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The Effect Of Institutional Ownership, Capital Structure And Liquidity On Earnings Quality In The Primary Consumer Goods Sector Listed On The Idx In 2014-2024

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Abstract

Purpose – *This study aims to obtain empirical evidence on the Influence of Institutional Ownership, Capital Structure and Liquidity on Eranings Quality.*

Design/methodology/approach – *This study uses quantitative research. The sample in this study is companies in the primary consumer goods sector listed on the Indonesia Stock Exchange during 2014-2024 as many as 24 companies selected through purposive sampling. The analysis technique used was multiple linear regression with the help of the E-views 9 software.*

Findings – *The results of this study found that Institutional Ownership has an effect but statistically does not have a significant effect on Earnings Quality, Capital Structure is influential but statistically significant affects Earnings Quality and Liquidity has no effect but statistically significant affects Earnings Quality.*

Research limitations/implications – *This study discusses Institutional Ownership, Capital Structure and Liquidity on Earnings Qualitywith the primary consumer goods sector listed on the Indonesia Stock Exchange.*

INTRODUCTION

Eranings Quality is a profit in financial statements that reflects the financial performance of a company. If low profit quality will make mistakes in decision-making for its users such as investors, therefore investors, potential investors, financial analysts and other users of financial information must know how good profit quality is. Profits that do not show good and correct information will mislead investors and users of financial statements (Ilmiyah & Wahyuningtyas, 2020). Profit can be called high-quality if the reported profit is used by the investor to make the best decision and meet the relevant characteristics (Alatas & Wahidahwati, 2022). Companies that produce goods and services primarily are categorized as primary consumer goods sectors (*Consumer non-cyclical*). This sector has 12 sub-sectors for companies listed on the IDX as of January 25, 2021 which are published through the website www.idx.co.id with the name "*Indonesian Stock Exchange Classification*" (IDX-IC). The primary consumer goods sector is a sector consisting of companies that produce or distribute products

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and services that are consumed primarily or are anti-cyclical.

In Indonesia, there are several cases related to the manipulation of financial statements, so that the practice of manipulating financial statements causes the quality of profits owned by the company to be low. One of them is the case carried out by PT. Three Pillars of Prosperous Food Tbk (AISA). In its report in 2017, it was alleged that there was manipulation of 6 distributor companies and also companies to increase the amount of their receivables carried out by 2 former directors of PT. Tiga Pilar Sejahetra Tbk. And after the audit was carried out, there was an *overstatement* value to the 6 companies which reached Rp 4 Trillion. After that, it was also found that the company overstated the sales account of IDR 662 billion and the EBITDA account of IDR 329 billion. In addition, there was also a flow of funds to 2 former directors amounting to Rp 1.78 trillion. Cnbcindonesia, 2019.

The first factor that can affect the earnings quality is institutional ownership. Institutional ownership in the company can be used as a tool to supervise the performance of the company's management. Institutional ownership is the ownership of the number of institutional shares in the company. High quality profits benefit not only institutional owners but also all shareholders, as they provide relevant, reliable and trustworthy financial information. Real profits are important information for shareholders and potential shareholders (Setiyowati & Irianto, 2020). According to previous research (Setiyowati & Irianto, 2020) With manufacturing companies in the consumer goods industry as a sample, it is stated that institutional ownership has a significant positive effect on the earnings quality. Institutional ownership has the ability to increase its portfolio through increased supervision of issuer management. According to research (Hermawan & Dwiajayanti, 2024) conducted on LQ45 companies listed on the Indonesia Stock Exchange, the results of this study state that institutional ownership has a negative effect on the earnings quality.

The second factor that can affect the earnings quality is the capital structure. The capital structure is measured by the DER so that it provides an overview of the capital structure owned by the company so that the level of risk of a debt is known. Users of this ratio can give consideration to shareholders for the debt in the company because the larger the risk, the risk will be on the debt borne by the company (Mardiana et al., 2022). If the debt is greater than the capital, it will result in greater financial risks because there is a possibility that the company will not be able to pay off its debts. In overcoming this, the company must spend considerable costs so that the possibility of manipulating large profits occurs. The capital structure functions to affect the quality of profits due to the composition of the company's funding, both from debt and equity. Companies with a high proportion of debt face pressure from creditors to maintain their finances so as to encourage management to produce quality profits. If an unhealthy capital structure will increase profit manipulation to maintain an image in the eyes of investors. The results of this study are similar to (Rissella & Sitorus, 2020) in textile and garment sub- sector companies listed on the Indonesian stock exchange, stating that the capital structure has a positive effect on the earnings quality. Because low borrowed capital should show the earnings quality at the highest level and high borrowed capital should show the earnings quality at the lowest level because with the borrowed capital, which means that it will affect the quality of the company's low profit, it means that the smaller the capital structure, identify that the quality of the low profit is worse. In research (Mardiana et al., 2022) In manufacturing companies listed on the

