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Profit Quality on LQ 45 Stock Index: Study of the Effect of Investment Opportunity Set, Corporate Governance, Liquidity, and Leverage on Companies Listed on the Indonesia Stock Exchange

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Abstract

A company's financial reports are a basic need for its users, one of which is information about company profits. Profits are said to be of high quality if the reported profits can be used by users of financial statements to make the best decisions and meet the qualitative characteristics of relevant and reliable financial reports. The aim of this research is to determine the influence of Investment Opportunity Set, Corporate Governance, Liquidity, and Leverage on Earnings Quality in companies with LQ 45. This research was conducted using a quantitative approach, using secondary data. The analysis technique used is panel data regression. The observations in this research amounted to 182 data from 26 companies on the LQ 45 stock index listed on the BEI for 2020 - 2023. The results of the research partially show that Investment Opportunity Set and Liquidity have a significant and influential effect on Earnings Quality. Meanwhile, Independent Commissioners, Managerial Ownership and Leverage partially show no significant effect on Earnings Quality.

Keywords

Investment Opportunity Set, Independent Commissioner, Managerial Ownership Liquidity, Leverage

Introduction

Financial reports have great benefits for their users, but one element in financial reports that users really pay attention to is profit information. Profit information is one of the most important parts of financial reports that attracts a lot of attention from investors, because external parties tend to choose to invest in a company that has a high profit value or a company that experiences a significant increase in profits from year to year. Because this will provide the expected benefits. The importance of profit information for external parties results in company managers as internal parties who know more about the condition of the company who are actually motivated to increase company profits and ignore good business practices. In addition, there are possible motivations that can encourage managers to manipulate financial data and carry out earnings management practices, so that the manager's goal can be achieved, namely obtaining a bonus from the company, and as a provider of funds, the investor becomes the owner of the company in the amount of his share ownership in the company. In large companies, the owner does not necessarily carry out the company's daily operational activities, so an agent is needed. This agent is tasked with carrying out the daily operations of the company and monitoring the agent's performance (management) is carried out by the owner (investor). According to agency theory, owners and management have different interests. The owner hopes that the company can obtain maximum profits with the hope that the profit sharing received by the owner will be greater. On the other hand, large profits are generated from high-risk projects where high success can be replaced by fatal failure. However, on the other hand, management tends to be more risk adverse (avoiding risks), namely by carrying out business activities safely so that their position in company management is well protected.

The existence of differences in interests between management and investors results in agency conflicts which are usually called agency conflicts, namely conflicts between agents (those who manage the company) and principals (shareholders) who have different and conflicting interests. Because both the agent and the principal are trying to increase their respective profits based on the information they have, there is a reason that the agent as the manager of the company tends to prioritize his own goals which can provide benefits for him compared to acting in accordance with the interests of the principal. This can result in low earnings quality.

Several factors that can influence earnings quality are Investment Opportunity Set (IOS), Corporate Governance, Leverage and Liquidity. This research aims to find out how the Investment Opportunity Set (IOS), Corporate Governance, Leverage and liquidity influence earnings quality. The difference between this research and previous research is that the observation period is longer, namely between 2020-2023 and the addition of independent variables, namely corporate governance and liquidity, due to consideration of the perspective of investors who have a long-term perspective. Rational investors will see how big the prospects are for a company to grow high, be liquid, and not use too much debt to carry out the company's operational activities.

This research aims to:

1. To analyze the influence of the Investment Opportunity Set (IOS) on the quality of earnings in the LQ 45 stock index
2. To analyze the influence of Independent Commissioners on the quality of profits in the LQ 45 stock index
3. To analyze the influence of Managerial Ownership on the quality of earnings in the LQ 45 stock index
4. To analyze the effect of liquidity on the quality of earnings in the LQ 45 stock index
5. To analyze the effect of leverage on the quality of earnings in the LQ 45 stock index.

