P-ISSN 1410-1831 | E-ISSN 2807-9647

Volume Number 31, January 2026

JURNAL AKUNTANSI DAN KEUANGAN (JAK)

Fakultas Ekononi dan Bisnis Universitas Lampung, Indonesia

THE EFFECT OF PROFITABILITY, MANAGERIAL ENTRENCHMENT, AND INVESTMENT OPPORTUNITY SET (IOS) ON EARNINGS QUALITY, WITH FIRM SIZE AS A CONTROL VARIABLE

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ARTICLE INFO

Received: 17 July 2026;
Accepted: 31 July 2026;
Publish: 3 August 2026;

Volume 31. Number 1,
January 2026, pp. 68-81
http://doi.org/10.23960/jak.v31i1.4919

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ABSTRACT

The study examines the effect of profitability, managerial entrenchment, and Investment Opportunity Set (IOS) on earnings quality in technology sector companies listed on the Indonesia Stock Exchange for the 2022-2024 period. The research gap stems from the lack of prior studies that simultaneously examine these three variables, despite contradictory empirical findings particularly the changing effect of profitability when managerial entrenchment is considered. A sample of 31 technology firms (93 observations) was selected using purposive sampling and analysed through multiple linear regression with SPSS. The results demonstrate that profitability positively and significantly affects earnings. In contrast, managerial entrenchment and Investment Opportunity Set (IOS) show no significant effect, likely due to low managerial entrenchment levels and weak market signals reflected in modest closing stock prices. Together, these variables account for only 8,4% of earnings quality variation suggesting that many other factors remain unexplored. Theoretically, this study clarifies previous inconsistencies and strengthens agency and signalling theory applications. Practically, it serves as a useful reference for investors in assessing financial reports and for regulators in enhancing disclosure standards.

Keywords: *Earnings Quality, Investment Opportunity Set (IOS), Managerial Entrenchment, Profitability*

ABSTRAK

Penelitian ini mengkaji pengaruh profitabilitas, managerial entrenchment, dan Investment Opportunity Set (IOS) terhadap kulitas laba pada perusahaan sektor teknologi yang terdaftar di Bursa Efek Indonesia periode 2022-2024. Gap penelitian muncul karena belum ada kajian yang menggabungkan ketiga variabel ini secara bersamaan, padahal temuan sebelumnya saling bertentangan terutama hasil yang berbeda tentang pengaruh profitabilitas ketika managerial entrenchment turut diteliti. Sampel penelitian terdiri dari 31 perusahaan teknologi (93 data observasi) yang dipilih dengan teknik purposive sampling, lalu dianalisis menggunakan regresi linier berganda dengan bantuan SPSS. Hasil menunjukkan bahwa profitabilitas berpengaruh positif dan signifikan terhadap kualitas laba, artinya perusahaan dengan laba tinggi cenderung memiliki kualitas laba yang lebih baik. Sebaliknya, managerial entrenchment dan Investment Opportunity Set (IOS) tidak berpengaruh signifikan diduga karena kepemilikan saham manajerial yang rendah dan sinyal pasar yang lemah akibat harga saham penutupan yang masih rendah. Ketiga variabel hanya mampu menjelaskan 8,4% variasi kualitas laba yang berarti masih banyak faktor lain yang belum diteliti. Secara teori, penelitian ini membantu menjawab ketidakkonsistenan hasil sebelumnya dan memperkuat pemahaman tentang teori keagenan dan teori sinyal. Secara praktis, hasil ini dapat menjadi acuan bagi investor dalam menilai laporan keuangan dan bagi regulator dalam meningkatkan standar keterbukaan informasi.

Kata Kunci: *Investment Opportunity Set (IOS), Kualitas Laba, Managerial Entrenchment, Profitabilitas*

A. INTRODUCTION

Financial statements provide information that reflects a company's financial condition and are used to assess performance and make investment decisions. Investors generally believe that high profits indicate a company's positive condition. However, in an effort to increase profits, many companies employ various strategies such as manipulating profit figures. Profit quality is considered questionable when a company reports profit figures that do not align with actual economic conditions (Paulus & Hadiprajitno, 2012). Profit quality is the difference between the net profit presented in financial statements and the actual profit situation, thus it can be measured based on financial performance that is free from manipulation (Pujiati & Nita, 2022). Profit quality serves as a guide for investors in making investment decisions (Polimpung, 2020).

PT Pelita Teknologi Global Tbk (CHIP) experienced fluctuations in earnings quality during the 2022-2024 period. The company experienced a significant increase in net profit form Rp9,32 billion in 2022 to Rp12,3 billion in 2023, driven by strategic partnerships with Smartfren and Indosat. After achieving significant profits, CHIP distributed 20% dividend even though it had only conducted its IPO in February 2023 a move considered unusual since newly public companies typically remain focused on business expansion (Kartika, Puspitasari, & Handayani, 2023). However, an analysis of CHIP's earnings quality reveals unstable trends -1,27 in 2022, rising to 1,47 in 2023, and then falling back to 0,57 in 2024. These figures indicate that the company's profits are not yet fully driven by operating cash flow, suggesting that the quality of its earnings is suboptimal.