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Indonesia Stock Exchange, the results of this study state that the capital structure has a negative effect on the quality of profits. Because if the company has debt, it will not affect the earnings quality.

The third factor that can affect the earnings quality is liquidity. Liquidity indicates that the company is able to meet its short-term debt obligations. Liquidity because if a company has the ability to pay its short-term debts, it means that the company has good financial performance in meeting its current debt, so the company does not need to practice profit management. Liquidity ratio is a financial measurement tool used to assess a company's capacity to meet its short-term financial obligations. The ratio measures the extent to which a company can pay its operating costs using current assets or assets that can be converted into cash. Research results (Azizah & Asrori, 2022) which conducted research on property and real estate sector companies listed on the Indonesia Stock Exchange which stated that liquidity has a positive effect on the earnings quality. The results of the study on (Marlina & Idayati, 2021) which is carried out on manufacturing companies listed on the Indonesia Stock Exchange which states that the results of this study have a negative effect on the earnings quality. Based on the background that has been described above, the title used in this study is "The Influence of Institutional Ownership, Capital Structure, and Liquidity on Earnings Quality in the Primary Consumer Goods Sector Listed on the IDX in 2014-2024"

LITERATURE REVIEW

Agency Theory

(Jensen & Meckling, 1976) defines that the theory of agency or agency relations is as a contract in which one or more persons (*Main*) involves another person (agent) to perform a service on their behalf that involves delegating decision-making authority to the agent. In this case, the principal can limit the difference in his or her interests by providing appropriate incentives to the agent and by incurring monitoring costs designed to limit the activities of the agent. A difference in interests occurs when the principal gives trust to the agent by delegating authority in a business decision-making within the company.

Earnings Quality

Earnings Quality is a measure that shows the extent to which the profits reported by the company reflect the company's actual economic performance. In accounting and financial reporting, the quality of profit relates to the ability of the profit report to provide an accurate and reliable picture of the company's performance, as well as its ability to generate future cash flow (Siladjaja, 2025).

Institutional Ownership

According to (Rustan, 2023) Institutional ownership is the proportion of shareholders owned by institutional owners such as insurance companies, banks, investment companies and other bank holdings except subsidiaries and other institutions that have a Special relationship (affiliated companies and associated companies) on reports made according to data in *Jakarta Stock Exchange* as well as share ownership by the *Blockholders* namely shares owned by individuals above 5% for three consecutive years. Institutional ownership is the proportion of a company's shares owned by insurance institutions, banks, investment firms and other institutional ownership. The existence of institutional ownership encourages increased supervision of the company's management performance, so that the potential for *Financial Distress* can be minimized because a company with greater institutional ownership indicates its ability to monitor management (Force, 2019).

Capital Structure

Capital structure is very important for companies because it concerns policies in the use of the most profitable sources of funds in funding needs, companies can use their own capital and foreign capital. If you use foreign capital, the company will bear a fixed cost, namely interest. Capital structure is a combination or balance between debt and its own capital (preferred shares and common shares) that a company uses to plan capital income (Ambarwati, 2019). Capital structure is part of the financial structure. If the financial structure shows the composition of all sources in spending its assets, then the capital structure is only how large the long-term source is in spending its assets. The capital structure only shows long-term spending. So practically, the capital structure shows the composition between long-term debt and capital itself (Siswanto, 2019).

Liquidity

Liquidity ratio is the ratio needed to analyze the company's financial statements, because the liquidity ratio is a ratio that shows the company's ability to meet short-term obligations that must be fulfilled immediately. Therefore, this ratio is used to measure the level of security of short-term creditors, as well as to measure whether the company's operations will not be disrupted if short-term liabilities are collected immediately (Sulindawati et al., 2015). Liquidity ratio is a ratio that describes a company's ability to meet its short-term obligations that are due soon. Liquidity ratios are required for the purposes of credit analysis or financial risk analysis (Astuti et al., 2021).

