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THE EFFECT OF INVESTMENT OPPORTUNITY SET, OVERVALUED EQUITY, PROFIT MANAGEMENT ON PROFIT QUALITY WITH INSTITUTIONAL OWNERSHIP AS A MODERATION VARIABLE

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Abstrack

This study examines the influence of investment opportunity set, overvalued equity, and profit management on the quality of profits with institutional ownership as a moderation variable in non-cyclical consumer sector companies in the food and beverage subsector listed on the Indonesia Stock Exchange for the 2020–2023 period. Using quantitative and purposive sampling approaches, as many as 30 companies with 120 observational data were analyzed through narrowed regression (MRA) using SPSS 25.0 and classical assumption tests. The results show that investment opportunity set, overvalued equity, and profit management have a significant effect on the quality of profit. Institutional ownership moderates the influence of investment opportunity set and overvalued equity, but not on profit management. These findings confirm the importance of the role of institutional ownership in supervision to improve the quality of profits related to investment opportunities and market valuations, while control over profit management is still limited. This research enriches understanding of the factors and governance mechanisms that affect the quality of financial reporting in the Indonesian capital market.

Keywords: *Earning quality, investment opportunity set, overvalued equity, earning management, institutional ownership*

Abstrak

Penelitian ini mengkaji pengaruh *investment opportunity set*, *overvalued equity*, dan manajemen laba terhadap kualitas laba dengan kepemilikan institusional sebagai variabel moderasi pada perusahaan sektor *non-cyclical* subsektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia periode 2020–2023. Dengan menggunakan pendekatan kuantitatif dan metode *purposive sampling*, sebanyak 30 perusahaan dengan 120 data observasi dianalisis melalui *moderated regression analysis* (MRA) menggunakan SPSS 25.0, serta dilengkapi dengan pengujian asumsi klasik. Hasil penelitian menunjukkan bahwa *investment opportunity set*, *overvalued equity*, dan manajemen laba berpengaruh signifikan terhadap kualitas laba. Selain itu, kepemilikan institusional terbukti memoderasi pengaruh *investment opportunity set* dan *overvalued equity* terhadap kualitas laba, namun tidak memoderasi hubungan antara manajemen laba dan kualitas laba. Temuan ini menegaskan pentingnya peran kepemilikan institusional sebagai mekanisme pengawasan dalam meningkatkan kualitas laba terkait peluang investasi dan tekanan valuasi pasar, sementara efektivitas pengawasan terkait praktik manajemen laba masih terbatas. Penelitian ini memberikan kontribusi pada pengembangan pemahaman mengenai faktor-faktor dan mekanisme tata kelola yang memengaruhi kualitas pelaporan keuangan di Bursa Efek Indonesia.

Kata kunci: kualitas laba, *investment opportunity set*, *overvalued equity*, manajemen laba, kepemilikan institusional



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INTRODUCTION

In the era of globalization with rapid economic and technological developments, business competition is becoming increasingly fierce. Companies must work hard to survive and compete effectively. One of the important things to worry about is the presentation of quality financial statements, especially the quality of profits (Yuniar & Andayani, 2024). Good financial statements help users assess the company's financial condition and its operational results. Ilham et al. (2022) stated that profit quality describes the actual profit conditions and can predict future profits, so it is very important for investors in decision-making. Relevant information provides a basis for investors to make an informed assessment and minimize investment risk. According to Yusmanarti et al. (2023), investors tend to choose companies with high profits or those that show a significant increase in profits every year, investors consider companies with large profits to perform well and provide favorable returns, while low profits are usually considered a sign of poor performance. Therefore, accurate profit information has a great influence on investment decisions and stock prices. However, the phenomenon of manipulation of financial statements carried out by management for opportunistic purposes often reduces the quality of reported profits.

In 2024, several large companies in Indonesia will be involved in cases of financial statement manipulation. PT Indofarma Tbk was proven to have inflated inventory, manipulated transactions, and false records that cost the state up to Rp 371.8 billion (Zhafarina, 2025). On the other hand, PT Delta Tbk is also suspected of manipulating reports by inflating revenue of IDR 500 billion, delaying the recognition of costs of IDR 250 billion, and manipulating assets of IDR 300 billion. The practice aims to maintain the image and involve a number of senior executives, triggered by pressure to achieve financial targets and avoid a decline in stock prices (Fitrianingsih, 2024).

