

Research.

Determinants of Earnings Quality in LQ45 Companies: The Role of Investment Opportunity Set, Earnings Persistence, Liquidity, and Dividend Payout Ratio

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Abstract. *This study aims to examine the effects of the investment opportunity set, earnings persistence, liquidity, and dividend payout ratio on earnings quality among companies listed on the LQ45 Index of the Indonesia Stock Exchange for the period 2020–2024. This study employs a quantitative approach using secondary data sourced from companies' annual financial reports. The population consists of 45 LQ45 companies, and the sample was selected using purposive sampling, resulting in 23 companies with five years of observation data, yielding 115 observations. After outlier detection using boxplots, 106 final data observations were obtained. The analysis employed multiple linear regression using SPSS version 27. The results of the simultaneous test indicate that all independent variables have a significant effect on earnings quality. Partially, the investment opportunity set and liquidity have a significant positive effect on earnings quality, whereas earnings persistence and the dividend payout ratio do not. These findings indicate that companies with high investment opportunities and good liquidity tend to generate high-quality earnings, making them more reliable for stakeholders in economic decision-making.*

Keywords: *Investment Opportunity Set; Earnings Persistency; Liquidity; Dividend Payout Ratio; Earnings Quality.*

INTRODUCTION

Background

Financial statements function as management accountability to business owners and as a source of information for outside parties in decision-making. The company's financial statements contain information about profits that play a central role as a benchmark for management's performance in managing the company's assets (Lestari & Khafid, 2021). The quality of a company's profits accurately reflects operational conditions, is reliable in measuring performance, and is able to predict future profits. The importance of this quality of profit makes it a major consideration not only for managers and investors, but also for capital market regulators. Profits that do not reflect actual financial conditions have the potential to mislead users of financial statements, so the resulting decisions tend not to be on target and can cause losses for many parties (Mar'atus Syifa, 2024). Thus, companies are obliged to ensure that the profit data displayed reflects the actual economic conditions in order to provide a credible foundation for rational and responsible decision-making.

The low quality of profits is caused by manipulation practices, which are still a serious problem in Indonesia. The case of PT Tiga Pilar Sejahtera Tbk (AISA) in 2017 is proof that the results of an investigative audit conducted by Ernst & Young found that there

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was an account inflating of up to Rp4 trillion, *Overstatement* sales of IDR 662 billion, as well as EBITDA inflation of the food division of IDR 329 billion which was not in accordance with the company's actual financial condition (D. E. Wulandari, 2022). A similar case was also experienced by PT Garuda Indonesia in the 2018 profit and loss report, admitting that the income from PT Mahata Aero Teknologi debt should not have been recognized, so that the financial statements reflect their real condition (Hidayati, 2019). In addition, in 2024, BPK found that PT. Indofarma Tbk and its affiliated entities conducted fraudulent transaction engineering and bookkeeping, resulting in financial statements that did not accurately reflect financial positions and did not comply with the applicable PSAK in Indonesia (Saridawati et al., 2025). These phenomena prove that the manipulation of income statements is still a serious threat to the integrity of financial reporting in Indonesia.

Problems also arise in the entities with the highest market value and good liquidity, namely the LQ45 Index companies. In the first quarter of 2016, profit growth decreased by 1.14% to Rp41.39 trillion, whereas as many as 88% of companies in the index have posted weakening financial performance, while 5 issuers did not even present interim financial statements, unaudited. This condition continued until the third quarter of 2019, when 38 companies recorded a weakening in profit growth in line with the slow growth of corporate revenue (Susanti et al., 2021). In fact, even large companies are not immune to declining earnings quality, reinforcing the urgency of research to find the factors that consistently affect earnings quality among LQ45 companies.

Some of the fundamental factors that have been recognized as indicators of quality profit are Investment Opportunity Set (IOS) and profit persistence. IOS refers to the value of an entity that changes according to the anticipated allocation of funds by the leadership in the future, because the current investment option is expected to generate returns that exceed the *cost of equity* and bring in greater profits (Asana et al., 2023). The higher the IOS, the better the company's condition, and the profit information presented by the company will reflect the actual profit (Mulyani et al., 2024). In addition, profit persistence is also an indicator of stability in assessing the quality of a company's profit. Profit persistence describes the company's ability to maintain stable profit gains over time. The sustainability of profits indicates stability, and the results do not arise from accounting manipulation or temporary luck (Permanasari & Kusumawati, 2025). This condition is an important consideration for investors in obtaining a more accurate estimate of the company's value.

