Analysis of Factors Affecting Profit Quality in Timber and Processing Sub-Sector Companies Listed on the Indonesia Stock Exchange

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Keywords:	Abstract
Earnings quality , profitability, leverage, company size and investment opportunity set .	Profit information is one of the most important parts of financial reports that attracts a lot of attention from investors, because investors tend to choose to invest in companies that experience an increase in profits every year. This research aims to analyze the influence of profitability, leverage, company size and Investment Opportunity Set (IOS) on earnings quality. The sampling technique used was using a saturated sampling technique. The sample in this research is 4 companies in the wood and processing sub-sector that have been listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. The data in this study was processed using the SPSS version 26 application with the multiple linear regression analysis method. The hypothesis testing method uses a significance level of 5% or 0.05. The research results show that 1) the profitability variable has no effect on earnings quality, 2) the leverage variable has an effect on earnings quality, 3) the company size variable has no effect on earnings quality, and 4) the investment opportunity set variable has an effect on earnings quality. From this research, the results obtained show that the variables profitability, leverage, company size and investment opportunity set have a simultaneous influence on earnings quality. Partially, the profitability and company size variables have no effect on earnings quality, while the leverage and investment opportunity set variables have an effect on earnings quality.

1. INTRODUCTION

The increasingly rapid development of the business world demands the role of managers to be able to improve performance in order to survive amidst business competition in realizing company goals . Financial reports are needed by external parties to assess company performance. Profit information is one of the most important parts of financial reports that attracts the attention of many investors, because investors tend to choose to invest in companies that experience an increase in profits every year. (Sadiah & Priyadi, 2015) .

Earnings quality is the level of information on earnings that shows the extent to which earnings can influence decision making and will be used by investors to assess company performance (Syanita & Sitorus, 2020) . Information on past profits is used by investors to assess the company's prospects for generating profits in the future. Therefore, the profits stated in the financial statements must

be of high quality so that they can be relied on by decision makers (investors). Factors that can influence earnings quality include: Profitability , leverage , company size (Herninta & Ginting, 2020) and investment opportunity set (Susanti et al., 2021) . Profitability is the company's ability to generate profits in its operating activities (Herninta & Ginting, 2020) . Profitability in this research is proxied by the Return On Asset (ROA) ratio. Leverage is a ratio used to measure a company's ability to utilize its assets and sources of funds financed by debt (Sadiah & Priyadi, 2015) . In this research, leverage is measured by the Debt to Equity Ratio (DER).

Company size is a scale that shows the size of a company using a ratio scale including: total assets, total sales, log size and stock market value (Safitri & Afriyenti, 2020) . Company size in this study is measured by naturalizing the company's total assets. Investment opportunity set is an alternative future investment that can influence the

growth of company or project assets that have a positive net present value (Dewi et al., 2020) . In this research, IOS is measured using the Market to Book Value of Equity (MBVE) ratio.

This research uses manufacturing companies , namely the wood and processing sub-sector which are listed on the Indonesia Stock Exchange (BEI), whose activities are processing wood materials into sawn pulp and plywood. Companies that are members of the wood and processing sub-sector which are listed on the Indonesia Stock Exchange include: PT SLJ Global Tbk (SULI), PT Tirta Mahakam Resources Tbk (TIRT), PT Singaraja Putra Tbk (SINI) and PT Indonesia Fibreboard Industry Tbk (IFII).

The movement of net profit at PT SLJ Global Tbk experienced an increase in losses from IDR (128.65) billion in 2019 to IDR (296.99) billion in 2020. At PT Tirta Mahakam Resources Tbk experienced a decrease in profit from IDR (51.74) billion in 2019 to IDR (414.39) billion in 2020. This decrease was generally caused by a decrease in selling prices and an increase in operating expenses as well as unrealized exchange losses.

Debt to PT SLJ Global Tbk increased from IDR 1.39 Trillion in 2019 to IDR 1.45 Trillion in 2020 and IDR 1.48 Trillion in 2021 due to the increase in prices of raw materials and transportation. Debt to PT Tirta Mahakam Resources Tbk increased from IDR 785.04 billion in 2020 to IDR 797.42 billion in 2021 due to principal payments on bank debt and an increase in shareholder debt. Debt to PT Singaraja Putra Tbk increased from IDR 125.13 billion in 2020 to IDR 134.95 billion in 2021 due to an increase in long-term bank debt and employee benefits liabilities. Debt to PT Indonesia Fibreboard Industry has increased from IDR 74.72 billion to IDR 75.36 billion in 2021 due to an increase in business debt and long-term bank debt.

