

**EXPLORING INVESTMENT OPPORTUNITY SET AS A MODERATING
VARIABLE IN THE RELATIONSHIP BETWEEN CAPITAL
STRUCTURE, INFORMATION ASYMMETRY, AND PROFIT QUALITY****Rizky Ananda Putra**

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Abstract

This study aims to analyze the role of investment opportunity set in moderating the relationship between capital structure and information asymmetry with profit quality in consumer non-cyclicals companies in Indonesia during the period 2021-2023. The study uses a sample of 96 consumer non-cyclical companies listed on the Indonesia Stock Exchange from 2021 to 2023. This study employs secondary data obtained from financial reports, annual reports published on the IDX, and historical data of the highest, lowest, and closing stock prices listed on yahoo. Finance. Hypothesis testing is carried out using a panel data linear regression model with EViews 12 software. The results of this study indicate that capital structure affects profit quality, information asymmetry does not affect profit quality, investment opportunity set cannot moderate the relationship between capital structure and profit quality, and investment opportunity set cannot moderate the relationship between information asymmetry and profit quality.

Keywords: Investment Opportunity Set, Capital Structure, Information Asymmetry, Profit Quality**1. Introduction**

Financial statements are a window for stakeholders to take a peek at the performance and health of a company, from various crucial information that is poured, profit plays an important role because it reflects the profitability and sustainability of the business, but not all profits are created equally. Profit quality refers to the accuracy, reliability, and relevance of profit information in describing the company's economic condition as a vital aspect that needs to be considered. High-quality earnings provide positive signals to investors and creditors, reflect transparency, and support informed decision-making. Conversely, low profit quality can invite distrust, increase the risk of asymmetric information and ultimately negatively impact the company's value.

Research by Herninta and Ginting (2020) said that profit quality can be interpreted as an assessment of how far profits can be obtained repeatedly and can describe the company's actual financial performance. Trisnawati (2020) revealed that profit is one of the important information contained in financial statements, because through profit we can assess how the company is performing. Tanto (2020) explained that quality profit is a profit that is able to provide an overview of profit and cash flow in the future.

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Angrainy and Priyadi (2019) revealed that profit quality can be calculated by accrual quality and can be measured by earning response coefficients, namely operating cash flow divided by profit before income tax. Another method of measuring profit quality is in a study conducted by Wijaya (2020) profit quality is measured using discretionary accruals modified Jones obtained by reducing total accruals (TAC) and non-discretionary (NDACC). An interesting phenomenon occurred at PT Unilever Indonesia Tbk in 2023. Despite being known as a leading consumer goods company, UNVR experienced a significant decline in market capitalization, from IDR 179.30 trillion at the end of 2022 to IDR 134.66 trillion in the same period in 2023. This decline raises questions about the underlying factors, and one of the things that deserves to be studied is profit quality.

Various factors can affect profit quality, both from within and outside the company. The capital structure, which represents the composition of funding between debt and equity, is one of the influential internal factors. Companies with high debt levels have more pressure to manipulate profits to meet obligations and maintain financial ratios.

Fahmi (2017:184) in his research Kasrianti., et al (2023), revealed that the capital structure is a description of the form of financial proportions of a company, namely between the capital owned which is sourced from long-term liabilities and its own capital (shareholders equity) which is the source of financing for a company. Meanwhile, Hasna and Aris (2022) stated that the capital structure is the use of assets and sources of funds by companies that have fixed costs with the intention of increasing the potential return for shareholders.

Information asymmetry is also a factor that can affect profit quality. Information asymmetry, which is the information gap between management and external parties, can also encourage profit manipulation for personal gain. Fortuna et al., (2023) revealed that Information Asymmetry is the difference in information that management has with other users of financial statements, because management as an internal party knows more about the actual condition of the company than external parties.

Ningrum., et al (2021) said that the existence of information asymmetry in a company can provide signals to shareholders, both positive and negative. These signals influence their investment decisions. Positive signals indicate a company's good performance and increase the company's value, while negative signals indicate poor performance, which can lower the company's value. In other words, a positive signal signals a good quality of a company's performance, while a negative signal signals a poor quality of performance.

Profit quality is a major concern for stakeholders because it transparently reflects the company's economic conditions and prospects. Various factors can affect the quality of profits, including capital structure and information asymmetry in this study Investment Opportunity Set can play an important role in moderating the relationship between capital structure, information asymmetry and profit quality. Companies with high IOS are considered positive by investors and creditors (Al-Vionita & Asyik, 2020). IOS also reflects the company's ability to efficiently allocate resources into profitable projects.