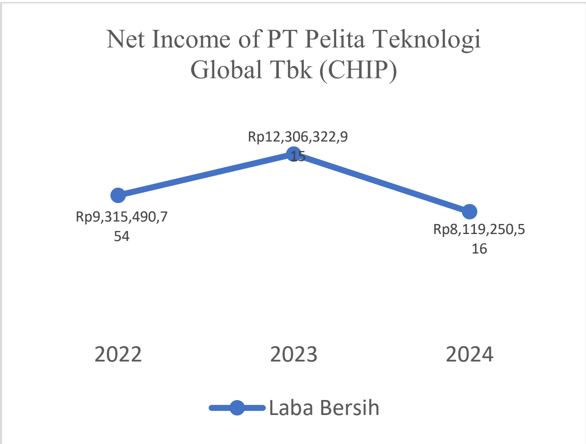

Figure 1. CHIP Net Income Chart

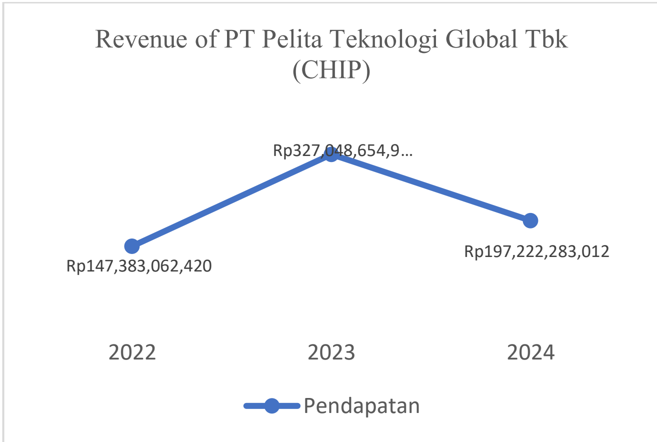

Figure 2. CHIP Revenue Chart

Previous research has yielded missed results. Andriani, Nurnajamuddin, and Rosyadah (2021) found that profitability and the IOS have a positive and significant effect on earnings quality, but did not consider aspects of managerial behavior. included the managerial entrenchment variable, but their focus was limited to the islamic banking sector, and they found that profitability became insignificant after adding that variable. Wulandari, Situmorang, Sinaga, and Laia (2021) found that IOS had no effect on earnings quality in service companies. Managerial entrenchment gas a negative but insignificant effect on earnings quality. These inconsistent results indicate the existence of a significant empirical gap no study has yet combined the three main variables profitability, managerial entrenchment, and Investment Opportunity Set (IOS) into a single interconnected analytical model for the Indonesian technology sector.

The selection of profitability, managerial entrenchment, and Investment Opportunity Set (IOS) as variables in this study is based on the fact that these three factors are primary determinants with a direct conceptual and empirical relationship to earnings quality, although existing research findings remain varied (Anjani, Wahyuni, Setyadi, & Mudjiyanti, 2024). Profitability was chosen because companies generating high profits often face pressure to maintain consistent performance, thereby creating a risk of earnings management practices that can undermine earnings quality (Indriana & Handayani, 2021). Managerial entrenchment was selected because situations where management holds excessive control oversight systems can increase the likelihood of unethical actions, affect report transparency, and trigger agency conflicts that impact the quality of earnings information c. On the other hand, IOS was chosen because companies with high growth potential are often under pressure to maintain a favorable performance image potentially increasing the risk of information distortion if governance is ineffective (Arisonda, 2018). These three variables were selected simultaneously because no prior study has explored the relationship among these three factors in a single comprehensive model within the Indonesian context, even though they collectively reflect the dimensions of performance, managerial behavior, and growth prospects that mutually influence earnings quality.

The urgency of this research lies in the profit reporting case as occurred in PT Pelita Teknologi Global Tbk (CHIP), which indicates that evaluation of earnings quality in Indonesian companies must be conducted continuously, as investors tend to prefer investing in companies with quality earnings. Additionally, the inconsistency of results from previous studies regarding the impact of profitability, managerial entrenchment, and IOS demonstrates that the academic literature has not yet provided conclusive answer (Amalia & Dura, 2022). This situation demands research that examines these three variables simultaneously to provide more objective, relevant, and applicable insights into factors affecting earnings quality within the context of the Indonesian capital market. Therefore, this study holds urgency both theoretically to enrich empirical studies that remain diverse and practically as an evaluation guideline for companies, regulators, and investors in enhancing the reliability of financial reports (Charisma & Suryandari, 2021).

Based on the above discussion, this study aims to analyze the effects of profitability, managerial entrenchment, and Investment Opportunity Set (IOS) on earnings quality in technology sector companies listed on the Indonesia Stock Exchange for the 2022-2024 period. This study is expected to provide a theoretical contribution by enriching the literature on factors influencing earnings quality, as well as a practical contribution to investors, company management, and regulators in making more informed decisions. This research provides a significant contribution to the advancement of financial accounting, particularly in earnings quality theory and agency theory (Jensen & Meckling, 1976). By integrating three main variables profitability, managerial entrenchment, and Investment Opportunity Set (IOS) simultaneously into an analytical model, this study helps bridge the empirical gap arising from inconsistent results in previous research. The findings of this study are expected to strengthen or modify theoretical propositions regarding factors influencing earnings quality by emphasizing the managerial behavior dimension (managerial entrenchment) as a primary variable, rather than merely a supplementary variable, and to provide relevant empirical evidence on how the interaction between financial performance (profitability), agency conflicts (managerial entrenchment), and growth potential (IOS) collectively shapes the quality of earnings information in a highly dynamic industry (Desyana, Gowira, & Jennifer, 2023). Furthermore, this research expands the research landscape in Indonesia by presenting a more comprehensive model for understanding earnings management phenomena, which has often been analyzed solely from the perspective of financial motivation.

B. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

According to agency theory, an agency relationship is defined as a form of agreement established between one or more parties the principals and another party the agent. In this relationship, the agent is granted the authority to act and make decisions deemed most appropriate to represent the principal's interests (Jensen & Meckling, 1976). Within a company, there are various parties, each with their own goals and objectives which can give rise to potential conflicts within the company. Agency theory offers a way to minimize the like hood of conflicts arising form differences in interest between the principal and the agent. The agency relationship creates a balance among the parties with their respective goals and objectives without harming the parties involved (Charisma & Suryandari, 2021).

