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The Influence of Institutional Ownership, Profitability, and Company Size on Earnings Quality

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ABSTRACT

The increasingly competitive business environment demands greater transparency in financial information, particularly earnings reports, which serve as a foundation for economic decision-making by various stakeholders. Nonetheless, not all reported earnings can be considered high-quality, making it essential to examine the factors that influence the quality of earnings. The banking sector plays a vital role in the national economy however gaps in corporate governance practices, as reflected in instances of financial statement manipulation in Indonesia. This study aims to examine the impact of institutional ownership, profitability, and company size on earnings quality in the banking industry. A quantitative approach was employed. The population consists of banking sector companies listed on the Indonesian Stock Exchange. Sample study were selected using purposive sampling. A total of 46 companies met the criteria, yielding 184 observations; which is the final sample comprised 57 observations after removing outliers. Multiple linear regression analysis was employed as the analytical tool. The results indicate that institutional ownership has a significant effect on earnings quality in banking sector, while profitability and company size do not have a significant impact. This study is expected to serve as a reference for investors, regulatory authorities, and corporate management in enhancing accountability and transparency of financial information in the banking sector.

Keywords: *Company Size, Earnings Quality, Institutional Ownership, Profitability*

ABSTRAK

Lingkungan bisnis yang semakin kompetitif menuntut transparansi yang lebih besar dalam informasi keuangan, terutama laporan laba rugi, yang menjadi dasar pengambilan keputusan ekonomi oleh berbagai pemangku kepentingan. Namun, tidak semua laporan laba rugi yang dilaporkan dapat dianggap berkualitas tinggi, sehingga penting untuk menganalisis faktor-faktor yang mempengaruhi kualitas laba rugi. Sektor perbankan memainkan peran vital dalam perekonomian nasional

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namun terdapat celah dalam praktik tata kelola korporasi, yang tercermin dalam kasus manipulasi laporan keuangan di Indonesia. Penelitian ini bertujuan untuk menganalisis dampak kepemilikan institusional, profitabilitas, dan ukuran perusahaan terhadap kualitas laba di industri perbankan. Pendekatan kuantitatif digunakan. Populasi terdiri dari perusahaan sektor perbankan yang terdaftar di Bursa Efek Indonesia. Sampel penelitian dipilih menggunakan sampling purposif. Total 46 perusahaan memenuhi kriteria, menghasilkan 184 observasi; yang menjadi sampel akhir sebanyak 57 observasi setelah menghilangkan *outlier*. Analisis regresi linier berganda digunakan sebagai alat analisis. Hasil menunjukkan bahwa kepemilikan institusional memiliki dampak signifikan terhadap kualitas laba di sektor perbankan, sementara profitabilitas dan ukuran perusahaan tidak memiliki dampak signifikan. Studi ini diharapkan dapat menjadi acuan bagi investor, otoritas pengawas, dan manajemen perusahaan dalam meningkatkan akuntabilitas dan transparansi informasi keuangan di sektor perbankan.

Kata Kunci: Kepemilikan Institusional, Kualitas Laba, Profitabilitas, Ukuran Perusahaan

1. INTRODUCTION

The business world is becoming increasingly competitive, and financial reports have become a vital component that provides important information for stakeholders like investors, creditors, the government, and the general public. One of the main pieces of information that attracts attention is a company's profit, which reflects its financial performance and serves as a reference for making economic decisions within and outside the company (Noer Azizah & Khairudin, 2022). Stable financial conditions are indicated by an increase in a company's profits can impact the quality of those profits (Nainggolan et al., 2021). Susbiyani et al., (2023) Expressing stakeholder confidence in relation to the performance of a correlated entity is positively correlated with earnings quality. Conversely, profits that do not reflect operational reality can mislead investment decisions and pose long-term financial risks. Earnings quality is relevant to be examined because this issue is essential in accounting, as it assists companies in making long-term decisions (Kepramareni et al., 2021).

The phenomenon of financial statement fraud in the banking industry has become a problem in Indonesia. One concrete example of this is the case of PT Bank Bukopin, which reviewed its financial statements for a three-year period from 2015 to 2017. Bukopin initially reported a net profit of Rp1.08 trillion, but this was later revised to Rp183.56 billion. The bank even included interest income from 100,000 fictitious credit cards in its financial statements (Susbiyani et al, 2023). This phenomenon reflects weak supervision and gaps in corporate governance, particularly in relation to ownership structure.