Literature Review

Theoretical Basis

Financial Management

According to Brigham et al. (2009), financial management is the broadest of the three fields of finance, and has broad career opportunities. Cashmere (2013) explains that financial management can be interpreted into three main activities, namely: Obtaining funds to finance the business, managing funds as efficiently as possible to achieve company goals, and managing company assets effectively and efficiently.

Quality of Earnings

Quality profits are profits that can reflect the continuation of profits (sustainable earnings) in the future, which are determined by the accrual and cash components and can reflect the company's true financial performance. Dechow et al. (2010), in the journal Safitri (2020) define earnings quality as follows: "Higher quality earnings provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker".

From the definition above, there are three things that must be underlined (Dechow et al., 2010). First, earnings quality depends on relevant information in making decisions. Thus, the definition of earnings quality above is only in the context of a particular decision model. Second, the quality of the reported profit figures is seen from whether the information describes a company's financial performance. Third, earnings quality is jointly determined by the relevance of the financial performance underlying the decision.

Investment Opportunity Test

Investment is a commitment of a certain amount of funds or other resources made at this time, with the aim of obtaining a certain amount of profit in the future. The investment opportunity set is the company's current value and options for making investments in the future (Myers, 1977). According to Gaver and Gaver (1993), future investment is not only indicated by the existence of projects supported by research and development activities, but also by the company's ability to exploit opportunities to take advantage compared to other similar companies in a group. the industry. Because the investment opportunity set consists of projects that provide growth for the company, the investment opportunity set can be used as a basis for determining the company's future growth classification, whether a company is classified as growing or not growing.

In general, the investment opportunity set describes the breadth of investment opportunities for a company, but it really depends on the company's expenditure choices for future interests. Thus, the investment opportunity set cannot be observed, so it is necessary to choose a proxy that can be linked to other variables in the company. There are several proxies used in accounting and finance to understand project investment opportunity sets. According to Kallapur and Trombley (2001), the investment opportunity set is divided into three proxies, namely the investment opportunity set proxy based on price (price based proxies), the investment opportunity set proxy based on investment (investment-based proxies), the investment opportunity set proxy based on variance (measures).

Independent Commissioner

Independent commissioners are commissioners who have no financial, management, share ownership or family relationships with other commissioners, directors, controlling shareholders or other relationships that affect their ability to act independently (Putri et al., 2022). The board of commissioners has an important role in the company whose duties and responsibility are collectively to supervise and provide advice to the directors and ensure that the company implements good corporate governance (Atika, 2019). An independent and competent board of commissioners will be better through their role in supervising management in preparing financial reports, so as to obtain quality profit reports (Rachmawati & Retnani, 2020).

Managerial ownership

Managerial ownership means shareholders, which means that as company owners, management actively participates in decision making at the company concerned. Companies can minimize agency conflicts by increasing managerial ownership (Rachmawati & Retnani, 2020). With managerial ownership, agents will be motivated to work better in improving the company's financial performance for the interests of shareholders and their own interests, because agents have a share in the profits generated by the company (Putri et al., 2022).

Managerial ownership in a company has a big influence on the decisions that will be taken by the company in the future. Managerial ownership also shows the level of managerial power in the company. If the greater the managerial ownership in the company, the greater the manager's power over the company, the greater the manager's influence in the company. However, the greater power of managers also gives rise to greater responsibility in running the company. With the manager's share ownership in the company the manager will try to improve his performance and become more motivated in advancing the company because in the manager there arises a sense of belonging to the company through the company he owns. This sense of ownership is something that is difficult to obtain if the manager does not own shares in the company.

Agency Theory

According to Jenson and Meckling (1976) agency theory is a theory that explains the contractual relationship between the principal and the agent. The principal is the shareholder and the agent is the management who manages the company. Managers as company managers know more about internal information and the company's future prospects than owners (shareholders). The working relationship between the principal and the agent can affect the condition of information imbalance (asymmetrical information) because the agent or manager knows more information about the company than the principal or investor (Sadiah & Priyadi, 2015).

