# GOOD CORPORATE GOVERNANCE, INVESTMENT OPPORTUNITY SET, AND FINANCIAL PERFORMANCE AS A DETERMINANT OF EARNING QUALITY

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**Abstract**
Financial reports contain beneficial information for their users, especially information about profits. Profit information that does not represent the honest truth about the company's economic health, then the quality of its earnings needs to be questioned. Users of financial reports want quality profits. Manipulation of profit quality can lead stakeholders to make wrong decisions in making business decisions about the company. This study aims to determine the effect of Good Corporate Governance, Investment Opportunity Set, and Profitability on profit quality. The population in this study was 45 banking sector companies listed on the Indonesia Stock Exchange in 2020-2022. The sample determination was carried out using the purposive sampling method, namely the selection of samples with several specific criteria, so that a sample of 20 banking sector companies was obtained. The data analysis technique used was multiple linear regression analysis. The results of this study indicate that the good corporate governance variable, proxied by managerial ownership, has a positive effect on profit quality, and then financial performance, proxied by ROA, has a positive effect on profit quality. While the investment opportunity set variable does not affect profit quality.
**Keywords:** managerial ownership, institutional ownership, independent board of commissioners, audit committee, investment opportunity, financial performance

*Abstrak*
*Laporan keuangan mengandung informasi yang bermanfaat bagi penggunanya, terutama informasi mengenai laba. Informasi laba yang tidak mewakili kebenaran jujur mengenai kesehatan perekonomian perusahaan, maka kualitas labanya perlu dipertanyakan. Pengguna laporan keuangan menginginkan keuntungan yang berkualitas. Manipulasi kualitas laba dapat menyebabkan pemangku kepentingan mengambil keputusan yang salah dalam mengambil keputusan bisnis tentang perusahaan. Penelitian ini bertujuan untuk mengetahui pengaruh Good Corporate Governance, Investment Opportunity Set, dan Profitabilitas terhadap kualitas laba. Populasi dalam penelitian ini adalah 45 perusahaan sektor perbankan yang terdaftar di Bursa Efek Indonesia tahun 2020-2022. Penentuan sampel dilakukan dengan metode purposive sampling yaitu pemilihan sampel dengan beberapa kriteria tertentu, sehingga diperoleh sampel sebanyak 20 perusahaan perbankan. Teknik analisis data yang digunakan adalah analisis regresi linier berganda. Hasil penelitian ini menunjukkan bahwa variabel good corporate governance yang diproksikan dengan kepemilikan manajerial berpengaruh positif terhadap kualitas laba, kemudian kinerja keuangan yang diproksikan dengan ROA berpengaruh positif terhadap kualitas laba. Sedangkan variabel investment opportunity set tidak berpengaruh terhadap kualitas keuntungan.*
*Kata Kunci: kepemilikan manajerial, kepemilikan institusional, dewan komisaris independen, komite audit, peluang investasi, kinerja keuangan*

## INTRODUCTION

Every company that goes public must report its financial statements. Financial statements are a means that can be used by an entity to communicate conditions related to its financial condition to interested parties, both internal and external to the entity. According to the Statement of Financial Accounting Standards (PSAK No. 1 2019:1), Financial statements are a structured presentation of the financial position and financial performance of an entity. This report displays the history of the entity quantified in monetary value.

Financial reports are used as a source of information to assess a company. Company information in the form of profit in financial reports, specifically for users of financial reports who make investment decision-making contracts, becomes important information (Sari et al., 2020). Profit is one of the most important parts of financial reports that attracts a lot of attention from external parties, because external parties, especially investors, tend to choose to invest in a company that has a high profit value or a company that experiences a significant increase in profit from year to year (Arifin, Herawati, 2020). Quality profit information is important considering the high interest of investors in investing in Indonesia (Santoso, Handoko, 2022).

Financial reports contain beneficial information for their users, especially information about profit. Information about profit is obtained through financial reports, especially the profit and loss report. The profit and loss report is a report that contains information about the company's performance in generating a profit. Information about profit measures the success or failure of a business in achieving its stated operational goals (Kurniawan and Aisah, 2020). Profit can be said to be of high quality if the reported profit can be used by users of financial reports to make the best decisions and meets the qualitative characteristics of financial reports, namely relevance and reliability (Fathussalmi et al., 2019).

Profit is used to measure the performance of a company, which is the information used by investors, creditors, and several other users to evaluate management performance, predict future profits, and predict future cash flows. According to Kurniawan et al. (2019), with the profit information owned by the company, financial reports can show how well a company manages its resources. Profit information that does not represent the honest truth about the company's economic health, then the quality of its profits needs to be questioned. Users of financial reports want quality profits.

According to (Polimpung, 2020), profit quality is an indicator for investors in investing their capital in a company. Managers must strive to improve the quality of the company's profits. According to Pujiati (2022), profit quality is the profit on financial statements that reflects the actual financial condition of a business. Profit quality is the difference between net profit on financial statements and actual profit, so that profit quality is reflected in financial performance results without manipulation.

The relationship between companies and investors is based on profit information. Manipulation of profit quality can lead stakeholders to make wrong decisions in making business decisions about the company (Suryati, 2020). In this study, the earnings response coefficient (ERC) is used to measure profit quality. The earnings response coefficient is a coefficient that measures the market reaction to the profit information presented. This measuring instrument is able to show that the market assesses the reported profit as having good quality or vice versa (Azizah et al., 2022).