In addition, liquidity and dividend payout ratio are also seen as crucial elements in measuring quality profits. How well a company can discharge its short-term obligations is determined by its liquidity levels. An entity that has a *Current Ratio* shows that the liquidity is very good (B. Wulandari et al., 2021). This provides significant potential for companies to increase their value. In addition, financial decisions such as the Dividend Payout Ratio It is also suspected to contribute to the quality of profits. Dividend payments act as a good sign for investors regarding the stability and reliability of the company's profits. A stable dividend policy approach signifies that the company has adequate cash flow and quality profits (Wahyudianti et al., 2021). This shows that the quality of a company's profits will be better if the company consistently distributes dividends. This is because reported earnings are supported by accrued cash flows, not just fabricated numbers.

Although these four factors have been extensively researched, the results of previous studies still show significant differences. Research from Widiyanti et al. (2025), Lestari & Khafi (2021), and Yuniar & Andayan (2024) shows that the *Investment Opportunity Set* has a significant positive impact on the quality of profits. Instead, research from Mulyani et al. (2024) and Setiawan & Sutrisno Paulina (2023) indicates that there is no relationship between *Investment Opportunity Set* and earnings quality. Then, the variable of profit persistence, according to the study by Permataningtyas et al. (2026) and Mar'atus Syifa (2024), has a significant influence on the quality of profits. However, Suharti et al. (2025) and Priskanodi et al. (2022) stated that there was no influence on the quality of profits. Regarding liquidity variables, several researchers, such as Zalianti et al. (2024)

and Febriana et al. (2024), stated that liquidity has a positive effect. Instead, Hakim & Naelufar (2020) state that liquidity does not affect the quality of profits. Similarly, *Dividend Payout Ratio*, Asana et al. (2023), and Prayoga & Kristianti (2020) prove that dividends have a significant effect. Permanasari & Kusumawati (2025) found that there was no effect on the quality of profits. Research that integrates these four variables simultaneously in LQ45 is still limited, and this is the gap that this study aims to fill.

Based on the research phenomena and gaps that have been described, this study intends to examine the effect of *investment opportunity set*, profit persistence, liquidity, and *dividend payment ratio* on the quality of profits in companies listed in the LQ45 Index on the Indonesia Stock Exchange in the period 2020 to 2024. In these findings, there is a difference from previous studies through a combination of variables, observation periods, and the focus of the subjects in the LQ45 index company. The data subjects were chosen because the LQ45 company was able to represent the best-performing company in Indonesia. Even though it has gone through a strict IDX selection, there are still indications of profit management practices in several LQ45 issuers.

LITERATURE REVIEW

Agency Theory

According to agency theory, there is a contractual relationship between management and various stakeholders, including creditors, shareholders, and investors (Jensen & Meckling, 1976). A principal is a party that injects capital into the company in the hope of obtaining an ever-increasing return. The agent runs that capital and conveys accountability through financial statements (Putri & Suwarno, 2025). In the context of this relationship, the principal gives the agent the authority to perform management tasks and also make decisions that are most advantageous to the principal. However, relationship friction, commonly referred to as agent issues, often occurs due to the difference in goals between the two parties, and the agent has more information about the company's internal situation.

In the context of this research, agency theory is very relevant. The influence of investment opportunity set and liquidity on the quality of profits is described in this theory. Companies with higher IOS values will be more closely watched by investors. To maintain the principal's trust, management is required to present more transparent and credible profits. Similarly, good liquidity reduces management pressure to manipulate profits to cover short-term financial difficulties.

Signaling Theory

Signal theory was developed by Spence, (1973) It was found that in conditions of information asymmetry, parties with complete information about the company's internal affairs could send signals to parties with less information to reduce the problem of information asymmetry. In his research on the labor market, Spence, (1973) Proving that highly productive individuals can send signals to employers by demonstrating a high level of education or qualifications as proof of their ability. A trustworthy signal will be well received by the market and show the quality of the profits delivered.

In this study, signal theory plays an important role in explaining the persistence of profits and dividend payments. If a company can maintain profits consistently from one period to the next, it will show investors that the company's financial performance is stable and predictable. Stable profit shows that the profit is not just the result of accounting engineering, but a picture of the company's actual operational condition. In addition, consistent dividend payments also show investors that the business has a healthy and real cash flow, not just the result of accounting engineering.