Liquidity

Liquidity is a ratio used to measure a company's ability to realize short-term obligations. The higher the company's liquidity can indicate the company's financial condition is good and conversely the lower the company's liquidity indicates the company's financial condition is bad. If a company has a good level of liquidity, it tends to be able to disclose financial information widely (Anggraini & Tanjung, 2019). It is important for companies to maintain liquidity fundamentally because it can maintain company stability. When a company can meet its short-term debt as it matures, it can be identified as a liquid company. For rational investors (risk averse), company liquidity needs to be considered when making investment decisions related to earnings quality. However, if the company's liquidity is too large, it means the company is unable to manage its current assets as optimally as possible, resulting in poor financial performance and the possibility of profit manipulation to embellish the profit information (Kepramareni et al., 2021).

To measure the level of liquidity, the current ratio can be used. The current ratio provides the best indicator of the size of short-term creditor claims that can be covered by assets that are expected to be converted into cash more quickly (Brigham et al., 2009). Mathematically, the current ratio formula is as follows:

$$\text{Current Ratio} = (\text{Current Assets})/(\text{Current Liabilities})$$

Leverage

Leverage is used to explain a company's ability to use assets and funding sources to increase returns to its owners. Companies with high leverage indicate that the company uses more debt in its capital structure. Brigham and Houston (2009) explain that increasing debt will increase the value of the company which is reflected in the market price of its shares to a certain extent. However, once this limit is reached, additional debt will reduce the value of the company because the benefits of using debt are smaller than the costs that the company must bear. However, a debt ratio that is too small is also not good, because it will cause the rate of return to be smaller.
A company with a high level of leverage means it has greater debt than Equitas. Leverage is measured by calculating the debt ratio, namely by comparing total debt with total assets of a company for a certain period (Dhaliwal et al., 1991).

$$\text{Debt Ratio} = (\text{total debt})/(\text{total assets})$$

Previous Research

Research from Dewi et al. (2020). This research is entitled, The Influence of Liquidity, Leverage and Good Corporate Governance on Earnings Quality. The aim of this research is to re-examine the influence of liquidity, leverage, managerial ownership and independent commissioner variables on the quality of company profits. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2018 period with a sample size of 75 companies and a total of 225 observations. Determination of the sample using the purposive sampling method. The analytical tool used is multiple linear regression analysis. Research Results: The liquidity variable has a positive effect on earnings quality. The leverage variable has a negative effect on earnings quality, while managerial ownership and independent commissioner variables have no effect on earnings quality.

Research from Aningrum and Muslim (2021). This research is entitled The Effect of Investment Opportunity Set and the Implementation of Good Corporate Governance on Earnings Quality. The aim of this research is to investigate the influence of investment opportunity set and the implementation of good corporate governance on earnings quality. The observations in this research amounted to 75 data from manufacturing companies registered on the IDX in 2015-2019 which met the purposive sampling criteria. Research results: Based on the panel data regression results, it was concluded that the investment opportunity set and the implementation of good corporate governance simultaneously had a significant effect on earnings quality. Partially, investment opportunity set and managerial ownership have no effect on earnings quality. Meanwhile, institutional ownership and an independent board of commissioners have a significant positive influence on earnings quality.

Research Model and Hypothesis

Figure 1 shows the research model that will be used.

