ANALYSIS OF EARNINGS QUALITY IN PHARMACEUTICAL SUB-SECTOR COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE

Ade Ismawati¹, Yulia Pebrianti², Keti Purnamasari³
Sriwijaya State Polytechnic, Indonesia
keti.purnamasari@polsri.ac.id

Abstract: Earnings quality is the accuracy of performance data that must be reported in the company's financial statements and shows the actual financial condition, so that earnings that are open to the public can show how much the company's profits affect decisions and can be used by shareholders when evaluating company performance. This analysis has the aim of knowing whether Investment Opportunity Set, capital structure and profitability affect the quality of earnings in pharmaceutical sub-sector companies listed on the IDX for the period 2017-2022. There are 12 populations in pharmaceutical companies, obtained as many as 5 companies as samples using purposive sampling technique. The method of analysis is multiple linear regression analysis. The results prove that simultaneously 10S, capital structure, and profitability have a significant effect on earnings quality. Partially 105 affects earnings quality, capital structure affects earnings quality, and profitability has no effect on earnings quality.

Keywords: earnings quality, investment opportunity set, capital structure, profitability

INTRODUCTION

Pharmaceutical companies are commercial business companies that focus on researching, developing, distributing medicines needed by the public, especially in the health sector. Indonesia is home to more than 260 million people and is one of the fastest growing pharmaceutical markets in Asia. In a survey conducted by Global Data, Indonesia's pharmaceutical market was ranked the largest market in the ASEAN region, with an estimated market value of IDR 141.6 billion (USD 10.11 billion) in 2021 (Indonesia.go.id).

According to the Pharmaceutical Industry Analysis Book Second Edition (2021), the development of the pharmaceutical industry during the Covid-19 pandemic in 2020 experienced the highest growth increase compared to other industries, reaching 14.96% (yoy). This increase was due to an increase in demand for vitamins, supplements and herbal medicines to increase endurance, so that the pharmaceutical industry in this sector obtained considerable growth. However, the performance of the chemical, pharmaceutical and traditional medicine industry experienced a decline in the fourth quarter of 2021. The GDP of this industry grew at a low 8.28% (yoy) and in the first quarter of 2022 the GDP of the pharmaceutical industry grew at a lower 6.47% compared to the same period in the previous year. In the business world, competition causes instability in company income. Companies annually always publish financial reports that are useful for decision makers to make appropriate and appropriate planning. Financial reports are a reference in assessing the performance of a company in one period.

The average company aims to achieve maximum profit to maintain survival and finance company operations. Profit information is an important part of financial statements that plays an important role in a company. According to Soemarso (2010), profit is the excess of income over expenses related to business activities. If expenses are higher than income, then the difference is called a loss. Profit or loss is the result of periodic calculations (from time to time).

Management actions that provide earnings information that does not show how the actual conditions of the company can result in questionable quality earnings. According to Situmorang (2017), earnings that accurately and correctly will describe a company's operational profitability, namely the company is able to predict future profits and cash flows can be called quality earnings.
Quality earnings should have stability and predictability. Earnings quality is also often used in decision making and reflects company performance. Quality earnings are earnings that have a high probability ability to predict future earnings and in fulfilling the presentation of financial information that is useful for making financial or investment decisions, the earnings presented must be quality earnings (Sutopo, 2016). Earnings quality is the accuracy of earnings information that must be reported in the company's financial statements and shows the actual condition of financial performance. If the company's financial statements have met the characteristics, namely relevance and reliability, the company's earnings quality can be said to be high. The following is earnings quality data from 2017 to 2022 in pharmaceutical sub-sector companies:

<table>
<thead>
<tr>
<th>No</th>
<th>Company Name</th>
<th>Code</th>
<th>Earnings Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PT Darya Varia Laboratoria Tbk</td>
<td>DVLA</td>
<td>1.02 0.10 0.90 0.50 2.06 -0.08</td>
</tr>
<tr>
<td>2</td>
<td>PT Kalbe Farma Tbk</td>
<td>KLBF</td>
<td>0.62 0.84 0.74 1.16 0.68 0.29</td>
</tr>
<tr>
<td>3</td>
<td>PT Pyridam Farma Tbk</td>
<td>PYFA</td>
<td>2.18 0.43 1.39 0.04 4.49 0.02</td>
</tr>
<tr>
<td>4</td>
<td>PT Sido Muncul Tbk</td>
<td>SIDO</td>
<td>0.94 0.98 0.78 0.86 0.74 0.78</td>
</tr>
<tr>
<td>5</td>
<td>PT Tempo Scan Pacific Tbk</td>
<td>TSPC</td>
<td>0.73 0.53 1.12 0.92 0.63 0.37</td>
</tr>
</tbody>
</table>

