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Are Tax Retention Rate, Investment Opportunity Set, and Growth Opportunities Important in Determining the Quality of Corporate Earnings?

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Abstract

Research Background: When a company has good profit growth potential, the need for robust tax planning becomes even greater. Proper tax planning not only maximizes profits but also enhances the quality of reported profits. Tax planning and profit management share a common goal—achieving profit targets by strategically managing the company's profit figures. **Introduction/ Objectives:** This study adopts a causal-associative approach to examine the influence of the Tax Retention Rate, Investment Opportunity Set (IOS), and Growth Opportunity on earnings quality in property and real estate companies listed on the Indonesia Stock Exchange (IDX). **Methods:** The research employs quantitative secondary data. The population comprises all property and real estate companies. Using census sampling, 17 companies were selected over a 5-year period, resulting in 85 observations. The analysis utilizes Structural Equation Modeling (SEM) with SmartPLS. **Results:** Findings reveal that Growth Opportunity, Moderating Effects 2 and 3, and Tax Retention Rate significantly impact earnings quality, while GCG, IOS, and Moderating Effect 1 show no influence. Moderating Effect 1 weakens, whereas Moderating Effects 2 and 3 enhance the relationship between the independent and dependent variables. **Conclusions:** The implications of these findings are clear: effective investment planning and efficient tax management are crucial for improving earnings quality. Companies should focus on maximizing growth opportunities, managing tax retention rates carefully, and fostering the right moderating conditions to improve the accuracy and transparency of their earnings reports.

Keywords: Earnings quality; Growth Opportunity; Investment Opportunity Set (IOS); Tax Retention Rate
JEL Classification: M40; M41.

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INTRODUCTION

In the era of globalization, fierce competition forces companies in Indonesia to boost their credibility, one way being through financial reports that meet standards. These reports serve as the foundation for investors to evaluate performance, forecast business continuity, and reduce investment risks (Anam, Harimulyono, et al., 2023). Earnings quality, in particular, is a key focus as it reflects a company's condition and future potential. The property and real estate sector was chosen for this study due to its significant role as an indicator of a country's economic health. Financial reporting has become a hot topic, with numerous scandals in public companies involving financial manipulation. In the property and real estate sector, firms like PT Hanson International Tbk, PT Sentul City Tbk, and PT Bakrieland Development Tbk, listed on the IDX, have been caught in scandals over misleading financial reporting. PT Hanson, for instance, overstated its 2016 income, leading to sanctions from the OJK. PT Bakrieland faced a confidence crisis after failing to repay debts, while PT Sentul City was linked to bribery, which caused profit declines (Yulianti et al., 2020). These incidents underscore the importance of earnings quality as a benchmark for corporate performance and investor confidence. High profits indicate effective management, attract investor trust, and impact management bonuses. Profit information aids shareholders in evaluating the company's earnings power, essential for gauging investment risks. Ensuring high-quality profit reports lies with management, whose performance is judged by the profits achieved, making transparency in financial reporting crucial (Muhammad Sapruwan; Vina Marlisa, 2022).

Companies with strong profit growth tend to attract significant investor interest, as they are seen as capable of delivering future benefits (Clara, 2022). However, higher profit growth also leads to an increased tax burden, reducing the profits painstakingly achieved by management. Tax reporting, as a commitment to the state, highlights the importance of effective tax management to maintain and maximize profit targets (Rimawan & Muniarty, 2023). Tax planning utilizes opportunities within government regulations to treat tax objects differently, forming a basis for taxation (Wardhana et al., 2024). When a company has good profit growth potential, the need for robust tax planning becomes even greater. Proper tax planning not only maximizes profits but also enhances the quality of reported profits (Chen et al., 2014). Tax planning and profit management share a common goal—achieving profit targets by strategically managing the company's profit figures (Dyreng et al., 2010). Efficient and effective tax planning contributes positively to cash flow and improves the reliability of financial reports, as compliance with tax regulations ensures the perceived quality of profits remains high (Anggirda Paramita R et al., 2022). This aligns with findings by (Anggirda Paramita R et al., 2022; Muhammad Sapruwan; Vina Marlisa, 2022), which suggest that companies undertake tax planning not just for fiscal benefits but also to attract investor capital through share sales. To boost stock value, management strives to present strong performance, partly by minimizing tax payments, which otherwise reduce distributable profits or reinvestable funds. Thus, minimizing taxes optimizes net profit. However, contrasting findings by (Minari & Asmara, 2023), indicate that tax planning has a negative and insignificant impact on earnings quality.