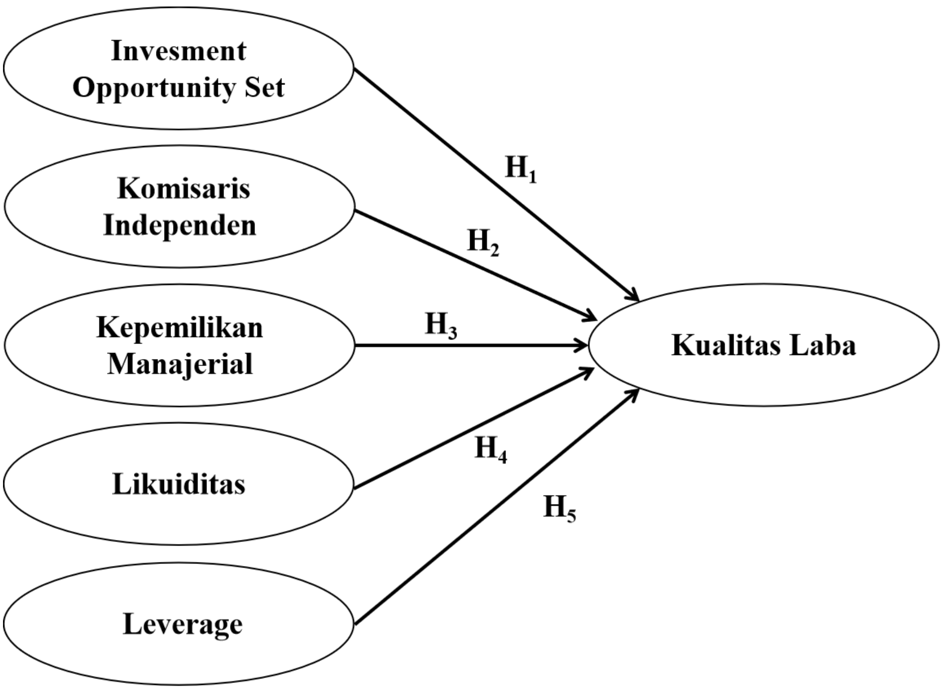

Figure 1. Research model

Hypothesis

1. H1 : It is suspected that the Investment Opportunity Set has a significant positive effect on earnings quality in companies registered in LQ 45.
2. H2 : It is suspected that Independent Commissioners have a significant positive influence on the quality of earnings in companies listed on LQ 45.
3. H3 : It is suspected that Managerial Ownership has a significant positive effect on earnings quality in companies registered in LQ 45.
4. H4 : It is suspected that liquidity has a significant positive effect on the quality of earnings in companies listed in LQ 45.
5. H5 : It is suspected that leverage has a significant negative effect on the quality of earnings in companies listed in LQ 45.

Research Methods

Types of research

The research that will be carried out is included in this type using associative research methods. Based on the data used, this research is quantitative research because it refers to calculations and analysis of data in the form of numbers.

Data and Data Sources

This research uses secondary data in the form of financial report data from companies on the LQ 45 stock index which are the samples. Data was taken during the observation period between 2020 - 2023. Data was sourced from the Indonesian Stock Exchange for the required observation period.

Method of collecting data

The data collection technique used in this research is the documentation technique. The data used is secondary data, namely data that has been published or published to the general public. Data was obtained via the Indonesia Stock Exchange website in the form of financial reports of companies included in the LQ 45 index in 2020-2023.

Population, Sample and Sampling Techniques

The population of this research is data on the Indonesian Stock Exchange, specifically a combination of stock indexes in LQ 45 for the 2020-2023 period. The total population is 45 companies.

The sampling technique used is the Saturated Sample Method. Determining the sample in this research is a sampling technique when all members of the population are used as samples.

Analysis Techniques

This research uses multiple linear regression analysis methods to see the influence of the variables studied. The test was carried out to test whether the data in this study was normally distributed and did not have symptoms of multicollinearity or symptoms of heteroscedasticity. The multiple linear regression analysis method is assessed from the coefficient of determination, t test, and F test.

Results and Discussion

Normality Test Results

Table 1: Normality test results

Indicator	Prob>Chi2	Information	Distribution
Investment Opportunity set	0.31909	P>0.05	Normal
Independent Commissioner	0.44870	P>0.05	Normal
Managerial ownership	0.87116	P>0.05	Normal
Liquidity	0.82951	P>0.05	Normal
Leverage	0.89751	P>0.05	Normal

Source: Processed Data, 2024

Table 1 contains data from the normality test results. Based on the results of data processing, it can be found that:

1. The Independent Commissioner variable shows a Prob>Chi2 value of 0.44870. It was concluded that the Independent Commissioner variable was greater than 0.05 and the data showed that it was perfectly distributed.
2. The Managerial Ownership variable shows a Prob>Chi2 value of 0.87116. These results show that the Managerial Ownership variable is greater than 0.05 and is identified as normal.
3. The Liquidity variable shows a Prob>Chi2 value of 0.82951 and from these results it is identified that the liquidity variable is greater than 0.05 and is normally distributed.
4. The Leverage variable shows that the Prob>Chi2 value is 0.89751 and from these results it is identified that the leverage variable is 0.05 greater and is normally distributed.