In addition, the *investment opportunity set* (IOS) factor, a collection of future investment opportunities that can increase company growth, also affects the quality of profits. Companies with a high *investment opportunity set* are considered more attractive by investors because they have promising growth potential, but high IOS also encourages management to manage profits to maintain a positive image of the company (Dewi et al., 2020). Furthermore, the condition of *overvalued equities*, namely stock prices that exceed the company's



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fundamental value, is often a trigger for the practice of manipulating financial statements in order to keep stock prices looking expensive and attracting investors (Parmananda, 2024). Meanwhile, profit management is the practice of manipulating profit numbers by management for self-benefit, which has the potential to reduce the quality of profits. The supervisory mechanism through institutional ownership is considered to have an important role in controlling management behavior so that the financial statements produced reflect the true quality of profits. Institutional ownership as part of corporate governance can moderate the relationship between IOS, *overvalued equities*, and profit management to profit quality (Alatas, 2022). However, there are differences in research results regarding the effectiveness of the role of institutional ownership as a moderation variable in relation to these factors, thus raising the need for further research.

This study replicates the research of Parmananda, Reza, & Maryanti (2024) which discusses the influence of *overvalued equity*, profit management, and operating cash flow volatility to profit quality with *good corporate governance* as a moderation variable, and Yusmaniarti et al.'s (2023) research on the influence of conservatism, *investment opportunity set* (IOS), and leverage on the quality of profits. Variable *overvalued equity* It is still relatively little researched, especially in the context of its influence on the quality of profits. Although some studies such as those conducted by (Parmananda, Reza & Maryanti, 2024) has raised this issue, the number of empirical studies that discuss in depth and specifically about *overvalued equity* still limited. Therefore, the focus of this study on the *overvalued equity* an important and innovative aspect, especially in the *consumer non-cyclical* with sub-sectors *food and beverage* that has not been explored much. In addition, the object of the research also changed from state-owned companies for the 2018-2021 period to company *consumer non-cyclical*, especially the sub-sector *food and beverage* listed on the Indonesia Stock Exchange for the 2020-2023 period.

KAJIAN LITERATURE

Agency Theory

Agency theory is a concept that describes the relationship between *principal* (shareholders) with agents (managers). Developed by Jensen & Meckling (1976), explains that the relationship between the owner or shareholder and the manager is characterized by a



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contract, in which the manager is authorized to act in the interests of the company. This conflict of interest leads to the potential *foragency conflict*, where the agent can act opportunistically for his personal gain, often through profit management (*earnings management*) or manipulation of financial statements. This theory also emphasizes the importance of supervisory mechanisms, such as institutional ownership, that can reduce information asymmetry and management opportunism, thereby improving the quality of financial statements and the quality of reported profits..

Signalling Theory

The Signal Theory proposed by Ross (1977) focuses on the role of information as a signal provided by companies to users of financial statements, especially investors. In this context, profit quality serves as a signal of the company's past performance success and future growth potential. Companies that have *investment opportunity set* (IOS) is expected to provide a positive signal through good profit quality, so that it can attract the interest of investors and Increase the company's value (Nasriani et al., 2023). However, in a market situation when the stock is overvalued *overvalued equities*, signal theory also explains the possibility of asymmetric information and information manipulation to maintain the company's image in the eyes of the market.

Quality Profit

Profit quality is the level of reliability, relevance, and usefulness of profit information in reflecting the company's actual economic performance, so that it can be used as a basis for effective decision-making (Indrarini, 2019). The high quality of profit shows the synchronization between accounting profit and operating cash flow and is able to predict the company's future performance. The definition of profit quality refers to the ability of profit to present relevant and reliable information, which not only reflects current financial conditions but also predicts future profit performance (Maulita et al., 2022). The high quality of profits indicates that they are not distorted by management manipulation practices so that they can be a solid basis in investment decision-making.