Quality Profit

The reported profit potential to describe the true economic profit condition of a company and provide a basis for decision-making is known as earnings quality. According

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to Dechow & Schrand (2010), quality profits have three main characteristics, namely consistency, low accruals, and the ability to forecast future cash flows. Consistent profits prove that profits are not easily influenced by discretionary accrual components, so they can be more trusted by investors. To measure the quality of profit, this study uses a comparison of operating cash flow to net profit. This approach was chosen because it can show the extent to which accounting profit is supported by accrued cash flow from operating activities. The higher the value of earnings quality, the lower the discretionary accruals in the company's reported profit

The Effect of *Investment Opportunity Set* on Earnings Quality

Investment opportunity set reflects a form of future investment taken for the company's progress. The value of a company's IOS is proportional to its attractiveness as an investment target for investors. Companies with high OS usually communicate more often with the capital market to obtain external funding, so supervision from investors, analysts, and regulators will be more intensive. This emphasizes that management must minimize earnings management practices and be able to present higher-quality profits. Thus, transparency and credibility of financial reporting will make investors more interested in investing in companies that have high IOS values. This supports previous findings showing that the quality of earnings is influenced by the Investment opportunity set (Widiyanti et al., 2025) and (Lestari & Khafid, 2021). Based on this explanation, the hypothesis of this research is as follows:

H1: *The investment opportunity set* has a positive effect on earnings quality

The Effect of Profit Persistence on Earnings Quality

Companies use the term profit persistence to describe their ability to maintain a constant level of profit. So far, investors tend to focus on accounting profits in making decisions, including in assessing management performance and distributing dividends to shareholders. This shows that investors are not only seeing large profits, but also stable profits. High persistence generally indicates good earnings quality. On the other hand, low persistence earnings indicate poor earnings quality due to external factors or manipulation in the preparation of financial statements. This is in line with the results of the research Permataningtyas et al., (2026) and Mar'atus Syifa, (2024), which states that profit persistence improves earnings quality. Based on this explanation, the hypothesis of this research is as follows:

H2: Profit Persistence has a positive effect on earnings quality

The Effect of Liquidity on Earnings Quality

Liquidity aims to evaluate how well a company can pay off short-term obligations at maturity. Agency theory outlines the influence of liquidity on the quality of profits. High and low liquidity values can have an impact on the quality of the company's profits. When the company's liquidity is high, it will reflect that the company's performance and the quality of the profits generated are also good. From the perspective of agency theory, companies with high liquidity have more transparent financial statements, so there is a chance that management and shareholders will be less susceptible to profit manipulation. This is in line with the findings made by Erawati & Wuarlela (2022), Zalianti et al. (2024), and Febriana et al.(2024) which reinforces the argument that liquidity is positively correlated with the quality of profits. Based on this explanation, the hypothesis of this research is as follows:

H3: Liquidity has a positive effect on the quality of profits

The Effect of Dividend Payment Ratio on Earnings Quality

The dividend payout ratio is a comparison between the amount of dividends per share paid and the earnings per share generated. Numbers *Dividend Payout Ratio*: A high indicates that the retained profit is likely to be less. Companies with positive financial performance will create a *Dividend Payout Ratio* that is in line with investors' expectations while still paying attention to the interests of the company to remain consistent and develop.

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This is in line with the findings of Asana et al. (2023), which reveal that the dividend policy has a positive impact on the quality of profits. However, there is also a contrary view where dividends are not always a proxy for earnings quality because dividend payment decisions are more influenced by the availability of cash, ownership structure, and investment needs of the company rather than the quality of the reported profit Permanasari & Kusumawati (2025). Based on this explanation, the hypothesis of this research is as follows:

H4: Dividend policy has a positive effect on earnings quality

The influence of *investment opportunity set*, profit persistence, liquidity, and *dividend payout ratio* on earnings quality can be explained through the following framework of thinking:

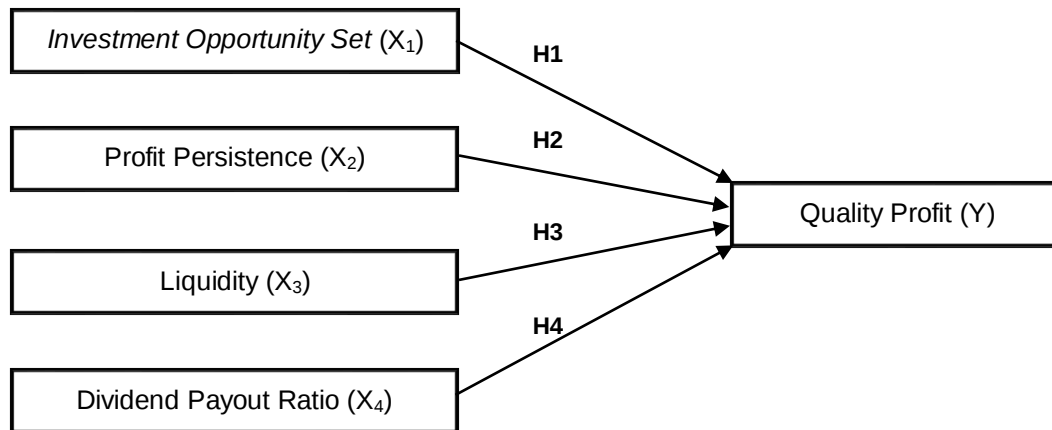


Figure 1. Conceptual Framework

RESEARCH METHODS

Data Types and Sources

This research is a quantitative study using secondary data obtained through the company's annual financial statements. The data was obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id) and also the official website of each company. The observation period in this study is from 2020 to 2024.

Population and Sample

The population of this study includes all companies that are members of the LQ45 Index and are listed on the Indonesia Stock Exchange, with a total population of 45 entities. Sample selection is carried out through *purposive sampling*, which is a non-probability sampling approach in which sample selection is determined based on specific pre-established criteria (Ghozali, 2021). The criteria used are as follows:

1. Companies that consistently joined the IDX during the period 2020 to 2024.
2. LQ45 companies operating in the non-banking sector.
3. The company's financial statements show the profit during the observation period.

This criterion was applied, resulting in 23 companies that met all the requirements. These five-year observations resulted in an initial data set of 115 observations. After outlier detection using the boxplot method, 9 extreme observations were identified and excluded from the analysis. Thus, the final data set used for the analysis was 106 observations. Furthermore, the data were analyzed using multiple linear regression analysis methods using the SPSS version 27 program, with the following equations:

$$KL = \alpha + \beta_1.IOS + \beta_2.PL + \beta_3.CR + \beta_4.DPR + \varepsilon \dots\dots\dots (1)$$

Description:

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KL : Quality Profit
 α : Constant
 β : Coefficient
IOS: *Investment Opportunity Set*
PL : Profit Persistence
CR : Liquidity
DPR : Dividend payout ratio
 ε : Error

Operational Definitions and Variable Measurements

Quality Profit

Earnings quality is defined as the degree to which reported earnings can accurately reflect the company's financial condition while also describing future profit performance. The following is the formula used in measuring the quality of profit is (Hanif et al., 2023):

$$EQ = \frac{\text{Cash flow from Operating Activities}}{\text{Net Income}}$$

Investment Opportunity Set

The *Investment Opportunity Set* describes how the market views a company's value when compared to its book value in accounting terms (Rahman & Tumirin, 2025). *Investment Opportunity Set* is measured using a ratio of:

$$\text{MVBVA} = \frac{((TA - TE) + (\text{Share Outstanding} \times \text{Closing Price}))}{\text{Total Equity}}$$

Profit Persistence

Profit persistence reflects the extent to which current profitability can predict future profits (Petra et al., 2020). Empirically, profit persistence is evaluated using a regression coefficient that relates accounting profits from the current period to profits from previous periods, with the following measurement scale (Benarda & Desmita, 2022):

$$PE = \frac{(\text{EBT}_t - \text{EBT}_{t-1})}{\text{Total Aset}}$$

Liquidity

Liquidity reflects a company's capacity to settle its imminent debt obligations. This measure of liquidity is assessed using a current ratio, namely (Etim et al., 2023):

$$CR = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Dividend Payout Ratio

The dividend payout ratio determines the portion of the company's profits that will be given to the shareholders (Satria et al., 2026). Dividend payout ratio is measured by the formula *Dividend Payout Ratio*, i.e. (Karina & Agustina, 2021):