Autocorrelation Test

In testing the autocorrelation assumption using Durbin Watson, the results were 1.918282. And indicates that the variables being tested are free from positive autocorrelation and negative autocorrelation. Figure 2 shows Durbin Watson's results.

```
. dwstat

Durbin-Watson d-statistic(  6,   182) =  1.918282
```

Figure 2. Durbin Watson results

Source: Processed Data, 2024

Multicollinearity Test

In the multicollinearity test using analysis of the Variance Inflation Factor (VIF) and analysis of Tolerance Value (TOL).

```
. estat vif

    Variable |       VIF       1/VIF
-------------+----------------------
   debtratio |      2.22    0.450582
currentratio |      2.19    0.456161
komisarisi~n |      1.34    0.744203
         ios |      1.03    0.969899
kepemilika~l |      1.03    0.974278
-------------+----------------------
    Mean VIF |      1.56
```

Figure 3. Multicollinearity results

Source: Processed Data, 2024

In Figure 3, the results of the multicollinearity test can be concluded that the Investment Opportunity Set variable has a VIF result of 1.03 and 1/VIF has a result of 0.969899. From these results it can be clearly seen that the VIF value of the Investment Opportunity Set variable is greater than 10 and the 1/VIF value of the Investment Opportunity Set variable is greater than 0.01, it can be concluded that this variable is free from symptoms of multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to see whether there are differences in variance in the residuals from each observation. To run tests with a regression model, the existing data must have homoscedasticity properties.

```
==============================================================================
* OLS Glejser Lagrange Multiplier Heteroscedasticity Test
==============================================================================
 Ho: No Heteroscedasticity - Ha: Heteroscedasticity

    Glejser LM Test          =    3.99819
    Degrees of Freedom       =        5.0
    P-Value > Chi2(5)        =    0.54968
```

Figure 4. Heteroscedasticity test results
Source: Processed Data, 2024

In Figure 4 are the results of the heteroscedasticity test using Glejser analysis and it can be concluded that all the independent variables (Investment Opportunity Set, Independent Commissioner, Managerial Ownership, Liquidity, Leverage) in this study. That the results of the independent variable data in this study are greater than the standard of 0.05. With another conclusion, the independent variable data is a symptom of heteroscedasticity.

Descriptive Analysis

Table 2: Average company ratio at LQ 45

	iOS	Commissioner Independent	Managerial ownership	Liquidity	Leverage	Quality Profit
2020 Semester 1	1,935	40,271	0.314	1,744	0.534	2,207
2020 Semester 2	2,124	40,563	0.330	1,726	0.524	1,465
2021 Semester 1	1,866	41,310	0.348	1,537	0.532	-0.715
2021 Semester 2	1,885	44,495	0.371	1,721	0.517	1,845
2022 Semester 1	1,784	44,484	0.448	1,791	0.515	-0.156
2022 Semester 2	1,805	45,624	0.304	1,804	0.502	0.531
2023 Semester 1	1,666	44,363	0.562	1,756	0.512	1,048

Source: Processed Data, 2024

Table 2 contains the average ratio in LQ 45 companies. Descriptive analysis is used to describe the research data which includes the financial performance of companies in LQ 45 with the variables Investment Opportunity Set, Independent Commissioner, Managerial Ownership, Liquidity, Leverage and Earnings Quality. The average ratio between variables per semester in the LQ 45 company list can be seen in Figure 5.