Capital at PT SLJ Global Tbk decreased from IDR 63.44 billion in 2019 to IDR (255.18) billion in 2020 due to a decrease in comprehensive profit for the year. Capital at PT

Tirta Mahakam Resources Tbk decreased from IDR 35.94 billion in 2019 to IDR (390.32) billion in 2020 and IDR (514.75) billion in 2021 due to a decrease in selling prices, loan interest expenses. banks and unrealized exchange losses.

Based on this background, this research aims to determine and analyze the influence of profitability, leverage, company size and investment opportunity set on earnings quality. So the researcher raised the research title "Factors that Influence the Quality of Profits in Companies in the Wood and Processing Sub-Sector Listed on the Indonesian Stock Exchange".

2. LITERATURE REVIEW
2.1 Quality of Earnings

Earnings quality represents an evaluation of a company's ongoing profits, aiming to accurately reflect its financial condition (Susanti et al., 2021). Profit quality improves when planned targets are met. Conversely, earnings quality diminishes when targets aren't achieved according to initial plans. If a company reports profits contrary to its actual situation, the profit information may become biased and misguide financial statement users in their decision-making (Herninta & Ginting, 2020). Earnings quality is quantified through the Earnings Quality (EQ) ratio, which measures the correlation between cash flow and net profit. A higher EQ ratio signifies higher profit quality within the company (Murniati et al., 2018).

To calculate earnings quality using the EQ ratio, you can utilize the following formula (Murniati et al., 2018): EQ Ratio = Cash Flow Net Profit EQ Ratio= Net Profit Cash Flow This formula aids in assessing how effectively a company's reported profits align with its actual cash flow, providing valuable insights into the reliability of its financial performance:

$$EQ = \frac{\text{Cash Flow From Operating Activity}}{\text{EBIT}}$$

Information:
EQ   = Earning Quality
EBIT   = Earnings Before Interest and Taxes

2.2 Profitability

Profitability signifies a company's capacity to generate profits from its operational activities (Herninta & Ginting, 2020). Typically, there are four types of ratios employed to gauge profitability levels: gross profit margin, operating profit margin, net profit margin, return on assets, and return on equity (Novika & Siswanti, 2022). In this study, profitability is assessed using the Return on Assets (ROA) ratio. ROA measures a company's ability to generate profits by efficiently utilizing its assets (Mahendra & Wirama, 2017). To calculate ROA, the following formula is applied (Herninta & Ginting, 2020). Profit This formula allows for the evaluation of how effectively a company generates profits in relation to the total assets it possesses, offering valuable insights into its financial performance:

$$ROA = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

Information:
ROA   = Return On Assets

2.3 Leverage

Leverage refers to a company's capability to leverage its assets and funding sources through debt financing (Sadiah & Priyadi, 2015). Leverage ratios encompass metrics such as the debt to asset ratio, debt to equity ratio, long-term debt to equity ratio, and times interest earned (Anam & Zuardi, 2018). In this research, leverage is quantified using the debt to equity ratio (DER). This ratio compares the total debt with the company's total capital over a specific period (Sukmawati et al., 2014). The DER calculation model is as follows (Herninta & Ginting, 2020) :

$$DER = \frac{\text{Total Liabilitas}}{\text{Total Ekuitas}}$$

Information:
DER   = Debt to Equity Ratio

2.4 Company Size

Company size is a scale that shows the size of a company using a ratio scale including: total assets, total sales, log size and stock market value (Safitri & Afriyenti, 2020) . The size of the company in this study was obtained by naturalizing the total assets owned by the company. Total assets are a reflection of the size of the company which shows that the greater the total assets of the company, the larger the size of the company (Safitri & Afriyenti, 2020) . The following is the formula for calculating company size (Situmorang, 2017) :