Agency theory explains that management is tasked by shareholders to run the company in a way that maximizes both corporate welfare and shareholder wealth. However, management doesn't always act in line with shareholder expectations (Wardhana et al., 2022). This is because management, being closer to the day-to-day operations, has access to more information about the company than shareholders(Gultom & Sitorus, 2022). These differing interests can lead to conflicts, known as agency conflicts, which negatively impact earnings quality (Yusmaniairti et al., 2023). The Investment Opportunity Set (IOS) represents a company's potential for growth and serves as a basis for classifying future growth opportunities. Companies with a high IOS that continually expand their strategies tend to require more external funds. A high IOS indicates greater growth opportunities, which influence profit levels and the reliability of profit information (Yusmaniairti et al., 2023). IOS plays a crucial role because it combines current assets with future investment options, directly impacting a company's value (Kristy et al., 2024). Firms with high IOS often prioritize new investments over paying high dividends, especially when their financial position is strong. As investment opportunities increase, the company's performance improves, and its profit information more accurately reflects real profitability. Research showing that IOS has a significant positive effect on earnings quality aligns with studies by (Gultom & Sitorus, 2022; Yulianti et al., 2020). However, this contrasts with findings from (Yusmaniairti et al., 2023).

Growth opportunity refers to the potential for a company to expand in the future (Anam, Sutejo, et al., 2023). For investors, this is a key metric, as growth opportunities are often reflected in stock prices, which represent the estimated future benefits investors expect to gain (Joe & Ginting, 2022). Companies with significant growth opportunities are generally better positioned to generate profits in the future, which tends to boost market confidence and elevate stock prices (Fan, Joseph dan Wong, 2011). A company with strong long-term growth potential typically demonstrates good performance, leading to higher-quality profits (Rimawan & Muniarty, 2023). High-quality profits accurately reflect a company's operational performance and are reliable for decision-making (Yulianti et al., 2020). Such profits provide a true picture of a company's financial health, free from distortions. Profit is not only a performance indicator but also a critical factor for investors, accountants, and policymakers (Siagian et al., 2023). Low-quality profits, on the other hand, can mislead decision-makers like investors and creditors, ultimately reducing a company's value(Octaviani & Suhartono, 2021). Good earnings quality is typically associated with lower discretionary accruals—values close to zero indicate minimal earnings management by the company. A high growth opportunity often correlates with reduced discretionary accruals, signaling better earnings quality. Conversely, poor growth opportunities may lead to higher accruals and lower earnings quality. These findings align with (Yulianti et al., 2020), who found that growth opportunities significantly influence earnings quality. However, (Kristy et al., 2024) noted that when using Earnings Persistence as a proxy, growth opportunities had no impact on earnings quality.

Because of inconsistencies in previous research, the researcher aims to introduce Corporate Governance as a moderating variable. The Tax Retention Rate is tied to strategies for preserving after-tax profits, which directly impact transparency and accuracy in profit reporting. On the other hand, the Investment Opportunity Set and Growth Opportunity reflect the company's future potential but often present conflicting objectives, affecting profit reporting quality. Corporate Governance acts as a crucial internal control mechanism, ensuring the integrity and accuracy of reported profits. It can moderate the effects of these three variables, leading to earnings quality that more accurately reflects the company's true financial health. This aligns with the findings of (Kristy et al., 2024; Yusuf et al., 2022), which highlight the role of independent governance mechanisms in enhancing earnings quality. Given the gaps in previous studies regarding Corporate Governance's moderating role, this research aims to address these issues. It provides fresh insights into improving earnings quality through effective management of taxes, investments, and growth, representing a novel contribution to the field.