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The Effect of Investment Opportunity Set on Profit Quality

Investment opportunity set is an investment opportunity that has the potential to support the company's future growth (Gifts & Gifts, 1993). Some studies state that companies with high IOS levels tend to have good profit prospects so they usually produce superior profit quality. However, the increase in IOS can also trigger management to manage profits in order to maintain a positive image of the company (Hasanuddin et al., 2021). Research by Andriani, (2021), Hanif et al., (2023), and Santoso & Handoko, (2023) revealed that IOS has a significant effect on the quality of profits. In contrast to research conducted by (Maulia & Handojo, 2022; Narita & Taqwa, 2020; Rahman, 2025) which revealed that IOS had no significant effect on the quality of profits.

H1: Investment opportunity set affects the quality of profits.

The Effect of Overvalued Equity on Profit Quality

Overvalued equities is the condition that the price of the stock exceeds its fundamental value, which according to Jensen (2004) due to the agency's costs of forcing overvaluation management to manipulate assets to maintain the share price. This condition can reduce the quality of profits because it does not reflect the actual performance. The research of Abdullah & Suardi (2017) and Parmananda et al. (2024) supports the influence of *overvalued equities* on the quality of profits, as a result of profit management practices aimed at disguising the true condition. However, Ebrahimie et al. (2015) found negative influences, indicating that there is variation in outcomes depending on the market context and regulations.

H2: Overvalued equity affects the quality of profits.

The Effect of Profit Management on Profit Quality

Profit management is the act of manipulating financial reporting to embellish reported profits (Healy, 1985). Driven by information asymmetry and self-interest, this practice generally lowers the quality of profits that report actual financial conditions (Yanto, 2021). Previous research has mostly shown the negative influence of profit management on profit quality (Mergia et al., 2021; Robik et al., 2022; Saleh et al., 2020; Yanto, 2021), but some also found insignificant influences, indicating the complexity of the profit management context and the variability of the level of supervision (Adelia Vika, 2021 and Puji r et al., 2023).

H3: Profit management affects the quality of profits.



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Institutional Ownership Moderates the Influence of Investment Opportunity Set on

Quality Profit

Institutional ownership, which includes pension funds, insurance companies, and investment manager, acting as the main supervisory mechanism for the company's management (Alatas, 2022). In the context of the good relationship between IOS and profit quality, institutional ownership can reinforce the positive signals that companies send to the market, ensuring the transparency and accuracy of financial statements. Alatas' research (2022) suggests that the involvement of shareholders' institutions strengthens the influence of IOS on profit quality by increasing supervision and pressuring management to act in the interests of *principal*. In contrast to the findings (Zubaidah & Nasrizal, 2020) stating that institutional ownership is incapable of moderating relationships *investment opportunity set* and profit quality, the existence of institutional ownership theoretically and empirically has the potential to increase the credibility of financial statements, especially in companies with large investment opportunities.

H4: Institutional ownership moderates the relationship between investment opportunity set and profit quality.

Institutional Ownership Moderates the Influence of Overvalued Equity on Quality Profit

In the face of risks *overvalued equity* which can trigger profit manipulation, institutional ownership has a strategic role in controlling managerial behavior (Jensen & Meckling, 1976). Institutions as majority shareholders have incentives and the power to carry out strict supervision, so that it can weaken the impact negative *overvalued equity* On the quality of profit (Parmananda, Reza & Maryanti, 2024). Research by Abdullah (2017), argues that institutional ownership is able to moderate these relationships by suppressing manipulative practices. The institutional role here is important for maintain the integrity of financial statements and reduce information asymmetry in the capital market, so that the quality of the company's profits is maintained even though the stock price tends to *overvalued*.

H5: Institutional ownership moderates the relationship between *overvalued equity* and profit quality.