$$\text{Size} = \text{Ln (Total Assets)}$$

Information:
Size/Firm Size = Company size
Ln   = Natural Logarithm

2.5 Investment Opportunity Set

The Investment Opportunity Set (IOS) serves as a gauge for a company's future growth prospects. IOS is substantially influenced by the company's expenditures in a given period, which are determined by management in their pursuit of opportunities for continued development (Susanti et al., 2021). In this research, the Investment Opportunity Set is proxied using the Market to Book Value of Equity (MBVE) ratio. MBVE represents the IOS ratio, derived from the market price, and assesses a company's growth potential based on its ability to acquire and manage equity effectively (Amalia & Wahidahwati, 2022). To calculate MBVE, you can use the following formula (Putri & Setiawan, 2019) :

$$MBVE = \frac{\text{Jumlah Saham Beredar X Harga Saham Penutup}}{\text{Total Ekuitas}}$$

Information:
MBVE   = Market t o Book Value o f Equity

2.6 The Effect of Profitability on Earnings Quality

A company with high profitability indicates that the company has a good ability to generate profits, whereas a company with low profitability will also show low profit quality (Anjelica & Prasetyawan, 2014). But companies with high profitability there are high concerns about carrying out profit manipulation practices which are indicated to be low. This can cause the true condition of the company to become invisible. This research is strengthened by the results of research conducted by Kepramareni et al., (2021) and Soly & Wijaya, (2017) which states that profitability influences earnings quality.

H_1 : Profitability influences earnings quality

2.7 The Effect of Leverage on Earnings Quality

Debt can be used to save taxes, because debt interest can be used as a reduction in the tax burden so this is one of the motivating factors for companies to use debt as a source of funding (Herninta & Ginting, 2020) . However, difficulties in paying debts can affect the company's profits, resulting in low profit quality. This is reinforced by the research results of Herninta & Ginting (2020) and Dewi et al., (2020) which state that leverage has an effect on earnings quality.

H_2 : Leverage affects earnings quality

2.8 The Influence of Company Size on Earnings Quality

The larger the size of a company, the higher the company's business continuity in improving its financial performance, so that the company does not need to practice profit manipulation because the information contained in its financial reports is more transparent (Sa'diya et al., 2019) . This is reinforced by the results of research conducted by Herninta & Ginting (2020) and Kepramareni et al., (2021) which states that company size influences earnings quality.

H_3 : Company size influences earnings quality

2.9 The Influence of Investment Opportunity Set on Earnings Quality

If the company has a high IOS, then the reported profit is the actual profit and indicates that the company has opportunities to grow in the future and the resulting profit can reflect the company's share price. On the other hand, if the IOS value is low, the company will hide the true condition of the company because this will attract the public to assume that the company has no investment alternatives for the future (Murniati et al., 2018) . This is reinforced by the research results of Dewi et al., (2020) and Kepramareni et al., (2021) which state that investment opportunity set influences earnings quality.

H_4 : Leverage affects earnings quality

2.10 The Influence of Profitability, Leverage, Company Size and Investment Opportunity Set on Earnings Quality

Profitability indicates that the company's ability is good in generating profits, however, it is feared that companies with high profitability will practice profit manipulation and hide true information about the profits generated by the company. Leverage affects the quality of profits because if the company's capital and funding sources are mostly financed by debt, the role of investors will decrease. The company's difficulty in paying debts will affect the profits generated by the company so that the quality of profits has the potential to be low.

The size of the company influences the quality of profits, because the larger the size of a company, the greater the level of continuity of the company's business in improving its financial performance, so that the company no longer needs to practice profit manipulation. Companies with a high investment opportunity set will report profits that are in accordance with the actual situation of the company, conversely if the company's IOS value is low then there will be actions to manipulate the actual situation to avoid assumptions from

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external parties regarding the company's less competent performance.