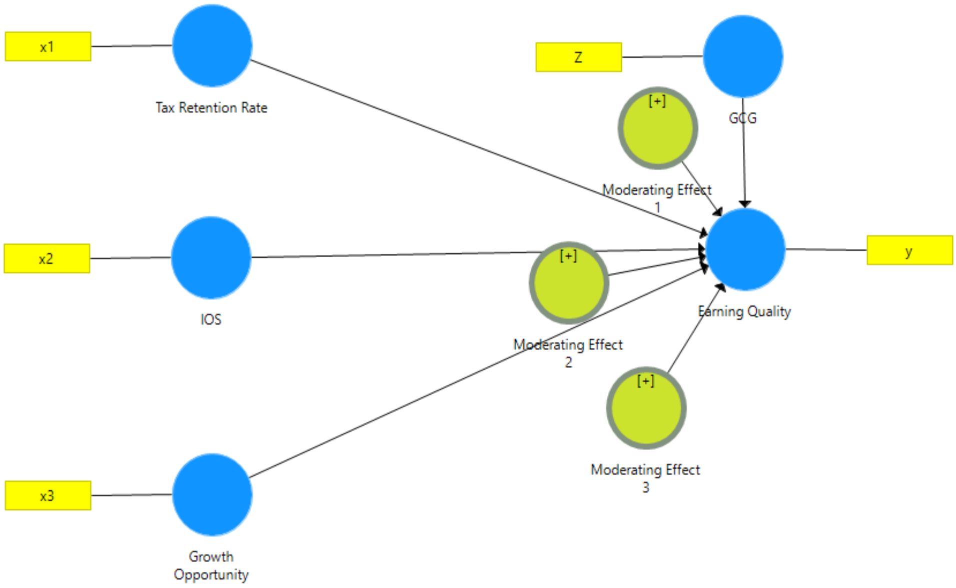

Figure 1. Conceptual Framework
Source: researcher processed data, 2024

METHOD

This study adopts a causal-associative approach to explore the impact of Tax Retention Rate, Investment Opportunity Set, and Growth Opportunity on earnings quality within property and real estate companies listed on the Indonesia Stock Exchange (IDX). The research utilizes secondary quantitative data, comprising company financial reports sourced from the IDX, relevant websites, and other online platforms. The population of this study includes all property and real estate sector companies listed on the IDX during the research period. Using the Census sampling technique, 17 companies were selected as the sample, covering a 5-year period, resulting in 85 observations. (Ghozali., 2018)The sample selection was based on specific criteria: companies that routinely publish financial reports, were registered prior to the research period, were not under suspension, and had an accounting period ending on December 31. (Sugiyono., 2019) For data analysis, the study employs the Structural Equation Modeling (SEM) technique, using the Smart PLS software. This approach provides a comprehensive framework to assess the relationships between variables, offering deeper insights into the factors influencing earnings quality in a sector crucial to economic growth and investor confidence.

Earnings quality, as defined by (Yulianti et al., 2020), refers to profits that exhibit stability and predictability in assessing future earnings and cash flows. (Gultom & Sitorus, 2022) describe quality earnings as having three key characteristics: they accurately reflect the company's current operating performance, provide reliable indicators of future

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performance, and serve as a robust measure for evaluating company performance. In this study, earnings persistence is used as a proxy for measuring earnings quality. According to (Amidu et al., 2019), earnings persistence represents sustainable earnings quality, reflecting a company's ability to maintain its current profit levels into the future. (Gultom & Sitorus, 2022) further define earnings persistence as the capacity of earnings to act as an indicator of recurring, long-term profitability. This sustainability highlights the ability of a company to generate consistent, repeatable earnings over time.

$$Earnings\ Persistence = \frac{Profit\ before\ tax - Profit\ before\ tax\ t_{-1}}{Total\ Assets}$$

The Tax Retention Rate (TRR) reflects the effectiveness of tax management within a company's financial reports. (Blaufus et al., 2016) A higher TRR signifies more effective tax planning, while a lower TRR indicates less effective tax strategies. This measure serves as an important indicator of how well a company manages its tax obligations to optimize profitability. The formula for calculating the Tax Retention Rate, as outlined in research by (Anggirda Paramita R et al., 2022), is as follows:

$$TRR_{it} = \frac{Net\ Income_{it}}{Pretax\ Income\ (EBIT)_{it}}$$

In this study, the proxy used for the Investment Opportunity Set (IOS) is based on price (Price-based Proxies). This proxy reflects the company's growth prospects through market prices, aligning with the idea that growth opportunities are captured in stock prices, where growth exceeds the market value relative to existing assets. According to (Smith, 2011), a price-based IOS proxy forms a ratio of owned assets to the company's market value, utilizing Return on Equity (ROE). ROE serves as a key financial ratio to evaluate a company's ability to increase profits using its capital. The ROE formula, as explained by (Kristy et al., 2024), is:

$$ROE = \frac{Earning\ After\ Tax}{Total\ Equity}$$

In this study, growth is assessed by sales growth. According to (Yulianti et al., 2020), sales growth refers to the increase in the number of sales from year to year, or more specifically, the difference in sales between one year and the next. The calculation of sales growth is derived by comparing the sales in the current year with the sales in the previous year, subtracting the previous year's sales from the current year's sales, and then dividing the result by the sales of the previous year. A company with relatively stable sales can take on more debt and incur higher fixed costs compared to a company with unstable sales (Eugene F. Brigham & Houston., 2014). Sales growth as a growth opportunity can be measured using the following formula:

$$Growth\ Opportunity = \frac{Total\ Sales - Total\ Sales\ t_{-1}}{Total\ Sales\ t_{-1}}$$

The involvement of management in a company through ownership makes management feel more connected to the company, fostering a sense of ownership. This involvement encourages management to be more careful in decision-making, as they understand that the benefits and consequences of their decisions directly affect them (Attah-Boakye et al., 2023). According to (Ardillah & Vanesa, 2022), managerial ownership is measured based on the number of shares owned by the company's management. It can be calculated using the following formula:

$$Corporate\ Governance = \sum \text{Managerial Ownership}$$

RESULTS AND DISCUSSION

Based on the results of the descriptive analysis, the GCG variable has an average of 6,285.647, with a relatively large variation (standard deviation of 2,356.005) and a distribution that tends to skew to the right (skewness of -0.730). TRR shows a very wide range (average of 570,357,937,776), with high variation (standard deviation of 634,529,188.226) and a distribution that tends to skew to the left (skewness of -1.532), with a very sharp distribution (excess kurtosis of 5.431). IOS has an average of 45,166,022.165, with moderate variation (standard deviation of 48,715,741.942) and a distribution that is almost normal (skewness of -0.101, excess kurtosis of -0.100). Growth Opportunity has a mean of 15,471,832.718, with a very large range and high variation (standard deviation of 383,442,120.320), as well as a left-skewed distribution (skewness of 1.023) and a sharp distribution (excess kurtosis of 5.418). Earnings Quality has a mean of 1,293,134.494, with moderate variation (standard deviation of 36,860,258.951) and a nearly symmetrical distribution (skewness of -0.179), but with a sharp distribution (excess kurtosis of 5.687). Overall, the data shows large variation in several variables, with most distributions tending to be skewed either to the left or right side.

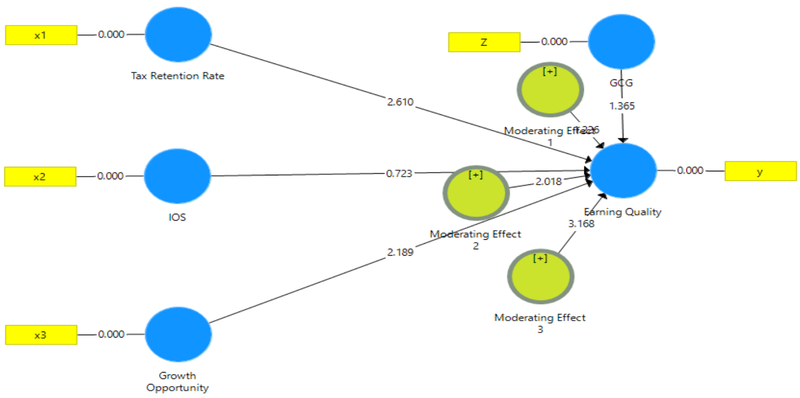

Figure 2. Bootstrapping Test Results
Source: researcher processed data, 2024

All paths in this model are statistically significant, indicating that the Tax Retention Rate, IOS, and Growth Opportunity have a direct contribution to earnings quality, while Corporate Governance acts as a positive moderator that strengthens the relationship between

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the independent and dependent variables. This suggests that corporate governance plays a crucial role in enhancing the positive effects of investment opportunities, growth, and tax retention on the quality of corporate earnings reports. More details are provided in the following table:

Table 1. Hypothesis Test Results

	Original Sample (O)	**Sample Mean (M)**	**Standard Deviation (STDEV)**	**T Statistics (|O/STDEV|)**	**P Values**
GCG -> Earning Quality	-0.190	-0.186	0.139	1,365	**0.173**
Growth Opportunity -> Earning Quality	0.312	0.292	0.142	2.189	**0.029**
IOS -> Earning Quality	-0.048	-0.043	0.067	0.723	**0.470**
Moderating Effect 1 -> Earning Quality	-0.136	-0.136	0.111	1.226	**0.221**
Moderating Effect 2 -> Earning Quality	0.178	0.189	0.088	2.018	**0.044**
Moderating Effect 3 -> Earning Quality	0.312	0.308	0.098	3.168	**0.002**
Tax Retention Rate -> Earning Quality	0.399	0.409	0.153	2,610	**0.009**

Source: researcher processed data, 2024

Based on the analysis results, the variables Growth Opportunity (T = 2.189; P = 0.029), Moderating Effect 2 (T = 2.018; P = 0.044), Moderating Effect 3 (T = 3.168; P = 0.002), and Tax Retention Rate (T = 2.610; P = 0.009) show a significant influence on earnings quality, as the T value is greater than 1.98 and P is less than 5%, indicating that these variables significantly contribute to improving earnings quality. On the other hand, the GCG variables (T = 1.365; P = 0.173), IOS (T = 0.723; P = 0.470), and Moderating Effect 1 (T = 1.226; P = 0.221) are not significant, as the T value is below 1.98 and P is above 5%, suggesting that these variables do not contribute significantly to earnings quality. Regarding moderating effects, Moderating Effects 1 to 3 show varying strengths. Moderating Effect 1 weakens the influence, while Moderating Effects 2 and 3 strengthen the relationship between the independent and dependent variables.

Profit is a measure of a company's performance and achievement. The higher the profit obtained by the company, the better the performance of the company's management in generating profit. Companies with large profits are more likely to gain investor trust because they are perceived to have the ability to maintain a strong reputation. Companies that experience good profit growth will elicit a strong response from investors, as the company is seen as capable of providing future benefits (Zahirah & Hermanto, 2023). However, increasingly high profit growth also leads to a higher tax burden for the company, which reduces the profits that management has worked hard to achieve. Agency theory suggests that management is tasked by shareholders with maximizing the company's welfare and shareholder wealth. However, management sometimes acts in ways that do not align with shareholder interests (Anggirda Paramita R et al., 2022). This can occur because management possesses more information about the company than shareholders. The differing interests between management and shareholders can lead to potential conflicts that negatively affect earnings quality (Clara, 2022), Agency conflicts can result in lower earnings quality.

Given the importance of tax reporting as a form of commitment and compliance with the state, tax management is crucial in continuing to maximize the profit targets that have been achieved (Minari & Asmara, 2023). Tax planning takes advantage of opportunities in the regulatory provisions established by the government to provide different treatment for tax objects as a basis for taxation. When a company has good profit growth opportunities, the need for effective tax planning to maximize profits becomes even more critical. Proper tax planning can enhance the quality of the profits generated. Tax planning is closely linked to profit management because both share the same objective: achieving profit targets by adjusting the company's profit figures (Zahirah & Hermanto, 2023). When managed well, efficiently, and effectively, tax planning can significantly contribute to the company's cash flow while also ensuring that the financial statements remain compliant with the state's tax provisions, making the reported profits more reliable and of higher quality. The findings of this study are consistent with those of (Muhammad Sapruwan; Vina Marlisa, 2022).

Investment Opportunity Set (IOS) refers to the present value and choice a company has for future investments (Gultom & Sitorus, 2022). Companies with high IOS are often positively assessed by shareholders because they offer more potential for future profits. High IOS companies tend to have better earnings quality, attracting shareholders who expect greater returns. The theory of grandeur suggests that a company’s available investment opportunities can impact earnings quality. Companies with strong investment opportunities may strive to maintain or improve earnings quality to enhance their image and investor confidence. On the other hand, companies with limited investment opportunities may manipulate earnings to meet market expectations. IOS plays a significant role because it combines current asset holdings with future investment options, ultimately affecting a company’s value (Yusmaniairti et al., 2023). For companies with a high IOS, ongoing business expansion leads to an increased need for external funding. When the company’s financial health is strong, management may favor new investments over high dividend payouts. The more investment opportunities available, the better the company is positioned, and its profit information should more accurately reflect its actual earnings.

