Sustainable Earnings Dynamics: An Analysis of Influential Factors on Earnings Quality in The Transportation Sector of The Indonesia Stock Exchange

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Abstract

This research investigates the impact of firm size, foreign ownership, inflation, profit growth, and the Indonesia Country Risk Premium on the Earnings quality of transportation sector firms listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022. The study employed a purposive sampling method, selecting 84 firms that met the established criteria for analysis. Using multiple linear regression, the findings reveal that firm size, foreign ownership, inflation, and profit growth significantly influence Earnings quality, with larger firms and those with higher foreign ownership demonstrating better Earnings quality. Contrary to expectations, inflation was positively correlated with Earnings quality, possibly reflecting sector-specific dynamics in Indonesia. Additionally, profit growth was found to have a positive effect on Earnings quality, emphasizing the importance of growth strategies for enhancing financial performance. However, the Indonesia Country Risk Premium was not found to have a statistically significant impact on Earnings quality, suggesting that external country risk factors were not key determinants during the study period. These results indicate that transportation companies should prioritize optimizing internal factors such as firm size and profit growth, while also carefully managing external factors like inflation and foreign ownership in their strategic planning. Despite the non-significant role of the Indonesia Country Risk Premium, it is still important for firms to stay vigilant regarding potential macroeconomic risks. The study further highlights the value of investing in sustainable infrastructure to improve operational efficiency and long-term resilience. By incorporating these insights, transportation companies on the IDX can better position themselves to remain adaptive and competitive in an ever-changing economic environment.

Keywords: Company Size, Earnings Quality, Foreign Ownership, Indonesia Country Risk Premium, Profit Growth

I. INTRODUCTION

In today's globalized economy, the transportation sector serves as a fundamental driver of economic development. Within Indonesia, transportation companies listed on the Indonesia Stock Exchange (IDX) contribute significantly to the national economic landscape. The presence of foreign investments in IDX-listed transportation firms has garnered attention due to its implications within the broader global financial framework.

A major challenge faced by these transportation companies involves understanding how aspects such as firm size, foreign ownership, inflation, profit growth, and the Indonesia Country Risk Premium impact the quality of their financial reporting. For instance, firm size may affect

a company's ability to manage risks effectively and adopt conservative accounting methods. Foreign ownership can introduce substantial external factors that shape corporate policies. Additionally, inflation influences the real value of reported profits, while profit growth indicates overall performance. The Indonesia Country Risk Premium, in turn, provides insights into the perceived investment risks within the country. Each of these factors likely plays a role in shaping the Earnings quality of IDX-listed transportation firms.

The capital structure does not appear to have a significant effect on the quality of Earnings [1]. However, it is found that profit growth has a partially negative effect, suggesting that as profit growth increases, the quality of Earnings tends to decline. In contrast, the study reveals that the size of a company has a partially positive effect on Earnings quality, indicating that larger companies generally exhibit better Earnings quality. Interestingly, although these relationships were observed, company size does not act as a moderator in the relationship between capital structure, profit growth, and Earnings quality. This implies that while company size affects Earnings quality, it does not modify the impact of capital structure or profit growth on Earnings quality. This nuanced perspective highlights the complexity of factors influencing Earnings quality, emphasizing the need to consider multiple variables when evaluating financial performance.

According to the Central Statistics Agency's report on Indonesia's economic growth in the first quarter of 2023, the economy grew by 5.03% compared to the last year growth. This growth spans various sectors, with transportation playing a key role. Increased demand in the transportation sector, especially leading up to the Eid holidays, and the rise in Indonesia's exports, further supports the logistics industry. In addition, it has been observed that the inflation rate does not significantly affect the quality of company Earnings [2].

Moreover, macroeconomic factors at the national level, such as the country's economic risk, also play a critical role in determining the quality of company Earnings. The Country Risk Premium (CRP), which reflects the investment risk associated with a country, can notably influence the financial reporting of companies, particularly those in the transportation sector listed on the Indonesia Stock Exchange (IDX).