H $_5$: Profitability, leverage, company size and investment opportunity set influence the quality of earnings

3. RESEARCH METHODS

The type of research used in this research is associative-quantitative research. The research instrument used is the financial reports of companies in the Wood and Processing Sub Sector listed on the Indonesia Stock Exchange (BEI) for 2019-2021. The population in this research is the financial reports of the Wood and Processing Sub-Sector Companies listed on the Indonesia Stock Exchange, namely 4 companies. The following is data on companies in the wood and processing sub-sector:

Table 1. Data on companies in the wood and processing sub-sector

Code	Company name	IPO
SULI	PT SLJ Global Tbk	1994
TIRT	PT Tirta Mahakam Resources Tbk	1999
HERE	PT Singaraja Putra Tbk	2019
IFII	PT Indonesia Fiberboard Industry Tbk	2019

Source: Shareu.com

The sampling technique used is saturated sampling . The sample in this research is the entire population, namely all companies in the Wood and Processing Sub Sector listed on the Indonesia Stock Exchange (BEI), totaling 4 companies from 2019 to 2021. This research was conducted on Wood and Processing Sub Sector companies listed on the BEI by collecting data related to company information and company financial reports which are available on the official IDX website , namely www.idx.co.id. The data collection techniques used are documentation techniques and literature study. The data analysis techniques used are the classical assumption test, multiple linear regression test, coefficient of determination test, t test and f test.

4. RESULTS AND DISCUSSION

4.1 Research result

a. Classic assumption test

1) Normality test

Table 2. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		12
Normal Parameters [a, b]	Mean	0.0000000
	Std. eviation	0.85730606
Most Extreme Differences	Absolute	0.180
	Positive	0.138
	Negative	-0.180
Statistical Tests		0.180
Asymp. Sig. (2-tailed)		,200 [c,d]

a. Test distribution is Normal.
b. Calculated from data.
Source: Secondary data processed by Spss v26, 2023

Kolmogorov-Smirnov test above, the Asymp Sig (2-tailed) value of 0.200 is greater than the significance level of 0.05. This shows that the data in this study is normally distributed and the regression model is suitable for use in predicting earnings quality variables based on the input variables profitability , leverage , company size and investment opportunity set .

2) Multicollinearity Test

Table 3. Multicollinearity Test Results
Coefficients [a]

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
X1	0.808	1,238
X2	0.888	1,126
X3	0.600	1,666
X4	0.599	1,669

a. Dependent Variable: Earnings Quality

Source: Secondary data processed by Spss v26, 2023

Collinearity Statistics value from table 3 above, the Tolerance value for the independent variable is obtained as follows:

a) The return on asset variable has a Tolarance value of 0.808>0.1 and a VIF value of 1.238<10, so there is no multicollinearity.
b) debt to equity ratio variable has a Tolarance value of 0.888>0.1 and a VIF value of 1.126<10, so there is no multicollinearity.
c) The company size variable has a Tolarance value of 0.600>0.1 and a VIF value of 1.666<10, so multicollinearity does not occur.
d) investment opportunity set variable has a Tolerance value of 0.599>0.1 and a VIF value of 1.669<10, so multicollinearity does not occur.
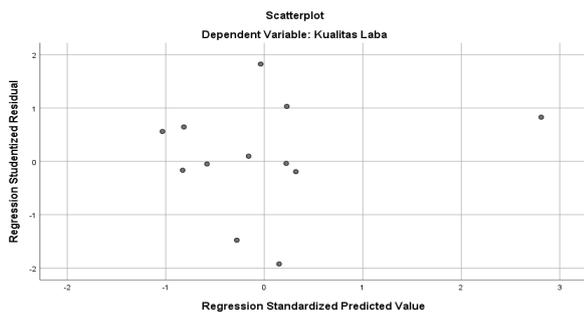
3) Heteroscedasticity Test

Figure 1. Heteroscedasticity Test Results
Source: Secondary data processed by Spss v26, 2023

From the Scatterplot image above, it can be seen that the Spss output shows data points spread above and below or around zero (0) on the Y axis and the distribution of these data points does not form a particular pattern. This identifies the absence of heteroscedasticity so that this regression model is suitable for use in research.