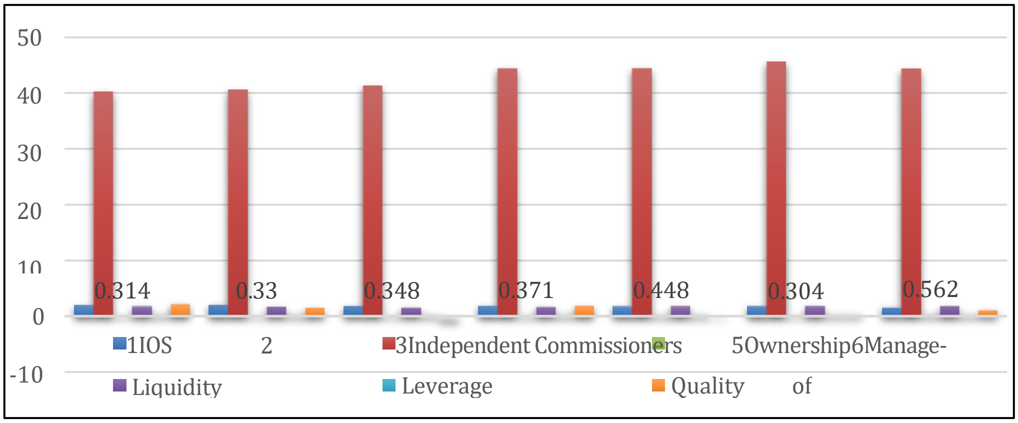

Figure 5. Graph of average ratio between variables per semester in the LQ 45 company list

Source: Processed Data, 2024

Data Analysis Results

1. Panel Data Regression Model Selection Test

The Hausman Test or what is often referred to as the Hausman Test is a test used to determine the best method between fixed effects or random effects.

```
. hausman fem rem

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |      fem          rem         Difference       Std. err.
-------------+----------------------------------------------------------------
         ios |   1.327283      .470358        .8569253         .678147
kepemilika~l |  -46.93509     -9.55528       -37.37981        171.5681
komisarisi~n |  -1.582417    -1.019781       -.5626363        5.522159
currentratio |  -.0872762    -.8312038        .7439276        .6824782
   debtratio |   .7876186     -3.04953        3.837148        6.567615
------------------------------------------------------------------------------
                          b = Consistent under H0 and Ha; obtained from xtreg.
           B = Inconsistent under Ha, efficient under H0; obtained from xtreg.

Test of H0: Difference in coefficients not systematic

    chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
            =   3.37
Prob > chi2 = 0.6424
```

Figure 6. Hausman test results

Source: Processed Data, 2024

Figure 6 is the test result of selecting a panel data regression approach model using the Hausman test technique. Based on the Hausman testing technique, the cross section F result was 0.6426. Based on the results obtained, the cross section F results in the panel data regression approach with the Hausman test are >0.05. So it can be concluded that according to the results of the Hausman test the regression approach taken is the Fix Effect Model (FEM) regression approach.

2. Fixed Effect Model (FEM)

Fixed effects model is a panel data regression model that has different effects between individuals and individuals are unknown parameters and can be estimated using the least square dummy technique.

```
. xtreg erc ios kepemilikanmanajerial komisarisindependen currentratio debtratio, fe

Fixed-effects (within) regression               Number of obs     =        182
Group variable: KODE                            Number of groups  =         26

R-squared:                                      Obs per group:
     Within  = 0.0302                                         min =          7
     Between = 0.1578                                         avg =        7.0
     Overall = 0.0416                                         max =          7

                                                F(5,151)          =       0.94
corr(u_i, Xb) = -0.6782                         Prob > F          =     0.4560

------------------------------------------------------------------------------------------
                  erc | Coefficient  Std. err.      t    P>|t|     [95% conf. interval]
----------------------+-------------------------------------------------------------------
                  ios |   1.327283   .7050654     1.88   0.062    -.0657842    2.720351
kepemilikanmanajerial |  -46.93509   174.5015    -0.27   0.788     -391.715    297.8448
  komisarisindependen |  -1.582417   6.357964    -0.25   0.804    -14.14448    10.97964
         currentratio |  -.0872762    .841467    -0.10   0.918    -1.749846    1.575293
            debtratio |   .7876186   6.969867     0.11   0.910    -12.98344    14.55867
                _cons |   -1.00292   5.832638    -0.17   0.864    -12.52704     10.5212
----------------------+-------------------------------------------------------------------
              sigma_u |  2.7608808
              sigma_e |  4.8842689
                  rho |  .24214787   (fraction of variance due to u_i)
------------------------------------------------------------------------------------------
F test that all u_i=0: F(25, 151) = 1.07                     Prob > F = 0.3892
```

