The Effect Of Investment Opportunity Set, Firm Age, Liquidity, And Financial Leverage On Profit Quality In LQ45 Companies In 2018 – 2022

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Abstract. This study aims to determine the impact of the IOS on the quality of profits of companies involved in LQ45 for the 2018/2022. The population of this study is comprised of LQ45 companies that are listed on the Indonesia stock exchange in 2018/2022. The sample employs a purposive sampling method in the selection of samples, this method causes the observed samples to be 41 companies that have been in existence for a period of five years. This results in a data set of 205. This research employs secondary data derived from the company's website. The hypothesis testing employed is a simple technique for regression analysis. The research results indicate that the Investment Opportunity Set and the financial leverage have a significant positive effect on the quality of earnings, the age of the company has no significant effect on the quality of earnings, and liquidity has a significant negative effect on the quality of earnings. Future researchers should consider adding variables that may influence the quality of earnings. Future additions should include other proxies for cash, such as holding cash.

Keywords: Eanings Quality, IOS, Firm Age, Liquidity, Financial Leverage

BACKGROUND

A company is an organization that focuses on making a profit. Earnings quality is important for investors and is a center of information for users of financial reports. Companies that can generate consistent and sustainable profits demonstrate management's ability to plan, manage and allocate resources effectively so as to produce quality profits (Anggrainy and Priyadi, 2019). Penman (2013) describes earnings quality as the capacity of reported earnings to accurately forecast a company's future earnings. This concept emphasizes the importance of using reported earnings to estimate company profits.

Earnings manipulation refers to exploiting inherent weaknesses in accounting policies to intentionally influence earnings figures to achieve management interests. Profit manipulation in 2022 will occur in 9% or 204 cases out of 2,110 cases in the world and 22 cases out of 239 cases in Indonesia. One of them happened to Bukalapak in 2022. PT. Bukalapak Tbk made a mistake when submitting a financial report on the value of an investment in a subsidiary which should be worth US$1 million, but management recorded it at US$1 billion. This affects the quality of the company's profits. In 2018, Bank Bukopin Tbk made changes to its financial accounts over the last three years changing credit card data for a

period of more than five years. This manipulation resulted in more than 100,000 credit cards being changed. As a result, Bank Bukopin experienced an excessive increase in credit card positions and commission income.

The occurrence of the case of changes in financial reports above prompted the author to carry out a study that can determine the causes of profit quality in companies included in the LQ45 list between 2018 and 2022. The research uses LQ45 companies for the period 2018 to 2022 so that a comprehensive understanding of the health of the Indonesian economy can be obtained through a number of existing sectors. This research is a development of a study carried out by Hasanuddin et al., (2022) regarding The Effect of Firm Size, Debt, Current Ratio, and Investment Opportunity Set on Earnings Quality: An Empirical Study in Indonesia. The difference from previous research is replacing the Firm Size variable with Firm Age and adding the Financial Leverage variable as an independent variable. The second difference is that the research was conducted between 2018 and 2022. The period 2018 to 2022 was chosen to represent the company's current status and be consistent with ongoing progress.

The research was conducted with the aim of providing a comprehensive understanding of aspects that influence earnings quality in Indonesian companies. Based on this formulation, the researcher intends to carry out a study regarding "The Influence of Investment Opportunity Set, Firm Age, Liquidity and Financial Leverage on Profit Quality in LQ45 Companies for the 2018-2022 Period"

THEORETICAL STUDY

Agency Theory

Agency theory examines the possibility of conflicts of interest, where management tends to prioritize its personal interests (Al-Vionita and Asyik, 2020). Management can be motivated to manipulate earnings to provide a more favorable picture than the actual financial situation to increase share prices or obtain bonuses, on the other hand, shareholders want to obtain accurate financial information. (Rizqi et al., 2020).

Quality of Earnings

Earnings quality is a measure of how accurately reported profits describe a company's actual profits in relation to future profits (Penman, 2013: 591). Reliable and accurate profits show that the company's profits are of high quality Francis (2006: 25). High-quality earnings refer to financial performance indicators that offer detailed and relevant information for individual decision makers when making specific decisions regarding a company (Dechow and Schrand, 2004: 12).

Investment Opportunity Set (IOS)

Investment refers to the allocation of finances or resources with the aim of obtaining profits in the future (Myres, 1977). The investment opportunity set refers to the range of contributions and options available to a company to generate future income (Belkaoui, 2000: 1).