Average: 5.49 2.88 4.93 3.48 8.60 1.38

Source: Data Processing, (2023)

The table above shows earnings quality data on Pharmaceutical Sub-Sector Companies (which are the samples of this study). On average, earnings quality in 2018 decreased by 47.5% from 2017, but in 2019 earnings quality experienced a significant increase of 71% from 2018. Furthermore, in 2020 there was a decrease of 29.41% in 2020. However, it experienced a very significant increase of 147% in 2021 and experienced a significant decline in 2022 of 83.95%. Information about the quality of the company's earnings above is information that supports quality investment decisions.

Many factors can affect earnings quality. One of the factors that is thought to affect earnings quality is capital structure as measured by leverage. According to Kasmir (2019), the leverage ratio is a ratio used to measure the extent to which the company's assets are financed with debt, which means the amount of debt used by the company to finance its business activities when compared to using its own capital.

Capital structure has an influence on earnings quality because companies with high levels of debt can cause the company's financial risk of not being able to pay its debts, the risk of failure means that the costs incurred by the company to overcome this problem are higher, thereby reducing the company's profits (Silfi, 2016).

Another factor that can affect earnings quality is Investment Opportunity Set which can be interpreted as investment opportunities. According to Hartono (2016), Investment Opportunity Set describes the breadth of opportunities for a company. With an opportunity to invest in the future, it can be a positive aspect for the company. Investment Opportunity Set has an influence on earnings quality which indicates that companies with high investment opportunities will attract investors to make decisions to invest in the hope of getting high profits, which will have an impact on improving the quality of corporate earnings (Indriana and Handayani, 2021).

In addition to capital structure and Investment Opportunity Set, another factor that is thought to affect earnings quality is profitability (Return On Asset-ROA). ROA is the company's ability to generate income from sales activities related to operations and in managing assets in the company's future. The company will make efforts to increase profitability. High profitability is an indicator that the company has good performance in generating profits so that it is a positive signal for shareholders. This is what causes companies to manipulate earnings which can affect earnings quality. This study analyzes...
the effect of capital structure, Investment Opportunity Set, and profitability on earnings quality. The research was conducted on pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange for the period 2017 to 2022.

**OVERVIEW**

**Earnings Quality**

Earnings quality is the company's ability to describe the actual state of earnings (Kepramareni, Pradnyawati, & Swandewi, 2021). Earnings quality is used in forecasting future earnings and assessing the extent to which earnings can be earned repeatedly and can be controlled. Earnings quality is publicly available information, which shows how much earnings can influence investor decision making when choosing an issuer. The earnings quality formula is as follows:

\[
\text{Earnings Quality} = \frac{\text{Cooperative cash flow}}{\text{EBIT}}
\]

**Capital Structure**

This ratio is the ratio of total debt to equity and is also the proportion of debt to equity used by issuers to finance operational activities and business development. Capital structure can not only affect shareholder income but also determine the sustainability of the company when facing an economic recession or depression (Halim, 2015: 81) This ratio is proxied by the leverage level (Debt to Assets Ratio) as follows:

\[
\text{Leverage} = \frac{\text{Total Debt}}{\text{Total Asset}}
\]

**Investment Opportunity Set**

According to Hartono (in Kusumawati & Safiq, 2019), investment opportunities or IOS indicate the scope of investment opportunities for an issuer. IOS is an opportunity for issuers or companies to grow so that they can have quality profits. A high IOS shows a company with good opportunities in the future, allowing investors to assume that investing in the company can get a more favorable return. IOS is proxied by Market To Book Value Of Asset (MBVA) as follows:

\[
\text{MVBVA} = \frac{\text{Total Asset} - \text{Total Equity} + (\text{Outstanding Shares} \times \text{Closing Price})}{\text{Total Asset}}
\]

**Profitability**

According to Rudianto (2021: 129), profitability is a measure of company management to see whether the company is able to generate profits during a certain period, because there are two main parts in generating profits, namely income and expenses, then the size of the comparison of income and expenses in various supporting elements will be an assessment measure in measuring the profitability of a company company. Profitability can be measured by the Return on Asset ratio. According to Purnamasari & Djuniardi (2021). Return on Asset is often referred to as economic profitability which is a measure of the company's ability to generate profits with all the assets owned by the company. The ROA formula is as follows:

\[
\text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}}
\]
METHODOLOGY

The sample selection method used in this study is purposive sampling where sampling is based on several criteria. The criteria for sampling in this study are:

2. Companies that have annual financial reports and have a positive ROA Based on the predetermined criteria, the samples used in this study were 5 companies.