Hypothesis Development

Institutional Ownership of Earnings Quality

Institutional ownership is a share ownership owned by institutional investors such as the government that has the power to monitor the management through effective control and supervision so as to minimize data manipulation by management. However, the influence of institutional ownership with profit quality can be caused by the lack of effective monitoring by institutional companies which can cause gaps to manipulate data and low implementation *Corporate Governance* in companies in Indonesia that cause profits to be manipulated by certain parties (Puspitawati et al., 2019). Institutional ownership has the basic ability to monitor or become a very important role in a company in reducing management's ability to manipulate profits. If there is institutional ownership, it will reduce the occurrence of individual interests so that it will affect the quality of profits in the company. Therefore, the higher the level of institutional ownership, the more optimal the level of control carried out by external parties over the company (Lexputri, 2022).

H_1 : Institutional Ownership affects the Earnings Quality.

Capital Structure to Earnings Quality

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Capital structure can affect the earnings quality, if a company's assets are larger funded by debt than funded by the company's capital, then companies with high debt levels can use the debt to fund the company's operational activities as long as it is able to improve performance that is able to generate optimal income and can mitigate the risk of not being able to pay debts (Astuti et al., 2022). This is because the size and size of a company's debt level greatly affects the quality of a company. That companies that have a lot of debt can use the debt to fund their company's operations so that they are able to generate optimal profits. Companies that have optimal profits will respond positively by investors who invest their funds in the company (Sukmawati et al., 2014).

H2 : Capital Structure affects the Earnings Quality.

Liquidity to Earnings Quality

Liquidity gives an indication that the higher the level of liquidity in a company, the higher the quality of the company's profits. Because the company is able to maintain its liquidity well, it will show that the company has a good ability to pay off its short-term debts. Companies with high liquidity are considered to have good financial performance so that management will not manipulate profits (Amanda & NR, 2023). The commonly used liquidity ratio is the current ratio, a high current ratio is usually considered to indicate that there are no problems in liquidity, so the higher the liquidity, the higher the liquidity, it means that the profit generated by a company is quality because the company's management does not need to practice profit management. However, if the company's liquidity is too large, the company is unable to manage its current assets as much as possible so that financial performance is not good and there is a possibility of profit manipulation to beautify the profit information (Zulman & Abbas, 2022).

H3 : Liquidity affects the Earnings Quality.

RESEARCH METHOD

This study aims to determine the possibility of a relationship regarding independent variables of institutional ownership, capital structure, and liquidity to dependent variables of earnings quality. This study aims to test hypotheses that explain the relationship between two or more factors in a situation. The type of data that will be used in this study is quantitative data. The researcher uses a correlational study that will find important variables related to the problem. The level of researcher intervention in the study is with a minimal level of intervention, which means that the researcher has a direct interest in the research but not in depth. Furthermore, the situation carried out in the study is a correlational study, that is, a situation carried out in an unregulated situation. This study will test a variety of factors in natural situations with daily activities still ongoing. Furthermore, the unit of analysis used during the data analysis stage is the organization. The sample design in this study is *Non-probability sampling* by using *purposive sampling.* For the implementation time using the study *Longitudinal*, where the study crosses a fairly long period in answering questions. This study uses hypothesis testing data analysis (Sekaran, 2006). Measurements are made in the table as follows:

Table 1. Variable measuring instruments and sources of measurement

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Concept	Variable	Measuring Instruments	Source
Dependent.	Quality Profit	$EQ = \frac{operating\ cash\ flow}{EBIT}$	(Putra & Dewi, 2023)
Independent	Institutional Ownership	INS = $\frac{Total\ institutional\ shares}{Total\ outstanding\ shares} \times 100\%$	(Alatas & Wahidahwati, 2022)
	Capital Structure	$DER = \frac{Total\ Liabilities}{equity}$	(Mardiana et al., 2022)
	Liquidity	$CR = \frac{current\ assets}{current\ liabilities}$	(Wardani & Anggrenita, 2022)

RESULTS

This study used purposive sampling techniques and a population of 126 companies and there was a sample withdrawal into 24 company samples.