4) Autocorrelation Test
Table 4. Autocorrelation Test Results
Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,937 a	0.879	0.810	0.52961	2,930

a. Predictors: (Constant), Investment Opportunity Set, Debt to Equity Ratio, Return on Assets, Company Size
b. Dependent Variable: Earnings Quality
Source: Secondary data processed by Spss v26, 2023

Based on table 4 above, it is known that the DW value is 2.930 with a sample size of 12 (n) and a number of independent variables of 4 (k) which is located between the dU and 4-dU values (2.176 < 2.930 > 1.824), So it can be concluded that there is a symptom of autocorrelation in this regression model. To recover data if autocorrelation symptoms occur, other methods can be used, such as a run test , as follows:

Table 5. Run Test Results
Test Runs

	Unstandardized Residuals
Test Value a	-.16589
Cases < Test Value	6
Cases >= Test Value	6
Total Cases	12
Number of Runs	6
Z	-.303
Asymp. Sig. (2-tailed)	,762

a. Median
Source: Secondary data processed by Spss v26, 2023

Seen in the table above, the value of Asymp. Sig. (2-tailed) of 0.762 is greater than 0.05, so it can be concluded that there are no symptoms of autocorrelation in this regression model.

b. Multiple Linear Regression Test
Table 6. Multiple Linear Regression Test Results
Coefficients a

Model		Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
		B	Std. Error	Beta		
1	(Con	-	6,318		-	0.388

stan t)	5,818			0.921	
ROA	-0.929	0.588	-0.231	-1,580	0.158
DER	-0.049	0.021	-0.331	-2,373	0.049
UK	0.257	0.231	0.189	1,111	0.303
iOS	0.130	0.025	0.882	5,190	0.001

a. Dependent Variable: Earnings Quality

Source: Secondary data processed by Spss v26, 2023

From the results of the regression analysis above, a multiple regression equation model can be formed as follows:

$$Y = -5.818 - 0.929X1 - 0.049X2 + 0.257X3 + 0.130X4 + e$$

Based on this equation, it can be interpreted as follows:

a. constant value of -5.818 indicates that the quality of earnings before the independent variable is -5.818.

b. Return on assets (X1), the value of the ROA regression coefficient is -0.929, indicating that there is a negative influence between return on assets on earnings quality. This means that for every 1% increase in the ROA variable, the quality of earnings decreases by 0.929.

c. Debt to equity ratio (X2), with a DER regression coefficient of -0.049, shows that there is a negative influence between the debt to equity ratio on earnings quality. This means that every 1% increase in the variable DER, then the Quality of Earnings has decreased by 0.049.

d. Company Size (X3), the value of the company size regression coefficient of 0.257 indicates that there is a positive influence between company size on Earnings Quality. This means that every 1% increase in the variable company size, then earnings quality increases by 0.257.

e. Investment opportunity set (X4), the IOS regression coefficient value of 0.130 indicates that there is a positive influence between investment opportunity set on Earnings Quality. This means that every 1% increase in the variable IOS then the quality of earnings has increased by 0.130.

1) Analysis of the Coefficient of Determination

R Square coefficient value is 0.879. This means that 87.9% of the earnings quality variable can be explained by the variables profitability, leverage , company size and investment opportunity set , while the remainder (100% - 87.9% = 12.1%) is explained by other factors outside study.

2) F test

Table 7. F Test Results

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14,233	4	3,558	12,686	.003 [b]
	Residual	1,963	7	0.280		
	Total	16,197	11			

a. Dependent Variable: Earnings Quality

b. Predictors: (Constant), Investment Opportunity Set, Debt to Equity Ratio, Return on Assets, Company Size

Source: Secondary data processed by Spss v26, 2023

From table 7 above, it is known that the calculated F value is 12.686 with an F table value of 4.12 (12.686 > 4.12) and a significance value of 0.003 which is greater than 0.05 (0.003 < 0.05). So it can be concluded that the fifth hypothesis (H5) which states that " Profitability , leverage , company size and investment opportunity set influence earnings quality" is accepted .

The results of this research are in line with the results of research conducted by Kepramareni et al. (2021) which states that profitability, company size and investment opportunity influence earnings quality. As well as the results of research conducted by Situmorang (2017) that company size, leverage

and investment opportunity influence earnings quality.

4.2 Research Discussion

a. The Effect of Profitability on Earnings Quality

The results of the t-test presented in Table 6 yielded a calculated t-value of -1.580, while the t-table value was 1.894 (-1.580 < 1.894). Additionally, the significance value amounted to 0.158, which is greater than 0.05 (0.158 > 0.05). As a result, the first hypothesis (H1) stating that "Profitability has an effect on earnings quality" is rejected. This rejection suggests that the level of profitability, as measured by the ROA ratio, does not significantly impact the quality of a company's profits.