Profit quality is influenced by several factors. The first factor is Good Corporate Governance. Good Corporate Governance, which can be abbreviated as GCG, is a system, procedure, or principle where a company can be directed and controlled by company management, directors, shareholders, and stakeholders to achieve a predetermined goal (Omolaye & Jacob, 2018). In 2014, the Financial Services Authority and the International Finance Corporation jointly issued the first corporate governance guidelines in Indonesia. Corporate governance is present as one way to provide confidence to investors as a factor in making investment decisions in a company (Rahmatiah et al., 2020).

The demand for good profit quality certainly makes company managers make every effort to prepare the most perfect financial reports for internal and external parties. The existence of this target does not rule out the possibility of problems of misaligned interests. These problems can be minimized by implementing the Good Corporate Governance (GCG) mechanism (Nia and Rahmawati, 2023). To maximize the quality of profit reflected in the financial statements and avoid earning management practices carried out by company management, a good corporate governance mechanism is needed, or often also referred to as corporate governance (CG) (Nanang & Tanusdjaja, 2019).

The concept of Corporate Governance was proposed to achieve transparency in company management for all users of financial reports. If this concept is implemented properly, the trust of investors and other parties will increase (Situmorang and Simanjuntak, 2019). Corporate Governance can be an obstacle for management that wants to take profit management actions and make investors believe in the profits informed by management (Fathussalmi et al., 2019).

Good Corporate Governance not only contributes to employees and management but also to stakeholders (W. Idawati & Hanifah, 2022). The mechanism of Good Corporate Governance is classified into two, namely internal and external. Where in the internal, the company is described by managerial ownership, an independent

board of commissioners, and an audit committee, while externally it is described by institutional ownership (Polimpung, 2020). This mechanism is expected to guarantee and supervise the governance system in the company to run according to the direction set by the company (Rahmawati & Retnani, 2019). When the implementation of good corporate governance has been carried out properly, it is certain that fraudulent practices such as earnings management can be controlled. The excellent internal condition of the company makes it easier for the principal to supervise agents who are given the authority to carry out operations (Arifin and Herawati, 2020). The implementation of Good Corporate Governance is expected to increase progress and progress for the company (Shinta Eka Kartika et al., 2023). Suryati (2020) in his research stated that Good Corporate Governance (GCG) has a significant positive effect on profit quality. This means that the better the implementation of Good Corporate Governance (GCG) in a company, the better the quality of its profits. Meanwhile, in a study conducted by (Polimpung, 2020), it was shown that not all variables contained in GCG influence profit quality. The variables that have an influence are managerial ownership and audit committees, while other variables have no influence.

Managerial ownership makes management minimize earnings management practices because they have ownership in the company. Managers are expected to act according to the orders of the principals by increasing share ownership, because managers are motivated to improve financial performance (Rahmawati and Retnani, 2019). With managerial ownership, the interests of agents and principals are aligned in improving company performance in obtaining quality profits (Sugianto and Sjarief, 2018).

(Jensen & Meckling, 1976) found that managerial ownership successfully became a mechanism to reduce agency problems of managers by aligning the interests of managers with shareholders. So that agency problems can be assumed to disappear if a manager is considered an owner. When management shares ownership is low, there is a tendency for opportunistic behavior of managers to increase as well (Winda Mulyani et al., 2022).

This mechanism is one way to balance the interests of shareholders and managers in making decisions. Managers tend to be wise because the consequences of the decision will affect them as shareholders. With high managerial ownership, earnings quality improves (Nadirsyah & Muharram, 2015). Research conducted by Arifin (2020) and Dachi & Herawaty (2017) states that managerial ownership has a positive effect on earnings quality. Meanwhile, research conducted by Dewi, Endiana, & Arizona (2020) found that managerial ownership did not affect earnings quality.

Institutional ownership is the concentration of company shares owned by agencies and institutions, and the existence of institutional ownership of insurance companies, banks, investment companies, and ownership from other institutions will encourage better supervision (Sunarto, 2018). Institutional ownership is the proportion of share ownership by institutions or institutions that can control management through an active monitoring process in improving performance to generate quality profits (Dewi, Endiana, & Arizona, 2020). The institutions in question are in the form of financial institutions, social security, mutual funds, investment companies, and other forms of institutions (Aningrum & Muslim, 2021).

(Jensen & Meckling, 1976) explain agency theory, namely an agreement between managers and owners in carrying out tasks for the benefit of the owner, where the owner entrusts the company's activities to the agent. Each party, both managers and owners, has different interests, namely, both want to improve their welfare and prosperity. Institutions can reduce the gap between the goals of agents and owners. This situation is because institutions can control the company's internal from supervision that is carried out effectively in order to minimize profit manipulation. Thus, the more share ownership by institutions, the greater the supervision of the company's managers' activities, so that the profits presented are of high quality. The results of research by Budianto et al., (2018), (Dewi, 2018) state that institutional ownership has a positive effect on profit quality, but in the research of (Polimpung, 2020), Rahmawati (2019) institutional ownership does not affect profit quality due to the lack of supervision in management performance.

The independent board of commissioners is a party that monitors corporate governance carried out by management so that it can provide an effective contribution to the results of preparing quality financial reports (Dewi, 2018). The board of commissioners is a company organ tasked with supervising and providing advice to the board of directors. However, the board of commissioners does not participate in decision-making, so the board of commissioners is expected to be more objective in assessing the company's performance in its financial reports, through the role of the board of commissioners regarding financial reporting supervision, management is expected to present quality profits (Atika, 2019).