Table 2. Sample Selection

Yes	Criterion	Number of Companies
1	Primary Consumer Goods Companies listed on the Indonesia Stock Exchange for the period 2014-2024	126
	Primary Consumer Goods Companies Not Listed on the Indonesia Stock Exchange for the 2014-2024 period	(3)
2	Primary Consumer Goods Companies that do not use rupiah currency in financial statements.	(2)
	Primary Consumer Goods Company uses rupiah currency in financial statements	121
3	Primary Consumer Goods Companies that do not have complete financial statements as of December 31, 2024 for the 2014-2024 period	(97)
	Primary Consumer Goods Companies that have financial statements as of December 31, 2024 for the 2014-2024 period	24
	The number of companies available as a sample (Primary Consumer Goods Companies listed on the IDX for the period 2014-2024	24

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Yes	Criterion	Number of Companies
Total N is 24 × 11 Years of Research = 264 Data Observations		

From the results of the stufy, it can be known the minimum, maximum, average and standard deviation values of each variable used in the obsevation period of 2014-2024.

Table 3. Research Sample

	INS	DER	CR	KL
Mean	0.707342	0.892333	2.844042	1.421670
Median	0.583300	0.511250	2.118500	1.056000
Maximum	4.000000	4.940200	14.89110	10.41990
Minimum	0.005400	0.000800	0.535400	0.002100
Std. Dev.	0.739332	0.943974	1.878338	1.267988
Skewness	3.603318	1.746427	2.299041	2.923606
Kurtosis	16.59169	5.755349	10.50726	15.53592
Jarque-Bera	2603.366	217.7118	852.5138	2104.732
Probability	0.000000	0.000000	0.000000	0.000000
Sum	186.7382	235.5759	750.8270	375.3209
Sum Sq. Dev.	143.7588	234.3559	927.9046	422.8498
Observations	264	264	264	264

The table above shows that there are 264 observations (unbalanced) for the 2014-2024 research year. The descriptive explanation of statistics in the data above is:

Earnings *quality* has a value range between the lowest value of 0.0021 to the highest value of 10.41 with an average value of 1.42. The primary consumer goods sector company with the highest profit quality value is PT Sumber Alfaria Trijaya Tbk. in 2017. Institutional ownership (INS) has a value range between the lowest of 0.005 to the highest value of 4,000 with an average value of 0.707. the primary consumer goods sector company with the highest institutional ownership value, namely PT. Akasha Wira International Tbk. in 2014-2024. The capital structure (DER) has a value range between the lowest of 0.0008 to the highest value of 4.940 with an average value of 0.892. The primary consumer goods sector company with the highest capital structure value is HM Sampoerna Tbk in 2015. Liquidity (CR) has a value range between the lowest of 0.535 to the highest value of 14,891 with an average value of 2,844. The company in the primary consumer goods sector is PT. BISI International Tbk. in 2024.

Panel Data Regression Model Selection
Chow Test

Table 4. Chow Test

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Effects Test	Statistics	D.F.	Prob.
Cross-section F	5.763844	(23,237)	0.0000
Cross-section Chi-square	117.288787	23	0.0000

Source: Processed data (2025)

Based on the results of *the Chow* Test using *Eviews*, it is stated that *the probability value of Cross Section* F is 0.0000 which is less than the value of the significance level (α= 0.05). This means that the best model used is the *Fixed Effect Model* (FEM). Therefore, a Hausman Test is needed in order to choose the best model between *the Fixed Effect Model* and *the Random Effect Model.*

Hausman Test

Table 5. Hausman Test

Test Summary	Chi-Sq. Statistics	Chi-Sq. D.F.	Prob.
Cross-section random	1.252274	3	0.7405

Source: Processed data (2025)

Based on the results of the Hausman Test, the *probability* value is 0.3671, which is greater than the significance level (α= 0.05). So in this case it means that the best model used is *the Random Effect Model.* So the Langrange Multiplier Test is needed.