Research by Widyawati and Subadriyah (2022) explained that the Investment Opportunity Set is a choice of investment opportunities in the future that can affect the growth of the company's assets that have a positive Net Present Value which is expected to provide greater returns. Handoko and Idayati (2021) argue that the investment opportunity set shows the breadth of investment opportunities and opportunities for a company, but it depends on the company's choice of spending for future interests. The Investment Opportunity Set is able to provide a positive signal about the company's future growth.

Research by Ashma and Rahmawati (2019) revealed that with a high investment opportunity set, the company will also receive a high response from external parties, because external parties assume that the company will bring in large profits with the investments that have been made.

This study aims to understand how capital structure and information asymmetry together affect the profit quality of companies, and how the Investment Opportunity Set (IOS) then moderates the relationship between capital structure strategy and growth opportunities. This reflects the complex dynamics in the business world, where financial and accounting decisions have a significant impact on a company's ability to seize growth opportunities. The Grand Theory used in this study is the theory of trade off, agency and signal. The tradeoff theory is one of the theories of the financial literature that explains how companies determine their capital structure by balancing the benefits and costs of using debt. Agency theory is used to explain how information asymmetry can affect the relationship between principals (owners) and agents (managers) in an organization. Signal theory states that companies that have a lot of investment opportunities will signal the market through their investment and funding actions that reflect their future growth prospects.

2. Theoretical Background

2.1 The Effect of Capital Structure on Profit Quality

Capital structure refers to the combination of debt and equity that a company uses to fund its assets and operations. Effective management of the capital structure can significantly affect the company's profit quality. An optimal capital structure can improve operational efficiency, improve financial performance, and can increase profit quality.

Tri (2022) in the results of his research revealed that capital structure has a significant effect on profit quality. Good capital structure management can increase good profit quality for a company, so that the company has the opportunity to grow and experience profit growth.

The capital structure in the Trade-Off Theory states that a company will choose a capital structure that optimizes the value of the company by balancing the benefits of debt (such as tax savings and lower capital costs) against the costs associated with debt (such as increased bankruptcy risk and financial costs). Based on the description and explanation, the following hypotheses can be drawn;

H1: It is suspected that there is an influence of Capital Structure on Profit Quality

2.2 The Effect of Information Asymmetry on Profit Quality

Information asymmetry occurs when managers have more in-depth knowledge of the company's future prospects compared to shareholders and other parties (Veno, 2017). This relationship can result in information asymmetry because managers have direct access to a wider range of information regarding the state of the company compared to shareholders (Wardani, 2011). The greater the asymmetry of this information, the higher the likelihood of profit manipulation practices (Barus and Setiawati, 2015).

Wulandari (2021) identified that information asymmetry has a significant negative effect on profit quality. Management that has greater access to the company's internal information can perform accounting manipulations to affect the reported profit. Hasna and Aris (2022) in their research revealed that information asymmetry affects profit quality. The results of the study show that management can take advantage of information asymmetry to manipulate profits and affect the company's profit quality. The more internal information a manager has compared to a shareholder, the greater the opportunity for the manager to engage in profit manipulation practices. Information asymmetry in signal theory can be prevented by the presence of strong signals and higher transparency so that companies can reduce uncertainty and be able to increase profit quality, because good signals can improve investor confidence and reduce the adverse effects of information asymmetry. Based on the description and explanation, the following hypotheses can be drawn;

H2: It is suspected that there is an influence of Information Asymmetry on Profit Quality

2.3 The Role of Investment Opportunity Set in Moderating the Relationship between Capital Structure and Profit Quality

An investment opportunity set is an investment decision that involves a combination of assets and investment options for a future period, as explained by Jaya & Wirama (2017). If a company has a high IOS, it means that there are many profitable investment opportunities available. In this situation, companies may be more flexible in using different capital structures, including higher levels of debt, to take advantage of existing investment opportunities.