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The main element influencing the quality of earnings is institutional ownership. The level of Institutional ownership is thought to lead to better monitoring and encourage managers to prepare financial reports that are more accurate (Ekpulu & Omoye in Susbiyani et al, 2023). According to the findings of Aurelia et al (2020) and Girsang et al (2024), institutional ownership is found to affect the quality of earnings. The results studies by Putri & Imron (2022), Ali et al., (2024) and Dewi & Fachrurrozie (2021) The quality of earnings is positively impacted by institutional ownership. However, it is also explained in the study Tinenti & Nugrahanti (2023), Puspitasari et al. (2024), Rahmawati & Retnani (2019) dan Yeo & Yanti (2022) explains that earnings quality is not influenced by institutional ownership. A similar finding is reported in the study Prastyatini & Yuliana (2022) and Puspitasari et al., (2024) In fact it proves that institutional ownership negatively influences the quality of earnings.

Earnings quality is also influenced by profitability, which constitutes the second significant factor. Profitability is an essential element in evaluating a company's performance. Business entities with optimal profitability tend to generate stable cash flows, which reflect healthy operational performance and quality profits. (Ambarwati et al., 2023). Referring to the outcome of study Kartika et al., (2023) and Salsabila et al., (2024) confirms the significantly relationship between profitability and quality in light of the study's findings Luas et al., (2021), Anggraeni & Widati (2022) and Sumertiasih & Yasa (2022) explains that profitability has a positive influence the qualityof earnings. Meanwhile, the conclusions derived from the studies conducted Anjani et al., (2024), Butarbutar et al. (2025) and Maulita & Dewi (2023) indicate that profitability does not exert a important influence on quality of profits. Nevertheless, the empirical findings presented by Aini et al., (2024) and Restu et al. (2022) shows that profitability has a negative impact on the quality of earnings.

Company size emerges as the third factor affecting earnings quality, as larger enterprises often demonstrate consistent business continuity, thereby impacting earnings quality directly, meaning that large companies do not need to manipulate profits. (Rohmansyah et al., 2022). Research by Rahmawati & Retnani (2019) and Tarigan (2022) the study shows that the company scale has a major influence on the caliber of its profits. However, it also finds that Bomantara (2024), Mardiana et al. (2022), Anggraeni & Widati (2022) and Arnilla (2023) have all showed that the quality of earnings is positively impacted by the size of the company. However, research by Nirmalasari & Widati (2022), Puteri & Trisnaningsih (2022) and Umam & Tumirin (2024) which explains that there is no significant influence between company size and earnings quality.

Banking has made a significant contribution to driving Indonesia's economic growth. Rapid economic development has strengthened the banking-minded culture within the structure of the community's economic activities, where almost all economic activities depend on the role and function of banking institutions (Pangestu & Santoso, 2021). Banking companies are expected to improve the transparency of financial data. This study is very important in order to understand how these components affect profit quality in the banking sector (Salsabila et al. 2024).

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The institutionalization of GCG (Good Corporate Governance) principles in Indonesia's business environment is a necessary step toward enhancing governance mechanisms and ethical standards (Mudjiyanti et al., 2021). Corporate Governance refers to the control and management systems implemented in a company, the provisions, procedures, and structures used to regulate and manage business entities. Good corporate governance helps a company run more efficiently and contributes to higher returns for its shareholders (Alodat et al., 2022). GCG is very important in the banking sector because it is the main foundation for the creation of good and sustainable bank operations (Febriyani et al., 2024).

The inconsistency of previous research results, as well as actual cases of financial statement manipulation in the banking sector, shows that education still lacks understanding of income quality. Focusing on the period between 2020 and 2023, this research looks into how the level of institutional ownership, a company's profitability, and its size affect the quality of earnings for banks that are listed on the Indonesia Stock Exchange (IDX).

Various studies on earnings quality have been developed. Unlike previous articles, this study focuses exclusively on banking companies. This study also acknowledges the sector's distinct specifications when compared to food and beverage enterprises. Additionally, this research does not merely observe profitability and company size but also considers relevant institutional ownership factors related to corporate governance aspects in the banking sector. This research is important to conduct, institutional ownership plays a critical monitoring role that helps improve earnings quality by reducing information asymmetry and disciplining managerial discretion. Institutional investors, especially those with a long-term investment horizon, tend to demand higher quality financial reporting, which enhances transparency and market efficiency. It is also intended to serve as valuable input for investors, regulatory authorities, and management's involvement in fostering more transparent and accountable financial reporting practices.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Jensen & Meckling (1979) describes agency theory as a conceptual framework concerning the relationship between agents and owners. A principal-agent relationship occurs when a principal delegates authority to an agent to act on their behalf in a contractual relationship involving risk sharing and information asymmetry (Ross, 1973). In this context, the implementation of GCG is established to reduce the risk of such conflicts. Institutional and managerial ownership structures, as well as the effectiveness of the board of commissioners, play a significant role in overseeing managerial behavior.