Langrange Multiplier

Table 6. Langrange Multiplier

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	109.4605	0.011760	109.4722
	(0.0000)	(0.9136)	(0.0000)
Honda	10.46234	-0.108442	7.321309
	(0.0000)	--	(0.0000)
King-Wu	10.46234	-0.108442	5.668794
	(0.0000)	--	(0.0000)

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Standardized Honda	11.73557 (0.0000)	0.087937 (0.4650)	3.838274 (0.0001)
Standardized King-Wu	11.73557 (0.0000)	0.087937 (0.4650)	2.253233 (0.0121)
Gourierioux, et al.*	--	--	109.4605 (< 0.01)

*Mixed chi-square asymptotic critical values:

1%	7.289
5%	4.321
10%	2.952

Source: Processed data (2025)

Based on the results of the Langrange Multiplier test, *the Breusch-pagan probability* value is 0.0000 or less than 0.05 so the best model used is *the Random Effect Model* (REM).

Hypothesis

Multiple Regression Analysis

The best regression model after estimation and selection in this study is *the Random Effect Model* (REM). The following are the results of the panel data regression estimation using *the Random Effect Model* (REM).

$$KL = 1.401696 + 0.001912*INS + 0.428905*DER - 0.128024*CR + \varepsilon$$

Coefficient of Determination

Table 7. Simultaneous Tests

R-squared	0.071435	Mean dependent var	0.558519
Adjusted R-squared	0.060721	S.D. dependent var	0.995988
S.E. of regression	0.965276	Sum squared resid	242.2569
F-statistic	6.667332	Durbin-Watson stat	1.688829
Prob(F-statistic)	0.000236		

Source: Processed data (2025)

Based on table 4.10 *R-Squared* shows a value of 0.071435 which means that 71% of the variables of institutional ownership, capital structure and liquidity can explain the variable Profit Quality.

T Test (Partial Test)

Table 8. Partial Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KL	1.401696	0.260456	5.381693	0.0000
INS	0.001912	0.200793	0.009523	0.9924
DER	0.428905	0.105830	4.052768	0.0001
CR	-0.128024	0.051093	-2.505707	0.0128

KL = Profit Quality, INS = Institutional Ownership, DER = Capital Structure, CR = Liquidity.

The result of the test using Random Effect Model (REM) can be concluded as follows: Institutional ownership affects the earnings quality. The first hypothesis (H1) raised in this study states that institutional ownership affects the quality of profits. The results of this study support this hypothesis with a beta coefficient of 0.001, and the results of the t-test on the institutional ownership variable produced a calculated t-value of 0.009 < t table of 1.725. Then because this study uses *one tailed*, the probability value is divided into 2 (two), namely, 0.9924/2
= 0.4962 which is much greater than the significance level of α = 0.05 (5%). Capital Structure affects the quality of profits. The second hypothesis (H2) raised in this study states that capital structure affects the quality of profits. The results of this study support this hypothesis with a beta coefficient of 0.428, and the results of the t-test on the modal structure variable produced a calculated t-value of 4.052 > 1.725. Then because this study uses *one tailed*, the probability value is divided into 2 (two), namely, 0.0001/2 = 0.00005 which is smaller than the significance level of 0.05 (5%). Liquidity has no effect on the quality of profits. The third hypothesis (H3) raised in this study states that liquidity has a negative influence on the quality of profits. The results of the analysis of this study obtained a beta coefficient value of -0.128 and the results of the t-test on the liquidity variable produced a calculated t-value of -2.505 < t table of 1.725. Then, because this study uses *the one tailed hypothesis*, the probability value is divided into 2 (two), namely 0.0128/2 = 0.0064 which is smaller than the significance level of 0.05 (5%).

DISCUSSIONS

The Influence of Institutional Ownership on the Earnings Quality

Institutional ownership affects the earnings quality. The first hypothesis (H1) raised in this study states that institutional ownership affects the quality of profits. The results of this study support this hypothesis with a beta coefficient of 0.001, and the results of the t-test on the institutional ownership variable produced a calculated t-value of 0.009 < t table of 1.725. Then because this study uses *one tailed* then the probability value is divided into 2 (two),

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namely, 0.9924/2 = 0.4962 which is much greater than the significance level of α = 0.05 (5%). From the results above, it is shown that with supervision from the owner of the institution, a management can show the performance of the company well and by presenting its actual financial statements to improve the quality of profits presented to the owner of the institution and investors. High institutional ownership is often seen as a signal that a company is well supervised. This can make management even more careful in reporting its finances so that it remains trusted by financial report users. The results of this study are in line with the research conducted by (Lexputri, 2022), (Dewi & Fachrurrozie, 2021), (Isynuwardhana & Rahmawati, 2023), (Elma & Nuswandari, 2020), (Setiyowati & Irianto, 2020) which states that institutional ownership affects the earnings quality.