Agency theory also posits that both the principal and the agent tend to be driven by their own self-interest, which risks creating a conflict in interest between the two (Ardianti, 2018). This situation can ultimately trigger a conflict between shareholder and managers known as an agency issue. As noted by Hakim and Naelufar (2020), company managers generally possess more in-depth internal information than shareholders. These conditions create opportunities for managers to manipulate the company's financial statements. If this practice actually occurs, the impact will be reflected in the low quality of the company's earnings. In the context of this study, agency theory provides a strong foundation for understanding how conflicts between principals and agents manifested through the variables of managerial entrenchment can drive management to engage in self-serving (opportunistic) actions that ultimately have a negative impact on earnings quality. Managerial entrenchment reflects a situation where managers possess sufficient control over the company to secure their positions, potentially leading to earnings management practices aimed at protecting their personal interests rather than maximizing shareholder value (Khabibah, 2020). This theoretical argument forms the basis for hypothesizing that higher levels of managerial entrenchment are associated with lower earnings quality, as entrenched managers have both the incentive and the opportunity to manipulate financial reports to conceal poor performance or maintain their tenure.

Furthermore, agency theory also explains the role of profitability in reducing agency conflicts. High profitability serves to reduce such conflicts, as significant profits provide sufficient returns to satisfy both principals and agents, thereby reducing the pressure on managers to engage in opportunistic reporting practices. When companies generate substantial profits, the need for managers to manipulate earnings diminishes because they can demonstrate good performance through legitimate financial results (Anjani et al., 2024). Additionally, higher profitability provides funds to strengthen management oversight and internal control systems thereby ultimately improving earnings quality. This theoretical reasoning supports the hypothesis that profitability positively affects earnings quality, as higher profits align the interests of managers and shareholders, reducing agency conflicts and the motivation for earnings manipulation.

Signaling Theory

Signaling theory emerged as a result of information asymmetry between agents (managers) and principals (shareholders) (Ross, 1977). This information gap stems from differences in the data held by two parties. Consequently, as a solution, companies need to send specific signals to investors (Lestari & Khafid, 2021). Signaling theory focuses more on the information conveyed by companies in investment decision-making by external parties. In addition, this theory also suggests that high-quality companies will send positive signals to the market, while lower-quality companies tend to emphasize mandatory information (Ulum, 2017). This theory explains how management acts as a signal sender and other institutions in this case, investors act as signal receivers. Management informs investors about the company's condition. Investors then analyze the information provided by management as a basis for decision-making. Investors evaluate information regarding the company's performance that influences improvements in the company's quality and value (Charisma & Suryandari, 2021). If a company successfully demonstrates impressive achievements, as reflected in its annual report, investor interest in investing will increase, especially if the company shows positive performance and has promising future growth potential (Anjani et al., 2024).

Therefore, signaling theory suggests that the quality of earnings in financial statements operates on two interrelated aspects as a reliable representation of past performance and as an indication of management's credibility and the company's future sustainability. This indication is particularly important for companies with a promising Investment Opportunity Set (IOS) but accompanied by a high level of uncertainty. Companies with high IOS have strong incentives to provide high quality earnings information as a credible signal to the market about their growth prospects. By reducing information asymmetry through reliable earnings reports, companies can strengthen the credibility of their signals, increase investor confidence, and ultimately enhance firm value.

However, signaling theory also presents a paradox. The pressure to consistently send positive signals may encourage companies with high IOS to engage in aggressive reporting themselves, thereby creating a tension between the desire to appear attractive and the need to maintain long-term credibility. This study tests the hypothesis that companies with higher IOS tend to produce higher quality earnings because they require access to external funding. This need encourages management to present more accurate and transparent financial reports as favorable signals to investors with the aim of reducing information asymmetry and demonstrating promising growth potential. Nevertheless, the empirical relationship between IOS and earnings quality remains contested as the pressure to meet market expectations may sometimes lead to earnings manipulation.

Earnings Quality

Earnings quality can be defined as a measure of earnings that accurately reflects the extent to which a business derives profit from its operations. Furthermore, earnings quality can also be understood as the clear presentation of information regarding high-quality earnings, so that this information can be used to identify the extent to which earnings influence investors investment decisions when assessing the condition sustainability of future profits, viewed from both an accrual and a cash perspective, and demonstrate genuine profit growth (Wulansari, 2013). Profit is essential for a business to continue operating and that profit must be in good standing. A company will find it difficult to secure external investment if it is not generating profit (Muhammad & Rahim, 2015). High-quality profit not only reflects operational performance during the current period but also serves as an indicator of positive future operational performance and accurately reflects the company's intrinsic value (Ginting, 2017).

There are several key criteria applied to assess earnings quality. First, earnings quality is evaluated through earnings stability over time, which indicates a stable business model and sound financial condition. Stable earnings reflect management's ability to maintain and develop growth. Second, cash-based earnings are considered higher quality because they are more difficult to manipulate than earnings that rely heavily on subjective judgements or estimates. Third, earnings that are more strongly related to current stock price performance or market value are considered a measure for evaluating earnings quality (Ginting, 2017). High-quality earnings occur when a company succeeds in meeting or exceeding its previously set earnings projections, whereas low-quality earnings arise when an entity fails to meet a predetermined earnings threshold. In the worst-case scenario, management may be suspected of engaging in earnings manipulation, which negatively impacts earnings quality and erodes confidence in financial statements, thereby failing to accurately reflect the company's financial position (Desyana et al., 2023).

The assessment of earnings quality in this study is approached from the perspective of agency theory and signaling theory. From an agency theory perspective, earnings quality is influenced by managerial behavior and agency conflicts. When managers are entrenched and have significant control over the company, they may have incentives to manipulate earnings to protect their positions thereby reducing earnings quality (Amalia & Dura, 2022). Conversely, when profitability is high, agency conflicts are reduced, leading to better earnings quality. From a signaling theory perspective, earnings quality serves as a signal to the market about the company's performance and future prospects. Companies with high growth potential (IOS) have stronger incentives to provide high quality earnings information to attract investors.