High profits may be achieved through questionable means, raising concerns about potential profit manipulation practices aimed at presenting an attractive facade to attract investors (Sukmawati et al., 2014). These findings align with the results of Wulandari et al. (2021), which similarly concluded that profitability has no discernible effect on earnings quality. However, they contradict the findings of Kepramareni et al. (2021), which suggest that profitability does influence earnings quality.

b. The Effect of Leverage on Earnings Quality

The results of the t-test for the Debt to Equity Ratio (DER) yielded a calculated t-value of -2.373, while the t-table value was 1.894 (-2.373 < 1.894). Additionally, the significance value amounted to 0.049, which is less than 0.05 (0.049 < 0.05). Consequently, it can be concluded that the second hypothesis (H2) stating that "leverage has an effect on earnings quality" is accepted. This finding suggests that a company with debt exceeding its capital may experience increased financial risk in the future if it fails to manage its debt effectively. High debt levels lead to substantial interest payments to creditors, potentially resulting in reduced cash flow from operational activities and lower profit quality (Herninta & Ginting, 2020). These research results align with the findings of Dewi et al. (2020), which also indicated that leverage influences earnings quality. However, they contradict the results of Arisonda (2018), which suggested that leverage has no significant effect on earnings quality.

c. The Influence of Company Size on Earnings Quality

The results presented in Table 6 indicate a calculated t-value of 1.111, while the t-table value stands at 1.894 (1.111 < 1.894). Moreover, the significance value is 0.303, which exceeds the threshold of 0.05 (0.303 > 0.05). Consequently, it can be concluded that the third hypothesis (H3) stating that "company size has an effect on earnings quality" is rejected. This implies that the size of a company does not significantly impact investors' decisions to invest in the company. Larger companies do not always guarantee larger profits, and conversely, smaller companies may offer attractive returns for investors (Sukmawati et al., 2014). These research findings are consistent with the results of Safitri & Afriyenti (2020), suggesting that company size has no discernible effect on earnings quality. However, they contrast with the findings of Herninta & Ginting (2020), which indicated that company size does influence earnings quality.

d. The Influence of Investment Opportunity Set on Earnings Quality

The t-test results for the Investment Opportunity Set (IOS) variable concerning earnings quality yielded a calculated t-value of 5.190, exceeding the t-table value of 1.894 (5.190 > 1.894). Additionally, the significance value is 0.001, which is less than 0.05 (0.001 < 0.05). Consequently, it can be concluded that the fourth hypothesis (H4) stating that "investment opportunity set influences earnings quality" is accepted. This signifies that

companies with high IOS are generally perceived to possess strong growth prospects in the future.

The growth opportunities indicated by a high IOS lead to increased future company profits, making the market respond more favorably to companies with growth potential. In essence, the greater a company's investment opportunities, the stronger the company's performance is perceived to be. These research results align with the findings of Kepramareni et al. (2021), supporting the notion that the investment opportunity set significantly influences earnings quality. However, they contradict the results of Darmayanti & Fauziati (2019), which suggested that the investment opportunity set has no substantial effect on earnings quality.

5. CLOSING

5.1 Conclusion

a. Partial profitability has no effect on the quality of profits in the Wood and Processing Sub-Sector companies listed on the Indonesian Stock Exchange.

b. Leverage partially influences the quality of profits in companies in the Wood and Processing Sub Sector listed on the Indonesian Stock Exchange.

c. Company size does not partially influence the quality of profits in companies in the Wood and Processing Sub Sector listed on the Indonesian Stock Exchange.

d. The investment opportunity set partially influences the quality of profits in the Wood and Processing Sub-Sector companies listed on the Indonesian Stock Exchange.

e. Profitability , leverage , company size and investment opportunity set simultaneously influence the quality of profits in companies in the Wood and Processing Sub Sector listed on the Indonesian Stock Exchange.

5.2 Suggestion

a. It is recommended that further research expand the sample by expanding other types of companies such as the banking sector and other sectors.

b. Future research is recommended to add other variables to measure earnings quality such as liquidity , external auditor quality, growth , and investment opportunity set by using different proxies to this research.

c. It is hoped that the results of this research can be used as reference, comparison material and as consideration for future researchers to further deepen further research.

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