The results of research by Mira Septiani and Wulandari (2022) revealed that investment opportunity sets have a significant effect on capital structure. Ramdani and Chandra (2023) revealed that the Investment Opportunity Set (IOS) can strengthen the influence of capital structure on profit quality. This is due to the diversity of investment options which, if implemented correctly, can improve the capital structure and ultimately increase profit quality. The trade-off theory explains how companies try to balance the risks and benefits of using debt in their capital structure and IOS moderates this relationship by influencing a company's decision to take on debt or not, especially in relation to how the debt may affect profit quality. Based on the description above, the hypothesis proposed in this study is:

H3: Suspected Investment Opportunity Set moderates the relationship between Capitals Structure and Profit Quality

2.4 The Role of Investment Opportunity Set in Moderating the Relationship between Information Asymmetry and Profit Quality

Investment Opportunity Set can affect the strength and direction of the relationship between information asymmetry and profit quality. Information asymmetry refers to a situation where one party has more complete or more accurate information compared to the other. With IOS as a moderation factor, it is considered that IOS can change how information asymmetry has an impact on profit quality.

Wardani (2009), in the results of his research entitled "Investment Opportunity Set as a Moderator of the Relationship between Information Asymmetry and Profit Quality" explained that IOS has an important role in moderating the relationship between information asymmetry and profit quality. When IOS is high, the negative influence of information asymmetry on profit quality becomes weaker. This shows that companies with high investment opportunities tend to be able to maintain better profit quality despite information asymmetry.

Investment Opportunity Set in signal theory, companies use signals to overcome information asymmetry and provide an indication of their profit quality. Positive signals, such as dividend announcements or share repurchases, can increase investor confidence in reported profits, while negative signals can lower perceptions of profit quality. Based on the description above, the hypothesis proposed in this study is:

H4: Suspected Investment Opportunity Set moderates the relationship between Information Asymmetry and Profit Quality

3. Methods

The object of this study is the financial statements of companies in the consumer noncyclicals sector for 2021-2023 which are listed on the IDX. There were 32 companies that were used as a sample to conduct research from a total of 125 company populations selected by purposive sampling. The number of research years is 3 years so that 96 data samples were collected that were processed using Eviews-12. The hypothesis in this study uses a multiple regression model. The scale of measuring capital structure uses Debt to Equity Ratio (DER), information asymmetry is proxied with SPREAD i,t, investment opportunity set uses market value to book of assets and profit quality uses Earnings Quality by dividing Cash flow from operating activity by EBIT.

4. Results and Discussion

The results of descriptive statistics for the Profit Quality (Y) variable show a minimum value of 0.0584 and a maximum value of 4.1263. The mean value is 1.2020 and the deviation (standard deviation) is 0.7100. The results of descriptive statistics for the Capital Structure variable (X1) showed a minimum value of 0.0628 from 32 companies in the consumer non-cyclicals sector and a maximum value of 2.9249. The mean value was 0.7409 and the deviation (standard deviation) was 0.5412. The results of descriptive statistics for the Information Asymmetry variable (X2) showed a minimum value of 0.0035 and a maximum value of 0.1032. The mean value was 0.029 and the deviation (standard deviation) was 0.021. Meanwhile, the results of descriptive statistics for

Investment Opportunity Set (Z) show a minimum value of 0.5494 and a maximum value of 7.7242. The mean value was 1.8827 and the deviation (standard deviation) was 1.4275.

Table 1. Descriptive Statistical Test Results

| | Profit Quality (Y) | Capital Structure (X1) | Information Asymmetry (X2) | Investment Opportunity Set (Z) |
|--------------|--------------------|------------------------|----------------------------|--------------------------------|
| Mean | 1.202072 | 0.740979 | 0.029721 | 1.882751 |
| Median | 1.097836 | 0.621113 | 0.022766 | 1.327727 |
| Maximum | 4.126325 | 2.924983 | 0.103208 | 7.724248 |
| Minimum | 0.058469 | 0.062859 | 0.003565 | 0.549473 |
| Std. Dev. | 0.710055 | 0.541299 | 0.021643 | 1.427593 |
| Observations | 96 | 96 | 96 | 96 |

Source: EViews ver-12 (2024)

Based on table 1 above, it can be concluded that from 96 samples of consumer noncyclicals companies for the 2021-2023 period, profit quality has a wide range (0.0584 - 4.1263) with an average of 1.2020, showing variations in profitability among sample companies. The capital structure data (X1) also shows considerable variation (0.0628 - 2.9249) indicating significant differences in debt use among companies. For information asymmetry data (X2) is relatively smaller (0.0035 - 0.1032) with an average close to zero, indicating a relatively low level of information asymmetry. Meanwhile, the investment opportunity set (Z) shows a very wide range (0.5494 - 7.7242), indicating significant differences in investment opportunities among companies.