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}}$$

RESEARCH RESULTS

Statistical Descriptive Analysis

Table 1
Descriptive Statistical Test Results

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Variable	N	Min.	Max.	Avg	Std. Dev
IOS	106	0,566	14,415	1,96501	2,010793
PL	106	-0,426	0,372	0,00492	0,093044
CR	106	0,182	12,757	2,23023	1,605182
DPR	106	0,000	2,861	0,53779	0,414364
KL	106	-3,788	5,896	1,65800	1,342708
Valid N (listwise)	106				

Source: Processed data 2026 (SPSS 27)

In Table 1, the descriptive statistics of this study are based on 106 observations. Earnings quality (KL) has a mean of 1.65800, a standard deviation of 1.342708, and a range from -3.788 to 5.896. This shows that the company has fairly good earnings quality on average, although there is a negative minimum value, which suggests profit management in some companies.

The investment opportunity set (IOS) was recorded with a mean of 1.96501 and a standard deviation of 2.010793, which exceeded the mean value and ranged from 0.566 to 14.415. This shows that there is a considerable difference in investment opportunities among different companies.

Profit persistence (PL) has a mean of almost zero, which is 0.00492, with a very small standard deviation, which is 0.093044, and a range from -0.426 to 0.372. This suggests that corporate profits tend to be temporary and unsustainable, which may be due to economic uncertainty during the pandemic.

Liquidity (CR) has a mean of 2.23023, which indicates that the company can meet short-term liabilities well, but the standard deviation is 1.605182, and the range is from 0.182 to 12.757. This shows that there is a considerable difference between lamps.

The dividend policy (DPR) has a mean of 0.53779 with a standard deviation of 0.414364 and a range from 0 to 2.861. This indicates that there are some companies that are holding back dividend distributions and some companies that are consistent with cash flow pressure conditions during the COVID-19 pandemic.

Classic Assumption Test

Classical assumption tests are performed to identify whether the data used deviates from existing classical assumptions. There are four types of classical assumption tests applied, namely the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

1. Normality Test

Normality tests are used to determine whether the data is distributed normally. In the results of this test, because the significance level of 0.000 is less than 0.05, the results are not normally distributed. Data transformation can be done on data that is not normally distributed in order to be distributed normally (Ghozali, 2021: 38)

Table 2
Normality Test Results After Data Transformation

Test Statistic	Asymp. Sig. (2-tailed) ^c	Remarks
0,082	0,078	Distributed residual

Source: Processed data 2026 (SPSS 27)

After the data was transformed, the results of the retest in Table 2 confirmed the test statistical value of 0.082 with *Asymp. Sig. (2-tailed)* which was 0.078. This shows that the Sig. value > Sig. 0.05, so it is concluded that the residual of the model has been distributed normally, which means that the normality assumption has been met and the multiple linear regression analysis can be continued.

2. Multicollinearity Test

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The multicollinearity test functions to find the relationship between independent variables in a regression model. A regression model is said to be effective, requiring the absence of symptoms of multicollinearity. To identify the symptoms, it can be seen from the values of Tolerance and *Variance Inflation Factor* (VIF)

Table 3
Multicollinearity Test Results

Variables	Tolerance	VIF Value	Remarks
LN_IOS	0,955	1,047	Multicollinearity-free
LN_PL	0,981	1,019	Multicollinearity-free
LN_CR	0,951	1,052	Multicollinearity-free
LN_DPR	0,934	1,071	Multicollinearity-free

Source: Processed data 2026 (SPSS 27)

As seen from Table 3, the independent variables have a Tolerance > 0.10 and VIF < 10. From these results, it appears that there is no significant linear correlation between independents, which means that the regression model is free of multicollinearity issues.

3. Autocorrelation Test

The autocorrelation test has the function of identifying whether there is a correlation between the residual in the observation period and the residual of the previous period. If there is an autocorrelation in the model, then the estimated coefficient may be less than optimal. Durbin-Watson (DW) statistics are used to conduct this test

Table 4
Autocorrelation Test Results

dU	Durbin-Watson	4-dU
1,7624	1,836	2,2376

Source: Processed data 2026 (SPSS 27)

As shown in Table 4, with 106 observations and four independent variables in Sig. 5%, the upper limit value (dU) is 1.7624, and the 4-two value is 2.2376. The DW value obtained is 1.836, located in the range of $dU < DW < 4-dU$. In accordance with the Durbin-Watson decision-making rule, this situation indicates that there are no signs of autocorrelation in the regression model.