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Framework Research

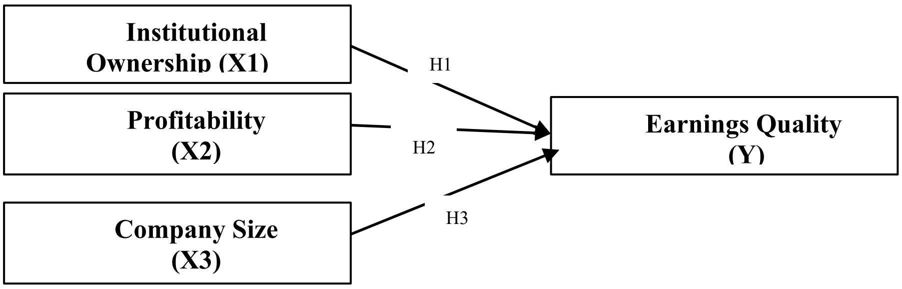

Figure 1. Framework Research

The Effect of Institutional Ownership on the Earnings Quality

Based on to the shareholding of institutions, institutional ownership includes entities such as financial institutions and government agencies. The presence of such institutional ownership can reduce the potential for agency conflicts, as management is encouraged to present financial statements that reflect the actual conditions, thereby improving the reliability of earnings quality (Maulia & Handojo, 2022). Thus, companies are obliged to present profit reports that reflect their actual financial condition. This condition is caused by the contribution of institutional ownership in implementing performance monitoring mechanisms to encourage the achievement of quality profits (Santioso & Daryatno, 2022). To maintain the quality of profits, shareholders need to limit profit management practices by opportunistic managers (Fadillah & Mabrur, 2023). Research Ali et al., (2024), Hulu (2023), Putri & Imron (2022) proves, according to the underlying theory and previous research, that institutional ownership contributes positively to earnings quality. The hypothesis presented in this study:
H1: Institutional ownership has a positive effect on earnings quality.

The Effect of Profitability on Earnings Quality

Profitability is defined as a measure of a business entity's potential to earn profits and is a ratio used to determine how much net income after tax a company earns from its total assets used to support its business operations (Nandika & Sunarto, 2022). The profitability of a bank indicates the degree to which it can generate profits from its operational activities over a specified period. This level of profitability is evaluated using ratios that demonstrate the bank's efficiency in profit generation (Zahrani et al., 2024).The relationship between agency theory and profitability encourages management to increase company profits. Given that agency theory provides management with a better understanding of the company's financial condition, while company owners want high profitability. Companies that utilize their assets effectively can demonstrate their level of effectiveness in generating profits, while companies with high profitability are considered capable of generating profits because they can attract and increase investor confidence to invest (S. T. Agustin & Syaiful, 2024). Research Luas et al., (2021), Anggraeni &

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Widati (2022), and Sumertiasih & Yasa (2022) this shows that being profitable has a good impact on the quality of earnings. The hypothesis proposed in this study:
H2: Profitability has a positive effect on earnings quality

The Effect of Company Size on Earnings Quality

Total assets reflect the amount of resources owned by a company, so this indicator is applied to identify the operational or financial scale of an enterprise (Arafah et al., 2024). Agency theory states that large-scale businesses tend to have higher agency costs compared to small-scale businesses. In this regard, due to their operational efficiency, large companies are perceived as more attractive investment options by investors (R. Safitri & Afriyenti, 2020). For a company to run optimally, the right strategy is needed. Through company size, we can assess the integrity of financial statements, see the amount of assets from capital or debt, monitor management, improve supervision, and minimize financial statement fraud (Ernawati & Santoso, 2022). Earnings quality is positively correlated with company size (P. S. Agustin & Rahayu, 2022). Companies possessing substantial assets are generally more reliable and able to produce higher earnings in contrast to those with smaller asset bases (D. A. Safitri & Barli, 2024). Anggraeni & Widati (2022), Arnilla (2023), Bomantara (2024),) and Mardiana et al., (2022) proves that earnings quality is positively impacted by firm size. The hypothesis proposed in this study:
H3: Company size has a positive effect on earnings quality