Institutional Ownership Moderates the Influence of Profit Management on the Quality of Profits



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Agency theory implies that institutional ownership should exercise effective oversight to suppress profit management practices that are detrimental to the quality of financial statements (Jensen & Meckling, 1976). Research Sons (2021) and Parmananda et al. (2024) show that institutional ownership is able to moderate and weaken the influence of profit management on the quality of profits. However, some research results, including by Abdullah & Suardi (2017), reveal that the role of moderation is not always effective, as the factors of operational complexity and institutional motivation in supervision can vary. This study confirms that the effect of moderation of institutional ownership on profit management is insignificant, indicating that Institutional oversight mechanisms alone may not be enough to control the practice of profit manipulation as a whole.

H6: Institutional ownership moderates the relationship between profit management and profit quality.

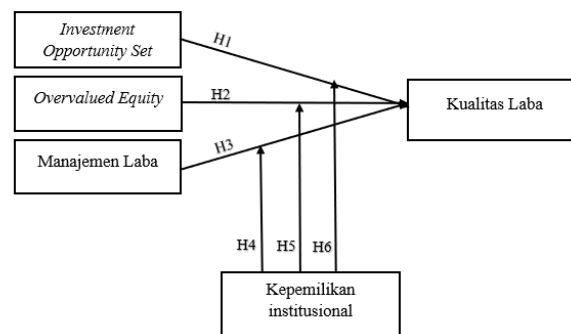


Figure 1. Conceptual Framework

RESEARCH METHODOLOGY

This study takes the population of *non-cyclical consumer sector companies with the food and beverage subsector* listed on the Indonesia Stock Exchange in the 2020-2023 period. Samples were taken using *the purposive sampling* method. This study uses dependent variables, namely profit quality, and independent variables consisting of *investment opportunity set, overvalued equity, and profit management*, as well as institutional ownership as moderation variables. The data used is secondary data in the form of annual company reports obtained from www.idx.co.id, so that a sample of 30 companies was obtained. This research is quantitative with data analysis techniques including descriptive statistical analysis,



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classical assumption tests, multiple linear regression, and hypothesis testing processed using the SPSS version 25 application.

The population in this study consists of 83 companies engaged in the *non-cyclical consumer sector with the food and beverage subsector* listed on the Indonesia Stock Exchange. For the determination of the sample in this study, *purposive sampling* was used with the following criteria:

1. Non-cyclical consumer *companies with food and beverage sub-sectors* listed on the IDX during the 2020-2023 period
2. Non-cyclical consumer *companies with food and beverage sub-sectors* that publish financial statements and *annual reports* during the 2020-2023 period
3. Non-cyclical consumer *companies with food and beverage sub-sectors* that made consecutive profits during the 2020-2023 period

Of the 83 food and beverage sub-sector companies listed, only 30 companies met the criteria so that 120 observations were obtained.

Variable Dependency

The dependent variable in this study is the quality of profit as measured by cash flow from operations. The quality of profit can be measured by the following formula:

$$\text{Quality of Income Ratio} = \frac{\text{Cash Flow From Operation}}{\text{Net Income}}$$

Source: (Abdullah & Suardi, 2017)



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Independent Variables

The independent variables in this study include *investment opportunity set*, *overvalued equity*, and profit management, while the moderation variable used is institutional ownership. The measurement of *investment opportunity sets* is carried out using the following formula:

$$MBVA = \frac{\text{Total asset} - \text{total ekuitas} + (\text{jumlah saham beredar} \times \text{harga penutupan})}{\text{Total asset}}$$

Source: (Parmananda, 2024)

Overvalued equity is measured using the dummy variable *overvalued equity* made with the value rules of 1 and 0 based on two ratios, namely *Price to Book Value (PBV)* and *Price to Earnings Ratio (PER)*. A value of 1 is given if both ratios show that the company belongs to the overvalued category, namely PBV of more than 1 (the share price is higher than the book value) and the PER is in the 4th quartile (the stock price is relatively very expensive compared to the profit). While a value of 0 is given if one or both ratios show an undervalued condition, with the following formula:

Mathematically, PER can be measured as follows:

$$PER = \frac{\text{Harga Per Lembar Saham}}{\text{Earning Per Shares}}$$

EPS (*Earning per share*) can be searched using the following formula:

$$EPS = \frac{\text{Laba bersih}}{\text{Jumlah saham yang beredar}}$$

For the PBV (*price book value*) ratio, use the following formula:

$$\text{Price Book Value} = \frac{\text{Harga per Lembar Saham}}{\text{Book value}}$$