Firm Age

Company age is the length of time the company has been established (Hariyanto, 2014). The age of a company refers to the period of time from its inception to its current operations, without a specified time limit. Firm Age is described as the number of years a company has been established (Ilaboya et al., 2016).

Liquidity

Liquidity is the company's ability to pay back its financial obligations in less than one year, including obligations to external parties and internal stakeholders (Fahmi, 2017).

Financial Leverage

Financial leverage is a measure of the proportion of debt and preferred equity in a company's capital structure. Financial leverage focuses on how companies use loans to increase potential profits for shareholders (Brigham and Houston, 2011: 485-488).

Hypothesis Development

The Influence of Investment Opportunity Set on the Quality of LQ45 Company Profits for 2018 - 2022

Accurate investment selection can create increased profits, increased company value and shareholder satisfaction. In the end, these aspects can improve the quality of a company's profits (Fathussalmi et al., 2019). The studies of Arisonda (2018) and Gultom and Sitorus (2022) support the idea that IOS has an affirmative impact on earnings quality. The description of the event led to the following hypothesis being formulated:

H1 = Investment Opportunity Set Has a Positive Influence on the Quality of LQ45 Company Profits from 2018 to 2022

The Influence of Firm Age on the Quality of LQ45 Company Profits for 2018–2022

Loderer and Waelchli (2009) say that performance decreases as a company ages. As a company grows older, its profits will decline over time, ultimately making the company uncompetitive. This is in line with a study conducted by Vivi Sulianti (2021) which explains

that company age has a negative effect on the quality of company profits. The description above shows that the following hypothesis is formulated:

H2 = Firm Age has a negative influence on the quality of LQ45 company profits from 2018 to 2022

The Influence of Liquidity on the Quality of LQ45 Company Profits for 2018 - 2022

Liquidity can have a negative impact on the quality of earnings and occurs when a company cannot effectively convert its current assets into generating profitable income and cash flow from operational activities (Murniati, 2019). This is in line with a study (Ardianti, 2018) which explains that liquidity has a significant negative relationship with earnings quality. The description of the event that leads to the proposed hypothesis is:

H3 = Liquidity has a negative effect on the quality of LQ45 company profits from 2018 to 2022

The Influence of Financial Leverage on the Quality of LQ45 Company Profits for 2018 - 2022

When an organization uses debt and invests it in projects with a rate of return that is higher than the cost of debt, the additional profits generated will increase the company's cash flow and directly improve the quality of earnings. (Khafa and Laksito, 2015). Arhinful and Radmehr's (2023) research provides empirical support for this statement. The description of the event that leads to the proposed hypothesis is:

H4 = Financial Leverage Has a Positive Influence on LQ45 Companies in 2018 – 2022

RESEARCH METHODS

In this study, the author used a descriptive quantitative method. Quantitative research methods are used to investigate special populations or samples, the purpose of data collection is to test hypotheses that have been applied (Sugiono, 2018:8).

Population and Sample

The study population is the entire set of elements or individuals with a special composition or properties that are the subject of research. The population considered in this study are companies listed on the LQ45 Stock Exchange in 2018 to 2022. The samples to be used in this study are companies that meet the requirements as samples to be studied.:

No.	Kriteria	Jumlah
1.	Perusahaan yang tercatat sebagai Anggota Saham LQ45 Periode 2018 hingga 2022	77
2.	Perusahaan yang tercatat sebagai Anggota Saham LQ45 Tahun 2018 – 2022 yang menyediakan data yang membentuk	(10)
3.	Laporan keuangan yang diterbitkan oleh Perusahaan yang terdaftar LQ45 Tahun 2018-2022 yang penyajiannya memakai satuan rupiah.	(19)
4.	Perusahaan yang tercatat sebagai Anggota Saham LQ45 Tahun 2018 – 2022 yang tidak menyediakan laporan keuangan yang berakhir pada tanggal 31 Desember untuk 5 tahun sebelumnya (2018 – 2022).	(3)
5.	Data Outlier	(4)
	Total Sampel	41
	Total sampel yang diolah tahun 2018 – 2022 (x 5 tahun)	205

Operational Variables

Dependent Variables

Profit Quality

The approach to assessing the quality of profit is to examine the correlation between profit and cash flow (Penman, 2013). The quality of profit can be assessed by examining the ratio of operating cash to profit, which shows how close profits are to operating activities. The quality of profit is measured using the formula (Penman, 2013):

$$EQR = \frac{Cash\ Flow\ from\ Operating}{Net\ Income}$$

Independent Variables

Investment Opportunity Set

The MV/BVA ratio is directly correlated to the degree to which a company utilizes its assets, resulting in a higher enterprise IOS value. IOS proxy selection refers (Belkaoui, 2001: 6) with the formula, namely:

$$MVBVA\ \frac{Total\ aset - Total\ ekuitas + (lembar\ saham\ beredar\ x\ harga\ penutup)}{Total\ aset}$$