3. RESEARCH METHOD

The research method used in this study is quantitative, focusing on analyzing numerical data to understand how different factors relate to each other within a specific theoretical model (Al-Vionita & Asyik, 2020). The data came from the annual reports of banking companies listed on the IDX, and it was used as secondary data for the years 2020 to 2023. The study includes all conventional banks that were listed on the IDX during that time. To select the sample, purposive sampling was used, meaning the samples were chosen based on certain rules that closely match the features of the entire group. The sampling criteria include:

Table 1. Sample Selection

Criterias	Total
Banking sector companies listed on the IDX in 2020–2023	47
Banking sector companies whose annual financial reports were published in full during the period 2020–2023	46 (184 financial statements)
Data affected by outliers	127
Number of samples obtained	57

Based on the table above, 184 financial statement data were obtained from financial statements that presented complete variable data, namely 46 companies in a period of 4 years.

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Operational Definitions of Variables

1. **Earnings Quality**

   Earnings quality serves as an sign of the degree to which a company is capable of generating stable profits and accurately reflecting its genuine financial condition (Herninta, 2020). In the context of this study, earnings quality is assessed through the ratio of operating cash flow to EBIT (earnings before interest and taxes). This measurement is conducted using the following formula:

$$Quality\ Income = \frac{Operating\ cash\ flows}{EBIT}$$

2. **Institutional Ownership**

   Institutional ownership is the percentage of a company's total shares that are owned by institutions (C. I. R. S. Dewi et al., 2019). It is calculated using the following formula:

$$\text{Institutional Ownership} = \frac{\text{The proportion of shares owned by institutions}}{The\ proportion\ of\ shares\ owned\ by\ institutions} \text{ x } 100\%$$

3. **Profitability**

   Profitability is a measure that shows how well a company handles its day-to-day operations to generate the best possible profit or return (Herninta & Ginting, 2020). The company's profitability is represented through Return on Assets with the formula :

$$ROA = \frac{Net\ Profit}{Total\ Assets}$$

4. **Company Size**

   Company size refers to the scale of a business, which is commonly assessed based on the total assets owned by the company (Diannita et al., 2020). To standardize this measurement and reduce data variability, company size is typically calculated using the natural logarithm (Ln) of total assets. This transformation facilitates more accurate comparisons across firms with different asset magnitudes.

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

Data Analysis Techniques

This study used SPSS version 26 as an analytical tool. Descriptive statistics are used to evaluate means, classical assumptions (including tests for heteroscedasticity, multicollinearity, normality, and autocorrelation), and hypothesis testing. Hypothesis testing includes t-tests to measure the individual effects of independent variables, f-tests to assess their joint impact, and analysis of the coef. of determination (R^2) to determine their contribution to the dependent variable. Multiple linear regression was used to analyze how the independent affect

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the dependent.

$$KL = \alpha + \beta_1 KInst + \beta_2 Pro + \beta_3 UP + \varepsilon$$

Explanation:
KL = Earnings Quality
α = constant
KInst = Institutional Ownership
Pro = Profitability
UP = Company Size
β 1-3 = regression coef.s
ε = error

4. DATA ANALYSIS AND DISCUSSION

Descriptive Statistical Analysis

In this case, descriptive statistics rely on measuring the mean value, which describes the median value of the data.

Table 2. Descriptive Statistical Analysis Results

	N	Min.	Max.	Mean	Std. Deviation
KInst	57	0,2534	98,8361	72,448555	24,2889043
Pro	57	0,0007	0,0841	0,016897	0,0167805
UP	57	19,1359	35,1624	31,413557	3,5106988
KL	57	1,11772	9,87607	3,8642279	2,99596158

Source : Data Processed

According to the descriptive statistics presented in Table 2, the research utilizes 57 data points. Institutional ownership has an average value of 24.4486 and a standard deviation of 24.2889. Since the mean exceeds the standard deviation, the data distribution is considered relatively stable, which indicates that institutional ownership is consistently represented across the observed companies. Similarly, the profitability variable has an average value of 0.0199 with a standard deviation of 0.0168. The fact that the mean is greater than the standard deviation suggests that the variability in profitability among the sampled firms remains within an acceptable range, reinforcing its relevance in the analysis. For company size, the mean is 31.4136 and the standard deviation is 3.5107. The relatively higher mean suggest a well-distributed dataset, indicating that firm size holds considerable importance among the abserved companies. Furthermore, earnings quality has a mean of 3.8642 and a standard deviation of 2.9960. This also reflects a favorable distribution, emphasizing the relevance of earnings quality within the firms icluded in the sample.