Book value can be searched using the following formula:

$$\text{Book value} = \frac{\text{Jumlah Modal Saham Biasa}}{\text{Jumlah Lembar Saham Biasa}}$$

Source: (Parmananda, 2024)



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Profit management is measured using the formula:

$$EDA_{it} = \frac{TA_{it}}{A_{it-1}}$$

Information:

EDA_{it} = Estimated accrual under management for period t

TA_{it} = Total accrual period t

A_{it-1} = Total assets in period t-1

For the calculation of the total accrual as follows:

$$TA_{it} = N_{lit} - CFO_{it}$$

Information:

N_{lit} = The company's net profit in year (t)

CFO_{it} = Cash from the company's operations in year (t)

Source: (Parmananda, 2024)

Moderation Variables

Institutional ownership as a moderation variable is measured using the formula:

$$\text{Kepemilikan institusional} = \frac{\text{Jumlah saham institusi}}{\text{Jumlah saham yang beredar}} \times 100\%$$

Source: (Parmananda, 2024)

Research Regression Model

The regression model used in this study is written as follows:

$$KL = a + \beta_1 IOS + \beta_2 OE + \beta_3 ML + \beta_4 KI + \beta_5 IOS * KI + \beta_6 OE * KI + \beta_7 ML * KI + e$$

Information:

KL = Quality of Profit

a = Konstanta

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ = Value of regression coefficient



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IOS	= <i>Investment opportunity set</i>
OE	= <i>Overvalued equities</i>
ML	= Profit Management
KI	= Institutional Ownership
e	= <i>Error</i>

RESULTS AND DISCUSSION

Descriptive Statistical Test Results

This study uses statistical analysis to describe the variables statistically (Scott, 2022). Descriptive statistics for each variable can be seen in the following descriptive statistics:

Table 2
Descriptive Statistics

Research Variables	<i>Descriptive Statistic</i>				
	N	Minimum	Maximum	Mean	Hours of deviation
Quality Profit (KL)	120	-1,7202	59,3319	2,0024	5,3960
<i>Investment opportunity set (IOS)</i>	120	0,1816	7,5365	1,8066	1,3070
<i>Overvalued equity (OE)</i>	120	0,0000	1,0000	0,6917	0,4637
Profit Management (ML)	120	-0,2968	0,3335	-0,0334	0,0840
Institutional Ownership (IP)	120	0,0005	1,0000	0,7595	0,2423

Source: SPSS 25 Data Processing Results

This study used 120 observational data to analyze the research variables. The profit quality variable has an average of 2.0024 with a standard deviation of 5.3960, indicating large data variations, with a minimum value of -1.7202 and a maximum of 59.3319. Variable *investment opportunity set* It has an average of 1.8066 and a standard deviation of 1.3070, which indicates a relatively small variation, with a range of values between 0.1816 to 7.5365. While the variable *overvalued equity* has an average of 0.6917 and a standard deviation 0.4637, depicts a small variation with a minimum value of 0 and a maximum of 1. To The profit management variable, the average is -0.0334 with a standard deviation of 0.0840, indicating considerable variation, in the range of -0.2968 to 0.3335. The institutional ownership variable as a moderation variable had an average value of 0.7595 and a standard deviation of 0.2423, indicating a small variation.



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Table 3
Outlier Test

Variabel	Jumlah outlier	%	Minimum	Maximum	Mean
Quality Profit (KL)	2	0,017	-1,7202	4,600	1,479
Investment Opportunity Set (IOS)	1	0,008	0,1816	6,270	1,758
Overvalued equity (OE)	0	0,000	0,000	1,000	0,691
Profit Management (ML)	2	0,017	-0,296	0,178	-0,038
Institutional Ownership (IP)	0	0,000	0,005	1,000	0,759

Source: SPSS 25 Data Processing Results

Based on test results *outlier* using SPSS 25.0, the profit quality variable has 2 data *outlier* (0,017%), *investment opportunity set* 1 data *outlier* (0.008%), while the variable *overvalued equity* and *institutional ownership* no data found *outlier*. The profit management variable also has 2 data *outlier* (0,017%). Presence *outlier* This causes the minimum, maximum, and mean values of these variables to change after testing *outlier*, which indicates the presence of extreme values in the data that need to be taken into account for further analysis.

