance principles [54].

In the Indonesian context, regulatory initiatives by the Otoritas Jasa Keuangan (OJK)—particularly POJK No. 33/POJK.04/2014—require public firms to appoint independent commissioners and maintain functional audit committees, ensuring better oversight and accountability. The findings of this study confirm that compliance with these governance requirements leads to tangible improvements in corporate monitoring and ethical performance. The strong path coefficient (0.524) demonstrates that board oversight directly reinforces governance systems, establishing a feedback loop in which effective boards foster better governance environments that, in turn, strengthen the board's own capacity to function effectively. Consequently, board effectiveness not only serves as a key driver but also as a sustaining force in maintaining robust, transparent, and accountable corporate governance practices.

c. Effect of Corporate Governance on Earnings Quality

The analysis revealed that Corporate Governance (CG) has the strongest direct influence on Earnings Quality (EQ), indicating that governance serves as an essential institutional mechanism that ensures accounting practices result in credible and high-quality financial reporting. This finding is consistent with prior research emphasizing that effective audit committees and independent boards play a vital role in minimizing earnings management. For example, [14] found that firms with higher governance scores and well-functioning audit committees exhibited lower discretionary accruals, demonstrating greater reporting transparency. Similarly, [55] showed that audit committees effectively constrain earnings manipulation, while [56], [57] highlighted that institutional and managerial ownership reduce opportunistic reporting by aligning management's incentives with shareholder interests. Moreover, [58] argued that enhanced financial comparability and the presence of reputable auditors decrease information asymmetry, reinforcing the idea that transparency and oversight are critical for credible financial disclosures. Collectively, these findings affirm that strong governance mechanisms—through independent oversight, transparency, and accountability—mitigate managerial opportunism and strengthen investor confidence in reported earnings.

In practical terms, this evidence underscores the effectiveness of governance reforms implemented by the Otoritas Jasa Keuangan (OJK) and the Indonesian Institute of Accountants (IAI) in improving the quality of financial reporting within Indonesia's capital market. Regulations that enforce accountability, mandate audit oversight, and promote transparent disclosures have created a governance environment that enhances reporting reliability and integrity. As a result, firms adhering to these governance principles not only comply with regulatory expectations but also contribute to greater market trust, reduced information asymmetry, and improved decision usefulness of financial statements for investors and other stakeholders.

5. CONCLUSION

The purpose of this study was to examine how Fair Value Measurement and Board Effectiveness influence Earnings Quality, with Corporate Governance serving as a mediating variable in the context of Indonesian public companies. Using a quantitative approach with SEM-PLS 3 on 185 firms, the results confirm that both fair value and board mechanisms are pivotal in enhancing governance quality, which subsequently strengthens the credibility of reported earnings. Fair Value Measurement significantly improves Corporate Governance and Earnings Quality, indicating that transparent, market-based valuation methods foster accountability and reduce information asymmetry. Similarly, Board Effectiveness has a strong positive impact on governance, emphasizing the importance of independent, skilled, and active boards in upholding ethical corporate conduct and ensuring reliable financial disclosures. Notably, Corporate Governance emerges as the most influential determinant of Earnings Quality, acting as a crucial mediator that connects fair value implementation and board oversight with the integrity of financial reporting.

Theoretically, these findings expand the perspectives of Agency Theory and Stakeholder Theory by demonstrating that governance functions not only as a control mechanism but also as a structural conduit transforming accounting transparency and managerial integrity into credible performance outcomes. Practically, the study highlights the urgency for Indonesian firms to strengthen board diversity, ensure consistent fair value disclosures, and cultivate a governance culture that goes beyond formal compliance. Regulatory authorities such as the Otoritas Jasa Keuangan (OJK) and professional bodies like the Ikatan Akuntan Indonesia (IAI) should continue to enforce governance standards and refine fair value reporting guidelines to sustain investor trust. In conclusion, achieving high earnings quality in Indonesian public companies requires more than adherence to accounting standards—it depends on the synergy between transparent accounting practices, effective board oversight, and strong governance frameworks. Companies that successfully integrate these elements are better equipped to enhance their credibility, attract long-term investment, and strengthen the integrity of Indonesia's capital markets.

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