The Board of Commissioners is responsible for supervising management policies, the course of management in general, both regarding the company and the company's business, and providing advice to the Board of Directors regarding the intent and purpose of the company (Fathussalmi et al., 2019). (According to Dewi et al., 2020) In carrying out the supervisory function, the board of commissioners can influence management in preparing financial reports so as to obtain quality profits. Supported by the research results of Eriandini (2019) and Atika (2019), stating that an independent board of commissioners has a positive effect on profit quality.

The audit committee is a committee formed by the board of commissioners to manage the company so that the information in the financial statements is of higher quality (Dewi, 2018). The audit committee has a role in maintaining the creation of a company's monitoring system in financial statements, observing external audits, and overseeing internal controls, which are expected to reduce opportunistic behavior in carrying out earnings management. The audit committee is expected to reduce earnings management activities that will affect the quality of financial reporting, one of which is earnings quality (Dewi et al., 2020). This is in line with research by Novieyanti and Kurnia (2016), which states that the audit committee has a positive effect on earnings quality. Internal governance mechanisms, such as the independence of the audit committee, significantly improve the quality of accounting information, thereby positively affecting stock prices and ERC (Saleh & BenMabrouk, 2024).

The second factor that affects profit quality is the Investment Opportunity Set (IOS). According to Sudaryo et al. (2019) Investment Opportunity Set (IOS) is a policy for investing that concerns the decision to allocate company funds from external parties to the company with various forms of investment. According to (Murniati, 2019) if the investment opportunities owned by the company are high, this shows the high profits generated and describes the company's stock price, then management will report the condition truthfully, in contrast if the company's investment opportunities are low, management will not report the actual conditions because management is considered not to have investment opportunities in the future. If the company's Investment Opportunity Set (IOS) is high, it will have an impact on the quality of profits presented by management, while if the Investment Opportunity Set (IOS) is low, it will have an impact on profit quality. IOS has a significant positive effect on income quality, as evidenced by a study focused on manufacturing companies in Indonesia (Sunarti et al., 2022). Companies with strong IOS are considered to have better growth prospects, leading to higher earnings quality and more favorable ERCs.

Research related to Investment Opportunity Set conducted by Zulman and Abbas (2019), Arif (2020), and (Aningrum & Muslim, 2021) found that Investment Opportunity Set has no significant effect on earnings quality. Conflicting results are shown by the research results of (Murniati, 2019), Kurniawan and Aisah (2020), and Ayem and Lori (2020), which prove that the Investment Opportunity Set has a positive effect on earnings quality. This shows that the higher the investment opportunities of a company, the higher the opportunity for growth, thus the profits generated in the financial statements are also of higher quality.

The last factor that affects the quality of a company's profit is financial performance. Financial performance is proxied by profitability. The concept of profitability is an idea about how a company can generate profits and perform well. Profitability shows the company's ability to make a profit (Sarahwati & Setiadi, 2022), which is important for the company to remain attractive to investors. Based on signal theory, profitability is one measure of performance. It is said to provide a good news signal if the profitability generated by the company has a high value. High profitability reflects the quality of the profit generated by the company that produces good value. Companies that have a high level of profitability will cause a high reaction from investors to their performance. Thus, the higher the profitability, the higher the ERC level tends to increase. Research conducted by (Sarahwati & Setiadi, 2022), (Santioso et al., 2021), and Rahmawati & Asyik (2020) also explains that profitability has a positive effect on ERC. Financial performance, as indicated by an increase in metrics such as ROA, can increase the value of the company, which in turn can positively affect ERC. This is because better financial performance often leads to higher investor confidence and more favorable reactions to earnings announcements (Subagio & Saraswati, 2022a).

Phenomena concerning profit quality often occur in various banking companies. In the banking industry, there are stricter regulations compared to other industries. This case once occurred in the Indonesian banking world, namely at Bank BRI Tapung Raya unit in 2011, which was proven to have transferred Rp1.6 billion and manipulated financial reports carried out by top management as the branch head for their interests. This was discovered by the audit and supervisory team from the BRI Bangkinang Branch on February 23, 2011. There

were irregularities in the results of the examination between the balance sheet and cash balances that were not balanced. After further and careful examination, it was discovered that there was a hanging transaction, namely the bookkeeping of a cash deposit of Rp1.6 billion originating from BRI Pasir Pengaraian II Unit to BRI Tapung Unit on February 14, 2011, but not accompanied by a physical delivery (Anadya, 2020). In addition, the next phenomenon concerning profit quality in banking in Indonesia is PT. Bank Lippo Tbk. In this case, the inclusion of the word "audited" in the Financial Report of PT. Bank Lippo Tbk, as of September 30, 2002, has implications for the calculation of accounts in it that look good but are not the actual conditions. The Financial Report submitted to the public on November 28, 2002, recorded total assets as of September 30, 2002, of Rp. 24.185 trillion, the current year's profit of Rp. 98.77 billion and CAR of 24.77%. At a glance, by reading this Report, investors see that the company's performance is running well.

Thus, the decisions taken by investors will benefit the company, for example, investors will make large-scale purchases of PT. Bank Lippo Tbk shares. This is certainly detrimental to investors because, based on incorrect information, the decisions taken are also not right (Bapepam LK). One of the causes of this condition is the lack of GCG implementation. This incident shows the weakness of GCG practices in Indonesia, leading to deficiencies in decision-making in companies and corporate actions.

The phenomenon of the case is a negative impact of the application of earnings management on the company. Accounting manipulation is the main trigger for some of these cases. However, earnings management does not have to be associated with efforts to manipulate accounting data or information, but rather tends to be associated with the selection of accounting methods to regulate profits that can be made because they are permitted, and as long as they are within the corridor of applicable financial accounting standards. Although there are deviations that result in financial scandals. This is evidence of the failure of corporate governance and also the weakness of the regulation and supervision carried out by the government.