Classic Assumption Test

Table 4
Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		120
Normal	Mean	0.000000
Parameters ^{a,b}	Hours of deviation	0.65841374
Most Extreme	Absolute	0.121
Differences	Positive	0.121
	Negative	-0.117
Test Statistic		0.121
Asymp. Sig. (2-tailed)		0.000c
Monte Carlo Sig. (2-tailed)	Itself.	0.055d
	99% Confidence	Lower Bound
	Interval	Upper Bound

Source : SPSS 25 Data Processing Results

Based on the results of the normality test in table 4, using the Monte Carlo method, a significance value of Monte Carlo Sig. (2-tailed) of 0.055 was obtained, which is greater than



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0.05. It can be concluded that the data meets the normality test criteria, which means that the data is distributed normally in accordance with the normality test requirements.

Table 5
Multicollinearity Test Results

Research Variables	Collinearity Statistics		Information
	Tolerance	BRIGHT	
<i>Investment opportunity set (IOS)</i>	0,701	1.428	No Multicollinearity Occurs
<i>Overvalued equity (OE)</i>	0,720	1,389	No Multicollinearity Occurs
Profit Management (ML)	0,925	1,081	No Multicollinearity Occurs
Institutional Ownership (IP)	0,977	1,024	No Multicollinearity Occurs

Source : SPSS 25 Data Processing Results

Based on the results of the multicollinearity test in table 5, all variables showed a *tolerance* value above 0.10 and a VIF value below 10, with *the investment opportunity set* having a *tolerance* of 0.701 and VIF of 1.428, *an overvalued equity* tolerance of 0.720 and VIF of 1.389, a profit management tolerance of 0.925 and VIF of 1.081, as well as institutional ownership tolerance of 0.977 and VIF of 1.024. This indicates the absence of significant symptoms of multicollinearity between independent variables in the regression model, so there is no high correlation that can interfere with the accuracy of the analysis results and the data can be further processed.

Table 6
Heteroscedasticity Test Results

Research Variables	Itself.	Cut Off	Information
<i>Investment opportunity set (IOS)</i>	0,483	0,05	No heteroscedasticity occurs
<i>Overvalued equity (OE)</i>	0,329	0,05	No heteroscedasticity occurs
Profit Management (ML)	0,758	0,05	No heteroscedasticity occurs
Institutional Ownership (IP)	0,916	0,05	No heteroscedasticity occurs

Source : SPSS 25 Data Processing Results

Based on the results of the heteroscedasticity test conducted using the Spearman test in table 6, the significance value of the *investment opportunity set* variable was 0.483, *overvalued equity* was 0.329, profit management was 0.758, and institutional ownership as a moderation variable was 0.916, all of which were above the threshold of 0.05. This indicates



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that there are no symptoms of heteroscedasticity in the four variables, which means that the residual variance of the homogeneous regression model is different.

Table 7
Autocorrelation Test Results

Model	of the	Durbin-Watson	4-dU	Information
1	1,753 <	1,761	< 2,246	No Autocorrelation

Source : SPSS 25 Data Processing Results

Based on the results of the autocorrelation test presented in table 7, a Durbin-Watson value (DW) of 1.761 was obtained with a total of 120 observations and there were 3 independent variables. The upper limit value (du) on the Durbin Watson table is 1.753, so the range of DW values indicating the absence of autocorrelation is between (1.753 < 1.761 < 2.246), it can be concluded that there is no autocorrelation in the regression model of this study. Therefore, the data meet the regression assumptions for subsequent analysis.