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Hypotheses Testing

To investigate the impact of institutional ownership (X1), profitability (X2), and company size (X3) on earnings quality (Y), designated as the dependent, this research made use of multiple linear regression analysis. The use of this analytical method enables researchers to assess both the individual and combined effects of the predictors on earnings quality, providing a clearer understanding of which factors significantly influence financial reporting outcomes.

Table 1. Multiple Linear Regression Analysis Results

	Unstandardized B	Coef.s Std. Eror
(Constant)	7,098	3,257
KInst	0,032	0,016
Pro	-68,279	21,665
UP	-0,139	0,111

Source: Data Processed

The information in table 3 leads to the following conclusions :

$$KL = \alpha + \beta_1 KInst + \beta_2 Pro + \beta_3 UP + \varepsilon$$

$$KL = 7{,}098 + 0{,}032\ KInst + (-68{,}279)\ Pro + (-0{,}139)\ UP + \varepsilon$$

Explanation:
KL = Earnings Quality
α = constant
KInst = Institutional Ownership
Pro = Profitability
UP = Company Size
β 1-3 = regression coef.s
ε = error

Determinant Coef. (R^2)

The determination coef. test functions to evaluate the explanatory capability of the regression model on the dependent. If the R^2 value is low, this reflects that the independent contributes only marginally to explaining the variance in the dependent (Ghozali, 2018).

Table 2. Determinant Coef.(R^2) Results

R	R Square	Adjusted R Square
0,481	0,231	0,187

Source : Data Processed

As shown in Table 4, the independent variables collectively explain 18.7% of the variance in the dependent variable, as indicated by the adjusted R^2 value of 0.187. The remaining 81.3% of variation is attributed to other factors outside this model. This level of R^2 indicates that the independent variables have a very weak contribution in explaining the variation in the dependent variable.

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Simultaneous Test (F Test)

The F-test is applied to assess whether the group of independent variables significantly affects the dependent (Ghozali, 2018). This test also determines the overall suitability of the regression model in explaining the observed variation in the outcome variable and its general reliability for further analysis within this study.

Table 3. Simultaneous Test (F Test) Results

	Sum of Square	df	Mean Square	F	Sig
Regression	116,106	3	38,702	5,307	0,003
Residual	386,538	53	7,293		
Total	502,644	56			

Source : Data Processed

Table 5 reports an F-value of 5.307 and a sig. level of 0.003, which is below the 0.10 threshold. This result indicates that the regression model used in this study is statistically significant and appropriate for further analysis. In other words, the independents collectively contribute to explaining variations in the dependent variable, confirming the model's overall validity

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Partial Test (t- Test)

To measure the separate effect of every independents on the dependent, a t-test is performed. This analysis helps identify which predictors have a statistically significant impact and allows a deeper understanding of the specific contribution of each variable within the regression framework (Ghozali, 2018)

Table 4. Partial Test (t- Test) Results

	Unstandardized B	t	Sig
(Constant)	7,098	2,179	0,034
KInst	0,032	1,973	0,054
Pro	-68,279	-3,152	0,003
UP	-0,139	-1,256	0,215

Source : Data Processed

Discussion

The Effect of Institutional Ownership on the Quality of Earnings

The t test results in table 6 show that the significance value of institutional ownership is 0.054, <0.10, with a coefficient of 0.032 and t count 1.973> t table 1.67203. Therefore, institutional ownership is found to significantly affect earnings quality, in line with the proposed hypothesis. The even distribution of data, as seen in Table 1, also influences this relationship. The empirical evidence presented in this study corresponds with the theoretical perspective offered by agency theory, which describes agencies or company managers as contracts with principals. The total shareholding attributed to institutional entities will increase corporate oversight. In other words, more institutional ownership means that the profits obtained are of higher quality (F. R. Dewi & Fachrurrozie, 2021). Research Aningrum & Muslim (2020) and Yani et al., (2021) reveals that institutional

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ownership plays a role in exercising oversight of management through effective control mechanisms, minimizing management tasks, and generating high-quality information about profits. This is due to the fact that institutional ownership is generally supported by the availability of more adequate data sources than individual investors. Additionally, institutional parties possess specialized expertise for evaluating the data provided to them. Companies that are invested in are more closely monitored and motivated by institutional shareholders. This research aligns with previous studies Putri & Imron (2022), Ali et al., (2024), Dewi & Fachrurrozie (2021) which states that the quality of earnings is significantly improved by institutional ownership.