Firm Age

Company Age refers to the period of time since the company was established. The formula used refers to Fahmi's study (2014), namely:

$$Firm\ Age = Tahun\ Penelitian - Tahun\ First\ Issue\ di\ BEI\ (listing)$$

Likuiditas

The liquidity value of a company can be determined by calculating the amount of liquidity using the current ratio formula. (Brigham and Houston, 2011: 103):

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

Financial Leverage

Degree of Financial Leverage (DFL) is a financial leverage ratio that shows the impact of financial leverage on a company's earnings per share (EPS). Financial leverage is measured using the following formula (Brigham and Ehrhardt, 2016):

$$DFL = \frac{EBIT}{EBIT - Interest}$$

Control Variables

This study uses company size as a control variable in the analysis to take into account other aspects that are thought to affect the dependent variable so that it has the potential to disrupt the test results of the profit quality disclosure variable. Harjito (2012: 45) argues that the size of a company depends on the size of its assets. The size of the company is measured by the following formula: (Brigham and Houston, 2011) :

$$Ukuran\ Perusahaan = Ln\ (Total\ Aset)$$

Analysis Tools

Descriptive Statistics

Descriptive statistics were used in this study; That includes mean, standard deviation, maximum, and minimum.

Classical Assumption Test

Normality Test

Ghozali (2018: 161) stated that the normality test is to find out whether the variables involved in the regression model are normally distributed. The test is based on Kolmogorov-Smirnov statistics to find out if the residue is normally distributed.

Multicollinearity Test

This test helps researchers understand the degree of correlation between independent variables. A VIF score greater than 1 indicates multicollinearity, and a larger value indicates poor multicollinearity.

Autocorrelation Test

Regression models can be tested for autocorrelation using autocorrelation analysis. The correlation between observation and its lagging value is tested to determine its pattern and importance. This study conducted the Durbin-Watson test to check for autocorrelation.

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether the variance of different observational residues differs in the regression model (Ghozali, 2006: 105). The heteroscedasticity test in this study used a graph.

Multiple Regression Test

Multiple regression analysis considers the influence of other variables, allowing researchers to study the effect of changes in independent variables.

Hypothesis Testing

Partial Hypothesis Test (T Test)

The t-test is used to express the degree to which an independent variable consistently makes a difference. (Ghozali, 2018:99). The formula of the independent sample t test, namely:

$$t = \frac{r(\sqrt{n} - 2)}{(\sqrt{1} - r\,2)}$$

Simultaneous Test (Test F)

The F test is used to evaluate the comparative significance of independent and dependent variables. If the F-count is greater than the F-table at a significance level of 0.05, it shows a strong correlation between the independent and dependent variables so as to support the acceptance of the hypothesis. Sugiyono (2012, 192) said that the F test formula, namely:

$$Fh = \frac{\frac{R^2}{k}}{(1-R^2)/(n-k-1)}$$

Coefficient of Determination Analysis (R2)

The coefficient of determination (R2) is the percentage variance of the dependent variable caused by the independent variable. The coefficient of the degree of determination is between 0 and 1. The formula for the coefficient of determination, namely :

$$R^2 = 1 - (SSR / SST)$$

RESULTS AND DISCUSSION

Overview of the object of study

The LQ45 index consists of a special group of stocks that meet the selection criteria, ensuring they have high market capitalization and liquidity. The LQ45 index accurately measures changes in the market value of all stocks traded on the Indonesia Stock Exchange (IDX).

Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
IOS	205	0,15	10,95	1,7275	1,56233
AGE	205	8,00	42,00	24,0244	9,89030
CR	205	0,23	8,59	2,1721	1,59601
DFL	205	-6,61	9,87	1,7737	1,61790
SIZE	205	28,84	33,66	30,9777	0,97066
EQR	205	-2,84	9,23	1,8568	2,07553
Valid N	205				

(Sumber: Data yang Diolah dengan SPSS, 2024)

The descriptive statistical results show a minimum IOS value of 0.15 and a maximum value of 10.95. The average value of the investment opportunity set is 1.7275 and the standard deviation is 1.56233. The company age variable has a minimum value of 8.00 and a maximum value of 42.00. The average age of the company was 24.0244 and the standard deviation was 9.89030. The liquidity variable has a mean of 2.1721, a maximum of 8.59, a minimum of 0.23, and a standard deviation of 1.59601. The variable financial leverage has a mean of 1.7737. The maximum value of this variable is 9.87, the minimum value is -6.61, and the standard deviation is 1.61790. The Company Size variable has a maximum value of 33.66, a minimum value of 28.84, an average of 30.9777 and a standard deviation of 1.05372. From the results of descriptive statistics, the average value of profit quality is 1.8568 and standard deviation is 2.07553. The maximum value of profit quality is 9.23 and the minimum value is 2.84.