However, the results of this study indicate no significant effect between IOS and the company’s earnings quality. This suggests that although high IOS companies may have more opportunities to improve earnings quality, other factors may play a more dominant role in determining earnings quality. Alternatively, there could be other factors that limit the direct impact of IOS on earnings quality. Thus, the findings challenge previous studies that show a significant positive effect of IOS on earnings quality, as seen in the research by (Gultom & Sitorus, 2022; Yulianti et al., 2020; Yusuf et al., 2022).

Growth opportunity refers to a company's potential for future expansion (Ardillah & Vanesa, 2022). This growth potential is a key consideration for investors, as it is reflected in the stock price, which is influenced by an estimated value of future benefits expected by investors (Bhagwat et al., 2020). Companies with significant growth opportunities are more likely to generate profits in the future, leading to better market responses and rising stock prices (Kim et al., 2011). A company with strong long-term growth prospects indicates good performance and high-quality earnings (Crocker & Slemrod, 2005). According to agency theory, growth opportunities represent the company's potential for future development. Companies with promising growth prospects are incentivized to maintain high earnings quality to ensure long-term investor confidence. On the other hand, companies struggling to achieve sustainable growth may resort to manipulating earnings to uphold favorable market valuations (Yulianti et al., 2020).

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Companies with the opportunity for rapid long-term growth tend to demonstrate strong performance, and the quality of their profits will also be high. Good earnings quality is indicated by low discretionary accrual values, ideally close to zero. (Amanda & NR, 2023)The higher the company's growth opportunity, the lower the value of discretionary accruals, which suggests that the company engages in minimal earnings management, resulting in higher-quality profits. Conversely, if growth opportunities are low, discretionary accruals will be higher, indicating potential earnings manipulation. These findings align with research by (Yulianti et al., 2020), which concluded that growth opportunities significantly impact earnings quality.

Profit serves as a critical measure of a company's performance, with higher profits reflecting effective management and enhancing investor confidence (Taylor & Richardson, 2012). However, while higher profits can increase investor trust, they also often result in a higher tax burden, potentially reducing the company's net income. This paradoxical relationship is explained by agency theory (Jensen et al., 1976), which suggests that conflicts of interest may arise between management and shareholders. Management, aiming to maximize the company's welfare, may sometimes act in ways that do not align with shareholder interests, which could harm the quality of earnings (Nugroho et al., 2020). In this context, tax management plays a crucial role in maintaining profit targets by strategically utilizing legal tax regulations (Minari & Asmara, 2023). Compliance theory (Jensen et al., 1976) underscores the importance of tax planning as a tool to improve the reliability of financial statements and, consequently, the quality of reported profits. Effective tax planning ensures that companies remain compliant with tax laws while managing their financials in a way that preserves profitability.

However, the relationship between tax planning and earnings quality is not straightforward, especially when Good Corporate Governance (GCG) is involved. GCG is typically associated with enhancing transparency, accountability, and reducing agency conflicts. These features of GCG are supposed to align the interests of management and shareholders, reducing managerial discretion and improving financial reporting. Nevertheless, in certain cases, GCG may inadvertently create additional pressures on management, particularly when it demands higher levels of scrutiny over tax management practices. This scrutiny could weaken the direct impact of tax planning on earnings quality, as management may feel constrained in their decision-making processes due to the increasing emphasis on transparency and accountability (Jensen et al., 1976). Moreover, stewardship theory (Minari & Asmara, 2023)further suggests that when corporate governance is strong, management may prioritize the long-term benefits of the company, sometimes leading to trade-offs between short-term profit maximization and long-term strategic goals. This trade-off could, in turn, influence the way tax strategies are implemented, potentially diminishing their effectiveness in improving earnings quality. Additionally, resource dependence theory (Muhammad Sapruwan; Vina Marlisa, 2022) implies that management's need to maintain external relationships and resources could influence their tax-related decisions, further complicating the relationship between tax management and earnings quality under strong GCG. In summary, while effective tax management is crucial for improving the reliability of financial statements, the influence of GCG on the tax-planning-profit-quality relationship can be complex. GCG, by fostering greater accountability, can sometimes constrain management's ability to fully optimize tax strategies, which may, paradoxically, weaken the potential positive impact of tax planning on earnings quality.