4. Heteroscedasticity Test

Heteroscedasticity tests were performed to see whether the variance of the residuals in the regression model remained constant or varied between observations. An effective regression model requires no symptoms of heteroscedasticity. The test was carried out through scatterplot graph analysis that connects the prediction value (ZPRED) with the standardized residual value (SRESID).

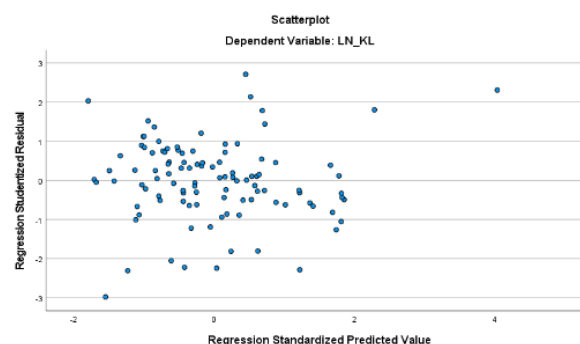


Figure 2 Heteroscedasticity Test Results

As in Figure 2, the distribution of points on the graph is known to be distributed randomly above and below the zero line without forming a specific pattern. This state suggests that residual variance is uniform along the range of predictive values, which means that the regression model shows no signs of heteroscedasticity.

Multiple Linear Regression Analysis

Table 5
Multiple Linear Regression Results

	Models	Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	3,561	0,020
	LN_IOS	0,027	0,008
	LN_PL	-0,015	0,046
	LN_CR	0,032	0,008
	LN_DPR	-0,025	0,015

Source: Processed data 2026 (SPSS 27)

The purpose of multiple linear regression analysis is to predict dependent values and measure how independent variables affect dependent variables mathematically. As in Table 5, a regression equation model is made:

$$Y = 3.561 + 0.027LN_IOS - 0.015LN_PL + 0.032LN_CR - 0.025LN_DPR + e$$

This regression equation is:

- The constant of 3.561 indicates that if all independent variables (IOS, profit persistence, liquidity, and dividend policy) are zero, the quality of profit is estimated to be 3.561.
- The Investment Opportunity Set obtained a coefficient of 0.027, indicating that an increase of 1 unit on IOS will increase the quality of profit by 0.027 if other variables do not change.
- Profit Persistence (PL) obtained a coefficient of -0.015, indicating that an increase of 1 unit in persistence will minimize the quality of profit by 0.015 if other variables do not change.
- Liquidity (CR) obtained a coefficient of 0.032, indicating that an increase of 1 unit in liquidity will increase the level of earnings quality by 0.032 if other variables do not change.
- The Dividend Policy (DPR) obtained a coefficient of -0.025, indicating that an increase of 1 unit of dividend policy will reduce the quality of profit by 0.025 if other variables do not change.

Hypothesis Test

Coefficient of Determination (*Adjusted R²*)

Table 6
Correlation Coefficient and Determination Coefficient Results

Models	R	R Square	Adjusted R-Square	Std. Error of the Estimate
1	0.482a	0,233	0,202	0,03237

Source: Processed data 2026 (SPSS 27)

The coefficient of determination measures how much of the change in the dependent variable can be explained by the independent variables in a model. Based on Table 6, the value of R is 0.482, which means that there is a fairly strong correlation between the independent and dependent variables. The Adjusted R² value is 0.202, which

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indicates that IOS variables, profit persistence, liquidity, and dividend policy may be responsible for 20.2% of the variation in earnings quality. However, the remaining 79.8% was influenced by determinants not included in this model.

Test F

Table 7
F Test Results

	Models	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,032	4	0,008	7,659	0.001b
	Residual	0,106	101	0,001		
	Total	0,138	105			

Source: Processed data 2026 (SPSS 27)

The F test is used to examine whether all independent variables simultaneously exert their influence on the dependents significantly. Based on Table 7, the calculated F obtained is 7.659, and the Sig. level is $0.001 < \alpha = 0.05$. This identifies that the four independent factors, namely IOS, profit persistence, liquidity, and dividend policy, can simultaneously significantly affect the quality of profits. Thus, the regression model prepared is appropriate and can be used for the next test

Partial T-Test

Table 8
Hypothesis Test Results (T Test)