Figure 7. Fixed effect model test results

Source: Processed Data, 2024

Based on Figure 7 regarding the results of the fixed effect model (FEM), it can be seen that the regression results on the variables tested produce Prob > F is 0.4560.

Hypothesis Test

1. T Statistical Test

The T Test results can be seen in Table 3.

Table 3: T test results

	Mean	Std. Error	Q	Sig.
***Investment Opportunity Set* (X1)**	1,868	0.150	2.6368	0.0091
Independent Commissioner (X2)	0.431	0.010	-2.4024	0.0173
Managerial Ownership (X3)	0.03	0.009	-1.2452	0.2147
Liquidity (X4)	1,721	0.084	2.1420	0.0335
Leverage(X5)	0.521	0.018	-0.9999	0.3187

Source: Processed Data, 2024

2. Coefficient of Determination (R2)

Based on the results of the Hausman test and the selection of the REM (Random Effect Model) regression approach, it was found that the value of the coefficient of determination. It is known that the coefficient value found in R Square is 0.2816. This means that the ability of the independent variables to explain related variables is 28.16%, the remaining 72% is explained by other variables not discussed in this research. It can also be seen that the result of the Coefficient of Determination or R Square is 0.2816 which shows that 28.16% of Investment Opportunity Set (X1), Independent Commissioner (X2), Managerial Ownership (X3), Liquidity (X4), and Leverage (X5), on Earnings Quality (Y) at LQ 45 while the remaining 72% is influenced by variables not examined by this research.

The Effect of Investment Opportunity Set on Earnings Quality in LQ 45 Companies

The Investment Opportunity Set has a significant and significant effect on the quality of earnings in companies listed on LQ 45. The research results show that Ha is acceptable, namely the Investment Opportunity Set has a significant and significant effect on the quality of earnings. This indicates that the growth of companies in LQ 45 will experience positive growth in the future.

What makes the Investment Opportunity Set have a good influence on the quality of profits in companies that are at LQ 45. Due to the company's asset management capabilities and the ability to control raw material prices or production costs. The existence of this investment opportunity means that the company has the opportunity to grow, which will cause profits in the company in the future to also increase and have a big impact on companies in LQ 45.

The Influence of Independent Commissioners on Profit Quality in LQ 45 Companies

Independent Commissioners have no effect on Profit Quality in companies registered on LQ 45. The research results show that Ho is acceptable, namely that Independent Commissioners have no effect on Profit Quality. This indicates that supervision from the Independent Commissioner has no effect on Earnings Quality.

Independent Commissioners are members who come from outside the company or are not affiliated with the board of directors. Independent Commissioners also have no influence on LQ 45 companies. In fact, having independent commissioners in a company will be a supervisor of management performance to act appropriately towards the company. And the presence of a certain number of independent commissioners will actually cause earnings management to decline so that the quality of the profits that will be generated will decrease further. It is possible that an independent risk commission within a company is a complement to complying with existing regulations and cannot perform a vital function. In fact, having independent commissioners who carry out their functions can increase the quality of profits.

The Influence of Managerial Ownership on Profit Quality in LQ 45 Companies

Managerial ownership has no effect on Profit Quality in companies listed on LQ 45. The research results show that Ho is acceptable, namely that Independent Commissioners have no effect on Profit Quality. This indicates that the distribution of shares to managerial position holders has no effect on Earnings Quality.