Table 2. F Test Results

| | | | |
|--------------------|----------|--------------------|----------|
| Root MSE | 0.488301 | R-squared | 0.176028 |
| Mean dependent var | 0.719075 | Adjusted R-squared | 0.158308 |
| S.D. dependent var | 0.540761 | S.E. of regression | 0.496114 |
| Sum squared resid | 22.89004 | F-statistic | 9.933936 |
| Durbin-Watson stat | 1.994777 | Prob(F-statistic) | 0.000123 |

Source: EViews ver-12 (2024)

Based on Table 2, the Prob value of F-statistic of 0.000123 is smaller than α 0.05. Therefore, it can be concluded that the independent variables (Capital Structure and Information Asymmetry) simultaneously affect the dependent variable (Profit Quality).

Table 3. t Test Results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|-------|
|----------|-------------|------------|-------------|-------|

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|---------|----------|----------|----------|--------|
| C | 0.713436 | 0.154980 | 4.603403 | 0.0000 |
| X1 (SM) | 0.623867 | 0.142746 | 4.370468 | 0.0000 |
| X2 (AI) | 0.887008 | 2.803829 | 0.316356 | 0.7524 |

Source: EViews ver-12 (2024)

Based on table 3, it can be concluded that the independent variable of capital structure affects profit quality, this can be seen from the significance value in the profit quality table of 0.00 which is smaller than the value of α 0.05. While the independent variable of information asymmetry has no effect on profit quality, this can be seen from the significance value in the profit quality table of 0.75 which is greater than the value of α 0.05.

Table 4. Results of the Determination Coefficient Test

| | | | |
|--------------------|----------|--------------------|----------|
| Root MSE | 0.488301 | R-squared | 0.176028 |
| Mean dependent var | 0.719075 | Adjusted R-squared | 0.158308 |
| S.D. dependent var | 0.540761 | S.E. of regression | 0.496114 |
| Sum squared resid | 22.89004 | F-statistic | 9.933936 |
| Durbin-Watson stat | 1.994777 | Prob(F-statistic) | 0.000123 |

Source: EViews ver-12 (2024)

The results of the analysis in table 4 show that the test results of the R Square determination coefficient are 0.158308 or 15.8%. This shows that the independent variables in this study (capital structure and information asymmetry) are simultaneously able to affect the y variable (profit quality) by 15.8%. The remaining 84.2% was influenced by other variables outside this research model. These other variables can be other factors that are not included in this study.

Table 5. Results of Moderated Regression Analysis (MRA) Test

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|--------|
| C | 0.995382 | 0.272080 | 3.658422 | 0.0004 |
| X1 | 0.644767 | 0.215814 | 2.987612 | 0.0036 |
| X2 | -2.443264 | 5.157216 | -0.473756 | 0.6368 |
| Z | -0.152633 | 0.126144 | -1.209988 | 0.2295 |
| M1 | 0.002564 | 0.081088 | 0.031620 | 0.9748 |
| M2 | 1.568631 | 2.340289 | 0.670272 | 0.5044 |

Source: EViews ver-12 (2024)

Based on table 5, it can be concluded that the results of the significance of the moderation investment opportunity set moderation on the capital structure on profit quality show a figure of 0.9748 which is greater than the significance value of 0.05 which means that the investment opportunity set variable cannot moderate the influence of capital structure on profit quality. Then the results of the significance of the investment opportunity

moderation set on information asymmetry on profit quality showed a figure of 0.5044 which was greater than the significance value of 0.05 which means that the investment opportunity set variable could not moderate the influence of information asymmetry on profit quality. So that the moderation variable acts as a Moderation Homologizer.

5. Conclusion

This study finds that the capital structure is able to influence the profit quality by expanding the capital structure of a company, both from debt and equity, the better the profit quality will be, but it must still be used and managed well. The asymmetry of information and investment opportunity sets is not strong enough to be able to prove its influence on profit quality, this is due to the influence of other factors.

The trade-off theory is in line with the results of research on the influence of capital structure on profit quality, because this theory explains how companies determine their capital structure by balancing the benefits and costs of using debt. However, signal theory is not in line with the influence of information asymmetry on profit quality and signal theory is not in accordance with the role of investment opportunity set as a moderation variable.

This research has major limitations. First, the selection of samples with certain sector criteria has the potential to limit the generalization of research results. Second, this research model is only able to explain 15.8% of the variation in capital structure, thus proving that other factors outside the model also have an important role in influencing profit quality. Therefore, researchers are further advised to expand the research sample by involving more companies from various sectors and consider other factors that can affect profit quality.

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