	Models	t-value	Sig.
1	(Constant)	184,114	0,000
	LN_IOS	3,444	0,000
	LN_PL	-0,356	0,723
	LN_CR	4,235	0,000
	LN_DPR	-1,606	0,111

Source: Processed data 2026 (SPSS 27)

The t-test is used to analyze the significance. The effect of each independent variable on the relevant dependents. The test results in Table 8 show the following findings:

- The Investment Opportunity Set (IOS) obtained a value of t 3.444 with a Sig. of $0.000 < 0.05$, which indicates the rejection of H0 or the acceptance of H1. This confirms that IOS partially affects the quality of profits significantly.
- Profit Persistence (PL) obtained a value of t -0.356 with a Sig. of $0.723 > 0.05$, so that H0 was accepted and H2 was rejected. Therefore, profit persistence has not been shown to significantly affect the quality of profits.
- Liquidity (CR) got a value of t 4.235 with a Sig. of $0.000 < 0.05$, so that H0 was rejected and H3 was accepted. This corroborates that liquidity has a significant effect on the quality of profits.
- The Dividend Policy (DPR) obtained a value of t -1.606 with a Sig. of 0.111, which exceeded 0.05, resulting in the acceptance of H0 and the rejection of H2. These results confirm that the dividend policy has not been proven to significantly affect the quality of profits.

RESULTS AND DISCUSSION

The Effect of *Investment Opportunity Set* on Earnings Quality

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Table 8 shows the results of the t-test with a value of $t = 3.444$ and a significance of 0.000, less than the level $\alpha = 0.05$. In addition, the IOS regression coefficient has a positive value of 0.027 (Table 5). This means that each IOS unit will increase the earnings quality by 0.027, assuming the other variables are constant. Therefore, H1 is proven to be true because the *Investment Opportunity Set* has a significant positive impact on the quality of profits.

In theory, IOS describes the company's growth prospects that the market assesses. Companies with high IOS, indicated by a large MVBVA ratio, indicate that the market anticipates added value from future investments. This condition makes the company more closely watched by investors, creditors, capital market analysts, and regulators. Within the framework of agency theory, strict external oversight will reduce management's incentive to manipulate profits due to reputational risks and higher agency costs. Management is encouraged to present more transparent financial statements to maintain access to external funding. The company's average IOS of 1.965 indicates the majority of LQ45 companies are trading above their book value. This shows positive growth expectations from market participants.

This finding is in line with Ashma & Rahmawati (2019); Lestari & Khafid (2021); Permataningtyas et al. (2026); Widiyanti et al. (2025) Which iOS found improved the quality of profits. Research Yuniar & Andayani (2024) It also supports that the growth outlook encourages improved quality of financial reporting. Practically, these findings suggest that investors can leverage the value of IOS as an initial signal to assess the reliability of profits. With greater market surveillance pressure and lower profit management risks, companies with high investment opportunities are usually able to generate higher quality profits due to risk *Earnings Management* is lower due to greater market surveillance pressure.

The Effect of Profit Persistence on Earnings Quality

Based on Table 8, the t-value for profit persistence (PL) is -0.356 with a significance of 0.723, exceeding 0.05. The regression coefficient is -0.015 (Table 5). This value is negative and not statistically significant. Thus, H2 was rejected, so persistence did not have a significant effect on the quality of profits in the LQ45 company during 2020-2024.

Descriptively, the average profit persistence is very low at 0.00492, and the range is from -0.426 to 0.372. This shows that profits were quite volatile during the COVID-19 pandemic (2020-2021) and the economic recovery period (2020-2024). This condition explains why profit persistence does not succeed in affecting the quality of profits. Profit fluctuations that occur are not only due to the quality of accruals, but also to temporary macroeconomic shocks. In signal theory, consistent profits should be a good signal for the market. But if that consistency comes from discretionary accruals, not from real operating cash flows, then profit persistence no longer reflects the true economy.

This finding is in line with research (Petra et al., 2020; Priskanodi et al., 2022; Setiawan & Sutrisno Paulina, 2023; Suharti et al., 2025) which found that profit persistence did not significantly affect the quality of profits. This indicates that users of financial statements pay more attention to cash flow and accrual quality than just looking at the stability of profits over time.