Managerial ownership has no influence on the quality of profits in companies in LQ 45. The number of shares held by managers in a company is one way to create a sense of responsibility and ownership of the company. But sometimes the large number of shares held by managers causes the quality of earnings to decline. Meanwhile, a small number will reduce the quality of management. Apart from all that, it does not guarantee that there will be other interests by managers and this will actually result in poor profit quality. The existence of company ownership should actually be able to reduce agency problems and interest problems that have negative impacts and should provide encouragement to improve performance for the company.

The Influence of Liquidity on Earnings Quality in LQ 45 Companies

Liquidity has no effect on earnings quality in companies listed on LQ 45. The research results show that H0 is acceptable, namely liquidity has no effect on earnings quality. This indicates that the growth of companies in LQ 45 will experience positive growth in the future.

Liquidity has a good influence on the quality of profits in companies that are at LQ 45. This means that the better the company's ability to fulfill its debts and obligations, it is not a guarantee that the quality of the company's profits is also in good condition. And there is a possibility that high levels of liquidity result from the company's inability to manage its current assets optimally, so that financial performance declines, which motivates management to carry out earnings management practices to improve earnings information so that the quality of the profits produced becomes low.

The Effect of Leverage on Profit Quality in LQ 45 Companies

Leverage has no effect on Profit Quality in companies listed on LQ 45. The research results show that Ha is acceptable, namely Leverage has an effect on Profit Quality. This indicates that the distribution of shares to managerial position holders has no effect on Earnings Quality.

Leverage has an influence on the Quality of Earnings in companies that are at LQ 45. By assessing the Leverage in a company has a lot to do with the Quality of Earnings. Even though a high leverage ratio does not mean that the company has good earnings quality, it also has poor prospects for the future. Companies that have large debts have large interest expenses too, but it all depends on the company managing its debt efficiently. But sometimes companies with more debt will try to show good performance in order to gain the trust of investors. This has an impact on management's tendency to take earnings management actions by reporting high profits, resulting in low earnings quality.

Conclusion

Research conducted on the Indonesian Stock Exchange (BEI), namely on the LQ 45 company list. In analyzing the influence of Investment Opportunity Set, Corporate Governance, Liquidity and Leverage on Profit Quality in the results of the FEM (Fix Effect Model) test, the following conclusions can be drawn:

1. Investment Opportunity Sethas a significant and influential effect on the quality of earnings in companies listed on LQ 45.
2. Independent Commissioners do not have a significant effect on the quality of profits in companies listed on LQ 45.
3. Managerial ownership does not have a significant effect on earnings quality in companies listed on LQ 45.
4. Liquidity has no significant effect on earnings quality in companies listed on LQ 45.
5. Leverage has a significant effect on the quality of earnings in companies listed on LQ 45.

Meanwhile, from the results of the t test, the following conclusions can be drawn:

1. Investment Opportunity Sethas a significant and influential effect on the quality of earnings in companies listed on LQ 45.
2. Independent Commissioners do not have a significant effect on the quality of profits in companies listed on LQ 45.
3. Managerial ownership does not have a significant effect on earnings quality in companies listed on LQ 45.
4. Liquidity has a significant influence on the quality of earnings in companies listed on LQ 45.
5. Leverage does not have a significant effect on earnings quality in companies listed on LQ 45.

Suggestion

Based on the results of the discussion and existing problems, the following suggestions can be put forward:

1. For companies registered in LQ 45, it is hoped that it can provide benefits due to the importance of providing quality earnings information to investors. Because earnings information is a reference for shareholders and investors in making decisions about whether the investment is detrimental or profitable and how much influence the Investment Opportunity Set, Corporate Governance, liquidity and Leverage have on earnings quality.
2. For further researchers, this research has limitations, namely that it only uses ratios that are commonly used in company financial performance, such as Investment Opportunity Set, Corporate Governance, Liquidity, and Leverage. However, there are many more financial performance ratios for further research that can be used as an assessment of a company, such as capital structure, company size, and profit growth.

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