Thus, high-quality earnings are not merely about numbers, but rather about reliability, sustainability, and an accurate representation of a company's core performance. Earnings generated from operations that are supported by solid cash flow and demonstrate a consistent pattern over time will build capital market confidence and create a strong foundation for investment decision-making. On the other hand, failure to meet reasonable profit expectations especially if accompanied by indications of manipulative accounting practices not only significantly undermines the value of the information but also erodes the trust of stakeholders and may ultimately harm the company's long-term value.

The Effect of Profitability on Earnings Quality

Profitability is a ratio used to assess a company's internal ability to generate profits and to evaluate the effectiveness of its management (Hakim & Naelufar, 2020). Profitability is an indicator used by companies to measure their ability to generate profits relative to their total assets. A company with a high level of profitability demonstrates its capacity to generate substantial profits. This high profit generation reflects the company's strong performance, thereby having a positive impact on the quality of the company's profits. Return on Assets (ROA) is a type of profitability ratio that calculates net income relative to total assets after deducting capital expenditures. ROA illustrates how efficiently a company manages both its own funds and those obtained through borrowing, and shareholders use it to assess how effectively the company utilizes its assets. The function of ROA is to assess the extent to which a company can generate profit by optimizing its assets. A higher ROA indicates that the company is performing better in utilizing its assets to generate substantial profits. This also gives investors greater confidence to invest, as a high level of profitability reflects the quality of earnings, as measured by financial stability and future potential (Desyana et al., 2023). From the perspective of agency theory, the relationship between principals and agents explains the potential conflicts that arise when interests diverge. Business owners and shareholders as principals expect the company to generate sustainable profits and maintain long-term value, while managers as agents may prioritize personal benefits such as performance-based rewards and career advancement. This divergence creates agency conflicts that can lead to earnings manipulation when managers seek to meet performance targets for personal gain (Anjani et al., 2024). However, when profitability is high, these agency conflicts are significantly reduced.

Highly profitable technology companies have an incentive to maintain investor confidence. The relationship between principals and agents is explained by agency theory. There is a conflict of interest between business owners and shareholders as principals and managers as agents. Management hopes that profitability will lead to high rewards based on their performance. Meanwhile, owners are more concerned with keeping the company running, generating profits, and securing investments from shareholders. Agency conflicts can lead to the manipulation of earnings and profit reports to serve personal interest. If this occurs, the quality of earnings will (Anjani et al., 2024). Furthermore, higher profitability provides companies with greater resources to strengthen internal control mechanisms and corporate governance systems, which in turn enhance the reliability of financial reporting. Companies with strong financial performance can afford to invest in robust monitoring systems, independent audits, and transparent disclosure practices, all of which contribute to higher earnings quality. When agency conflicts are minimized through effective monitoring and aligned interests, the likelihood of earnings manipulation decreases leading to more reliable and transparent financial reports. Thus, agency theory provides a strong theoretical foundation for understanding why profitable companies tend to produce higher quality earnings.

This argument is supported by empirical findings. Research conducted by Anjani et al. (2024), profitability has a positive and significant effect on earnings quality, meaning that more profitable companies tend to report earnings of higher quality, as strong financial performance reduces the need to adjust financial statements. This is also supported by the study by Lusiani and Khafid (2022), which found that profitability has a positive and significant effect on earnings quality. Based on the development of hypothesis and the previous research described above, the first hypothesis in this study is:

H$_1$: Profitability has a positive and significant effect on earnings quality

The Effect of Managerial Entrenchment on Earnings Quality

Managerial entrenchment is a form of management self-defence mechanism evident in the stock ownership of a company's Chief Executive Officer (CEO) or President Director. This concept refers to various strategies used by executives to secure their positions within the company, particularly when facing pressure from shareholders or strict internal oversight. Therefore, specific approaches are needed to manage relationship with the company's stakeholders. The quality of earnings is influenced by the proportion of equity held by management. Through managerial entrenchment, managers interests align with the signals sent by shareholders, so that they not only benefit directly from every decision made but also share in the risk of losses if those decisions prove to be misguided. Thus, the higher the proportion of shares held by management, the stronger their incentive to act aggressively in order to serve the interests of shareholders (Amalia & Dura, 2022).

According to agency theory, managerial entrenchment is a manifesting of opportunistic behavior that runs counter to interests of business owners. This phenomenon becomes increasingly evident when top management remains in office for a long time, granting them significant power but simultaneously diminishing their sense of responsibility and commitment. Agency theory explains that entrenched managers have both the incentive and the ability to engage in activities that maximize their own welfare at the expense of shareholders (Jensen & Meckling, 1976). When managers hold substantial ownership stakes and have accumulated significant power, they become increasingly difficult to remove or discipline even when their performance is suboptimal. This entrenchment reduces the effectiveness of external and internal monitoring mechanisms, creating opportunities for managers to manipulate financial reports to conceal poor performance or protect their positions (Khabibah, 2020).