Earnings quality is very interesting to study. At this time, earnings quality is something that is very much considered an interesting issue to study because earnings quality is related to accounting. In addition, there are many factors that cause a decrease in earnings quality in a company, namely because it has manipulated financial reports, so it is necessary to examine what factors cause the company to violate the regulations that have been set and manipulate its financial reports.

The underlying reason for the study using companies in the banking sector as the object of research is that the banking sector is one of the sectors that is expected to have quite bright prospects in the future, because currently, the daily activities of the Indonesian people cannot be separated from banking services. Banking companies are also companies that have made a significant contribution to state revenue. In addition, many banks have gone public, making it easier to see the financial position and performance of a bank (Akuba et al., 2021).

## LITERATURE REVIEW AND HYPOTHESIS
### Agency Theory

Agency theory is a working relationship between a principal (owner) and an agent (manager). As an agent, you are morally responsible for optimizing the principal's profits, but on the other hand, agents also have an interest in maximizing their welfare. Therefore, it is likely that agents do not always act in the best interests of the principal, thus creating an agency problem (Jensen & Meckling, 1976). In agency theory, an agency relationship arises when one or more people (principals) employ another person (agent) to provide a service and delegate decision-making authority to the agent. Agents are company management who are tasked with managing the company's resources entrusted to them by the principal (Zabrina and Widiatmoko, 2022).

Agency conflict is a conflict between the interests of the owner (principal) and management (agent). This occurs when there are differences in interests between the two parties. For example, management is interested in obtaining large rewards while the company owner is interested in maximizing the welfare and profits of the company (Giovanni et al., 2021).

Management (agent) and shareholders (principal) want to maximize their respective prosperity with the information they have. On the one hand, agents have more information than principals, because management directly manages the company. Meanwhile, for capital owners, in this case investors, it will be difficult to effectively control the actions taken by management because they have little information. Agency conflicts that give rise to opportunistic management will result in low profit quality (Narita & Taqwa, 2020).

Arisonda (2018) argues that the relationship between agency theory and earnings quality lies in the agency relationship between management and company profits. Company management is fully responsible for its efforts to manage and obtain quality profits. Good earnings quality will inform investors about the condition and performance of the company and provide a good picture of the company's performance to investors as a means of making the right decisions. This is because investors tend to focus more on companies with high or stable earnings quality; companies with stable and quality profits are considered to be able to promise the profits and returns desired by investors (Rizqi, Murdayanti, and Utaminingtyas, 2020).

**Signal Theory**

In the formulation of signaling theory, Spence (1973) argued that signals and what signals convey signal delivery in the labor market are connected to economic indicators as a model of signaling function. Signal theory is a theory that explains how a company gives signals to users of financial statements. Users of financial statements need information to be used in analyzing or making a decision (Rina Hariati, 2017).

This information is very important because it contains various things such as reviews, notes, descriptions or descriptions of the condition of a company in the past, present, and prospects of the company. Various reviews, notes, descriptions, or other information are a real signal for potential investors in making investments. Investor decisions are influenced by the quality of information disclosed by the company in the financial statements (Hernita and Ginting, 2020).

Signaling theory provides a way for companies to give signals to users of financial statements. The existence of information asymmetry between companies and external parties results in different signaling mechanisms. Lack of external information about the company causes them to protect themselves by giving low prices to the company, and external parties who do not have information will have the same perception of the company's value (Fitriah, 2020).

Thus, signal theory predicts that companies will report information about the company's condition more openly and fairly, including information about the company's profits (Narita & Taqwa, 2020). The signals owned by the company are able to show the quality of the company. The better the quality of the company, the more it will be able to attract market response to the company. With the signals given by the company, it is hoped that the market will be able to distinguish between good and bad company quality (Rina Hariati, 2017).

The theory of signaling and good governance states that stakeholders will interpret information about the implementation of good governance by an entity as a positive signal. The explanation is that stakeholders believe that businesses that use GCG will consider their interests more. This good signal will elicit a response from stakeholders that will encourage an increase in the entity's monetary performance (Atika, 2023).