The Influence of Capital Structure on theEarnings Quality

Capital Structure affects the quality of profits. The second hypothesis (H2) raised in this study states that capital structure affects the quality of profits. The results of this study support this hypothesis with a beta coefficient of 0.428, and the results of the t-test on the modal structure variable produced a calculated t-value of 4.052 > 1.725. Then because this study uses *one tailed* then the probability value is divided into 2 (two), namely, 0.0001/2 = 0.00005 which is smaller than the significance level of 0.05 (5%). This provides that the capital structure states that the larger the company's debt, the more it reflects the quality of the company's profits, companies that have a high level of debt can use their debt to fund their company's operational activities so that it is possible for the company to generate large profits and can pay off the debt from the profits generated by the company. This means that companies with a high level of capital structure will generate high and quality profits as well. Because companies need to manage their debts properly in order to generate quality profits, unbalanced capital structure decisions can be detrimental to a company (Sari & Wiyanto, 2022). These findings are in line with research from (Sari & Wiyanto, 2022), (Astuti et al., 2022), (Sijabat et al., 2023), (Rissella & Sitorus, 2020) (Amalia & Dura, 2022) which states that the capital structure affects the earnings quality.

The Influence of Liquidity on the Earnings Quality

Liquidity has no effect on the earnings quality. The third hypothesis (H3) raised in this study states that liquidity has a negative influence on the quality of profits. The results of the analysis of this study obtained a beta coefficient value of -0.128 and the results of the t-test on the liquidity variable produced a calculated t-value of -2.505 < t table of 1.725. Then, because this study uses a hypothesis *one tailed* then the probability value is divided into 2 (two), namely 0.0128/2 = 0.0064 which is smaller than the significance level of 0.05 (5%). Companies that have a high liquidity value tend to be considered incapable of optimally managing an asset smoothly to carry out business operations, financing, and investment so that the company's performance is not good. To improve the company's performance, there will be a desire to carry out profit manipulation practices that can be carried out by the management so that the profit in the financial statements looks attractive for external parties to invest in the company. This shows that high liquidity cannot guarantee that the company's profit rate is good (Yoanita & Khairunnisa, 2021). If the company has excessive liquidity, it may not be able to manage its current assets appropriately, which can make financial performance worse and can make the quality of profits decrease in value (Maulita

& Dewi, 2023). The findings are in line with the research (Maulita & Dewi, 2023), (Wardani & Anggrenita, 2022), (Marlina & Idayati, 2021), (Stuart & Sunarto, 2022), (Yuliana & Fauziah, 2022), (Yoanita & Khairunnisa, 2021), (Maulita & Dewi, 2023) which has no effect on liquidity on the earnings quality.

CONCLUSIONS

It can be known that institutional ownership affects the earnings quality in companies in the primary consumer goods sector listed on the Indonesia Stock Exchange in 2014-2024. It can be noted that the capital structure affects the quality of profits in companies in the primary consumer goods sector listed on the Indonesia Stock Exchange in 2014-2024. It can be noted that liquidity has no effect on the quality of profits in companies in the primary consumer goods sector listed on the Indonesia Stock Exchange in 2014-2024.

IMPLICATIONS AND LIMITATIONS

The results of this study can help regulators and governments formulate accounting policies to improve the quality of financial information and prevent unethical profit quality practices. From the factors that affect the earnings quality, the Indonesia Stock Exchange allows the Indonesia Stock Exchange to regulate practices that are detrimental to investors and also the capital market. This research was carried out with several research limitations that can affect the results of the research, namely the type of data in this study is secondary data in the form of numbers in financial statements that have been published by the company. In addition, not all companies publish financial statements, so a research sample is needed. By looking for institutional stocks in the financial statements, looking for the calculation of the capital structure, and looking for numbers on liquidity and also taking time to check the financial figures. The desired data is difficult to obtain or there are restrictions on access to the data. Limited time and resources are also an obstacle in this study, so the number of samples used is relatively small.

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