Classical Assumption Test

Normality Test

	Unstandardized Residual
N	205
Kolmogorov- Smirnov- Z	0,143
Asymp. Sig. (2 tailed)	0,90

The normality test using the Kolmogorov-Smirnov method yielded 0.143. This result is statistically significant at a level of 0.90, greater than the threshold of 0.05. In this regard, it can be concluded that the regression model has a normal distribution.

Multicollinearity Test

Variabel	VIF	Keterangan
IOS	1,590	Tidak ada gejala multikolinearitas
FAge	1,116	Tidak ada gejala multikolinearitas
CR	1,323	Tidak ada gejala multikolinearitas
DFL	1,055	Tidak ada gejala multikolinearitas
SIZE	1,360	Tidak ada gejala multikolinearitas

(Sumber: Data yang Diolah dengan SPSS, 2024)

The results show that the tolerance value of all independent variables is greater than 0.10, and the inflation aspect variable (VIF) is less than 10 and close to 1. As a result, it can be concluded that there is no problem of multicollinearity between independent variables in the regression model used in this study.

Heteroscedasticity Test
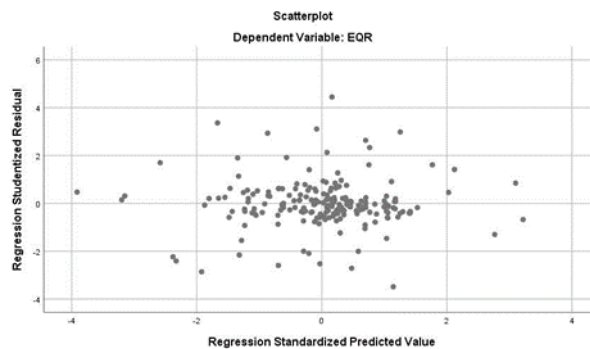
(Sumber: Data yang Diolah dengan SPSS, 2024)

Based on heteroscedasticity tests using graphical analysis, it was determined that the regression model showed no signs of heteroscedasticity.

Autocorrelation Test

Model	D-W	dU	dL	4-Du	Kriteria	Keterangan
Regresi	1,895	1,81295	1,73537	2,18705	$1,81295 < 1,895 < 2,18705$	Bebas Autokorelasi

(Sumber: Data yang Diolah dengan SPSS, 2024)

Based on the DW value of 1.895, it can be concluded that the value is in the range of 1.81295 and 2.18705. In this regard, the results of this study meet the criteria of dU<DW<4-dU and are not affected by autocorrelation problems.

Test the hypothesis

Hipotesis	Variabel	Koefisien	T-hitung	Sig.	Kesimpulan
	(Constant)	1,273	4,377	0,000	-
H1 (+)	IOS	0,094	1,972	0,040	Terdukung
H2 (-)	AGE	0,001	0,244	0,087	Tidak Terdukung
H3 (+)	CR	-0,087	-2,051	0,042	Terdukung
H4 (+)	DFL	0,180	2,140	0,030	Terdukung
C	SIZE	0,060	1,773	0,110	-
N	205				
R^2	0,382				
Adj R^2	0,367				
F-hitung	3,939				
Sig. F-hitung	0,002				

(Sumber: Data yang Diolah dengan SPSS, 2024)

The constant value (a) of 1.273 means that when IOS (X1), company age (X2), liquidity (X3), financial leverage (X4) and company size (C) are all zero, the profit quality value (Y) is right. 1.273. The regression coefficient X1 shows that an iOS increase of 1% would lead to an increase in EQR value of 0.094. The regression coefficient X2 shows that for every 1% increase in AGE, the EQR score will increase by 0.001. The regression coefficient X3 shows that for every 1% increase in CR, the EQR score decreases by 0.087. The regression coefficient X4 shows that for every 1% increase in DFL, the EQR value will increase by 0.180. The SIZE regression coefficient shows that for every 1% increase in SIZE, the EQR value increases by 0.060.