The relationship between signal theory and IOS, where companies can make investments by seeing positive signals regarding the opportunity for possible profits from future investments (Lucky, 2019). Signaling theory emphasizes the importance of reports presented by companies to be used as investment decision-making for investors (Nopiyani et al., 2018). Information published as an announcement will provide a signal for investors in making investment decisions (Isnania and Wahidahwati, 2018).
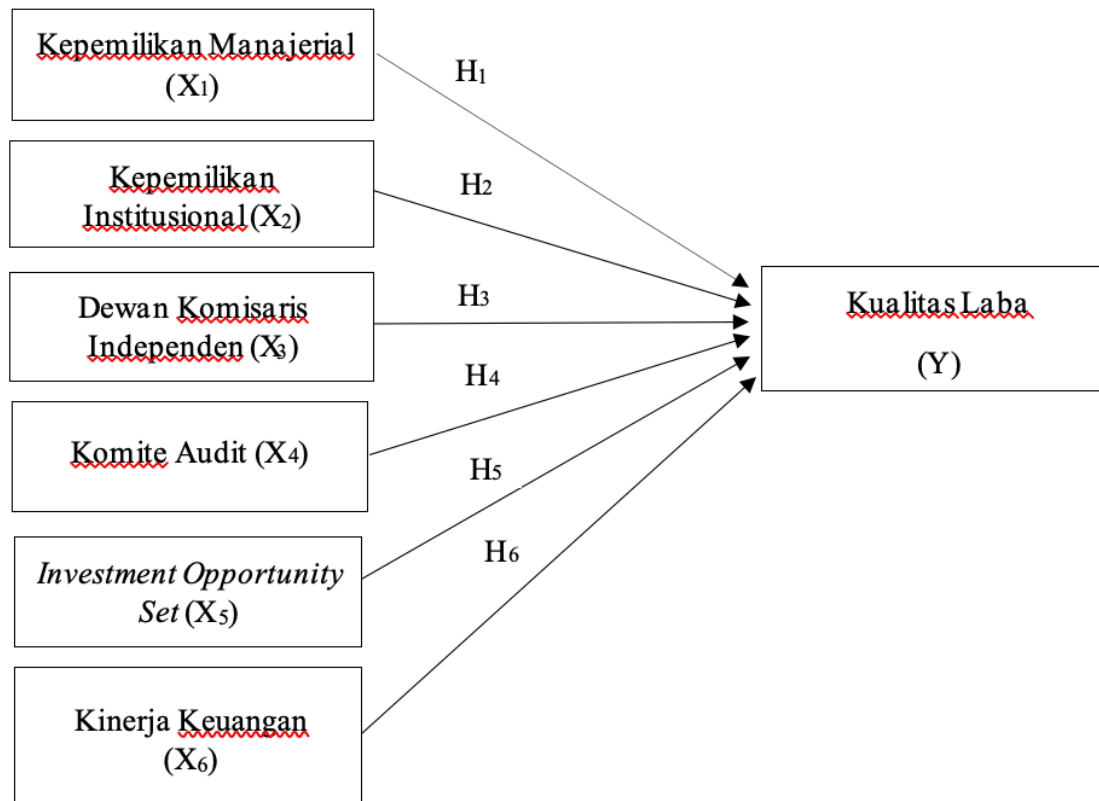
Figure 1. Research Concept

**Hypothesis**
H1: Managerial ownership has a positive effect on earnings quality.
H2: Institutional ownership has a positive effect on earnings quality.
H3: An Independent board of commissioners has a positive effect on earnings quality.
H4: The audit committee has a positive effect on earnings quality.
H5: Investment Opportunity Set has a positive effect on profit quality.
H6: Financial performance has a positive effect on profit quality.

**RESEARCH METHODS**

Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions drawn (Sugiyono, 2018, p. 136). The population in this study was banking sector companies listed on the Indonesia Stock Exchange in 2020-2022. The population in this study was 45 companies. The sample is part of the population to be studied. The sample collection technique in this study was by using the purposive sampling technique, which is a sample determination technique by categorizing companies based on certain criteria. The company criteria used in determining the sample in this study are as follows:

1. Banking sector companies listed consecutively on the IDX from 2020-2022.
2. Banking sector companies that published full annual reports from 2020-2022.
3. Banking sector companies did not experience losses in the 2020-2022 period.
4. Banking sector companies that have managerial ownership and institutional ownership.

**Table 1. Sampling Determination Criteria**

| No | Criteria | Amount |
|---|---|---|
| 1 | Banking sector companies listed consecutively on the IDX from 2020-2022. | 45 |
| 2 | Banking sector companies that did not publish complete annual reports from 2020-2022. | (5) |
| 3 | Banking sector companies experienced losses in the 2020-2022 period. | (10) |
| 4 | Banking sector companies that do not have managerial ownership or institutional ownership. | (7) |
| | Number of Samples Based on Criteria | 23 |
| Outlier | | 3 |
| | Number of Samples Based on Criteria after Outliers | 20 |
| | Number of Observations 2020-2022 (3x20) | 60 |

Source: Processed data, 2025

**Table 2. Company Sample Data**

| No | Code | Company name |
|---|---|---|
| 1. | BBCA | Bank Central Asia Tbk. |
| 2. | BBHI | Allo Bank Indonesia Tbk. |
| 3. | BBMD | Bank Mestika Dharma Tbk. |
| 4. | BNI | Bank Negara Indonesia (Persero) Tbk. |
| 5. | BBRI | Bank Rakyat Indonesia (Persero) Tbk. |
| 6. | BBTN | State Savings Bank (Persero) Tbk. |
| 7. | BDMN | Bank Danamon Indonesia Tbk. |
| 8. | BJBR | Regional Development Bank of West Java and Banten Tbk. |
| 9. | BJTM | East Java Development Bank Tbk. |
| 10. | BMAS | Bank Maspion Indonesia Tbk. |
| 11. | BMRI | Bank Mandiri (Persero) Tbk. |
| 12. | BNBA | Bank Bumi Arta Tbk. |
| 13. | BNGA | Bank CIMB Niaga Tbk. |
| 14. | BRIS | Bank Syariah Indonesia Tbk. |
| 15. | BSIM | Bank Sinarmas Tbk. |
| 16. | BTPN | Bank BTPN Tbk. |

| 17. | BTPS | Bank BTPN Syariah Tbk. |
| 18. | MAYA | Bank Mayapada International Tbk. |
| 19. | MCOR | Bank China Construction Bank Indonesia Tbk. |
| 20. | NISP | Bank OCBC NISP Tbk. |
| 21. | NOBU | Bank National Nobu Tbk. |
| 22. | PNBN | Bank Panin Indonesia Tbk. |
| 23. | SDRA | Bank Woori Saudara Indonesia 1906 Tbk. |

Source:www.idx.ac.id, 2025

Good Corporate Governance this study, it is measured by managerial ownership, an independent board of commissioners, an audit committee, and institutional ownership.