The Investment Opportunity Set (IOS) refers to the present value of a company's opportunities for future investments, which is integral to determining a company's potential for growth and profitability (Gultom & Sitorus, 2022). A high IOS typically signals long-term profit potential, which can improve earnings quality as the company is perceived as capable of meeting market expectations and generating sustained financial performance (Yusmaniairti et al., 2023). Investors are generally more confident in companies with high IOS, as they anticipate the company will be able to deliver future returns, thus improving the perceived quality of its reported earnings. Conversely, when the IOS is low, companies may face limited growth prospects, which could pressure management to engage in earnings manipulation to maintain investor confidence and avoid market devaluation. This phenomenon is well-explained by signaling theory (Ardillah & Vanesa, 2022), which posits that companies with strong future prospects send positive signals to the market through high-quality financial reporting. However, if management resorts to earnings manipulation to maintain a favorable market image, this signal of quality can be distorted, ultimately undermining the trustworthiness of the financial reports. Agency theory (Jensen et al., 1976) adds another layer of complexity, suggesting that the conflict of interests between management and shareholders can lead to managerial decisions that do not align with shareholders' best interests. In this context, the potential for earnings manipulation increases as management may prioritize short-term gains or personal benefits, rather than focusing on the long-term health of the company and the quality of earnings. The existence of such agency conflicts highlights the need for strong corporate governance mechanisms to safeguard against such practices.

The role of Good Corporate Governance (GCG) becomes crucial in this regard. GCG frameworks are designed to mitigate agency problems and ensure that companies, whether they have high or low IOS, maintain transparency and reliability in their financial reporting. GCG encourages management to act in the best interests of shareholders, ensuring that earnings reports are free from manipulation and accurately reflect the company's performance. According to the stakeholder theory (Freeman, 1984), GCG is not only beneficial for shareholders but also serves the interests of other stakeholders by promoting ethical management practices and reducing the likelihood of earnings manipulation. Furthermore, stewardship theory (Ahmed et al., 1998) provides additional insight into how GCG can influence earnings quality. Stewardship theory emphasizes that when governance is strong, managers are more likely to act as stewards of the company's long-term success, focusing on sustainable growth and high-quality financial reporting, rather than manipulating earnings for short-term gains. In this way, the presence of effective GCG practices helps ensure that regardless of IOS, companies continue to produce transparent and trustworthy financial reports, thereby maintaining the integrity of earnings quality. Investors can continue to rely on these reports to make informed decisions, and the company can avoid the risks associated with earnings manipulation that could undermine investor trust. Thus, GCG plays an essential role in aligning the interests of management and shareholders, enhancing the reliability of financial reporting, and ensuring that the signals sent to the market are genuine and reflect the company's true financial position.

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Growth opportunities represent a company's potential to expand and increase profitability in the future (Ross & Ross, 1977). According to agency theory (Jensen et al., 1976), companies with high growth opportunities have an inherent incentive to maintain high earnings quality in order to preserve investor trust and ensure sustained financial performance. The long-term value of such companies is tied to their ability to meet market expectations, which in turn requires transparent and reliable financial reporting. This relationship between growth opportunities and earnings quality suggests that high-growth firms are less likely to engage in earnings manipulation, as doing so would risk undermining their potential to attract future investment. However, companies with limited growth opportunities face a different dynamic. When growth prospects are low, there may be increased pressure on management to engage in earnings manipulation to maintain positive market perceptions and avoid the negative consequences of stagnation (Rimawan & Muniarty, 2023). This could lead to inflated profits in the short term, but at the expense of long-term sustainability. These companies may resort to creative accounting or earnings smoothing techniques, which distort the true financial condition of the company and compromise earnings quality.