The results showed that the coefficient of determination test showed an Adjusted R Square (Adj) of 0.367 or equivalent to 36.7%. This shows that 36.7% of the variation in profit quality can be explained by aspects of Investment Opportunity Set, Firm Age, Liquidity, and Financial Leverage, while the remaining 63.3% is caused by other variables that have not been studied.

According to the results of the F test, the Fcalculate value is 3.939 and has a significance value of 0.002. The p value is less than 0.05 and the observation F value of 3.939 is greater than the critical F value of 2.258124. Profit Quality is influenced by Investment Opportunity Set, Firm Age, Liquidity, and Financial Leverage together.

Discussion

The Effect of Investment Opportunity Set on Profit Quality

Belkaoui theory (2000: 6-8) explains that the IOS concept shows the stability of profits and investment prospects of a company in the future. A high IOS indicates that reported earnings accurately reflect the company's actual condition and show its future growth potential. This research explains that future investment decisions will have an impact on disputes arising between principals and agents. The existence of agency conflicts can result in the manipulation of income statements to optimize personal profits. This can lead to a decrease in profits. The findings of this study corroborate the conclusions reported by Arisonda (2018) and Hakim and Abbas (2019), which show a good correlation between Investment Opportunity Set and profit quality.

The Effect of Firm Age on Profit Quality

The age of the company refers to the period of time since the establishment of the company (Hariyanto, 2014). As time goes by, companies get better and become more efficient, thus giving them a competitive advantage in their commercial environment. This leads to the success and wealth of the organization (Arrow, 1962). These findings support agency theory which discusses the relationship between principals and agents. Older companies have a track record of performance and transparency over time, making it easier for investors to assess their financial health. This reduces information asymmetry, the gap between the information available to managers and investors, which can be the site of manipulative behavior. The results of this study strengthen a study conducted by Sulianti (2021) and Rohmah (2018) which concluded that the company's age has a positive effect on profit quality.

The effect of liquidity on profit quality

Chorafas theory (2001: 150-151) explains that excessive liquidity can have a negative impact on a company's profits. Excess cash invested inefficiently can have a negative impact on net income due to failure to generate income from productive assets. Excessive liquidity can also initiate accounting procedures. Inefficient allocation of money by management can lead to the use of accounting manipulations, such as asset value errors or late cost recognition, to improve profit perception. The results of this study support agency theory which discusses the relationship between principals and agents. Liquidity imbalances can incentivize management to act in its own interests, undermining the quality of earnings and shareholder confidence. This finding confirms Marpaung's (2019) findings that liquidity negatively affects profit quality.

The Effect of Financial Leverage on Profit Quality

Brigham and Houston (2011: 485-489) explain that Financial Leverage can be used to reduce profit manipulation to achieve specific goals or expectations. Debt holders have a strong vested interest in the financial well-being of the company and tend to resist dubious accounting techniques or income manipulation. The findings of this study corroborate the statement of JS Ramalho and Da Silva (2009) that Financial Leverage has the potential to increase the profit of a company. Moderate debt levels may provide motivation for management to improve efficiency and manage costs effectively to meet financial responsibilities.

The Effect of Company Size as a Control Variable on Profit Quality

The study shows that the size of the industry has no influence on the quality of profits. This statement is believed to be true because the scale of an industry alone does not necessarily show the health and stability of a corporation. Organizations have a lot of potential to fall into substantial categories. The size of the company in this study is represented by the assets it has. The composition of assets contains debt and capital. The size of a company does not necessarily correlate with profits. This phenomenon can occur in large companies due to a higher proportion of debt in their overall financial structure. The results of this study are in line with studies conducted by Nandika and Sunarto (2022) and Dewi and Fachrurrozie (2021) showing that the size of the company has no effect on the quality of its profits.

CONCLUSION AND ADVICE

This study intends to determine the effect of Investment Opportunity Set, Firm Age, Liquidity, and Financial Leverage on Profit Quality in companies involved in the LQ45 stock index from 2018 to 2022. A total of 41 companies were selected for the study, and a total of 205 data were collected. From the extensive discussion and testing conducted, it can be concluded that IOS and Financial Leverage have a positive effect on profit quality, company age has a significant positive effect on profit quality, and liquidity has a significant positive effect on profit quality. negative impact on profit quality. Through research that has been done, further research is expected to understand and gain a deep understanding of how the profits of a reputable company can improve the analysis of phenomena through financial statements, this will add value in the assessment of a company's profits.

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