1. Managerial Ownership

   Managerial ownership in this study is measured by comparing the value of shares owned by management with the number of shares outstanding in the company (Aningrum & Muslim, 2021).

   $$\text{Managerial Ownership} = \frac{\text{Number of managerial shares}}{\text{Number of shares outstanding}} \times 100\%$$

2. Independent Board of Commissioners

   The proportion of independent board of commissioners in this study was measured by comparing the number of independent commissioners with all members of the independent board of commissioners in the company (Aningrum & Muslim, 2021).

   $$\text{Independent Board of Commissioners} = \frac{\text{Number of independent commissioners}}{\text{Total members of the board of commissioners}} \times 100\%$$

3. Audit Committee

   The audit committee in this study was measured by accumulating the number of audit committee members (I. A. A. Idawati, 2022).

   $$\text{Audit Committee} = \sum \text{Audit Committee}$$

4. Institutional Ownership

   Institutional ownership in this study is measured by comparing the value of shares owned by institutions with the number of shares outstanding in the company (Aningrum & Muslim, 2021).

   $$\text{Institutional Ownership} = \frac{\text{Number of institutional shares}}{\text{Number of shares outstanding}} \times 100\%$$

The investment opportunity set in this study is measured based on a price-based proxy with the ratio of market value to book value of assets (MVBVA). The MVBVA ratio measures the company's growth prospects based on the number of assets used by the company in running its operations (Aningrum & Muslim, 2021). Systematically formulated as follows:

$$\text{MVBVA} = \frac{(\text{Total Assets - Total Equity}) + (\text{Shares Outstanding} \times \text{Closing Price})}{\text{Total Assets}}$$

Financial performance in this study is measured by Return on Assets (ROA). ROA is a profitability indicator that measures a company's ability to generate profits from total assets owned. ROA is calculated using the formula:

ROA Net Profit/Total Assets×100%

Earnings quality in this study is measured using the Earning Response Coefficient (ERC) by regressing the CAR (Cumulative Abnormal Return) and Unexpected Earnings values (Narita and Taqwa, 2020). Calculating ERC using the formula:

ERC is the coefficient ($\beta$) obtained from the regression between CAR and UE.

$CAR_{it} = \alpha + \beta\, UE_{it} + e$

Information:

$UE_{it}$ Unexpected Earnings of company i in year t

$\alpha$ = Constant

$\beta$ = Coefficient indicating ERC

e = Error

If statistically the $\beta$ value is not equal to zero, it means that profit does contain information, or it can be said that profit has a direct relationship with the company's return (Fitriah, 2020).

The data analysis technique used in this study is multiple linear regression analysis. To produce accurate data analysis, computer statistical programs are used, namely SPSS and Stata.

## RESULTS AND DISCUSSION
### Research result

### Table 3. Descriptive Statistics

|  | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| X1 | 60 | .0000000 | .0020942 | .000243913 | .0003337083 |
| X2 | 60 | .4300 | .9800 | .801333 | .1348504 |
| X3 | 60 | .3300 | .7000 | .561833 | .0833106 |
| X4 | 60 | 2.0000 | 8.0000 | 4.083333 | 1.3690485 |
| X5 | 60 | 15.7950 | 802.5170 | 253.691250 | 215.1032585 |
| X6 | 60 | .0001 | .0841 | .015785 | .0170539 |
| Y | 60 | -.3800 | .3160 | .030067 | .1398678 |
| Valid N (listwise) | 60 |  |  |  |  |

Source: Processed data, 2025

### Classical Assumption Test

### Table 4. Normality Test

One-Sample Kolmogorov-Smirnov Test

|  |  |  | Unstandardized Residual |
|---|---|---|---|
| N |  |  | 60 |
| Normal Parameters[a,b] | Mean |  | .0000000 |
|  | Std. Deviation |  | .12106648 |
| Most Extreme Differences | Absolute |  | .066 |
|  | Positive |  | .066 |
|  | Negative |  | -.049 |
| Test Statistics |  |  | .066 |
| Asymp. Sig. (2-tailed)[c] |  |  | .200d |
| Monte Carlo Sig. (2-tailed)[e] | Sig. |  | .742 |
|  | 99% Confidence Interval | Lower Bound | .731 |
|  |  | Upper Bound | .754 |

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 926214481.
Source: Processed data, 2025

Based on the results of the normality Kolmogorov-Smirnov table shows that the coefficient Asymp. Sig. (2-tailed) of 0.200 with a significance value above 0.05, which means that the residual value is normally distributed or meets classical assumptions.

**Table 5. Multicollinearity Test**

**Coefficientsa**

| Model | | Collinearity Statistics Tolerance | VIF |
|---|---|---|---|
| 1 | X1 | .911 | 1,097 |
| | X2 | .749 | 1,335 |
| | X3 | .859 | 1.164 |
| | X4 | .824 | 1.214 |
| | X5 | .716 | 1,397 |
| | X6 | .783 | 1.277 |

a. Dependent Variable: Y
Source: Processed data, 2025

Based on the results of the multicollinearity test in Table 5, it can be seen that the tolerance value for each variable is greater than 0.10 and the Variance Inflation Factor (VIF) value for each variable all has a value of less than 10. So it can be concluded that in model regression, no multicollinearity occurs, so it can be used in research.