This combination of concentrated power and weakened internal oversight creates an incentive for top management to manipulate financial statements such as through earnings management to preserve their positions and personal reputations. Consequently, managerial entrenchment is believed to undermine the transparency and reliability of the accounting information produced by a company, and is thus conceptually thought to have a negative impact on earnings quality (Khabibah, 2020). Empirical evidence further supports this theoretical argument. Managerial entrenchment has a significant negative effect on earnings quality due to the low average percentage of managerial stock ownership. When managerial ownership is high, managers have greater control and influence over corporate decisions which increases the risk of opportunistic behavior aimed at protecting their positions. Although some studies have reported mixed results, the theoretical logic remains strong higher managerial entrenchment reduces the effectiveness of oversight, increases the likelihood of earnings manipulation, and ultimately leads to lower earnings quality. Based on agency theory and the findings of previous research, the second hypothesis in this study is:

H$_2$: Managerial entrenchment has a negative and significant effect on earnings quality

The Effect of Investment Opportunity Set (IOS) on Earnings Quality

Investment can be defined as the allocation of current resources to generate future returns. Investment Opportunity Set (IOS) is the present value of company's future investment options. Investment Opportunity Set (IOS) is not only focused on research-oriented projects but also encompasses a company's capacity to capitalize on competitive opportunities within its industry. The Investment Opportunity Set (IOS) provides opportunities that have the potential to increase a company's value in the future, making its existence crucial for the company. This is because the IOS enables investment decisions based on a combination of the company's existing assets and future investment options (Jaya & Wirama, 2017). An Investment Opportunity Set (IOS) is essentially a narrative about the future as perceived by the market and a company's management. Ratios such as Market Value to Book Value of Assets (MVBVA) serve as indicators of this confidence, the higher the value, the greater the growth expectation placed on the company.

According to signaling theory, companies with high IOS have an incentive to provide clear and reliable financial information to confirm these opportunities to investors. Signaling theory explains that in situations of information asymmetry, companies use financial reports as signals to communicate their quality and prospects to the market (Ross, 1977). For companies with high growth potential credibility is particularly acute, as they require ongoing access to external capital markets to fund their expansion plans. By reducing information asymmetry through high-quality earnings reports, companies can strengthen the credibility of these signals, increase investors' confidence, and ultimately drive an increase in firm value. From a signaling theory perspective, a high IOS can have a positive impact on earnings quality because credible earnings serve as a means to verify the growth signals. From a signaling theory perspective, high IOS can positively affect earnings quality, as credible earnings verify growth signals to the market. Companies with promising opportunities cannot risk providing unreliable information, as this would undermine investor trust and hinder access to external funding. Thus, the need to attract investors motivates management to present transparent financial statements that accurately reflect performance and prospects. If the signals (high IOS) are not accompanied by credible performance achievements, investors' confidence will decline and the benefits of these signals will not be maximized (Anjani et al., 2024).

This theoretical argument I supported by empirical findings. A study conducted by Anjani et al. (2024) explains that the Investment Opportunity Set (IOS) has a positive and significant effect on earnings quality, meaning thath companies with a high IOS typically generate high-quality earnings because they require access to external funds. This need encourages management to present more accurate and clear financial statements as a favorable signal to investors, with the aim of reducing information asymmetry and demonstrating promising growth potential. Furthermore, a study by Khofsoh, Faidah, and Rusdianto (2023) also demonstrated that the Investment Opportunity Set (IOS) has a positive and significant effect on earnings quality. Based on the development of the hypotheses and the prior research described above, the third hypothesis in this study is:

H_3: The investment opportunity set (IOS) has a positive effect on earnings quality

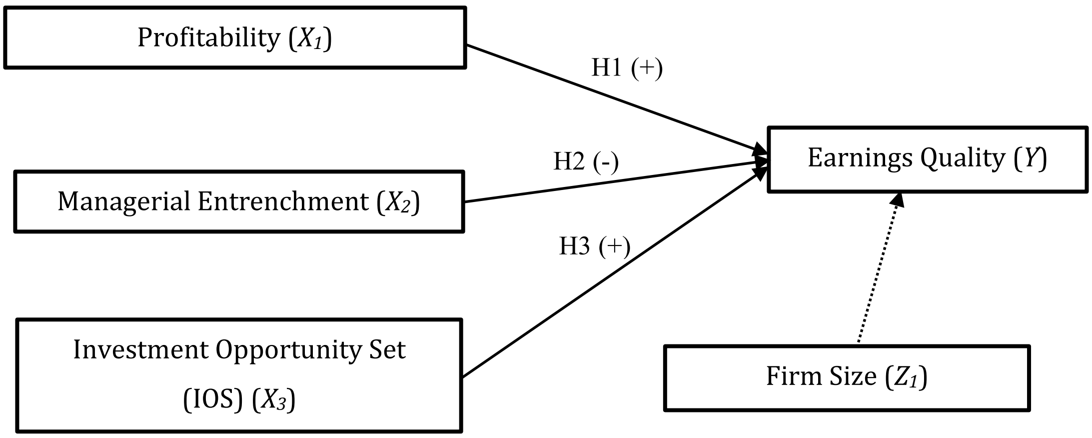

Figure 3. Conceptual Framework

C. RESEARCH METHODOLOGY

This study aims to analyse the effects of profitability, managerial entrenchment, and the Investment Opportunity Set (IOS) on earnings quality, with firm size as a control variable in companies in the technology sector during the period from 2022 to 2024. The data used in this study are secondary data, obtained from annual financial statements and companies closing stock prices, accessed through the Indonesia Stock Exchange (BEI) website and companies' official website. The population includes technology sector companies listed on the Indonesia Stock Exchange during 2022-2024. Sample selection was conducted using purposive sampling with the following criteria:

1. Technology sector companies listed on BEI during 2022-2024.
2. Companies that had conducted their IPO by 2022.
3. Companies that were not delisted during 2022-2024.

Based on these criteria, 31 companies were selected, reluting in 93 observations (31 companies x 3 years).