Pengujian Hypothesis

Table 8
Regression Test Results

Research Variables	Regression Coefficients	A	Itself.	Conclusion
konstanta	1,171		0,058	
<i>Investment opportunity set (IOS)</i>	-0,856	0,05	0,014*	H1 accepted
<i>Overvalued equity (OE)</i>	1,749	0,05	0,023*	H2 accepted
Profit Management (ML)	-10,494	0,05	0,000*	H3 accepted
<i>Investment opportunity set (IOS)*Institutional Ownership (KI)</i>	0,752	0,10	0,054**	H4 accepted
<i>Overvalued equity (OE)*Institutional Ownership (KI)</i>	-2,191	0,05	0,017*	H5 accepted
Profit Management (ML)*Institutional Ownership (KI)	0,392	0,05	0,905	H6 rejected

R Square = 0.558

F test = 22.493

Sig F = 0.000

Source : SPSS 25 Data Processing Results

Ket : * & ** show significant at 5% and 10%

The results of the regression analysis showed that the research model had an R² value of 0.558, which means that independent and moderate variables were able to explain the



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variation in profit quality by 55.8%, while the remaining 44.2% was influenced by other factors outside the study. The F test value of 22.493 with a significance of 0.000 (<0.05) indicates that the model as a whole is significant and should be used to explain the relationships between variables.

Partially, the *investment opportunity set variable* had a significant effect on the quality of profit with a significance value of $0.014 < 0.05$. The *overvalued equity variable* also had a significant effect with a significance value of $0.023 < 0.05$, and the profit management variable had a significant influence with a significance value of $0.000 < 0.05$. In addition, institutional ownership was able to moderate the influence of *investment opportunity sets* on profit quality with a value of $0.054 < 0.05$ and *overvalued equity* with a value of $0.017 < 0.05$. However, institutional ownership is not able to moderate the influence of profit management on profit quality because its significance value is greater than 0.05. Thus, institutional ownership plays a role in strengthening or weakening control over factors that affect the quality of profits, except in profit management.

DISCUSSION

The Effect of Investment Opportunity Set on Profit Quality

The test results show that *investment opportunity set* has a significant influence on profit quality with a coefficient of -0.856 and a significance value of $0.014 < 0.05$. This indicates that **(H1) accepted**. Can be interpreted as a high level of IOS can encourage management to manage profits in such a way that they look good, so that it has the potential to reduce the credibility, relevance, and quality of reported profits. Research This is in line with research conducted by Andriani (2021), Hanif et al., (2023), and Santoso & Handoko (2023) which states *investment opportunity set* has a significant effect on the quality of profits. In contrast to research conducted by Maulia & Handojo (2022), Narita & Taqwa (2020), and Rahman (2025) which states *investment opportunity set* has no effect on the quality of profits.

The Effect of Overvalued Equity on Profit Quality

The test results show that *overvalued equity* affects the quality of profit with a coefficient value of 1.749 and a significance value of $0.023 < 0.05$, which means *overvalued equity* affect the quality of profits. This means the second hypothesis **(H2) accepted**. This is



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due to the fact that more and more managers are taking actions that are Harm the users of financial statements and shareholders to the company's assets to achieve personal interests. Such actions have the potential to cause an overly high equity value or *overvalued equity*, which in the end will lower the quality of the company's reported profits. The results of this study are in line with research that states that *overvalued equity* affects the quality of profits (Abdullah et al., 2017; Anggraeni et al., 2023; Parmananda et al., 2024).

The Effect of Profit Management on Profit Quality

The test results showed that profit management had an effect on profit quality with a coefficient value of -10.494 and a significance value of $0.000 < 0.05$, which means that profit management had an effect on profit quality. This means the third hypothesis **(H3) accepted**. Supported by agent theory that explains more and more managers doing The main goal is to do profit management. High profit management due to because there is an asymmetry between the company's management and *principal* In implementing very large profit management, it is the main target of the company's management in carrying out profit management practices that aim to optimize the quality of profits that do not reflect the actual condition of the company. The results of this study are in line with research that states that profit management has a significant effect on profit quality (Abdullah et al., 2017; Anggraeni et al., 2023; Parmananda et al., 2024; Robik et al., 2022), but in contrast to the research conducted by Adelia Vika (2021) and Puji et al. (2023) which states that profit management has no effect on the quality of profit.