According to signaling theory (Ross & Ross, 1977), companies that lack growth prospects may manipulate their earnings to send positive signals to the market, even though these signals do not accurately reflect their actual performance. Accrual theory (Yusmaniairti et al., 2023) further supports the idea that earnings quality is reflected in the level of discretionary accruals. Discretionary accruals represent the portion of earnings that can be influenced by management's accounting choices, such as recognizing revenues or deferring expenses. High discretionary accruals can indicate that a company is manipulating its earnings, whereas low discretionary accruals typically signal that the company is reporting earnings more faithfully. As such, earnings quality is often assessed by the degree to which discretionary accruals are minimized. This is where the role of Good Corporate Governance (GCG) becomes crucial. GCG frameworks are designed to ensure that management acts in the best interests of shareholders, reducing the risk of opportunistic behavior, such as earnings manipulation. Effective GCG mechanisms enhance transparency and accountability, ensuring that financial statements accurately reflect the company's financial performance. As GCG reduces the likelihood of earnings manipulation, it helps to maintain high earnings quality, especially in companies with high growth opportunities. The presence of robust governance structures can limit the scope for discretionary accruals and improve the reliability of reported earnings. GCG strengthens this alignment by ensuring that managers are held accountable for their actions, promoting the long-term sustainability of the company. Additionally, stakeholder theory (Freeman, 1984) reinforces the idea that GCG serves not only the interests of shareholders but also those of other stakeholders, such as employees, customers, and regulators, by promoting ethical management practices and reducing the risk of financial statement manipulation. In essence, GCG plays a vital role in safeguarding earnings quality, particularly for companies with high growth opportunities, by ensuring that their financial statements are accurate and free from manipulation. This creates a trustworthy reporting environment, where investors can have confidence in the company's future growth prospects, knowing that the reported earnings reflect the true financial health of the organization. Through the implementation of effective GCG, companies can achieve both sustainable growth and high-quality earnings, fostering long-term investor trust and positive market valuations.

CONCLUSION

Based on the analysis, the findings indicate that the variables Growth Opportunity, Moderating Effect 2, Moderating Effect 3, and Tax Retention Rate have a significant influence on earnings quality. Conversely, variables such as Good Corporate Governance (GCG), Investment Opportunity Set (IOS), and Moderating Effect 1 were found to have no significant impact. Interestingly, Moderating Effect 1 appears to weaken the relationship between the independent and dependent variables, while Moderating Effects 2 and 3 serve to strengthen this relationship. From a practical standpoint, companies should prioritize improving the variables that significantly influence earnings quality, specifically Growth Opportunity and Tax Retention Rate. These variables play a crucial role in determining the overall earnings quality, and by focusing on enhancing them, companies can better align their financial practices with market expectations. Additionally, attention should be given to the moderating role of Moderating Effects 2 and 3. By fostering conditions that support these effects, companies can further optimize the relationship between their growth strategies, tax management practices, and earnings quality.

Furthermore, the study suggests that companies should reconsider the effectiveness of Good Corporate Governance (GCG) and Investment Opportunity Set (IOS) in improving earnings quality. Given that neither of these variables showed a significant effect in this study, businesses may need to re-evaluate their approach to these factors. While GCG is generally associated with improving corporate transparency and accountability, the findings indicate that it might not directly enhance earnings quality in this particular context. Similarly, while the IOS is generally considered an indicator of future growth potential, its role in earnings quality needs further exploration, as it did not exhibit a significant impact in this analysis.

The implications of these findings are clear: effective investment planning and efficient tax management are crucial for improving earnings quality. Companies should focus on maximizing growth opportunities, managing tax retention rates carefully, and fostering the right moderating conditions to improve the accuracy and transparency of their earnings reports. By optimizing these factors, companies can strengthen their financial standing and ensure that their earnings reflect their true economic performance, leading to better long-term outcomes for investors and stakeholders. However, this study has several limitations that should be acknowledged. The sample used in this study is limited to specific companies, which may restrict the generalizability of the results to other industries. Different sectors may have distinct challenges and dynamics that influence earnings quality, and these should be considered in future research. Additionally, this study only focused on a select set of variables, leaving room for exploration of other factors that could potentially affect earnings quality. Future research could investigate the role of external factors, such as industry trends, regulatory changes, or macroeconomic conditions, in shaping earnings quality. By expanding the scope of study, future research can provide a more comprehensive understanding of the various influences on earnings quality across different contexts and industries. In conclusion, companies should take a holistic approach by re-assessing the role of corporate governance and investment opportunities while focusing on variables that have

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a direct impact on earnings quality. Furthermore, the insights gained from this study can contribute to improving business practices and help to refine strategies that enhance the reliability of financial reporting, leading to better market confidence and investor satisfaction.

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