**Table 6. Heteroscedasticity Test**

**Coefficientsa**

| Model | | Unstandardized Coefficients B | Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | .107 | .018 | | 5.934 | .000 |
| | X1 | .011 | .012 | .139 | .968 | .338 |
| | X2 | .003 | .012 | .040 | .286 | .776 |
| | X3 | .006 | .013 | .070 | .480 | .633 |
| | X4 | -.015 | .008 | -.265 | -1.911 | .061 |
| | X5 | .011 | .018 | .080 | .573 | .569 |
| | X6 | .010 | .009 | .155 | 1.122 | .267 |

a. Dependent Variable: Absolute Residual
Source: Processed data, 2025

Based on the results of the Glejser Test in Table 6, the significance value of the variables of managerial ownership, institutional ownership, independent board of commissioners, audit committee, investment opportunity set, and financial performance each has a significance of more than 0.05. This means that the research variables do not contain symptoms of heteroscedasticity.

**Table 7. Autocorrelation Test**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .501a | .251 | .166 | .1277356 | 2.119 |

a. Predictors: (Constant), X6, X4, X3, X1, X2, X5

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b. Dependent Variable: Y
Source: Processed data, 2025

Based on the results of the Durbin-Watson test in Table 7, it shows that the statistical value of DW is 1.932, and the comparative table value based on profit data, by looking at the DW table, the dL value = 1.4272, while the dU value = 1.8028. So that dU < dw < (4-dU) is obtained with the result (1.8028 < 2.119 < 2.1972), it can be concluded that the data in the model does not have autocorrelation between independent variables.

**Table 8. Model Testing Results**

| Model | Model Testing | | | Model |
|---|---|---|---|---|
| | Chow test | Hausman test | LM test | Best |
| 1 | F statistic= 0.0976 Prob. = 0.4686 | Chi square= 6.35 Prob. = 0.2738 | Chi square= 0.00 Prob. = 1,000 | CE |

Based on the test results, the common effect model is the appropriate model to use in this study.

**Table 9. Multiple Linear Regression Analysis**

```
    Source | SS df MS Number of obs = 60
-------------+--------------------------------------------- F(6, 53) = 2.96
    Models | .289449248 6 .048241541 Prob > F = 0.0145
    Residuals | .864768485 53 .016316387 R-squared = 0.2508
-------------+--------------------------------------------- Adj R-squared = 0.1660
    Total | 1.15421773 59 .019563012 Root MSE = .12774


---------------------------------------------------------------------------
    Y | Coef. Std. Errr. t P>|t| [95% Conf. Intervals]
-------------+--------------------------------------------------------------
    X1 | -196.8655 52.20314 -3.77 0.000 -301.5717 -92.15923
    X2 | -.2023061 .1424802 -1.42 0.161 -.4880852 .083473
    X3 | .0558709 .2153314 0.26 0.796 -.3760292 .4877711
    X4 | .0086287 .0133833 0.64 0.522 -.0182148 .0354723
    X5 | .0000327 .0000914 0.36 0.722 -.0001505 .000216
    X6 | -2.48613 1.102018 -2.26 0.028 -4.696498 -.2757619
   _cons | .2045181 .2114111 0.97 0.338 -.2195189 .628555
---------------------------------------------------------------------------
```
Source: Processed data, 2025

Based on Table 9, the influence of managerial ownership, institutional ownership, independent board of commissioners, audit committee, investment opportunity set, and financial performance is explained as follows:

1.  The Influence of Managerial Ownership on Earnings Quality
    Based on the results of the t-statistic test, the effect of managerial ownership on earnings quality shows a significance value of 0.000. At a significance level of α = 5% then the regression coefficient is not significant because the significance value of 0.000 <0.05, which means that managerial ownership affects earnings quality. Therefore, H1, which states that managerial ownership has an effect, is accepted.

2.  The Effect of Institutional Ownership on Earnings Quality. Based on the results of the t-statistic test of the effect of Institutional Ownership on Earnings Quality, it shows that the significance value is 0.161. At the significance level of α = 5% then the regression coefficient is not significant because the significance value of 0.161> 0.05, which means that institutional ownership does not affect earnings quality. Therefore, H2, which states that institutional ownership has a positive effect, is rejected.

3. The Influence of the Independent Board of Commissioners on Profit Quality
   Based on the results of the t-statistic test of the influence of the Independent Board of Commissioners on Earnings Quality, it shows that the significance value is 0.796. At the significance level of α = 5% then the regression coefficient is not significant because the significance value of 0.796> 0.05, which means that the independent board of commissioners does not affect earnings quality. Therefore, H3, which states that the independent board of commissioners has a positive effect, is rejected.

4. The Influence of the Audit Committee on Earnings Quality
   Based on the results of the statistical test t the influence of the Audit Committee on Earnings Quality shows that the significance value is 0.522. At the significance level α = 5% then the regression coefficient is not significant because the significance value of 0.522> 0.05, which means that the audit committee does not affect earnings quality. Therefore, H4, which states that the audit committee has a positive effect, is rejected.

5. The Influence of Investment Opportunity Set on Profit Quality
   Based on the results of the statistical test t the influence of Investment Opportunity Set on Earnings Quality shows that the significance value is 0.722. At the significance level α = 5%, the regression coefficient is significant because the significance value of 0.722> 0.05, which means that Investment Opportunity Set does not have a significant effect on earnings quality. Therefore, H5 is rejected.

6. The influence of financial performance on earnings quality
   Based on the results of the t-statistic test of the effect of financial performance on Earnings Quality, it shows that the significance value is 0.028. At the significance level α = 5% then the regression coefficient is not significant because the significance value of 0.028 <0.05, which means that financial performance affects earnings quality. Therefore, H6 is accepted.