The Effect of Institutional Ownership of Moderating Investment Opportunity Set on Profit Quality

Test results show that institutional ownership moderates *investment opportunity set* to the quality of profit with a coefficient value of 0.752 and a significance value of $0.054 < 0.10$, which means that institutional ownership can moderate *investment opportunity set* to the quality of profits. This means that the fourth hypothesis **(H4) Accepted**. This shows that institutional shareholders who have control and better supervision of management can encourage the use of optimal investment opportunities so as to improve the quality of reported profits. The results of this study are in line with the results of research conducted by (Alatas, 2022), stating that institutional ownership is able to moderate relationships *investment opportunity set* on the quality of profits, but different from previous research conducted



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(Zubaidah & Nasrizal, 2020), stating that institutional ownership is incapable of moderating hubungan *investment opportunity set* to the quality of profits.

The Effect of Institutional Ownership of Moderating Overvalued Equity on Profit Quality

Test results show that institutional ownership moderates *overvalued equity* on the quality of profit with a coefficient value of -2.191 and a significance value of $0.017 < 0.05$, which means that institutional ownership can moderate *overvalued equity* to the quality of profits. This means the fifth hypothesis **(H5) accepted**. This shows that strong institutional ownership is able to increase oversight management so that the practice of manipulating financial statements that may arise due to high stock valuation pressure can be minimized. Thus, the presence of institutional shareholders can maintain the integrity and reliability of the company's earnings report even though it is in the condition of the assessed shares *overvalued*. The results of this study are in line with the research conducted by Abdullah & Suardi (2017) and Parmananda et al. (2024), which states that institutional ownership can moderate relationships *overvalued equity* to the quality of profits.

The Influence of Institutional Ownership of Moderating Profit Management on the Quality of Profits

The test results showed that institutional ownership moderated profit management to profit quality with a coefficient value of 0.392 and a significance value of $0.905 < 0.05$, which means that institutional ownership can moderate profit management to profit quality. This means the sixth hypothesis **(H6) rejected**. The results of this study show that that institutional ownership has not been fully effective in suppressing profit management practices, because despite holding majority shares, institutions do not always have the ability to or a strong motivation to strictly supervise management policies. This research is not in line with research that states that institutional ownership is able to moderate the relationship between profit management and profit quality (Abdullah et al., 2017; Parmananda et al, 2024; Putra et al., 2021).

CONCLUSION

This study aims to analyze the influence of *investment opportunity set*, *overvalued equity*, and profit management on profit quality, with institutional ownership as a moderation variable, in *non-cyclical consumer sector companies* in the food and beverage *sub-sector* listed on the Indonesia Stock Exchange for the 2020–2023 period. The results of the study



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show some key findings. First, *investment opportunity sets* and *overvalued equity* have been proven to have a significant effect on the quality of profits. Second, profit management practices have a negative effect on the quality of profits, which indicates that accounting manipulation lowers the credibility of financial statements. Third, institutional ownership acts as a supervisory mechanism by moderating the influence of *investment opportunity sets* and *overvalued equity* on the quality of profits. Nevertheless, institutional ownership is not effective in moderating the relationship between profit management and profit quality. The suggestions for future researchers are as follows:

This study has limitations in the research sample limited to companies in *the non-cyclical consumer* sector sub-sector *food and beverage* sector listed on the Indonesia Stock Exchange in the 2020-2023 period and institutional ownership as a moderation variable is not very effective in moderating the influence of profit management on profit quality, showing the limitations of institutional supervision mechanisms that need to be researched further with other approaches or variables. It is recommended for future research to use a wider sample of companies, longer observation periods, and add other variables that are considered relevant so that the results of the study can be more comprehensive.

This study provides an important implication that *investment opportunity set*, *overvalued equity*, and profit management have a significant effect on the quality of a company's profit, with institutional ownership as a supervisory mechanism that can strengthen or weaken these factors. Practically, companies are advised to improve transparency and investment management and involve institutional shareholders to reduce profit manipulation and increase investor confidence. For investors, these findings provide the basis for more cautious decision-making on the effects of *overvalued equity* and profit management that can reduce the quality of profits. Theoretically, the results of this study open up opportunities for further research to expand the variables and objects.

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