Table 1. Definitions of Operational Variables

Variables	Definition	Indicator
Earnings Quality (Y)	Earnings quality refers to information regarding the extent to which profit can assess or indicate a company's success or	Earnings Quality = $\frac{operating\ cash\ flow}{EBIT}$

	failure in achieving its established goals. This study conducts a direct comparison of net revenue, which will impact the profit earned (Wairisal & Hariyati, 2021).	
Profitability (X_1)	Profitability is a ratio that indicates how effectively a company manages its operations to generate optimal profits or earnings.	$ROA\ (Return\ On\ Asset) = \left(\frac{net\ income}{assets\ total}\right) x\ 100$
Managerial Entrenchment (X_2)	Managerial entrenchment is a strategy employed by President Director and managers to secure their positions by managing their interactions with stakeholders, particularly when facing pressure from shareholders (Amalia & Dura, 2022).	$Managerial\ entrenchment = \left(\frac{number\ of\ shares\ held\ by\ the\ president\ director}{number\ of\ shares\ outstanding}\right) x\ 100\%$
Investment Opportunity Set (IOS) (X_3)	An Investment Opportunity Set (IOS) refers to future investment opportunities that could positively impact a company's asset growth through projects with a positive net present value.	$MVBVA = \frac{asset\ total - equity\ total + (number\ of\ shares\ outstanding\ x\ closing\ price)}{assets\ total}$
Firm Size (Z_1)	According Jensen and Meckling (1976), large firms incur higher agency costs to monitor their agents.	$FS = \text{In}\ (assets\ total)$

Data Analysis

This study applied multiple linear regression analysis techniques in data processing using Microsoft Excel 2010 and SPSS. Multiple linear regression was selected because it is the most appropriate method for examining the relationship between multiple independent variables and a single continuous dependent variable, allowing for simultaneous testing of the effects of profitability, managerial entrenchment, and IOS on earnings quality whit firm size as a control variable. This method is widely used in accounting and finance research due to its ability to produce unbiased and reliable estimates when the underlying assumptions are met. The descriptive statistical analysis was conducted to provide an overview of data characteristics including sample size (N), minimum value, maximum value, mean, and standard deviation. Prior to hypothesis testing, classical assumption tests were performed to ensure that the regression model meets the necessary statistical assumption, including the normality test using Kolmogorov-Smirnov (significance > 0,05 indicating normal distribution), multicollinearity test using VIF and tolerance values (VIF < 10 and tolerance > 0,10 indicating no multicollinearity), heteroscedasticity test using scatterplot analysis, and autocorrelation test using Durbin-Watson (DW value between du and 4-du indicating no autocorrelation). The coefficient of determination was used to assess how effectively the model explains variation in the dependent variable. Hypothesis testing was conducted using the t-test to examine individual effects (p-value < 0,05 indicates significant effect) and the F-test to examine simultaneous effects (p-value < 0,05 indicates model fit). In this study, the multiple linear regression analysis was formulated as follows:

$$EQ = \alpha + \beta 1Prob + \beta 2ME + \beta 3IOS + \beta 4FS + \in \quad (1)$$

Notes:
EQ = Earnings Quality
α = Constant
β1Prob = Regression coefficient for the profitability independent variable
β2ME = Regression coefficient for the independent variable managerial entrenchment
β3IOS = Regression coefficient for the independent variable investment opportunity set
β4FS = Regression coefficient for the control variable firm size
∈ = error or disturbance variable

D. RESULT AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis is used to provide an overview or explanation of the data for each variable in the study. The descriptive statistical analysis used includes the sample size (N), minimum value, maximum value, mean, and standard deviation. The purpose of this analysis is to gain a broad understanding of the data characteristics before to hypothesis testing. The results of the descriptive statistical analysis for this study are presented in the following table:

Table 2. Results of Descriptive Statistical Analysis

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Profitability	93	-2,00109	.20439	-.1013065	.3675358
Managerial Entrenchment	93	.00000	.66471	.0891880	.19084006
Investment Opportunity Set (IOS)	93	.26096	31.75856	3.2831972	5.75367559
Firm Size	93	22.33940	32.56705	27.566558	2.15867801
Earnings Quality	93	-24.34137	53.81690	.8805522	6.77808148
Valid N (listwise)	93				

Source: Processed Data (2026)

The results of the descriptive statistical analysis show that, out of 93 observations, the profitability variable has a mean of -0,101 with standard deviation of 0,367, managerial entrenchment has a mean of 0,089 with a standard deviation of 0,191, and IOS has a mean of 3,283 with a standard deviation of 5,754. These three variables have standard deviations higher than their means, indicating heterogeneous data with a wide distribution. This suggests significant variation in profitability, managerial entrenchment, and IOS across technology companies, reflecting the diverse characteristics of firms in this sector. The firm size control variable has a mean of 27,566 with a standard deviation of 2,159, which is lower than the mean, indicating homogeneous data. This implies that technology companies in the sample tend to have relatively similar asset sizes. The dependent variable, earnings quality, has a mean of 0,880 with standard deviation of 6,778, which is much higher than the mean, indicating a very wide data spread. This wide variation in earnings quality across firms provides a strong basis for examining its determinants, as the diversity in the dependent variable allows for meaningful statistical analysis of the factors that influence it. Thus, only firm size shows homogenous data, while the other four variables vary significant across firms in the sample.

Tests of Classical Assumptions

This study employed tests of classical assumptions, namely the normality test, the multicollinearity test, the heteroscedasticity test, and the autocorrelation test.

Table 3. Result of Normality Test One Sample-KS

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		93
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	2.02075075
Most Extreme Differences	Most Extreme Differences	.072
	Positive	.072
	Negative	-.054
Test Statistic		.072
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Processed Data (2026)

Based on the Kolmogorov-Smirnov normality test, the Asymp. Sig. (2-tailed) value of 0,200>0,05 indicates that the residual data are normally distributed, so the regression model is appropriate for hypothesis testing. The finding ensures that the statistical inferences drawn from the model are valid and reliable, as normality is a fundamental assumption for parametric testing.

Table 4. Result of Multicollinearity test

Coefficients[a]		
Model	Collinearity Statistics	
	Tolerance	VIF
Profitability	.957	1.045
Managerial Entrenchment	.963	1.039
Investment Opportunity Set (IOS)	.980	1.020
Firm Size	.996	1.004

Source: Processed Data (2026)

The results of the multicollinearity test show that all independent variables have tolerance values > 0,10 and VIF < 10. Therefore, the regression model is free of multicollinearity and is suitable for hypothesis testing. This indicates that each independent variable provides unique information that is not redundant with other variables in the model, ensuring that the estimated coefficients are stable and reliable.