The Effect of Liquidity on Earnings Quality

Current Ratio (CR) is a tool used to assess a company's liquidity. Table 9 shows that the value of t is 4.235 with Sig. $0.000 < \text{level } \alpha = 0.05$. The CR regression coefficient has a positive value of 0.032 (Table 6), which indicates that every 1 unit increase in CR will drive an increase in profit quality of 0.032, assuming the other variables remain the same. Thus, H3 is accepted: this proves that liquidity benefits the quality of profits.

The company's average liquidity of 2,230 means that LQ45 companies in general can meet their short-term obligations. A good CR value indicates greater financial leeway. This means that management is not in a hurry to improve the income statement to cover liquidity issues. From the point of view of agency theory, companies with high liquidity have little conflict of interest between management and shareholders regarding profit manipulation. This is because healthy short-term financial conditions reduce the urge to flatten profits or engineer accruals. Strong operating cash flow is a prerequisite for good liquidity and also directly increases the ratio of earnings quality as assessed from the comparison between operating cash flow and net profit.

These findings are in line with Erawati & Wuarlela (2022), Febriana et al. (2024) and Zianti et al. (2024). This indicates that liquidity contributes positively to the quality of profits. This explains that good liquidity reduces management's push to commit to *income smoothing* or profit manipulation. These findings also reinforce the importance of agency theory in the context of blue-chip companies in Indonesia, where a strong financial position has a positive correlation with openness and credibility of profit reporting.

The Effect of Dividend Payment Ratio on Earnings Quality

Table 8, it shows that the dividend payout ratio (DPR) obtained a value of $t = -1.606$ and Sig. 0.111 exceeds $\alpha = 0.05$. The regression coefficient is -0.025 (Table 6), this value is negative and not statistically significant. So, the inclusion of H4, which means *Dividend Payout Ratio* has not been proven to have a significant effect on the quality of the company's profits LQ45. These results indicate that the size of the profit distributed to shareholders is not necessarily a factor that affects the quality of profits.

The average DPR of the company is 0.538 with a range of 0 to 2.861, this shows a very diverse dividend policy between LQ45 companies. There are companies that do not distribute dividends at all (DPR=0). This may have happened during the COVID-19 pandemic (2020-2021). At that time, the company was forced to hold back profits to maintain liquidity. This high variability indicates that dividend payment decisions in LQ45 companies are more influenced by situational factors such as cash condition, capital expenditure needs, and ownership structure, rather than by the quality of reported earnings. In signal theory, dividends are supposed to be a positive signal about profits. However, if the dividend payment decision is strategic and inconsistent, then the signal to the quality of earnings becomes weak.

This study is the same as the findings Permanasari & Kusumawati (2025). Also found that the dividend policy did not affect the quality of profits. Dividend policy is more influenced by ownership structure, investment needs, and shareholder preferences than directly by the quality of profit information. Findings from Hakim & Naelufar (2020). It is also agreed that the House of Representatives is not a consistent indicator to assess the quality of a company's profits. Therefore, investors should not only use the dividend payment rate as a benchmark for the reliability of profits, but also combine it with cash flow indicators and the company's liquidity position.

CONCLUSIONS AND SUGGESTIONS

The purpose of this study is to analyze the impact of *investment opportunity set*, profit persistence, liquidity, and *dividend payout ratios* on the quality of profits, especially LQ45 indexed companies on the IDX, for the period 2020 to 2024. Based on the results of simultaneous testing, these four factors have been proven to significantly affect the quality of profits. However, the test partially identified that the *investment opportunity set* and liquidity had a significant positive impact, while earnings persistence and *dividend payout ratios* were not shown to have a significant effect. This means that the consistency of earnings between periods and dividend policies is not the main determinant of the quality of the LQ45 company's earnings in the period under review.

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This finding gives an indication that companies with broad investment prospects and good capacity to meet their short-term obligations tend to produce higher quality profits. This brings practical implications for investors, where IOS and liquidity can be an effective screening tool when assessing the reliability of reported earnings. In theory, these findings support agency theory and signal theory in explaining what affects the quality of profits in large Indonesian companies.

The limitations of this study include the low value of the determination coefficient (R²) as well as limitations in the number of samples used. Based on these limitations, there are several suggestions for the next researcher, namely adding variables relevant to the quality of profit, such as financial performance, cash flow from operations, company size, and ownership structure. Then, expand the research population and extend the research period so that the results are more representative. In addition, the use of other profit quality proxies, such as the Jones model, is modified to capture discretionary accrual dimensions directly.

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