Based on the results of Table 9, it can be seen that the Adjusted R Square value is 0.166, which means that the variability of the dependent variable can be explained by the independent variable by 16.6%. Meanwhile, the rest is explained by other variables outside the research model.

**Discussion**
**The Influence of Good Corporate Governance on Profit Quality**
The results of this test indicate that managerial ownership affects the quality of earnings in banking sector companies listed on the Indonesia Stock Exchange, which means that the first hypothesis (H1) is accepted. Conversely, the second, third, and fourth hypotheses are rejected. Managerial ownership is the amount of share ownership held by managers, by increases management performance to obtain quality profits (Dewi, 2018). Managerial ownership makes management minimize earnings management practices because they have ownership in the company. Managers are expected to act according to the orders of the principals by increasing share ownership, because managers are motivated to improve financial performance (Rahmawati and Retnani, 2019). With managerial ownership, the interests of agents and principals are aligned in improving company performance in obtaining quality profits (Sugianto and Sjarief, 2018). Based on research conducted by Novieyanti and Kurnia (2016), it was stated that managerial ownership has a positive effect on earnings quality. This study is in line with research conducted by Niwat and Erawati (2023) which states that managerial ownership has a positive effect on earnings quality, and is by the theory that states that the greater the management ownership in the company, the management will tend to try to improve its performance and the quality of financial reporting reported by managers will be better. In some contexts, managerial ownership is associated with increased earnings quality because managers with shares in the company are incentivized to report more accurate financial results (Aldoseri & Hussein, 2024; Safitri et al., 2023). Research also conducted by Silin et al. (2018), Widjayanti (2018), and Setyarini et al. (2020) proves that managerial ownership has a positive and significant effect on earnings quality. Conversely, other studies show that high levels of managerial ownership can lead to earnings management practices that have a negative impact on earnings quality (Paryati, 2024).

**The Influence of Investment Opportunity Set on Profit Quality**
The fifth hypothesis states that the investment opportunity set does not affect the quality of earnings in banking sector companies listed on the Indonesia Stock Exchange. The results of this test indicate that the investment opportunity set does not affect the quality of earnings in banking sector companies listed on the Indonesia Stock

Exchange, which means that the fifth hypothesis (H5) is rejected. The relationship between Investment Opportunity Set (IOS) and earnings quality has been studied extensively, with findings showing that IOS does not significantly affect earnings quality in various sectors. Research on banks listed on the Indonesia Stock Exchange (IDX) from 2019 to 2021 found that IOS, along with other factors such as capital structure and liquidity, did not have a significant impact on earnings quality (Lestari & Nasution, 2024). A study focusing on non-cyclical consumer companies also concluded that IOS did not significantly affect earnings quality, although other factors such as capital structure showed some effects (Umammi & Azzahra, 2024). Similarly, research in the food and beverage sector shows that IOS has no significant effect on earnings quality during the period 2016-2019 (Yusuf et al., 2022). Even when considering moderating variables such as conservatism, IOS still does not show a significant effect on earnings quality (Narita & Taqwa, 2020). Overall, the consensus across these studies suggests that while IOS is an important aspect of investment analysis, it does not improve earnings quality. However, it is important to consider that other factors, such as managerial ownership and capital structure, may play a more important role in determining earnings quality, indicating complex variable interactions in financial performance analysis.

**The influence of financial performance on profit quality**

The sixth hypothesis states that financial performance has a positive effect on earnings quality in banking sector companies listed on the Indonesia Stock Exchange. The results of this test indicate that financial performance has a positive effect on earnings quality in banking sector companies listed on the Indonesia Stock Exchange, which means that the sixth hypothesis (H6) is accepted. Financial performance is proxied by profitability. The concept of profitability is an idea about how a company can generate profits and perform well. Profitability shows the company's ability to generate profits (Sarahwati & Setiadi, 2022), which is important for the company to remain attractive to investors. Based on signal theory, profitability is one measure of profitability performance, which is said to provide a good news signal if the profitability generated by the company has a high value. High profitability reflects the quality of the profit generated by the company that produces good value. Companies that have a high level of profitability will cause a high reaction from investors to their performance. Thus, the higher the profitability, the higher the ERC level tends to increase. Research conducted by(Sarahwati & Setiadi, 2022), (Santioso et al., 2021), and Rahmawati & Asyik (2020) also explains that profitability has a positive effect on ERC. Financial performance, as indicated by an increase in metrics such as ROA, can increase the value of the company, which in turn can positively affect ERC. This is because better financial performance often leads to higher investor confidence and more favorable reactions to earnings announcements (Subagio & Saraswati, 2022b).

**CONCLUSION**

This study aims to test whether good corporate governance, investment opportunity set, and financial performance affect the quality of earnings in banking sector companies listed on the Indonesia Stock Exchange in 2020-2022. The results of this study indicate that the good corporate governance variable, proxied by managerial ownership, has a positive effect on earnings quality, and then financial performance, proxied by ROA, has a positive effect on earnings quality. Meanwhile, the investment opportunity set variable does not affect earnings quality. Based on the research results and conclusions that have been obtained, the author can propose several suggestions. Further research is expected to add research samples or other types of industries, so that it is expected to be possible to generalize the research findings. In addition, further researchers are expected to add other independent variables that can affect earnings quality, such as company size, capital structure, profit growth, and liquidity, which have the potential to have a significant effect on earnings quality. Based on this study, it is expected that the companies studied will increase their investment opportunity set. With a high investment opportunity set in the company, the company will continue to grow so that it can reduce the possibility of the company manipulating earnings, where the quality of earnings will also increase, and the company will also be viewed positively because it can attract investors to invest their capital.

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