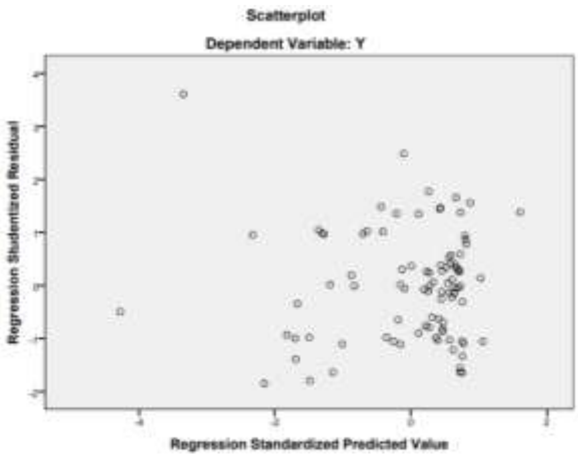

Figure 4. Results of Heterocedastisity
Source: Processed Data (2026)

Based on the distribution of data points in this scatterplot, there is no evidence of heteroscedasticity. The data can be considered homoscedastic because the points are scattered randomly without any specific pattern and are located both above and below the value of 0 on Y-axis. This confirms that the variance of residuals is constant across all levels of the independent variables, which is essential for obtaining unbiased standard errors and valid hypothesis tests.

Table 5. Result of Autocorrelation

ANOVA[a]					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	53.034	4	13.259	3.106	1.945[b]
Residual	375.676	88	4.269		
Total	428.710	92			

Source: Processed Data (2026)

The Durbin-Watson statistic of 1,945 falls between the du value (1,7531) and the 4-du value (2,2469), indicating that the regression model is free of autocorrelation and suitable for hypothesis testing. This ensures that there is no correlation between residuals across time periods, which is particularly important given the panel nature of the data (observations across three years).

Hypothesis Testing

The hypothesis tests used in this study include multiple linear regression analysis, the coefficient of determination test, the t-test, and the F-test.

Table 6. Result of Coefficient of Determination

Model Summary[b]				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.352[a]	.124	.084	2.066

Source: Processed Data (2026)

This indicates that the independent variables including profitability, managerial entrenchment, and Investment Opportunity Set (IOS) along with the control variable firm size, collectively account for only 8,4% of the variance in the dependent variable earnings quality, while the remaining 91,6% is attributed to other variables outside the scope of this study. An R-squared value of 0,124 indicates that all independent variables collectively account for 12,4% of the variation in earnings quality. The low explanatory power suggest that earnings quality is influenced by a complex set of factors beyond those examined in this study, such as corporate governance mechanisms, audit quality, ownership structure, and macroeconomic conditions. This finding highlights the multidimensional nature of earnings quality and the need for future research to incorporate additional variables to provide a more comprehensive understanding.

Table 7. Result of the F-test

ANOVA[a]					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	53.034	4	13.259	3.106	.019[b]
Residual	375.676	88	4.269		
Total	428.710	92			

Source: Processed Data (2026)

Based on the table, this study yielded an F-value of 3,106 and a significance level of 0,019 (<0,05). Therefore, it can be concluded that all independent variables simultaneously (collectively) have a significant effect on earnings quality. This means that profitability, managerial entrenchment, and Investment Opportunity Set (IOS) can collectively be used to predict earnings quality. Although the individual effects of managerial entrenchment and IOS are not significant, their combination with profitability produces a model that is statistically valid, indicating that these variables together provide meaningful information about earnings quality.

Table 8 Result of multiple linear regression

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	28.033	.273		102.532	.000
	Profitability	1.772	.599	.302	2.959	.004
	Managerial Entrenchment	-2.265	1.150	-.200	-1.969	.052
	Investment Opportunity Set (IOS)	-.017	.038	-.046	-.457	.648
	Firm Size	-.032	.032	-.101	-1.011	.315

Source: Processed Data (2026)

Based on the table, it can be concluded that the multiple linear regression equation in this study is as follows:

$$Y = 28{,}033 + 1{,}772X1 - 2{,}265X2 - 0{,}17X3 - 0{,}32Z1 + \in \quad (2)$$

The Effect of Profitability on Earnings Quality

The analysis results demonstrate that profitability, as measured by ROA, has a positive and significant effect on earnings quality, with a regression coefficient of 1,772 and a significance level 0f 0,004. This finding supports the first hypothesis and confirms that companies with higher profitability ten to produce higher-quality earnings. Form the perspective of agency theory by Jensen and Meckling (1976), ROA indicates how efficiently a company generates profits through asset management, where substantial profits are derived from actual operations rather than financial manipulation, thereby attracting investor interest. When ROA is already strong, management has no incentive to engage in profit engineering because strong performance is sufficient to maintain the company's reputation in the eyes of shareholders. Furthermore, based on agency theory, information asymmetry is no longer exploited for personal gain, as the interests of principals and agents are aligned when financial performance is robust.

The practical implication of this finding is that investors should consider profitability as a key indicator when assessing earnings quality, as companies with consistently high ROA are more likely to provide reliable financial information. For management, maintaining strong profitability reduces the pressure to engage in opportunistic reporting, thereby enhancing the credibility of financial statements and building long-term trust with stakeholders. These findings are supported by research by Anjani et al. (2024) and Lusiani and Khafid (2022), which also demonstrate that profitability has a positive and significant effect on earnings quality, making profitability a key element in improving a company's earnings quality.