Tabel 2. Company Sample Data

<table>
<thead>
<tr>
<th>No</th>
<th>Code</th>
<th>Company Name</th>
</tr>
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<tbody>
<tr>
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<td>2</td>
<td>KLBF</td>
<td>PT Kalbe Farma Tbk</td>
</tr>
<tr>
<td>3</td>
<td>PYFA</td>
<td>PT Pyridam Farma Tbk</td>
</tr>
<tr>
<td>4</td>
<td>SIDO</td>
<td>PT Industri Jamu dan Farmasi Sido Muncul Tbk</td>
</tr>
<tr>
<td>5</td>
<td>TSPC</td>
<td>PT Tempo Scan Pacific Tbk</td>
</tr>
</tbody>
</table>

Source: Data Processing, (2023)

The data analysis method in this study uses the classic assumption test and hypothesis testing. The data analysis method is carried out using multiple linear regression analysis which aims to determine the functional relationship between two or more independent variables on the dependent variable. The multiple regression equation model used to see the effect of the independent variable and the dependent variable, as follows:

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + e$$

Explanation:
- $Y$ = Earnings Quality
- $a$ = Constant
- $b_1$ = Regression coefficient for $X_1$
- $b_2$ = Regression coefficient for $X_2$
- $b_3$ = Regression coefficient for $X_3$
- $X_1$ = Capital Structure
- $X_2$ = Investment Opportunity Set (IOS)
- $X_3$ = Profitability
- $e$ = Residual Value

This study analyzes the effect of capital structure, Investment Opportunity Set, and profitability on earnings quality. The results of this study are presented in the table below:

Tabel 3. Data Analysis Results

<table>
<thead>
<tr>
<th>Model</th>
<th>t</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.011</td>
<td>0.991</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>2.610</td>
<td>0.015</td>
</tr>
<tr>
<td>IOS</td>
<td>2.140</td>
<td>0.042</td>
</tr>
<tr>
<td>Profitability</td>
<td>-1.948</td>
<td>0.062</td>
</tr>
<tr>
<td>F</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>0.839</td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td>0.704</td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.655</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data Processing, (2023)

This study obtained the following results:
2. The capital structure variable has a positive and significant effect on earnings quality.
3. The Investment Opportunity Set (IOS) variable has a positive and significant effect on earnings quality.
4. The profitability variable has no effect on earnings quality.
5. The R Square value is 0.704 which indicates that capital structure, IOS and profitability have an influence of 70.4% on earnings quality.

DISCUSSION

Effect of Capital Structure on Earnings Quality

This study found that capital structure has a positive and significant effect on earnings quality. The results of this study are the same as those of Mutmainah et al. (2015), Setiasih (2021), and Sari & Wiyanto (2022) which state that capital structure has an influence on earnings quality. Issuers with a high capital structure also produce high returns. Companies with higher debt size, use debt to fund operating activities so that they can generate greater profits and can pay back the debt from the profits earned.

The Effect of IOS on Earnings Quality

This study found that IOS has a positive and significant effect on earnings quality. The results of this study are supported by Vionita & Asyik (2020), Amalia & Wahidahwati (2022), and Bahmid, Ulupui, & Muliasari (2022). Companies that have a high IOS value are considered good because they attract investors’ attention so that they want to invest in the company. Companies that have high investment opportunities tend to have high company growth prospects which can cause future company profits to increase. The high investment opportunity will open up opportunities for high company performance so that it can determine the quality of earnings information. Companies that have a high Investment Opportunity Set will also have higher earnings quality and the company's earnings information will indicate the company's actual earnings.

Effect of Profitability on Earnings Quality

This study found that profitability has no effect on earnings quality. The results of this study are supported by the research of Ginting S. (2017), Magdalena & Trisnawati (2022), and Anjelica & Prasetyawan (2023). This is because the level of profitability owned by the company will not always guarantee that the company will present financial reports in accordance with the actual situation. This is also because the high or low value of profitability does not affect the quality of the company's earnings because high profits can be obtained from unhealthy means. The company may manipulate its profits to look good so as to attract investors to invest in the company. Company profitability is not considered by investors as a determining factor that they use as a basis for investing.

CONCLUSIONS

1. Simultaneously, the variables of capital structure, Investment Opportunity Set, and profitability affect earnings quality.
2. Partially, the capital structure variable has a positive and significant effect on earnings quality, the Investment Opportunity Set variable has a positive and significant effect on earnings quality while profitability has no effect on earnings quality.

REFERENCES