The Effect of Profitability on Earnings Quality

The t test results in table 6 show that the significance value of profitability is 0.003 <0.10, with a coefficient of -68.729 and t count -3.152 <t table 1.67203 Based on these statistical indicators, it can be concluded that profitability (ROA) has a significant negative effect on profit quality, leading to the rejection of the second hypothesis. This finding contradicts the agency theory assumption, implying that increased profitability need to indicate better earnings quality, as it reduces the need for earnings manipulation. However, the negative relationship may indicate that, despite higher profitability, management may still engage in opportunistic behavior such as earnings manipulation to meet investor expectations or short-term performance goals. Additionally, the relatively low average ROA among banking sector companies during the 2020–2023 period, as shown in Table 1, indicates that these companies are ineffective in utilizing their assets to generate profits. This inefficiency may contribute to poor profit quality.The outcomes observed in this study corroborate the findings of Maulita & Dewi (2023), Yuliana & Fauziah (2022) and reinforced by the theory of efficiency. In light of the statistical tabulations derived from the study, the profitability (ROA) of companies in the banking sector was relatively low during the period 2020–2023. This low ROA value proves that companies in the banking sector are less effective in optimizing their overall assets to generate profits. According to Yuliana & Fauziah (2022) High profitability does not always reflect optimal profit quality, because sometimes companies actually have low performance capabilities. This study aligns with the findings of Anjani et al. (2024), Butarbutar et al. (2025) and Maulita & Dewi (2023) who concluded that profitability has no impact on earnings quality.

The Effect of Company Size on Earnings Quality

The t test results in table 6 show that the significance value of company size is 0.215 > 0.10, with a coefficient of -0.139 and a t-value of -1.256 < t-table 1.67203. These results suggest that company size does not significantly impact earnings quality, leading to the rejection of the hypothesis regarding its positive influence. This finding also proves that the even distribution of data does not affect the connection between the scale of a company and its profit quality. This is inconsistent with the basic principles of agency theory, which states that in complex agency theory, the complexity and scope of operations and the pressure of large-scale operations can increase the likelihood of conflict between management

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(agents) and owners (principals). This is due to the significant operational burden and high business risk borne by large-scale companies. However, large entities will face greater problems than small entities. This statement proves that company size cannot predict the quality of earnings (Septiana & Desta, 2021). This study is in line with research Nirmalasari & Widati (2022), Puteri & Trisnaningsih (2022) and Umam & Tumirin (2024) which claims that the size of a company has no bearing on the quality of its earnings.

5. CONCLUSION & SUGGESTION

Empirical findings indicate that institutional ownership has a significantly positive impact on earnings quality, highlighting its role in enhancing corporate governance and financial transparency. In contrast, profitability and firm size do not show a statistically significant impact on earnings quality, suggesting that these factors may not directly determine the reliability of reported earnings within the observed context. The findings of this research underscore that earnings quality is not exclusively determined by financial factors; rather, it is also intricately linked to managerial behavior and corporate governance practices. This study is not without limitations, as it is specifically focused on the conventional banking sector. Additionally, the variables used are limited to three: institutional ownership, profitability, and company size. As a result, the Adjusted R Square coef. obtained is relatively low at 18.7%, indicating that the model's effectiveness in explaining variations in profit quality is not yet optimal. Furthermore, the measurement of earnings quality relies on a single approach.

For researchers in the future, it is advisable to broaden the study's focus by incorporating companies beyond the banking sector or by conducting comparative analyses between conventional banks and Islamic banks to yield more comprehensive findings. Furthermore, it is recommended to include additional variables, such as liquidity, audit committees, or other mechanisms of corporate governance that may impact earnings quality. The utilization of a more diverse array of indicators for earnings quality would also enhance the comprehensiveness of the research outcomes and provide a more accurate representation of the factors affecting a company's earnings quality. The implications drawn from this research are particularly pertinent to banking institutions in strengthening supervisory practices and upholding sound corporate governance, ultimately contributing to improved financial reporting quality.

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