The Effect of Managerial Entrenchment on Earnings Quality

The results of the analysis show that managerial entrenchment was not found to have an effect on earnings quality, with a regression coefficient of -2,265 and a significance level of 0,052 (>0,05). Thus, the second hypothesis was rejected even though the coefficient was negative, as predicted. Managerial entrenchment was measured using the ratio of the President Director stock ownership to total outstanding shares (Amalia & Dura, 2022). However, based on the research data, many President Directors either held no shares or held a very small proportion, resulting in relatively low managerial power. According to agency theory, when managerial stock ownership is low the conflict of interest between agents and principals is not particularly acute because management does not have a significant stake in company policy, thereby reducing the incentive for earnings manipulation (Jensen & Meckling, 1976).

This finding challenges the theoretical prediction that entrenched managers necessarily engage in opportunistic behavior undermining earnings quality (Khabibah, 2020). The low managerial ownership in the sample companies suggests that the entrenchment effect is limited because managers have less power to influence corporate decisions. Practically, investors and regulators should not assume that managerial entrenchment automatically leads to poor earnings quality as the actual effect depends on the level of managerial ownership. This finding is consistent with research by Amalia and Dura (2022), which states that managerial entrenchment does not affect earnings quality because the majority of the company's shares are owned by third parties, not top management. Thus, minimal managerial ownership cannot significantly influence the company's earnings quality.

The Effect of Investment Opportunity Set (IOS) on Earnings Quality

The results of the analysis show that the investment opportunity set (IOS) was not found to have a positive effect on earnings quality, with a regression coefficient of -0,017 and a significance level of 0,648 (>0,05). Therefore, the third hypothesis is rejected because the negative direction of the coefficient contradicts the hypothesis. The IOS was measured using the MVBVA, which consists of total assets minus total equity plus the product of outstanding shares and the closing price divided by total assets. A high closing price should reflect a positive market assessment of the company's growth prospects. However, the research data show that approximately 64% of the sample has a closing price of less than Rp500, indicating that the market has not yet assigned a high valuation to the company's growth prospects.

From a theoretical perspective, this finding contradicts signaling theory which predicts that companies with high growth opportunities have stronger incentives to provide high-quality earnings information to attract investors. Based on signaling theory, a low closing price indicates a weak signal from the company, making it insufficiently strong to significantly influence earnings quality. The low IOS in the sample may also reflect the characteristics of the Indonesian technology sector, where many companies are still in early growth stages ad have not yet established strong market positions. Practically, investors should be cautious when interpreting IOS as an indicator of earnings quality and regulators should focus on enhancing market transparency to improve the signaling effectiveness of stock prices. This finding aligns with the research by Wulandari et al. (2021), which states that IOS does not affect earnings quality, particularly among companies in Indonesia that tend to have low closing prices and low IOS values.

E. CONCLUSION AND SUGGESTION

This study aims to analyses the effect of profitability, managerial entrenchment, and Investment Opportunity Set (IOS) on earnings quality in technology sector companies listed on the Indonesia Stock Exchange for the 2022-2024 period. The data used consists of secondary data from the company's annual financial reports, comprising a total of 93 observations from 31 companies selected using purposive sampling. The analysis was conducted using multiple linear regression with SPSS. Based on the analysis results, profitability has a positive and significant effect on earnings quality. Companies with high profitability tend to generate higher-quality earnings because these earnings stem form efficient and productive asset management rather than from manipulating figures, and management lacks a strong incentive to engage in earnings engineering since strong performance is sufficient to maintain their reputation in the eyes f shareholders, in line with agency theory. Managerial entrenchment was not found to influence earnings quality, even though the coefficient was negative as hypothesized. This is due to the low proportion of shares owned by the President Director in the sample companies, meaning that managerial power is not strong enough to influence company policy and the conflict of interest between agent and principal is not particularly acute. IOS was also not found to have a positive effect on earnings quality. In fact, the negative coefficient contradicted the hypothesis. This is because most companies in the technology sector have relatively low closing stock prices, resulting in low IOS values that are not strong enough to send a positive signal to the market, as predicted by signalling theory.

Theoretically, this study contributes to the advancement of earnings quality literature by integrating profitability, managerial, entrenchment, and IOS into a single analytical model, which has not been previously explored in the Indonesian technology sector context. The findings strengthen agency theory by confirming that profitability reduces agency conflicts and improves earnings quality, while challenging the assumption that managerial entrenchment always leads to opportunistic behavior. The results also question the applicability of signalling theory in emerging markets, where low stock prices may limit the effectiveness of IOS as a credible signal. Practically, this study provides valuable insights for investors who should prioritize profitability as a key indicator in assessing earnings quality while exercising caution when using IOS as a signal of earnings reliability. For company management, maintaining strong profitability as essential for building stakeholder trust through transparent reporting. For regulators such as the OJK and BEI, these findings highlight the need to enhance market transparency and investor protection in the technology sector.

This study has several limitations, including a low adjusted R-square of 8,4% indicating many unexplored factors, a narrow focus on the technology sector limiting generalizability, and reliance on secondary data. For future research, it is recommended to include additional variables such as corporate governance mechanisms, audit quality, institutional ownership, and macroeconomic factors. Expanding the research scope to other sectors and employing alternative measures of managerial entrenchment and IOS proxies would also provide more comprehensive insights.

A recommendation for future researchers is to include additional variables that may influence earnings quality, as the Adjusted R-Square value is only 8,4% indicating that many other variables outside the model affect earnings quality. Expanding the scope of the research to include other sectors listed on the IDX would allow for broader application of the findings. For companies, it is recommended to pay attention to profitability levels, as this has been shown to have a significant impact on earnings quality. Although managerial entrenchment and IOS do not have a significant effect, companies must still maintain sound governance mechanisms to ensure that earnings quality is preserved. Investors should consider a company's profitability as a key indicator in assessing earnings quality before making investment decisions. Stakeholders should also take into account other factors outside the scope of this study that influence a company's earnings quality.

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