Like other nations, Indonesia faced substantial economic challenges due to the COVID-19 pandemic between 2020 and 2022. The fluctuating economic conditions, along with factors such as fiscal policies, currency exchange rate variations, and shifts in the investment climate, may have influenced Indonesia's CRP. Understanding how CRP and other macroeconomic factors impacted the Earnings quality of transportation companies in Indonesia during this period is essential.

Given the context above, the author is motivated to explore the impact of factors such as company size, foreign ownership, inflation, profit growth, and the Indonesia Country Risk Premium on the Earnings quality of transportation companies listed on the IDX during the 2020-2022 period. This research is important as it addresses critical gaps in the current understanding of what influences Earnings quality in the transportation sector. By examining these variables over a specific time frame, the study aims to provide valuable insights into the financial performance and reporting practices of transportation companies, supporting informed decision-making by investors, regulators, and policymakers, and contributing to sustainable economic development.

TABLE I. INFLATION AND INDONESIA COUNTRY RISK PREMIUM DATA (2020-2022)

	2022	**2021**	**2020**
Inflation	5,51%	1,87%	1,68%
Indonesia *Country Risk Premium*	3,29%	1,88%	1,84%

Source: Central Statistics Agency & Damodaran, 2023

In this study, alongside presenting relevant theories related to the topic, an analysis of previous research conducted by other scholars is also included. This review of earlier studies provides valuable insights that can aid future researchers in comprehending and investigating research problems with a focused approach. Below are several studies that have been carried out in Table II.

The study of Earnings quality in Indonesia's transportation sector should consider various factors highlighted in previous research. Company size may have a greater impact here than in manufacturing, as larger companies are subject to more scrutiny, leading to better transparency [3]. Foreign ownership might improve Earnings quality through greater demand for governance and financial reporting [4]. Macroeconomic elements like inflation, which affect fuel prices, are also important in this sector [2]. Profit growth could positively influence reporting practices in transportation companies [1]. Lastly, while country risk premiums may not directly affect Earnings quality, they may indirectly influence the transportation industry due to its reliance on national infrastructure [5].

TABLE II. SAMPLE SELECTION CRITERIA DATA

Author(s)	Title	Variables	Findings	Research Gap
Nirmalasari, F., et al.	The Effect of Company Size, Leverage, and Profitability on Earnings Quality	Independent: Company Size, Leverage, Profitability Dependent: Earnings Quality	Company size and leverage have no significant effect on Earnings quality; profitability significantly affects Earnings quality.	Focused on manufacturing firms in Indonesia; further study is needed in diverse sectors and broader markets.
Dewi, F. R., & Fachrurrozie	The Effect of Foreign Ownership on Earnings Quality	Independent: Foreign Ownership Dependent: Earnings Quality	Foreign ownership positively impacts Earnings quality due to enhanced monitoring and demand for transparency.	Limited to the Indonesian context; further research is needed in other economies with varying degrees of foreign ownership.
Anjani, E. N.	The Impact of Inflation on Earnings Quality	Independent: Inflation Dependent: Earnings Quality	Inflation has no significant effect on Earnings quality. Differences may arise from context, industry characteristics, or economic environment	Requires testing in other economic conditions or regions to understand variability in the effect of inflation.
Abidin, J., *et al.*	The Effect of Profit Growth on Earnings Quality	Independent: Profit Growth Dependent: Earnings Quality	Profit growth does not significantly influence Earnings quality, potentially due to differences in sample or industry focus	The study is limited to the manufacturing sector; further testing across industries is recommended.
Rahman, S. U., et al.	The Role of Country Risk Premium in Financial Market Development and the Shadow Economy	Independent: Country Risk Premium, Financial Market Development Dependent: Shadow Economy	The country's risk premium has no significant effect on financial market development or shadow economy dynamics.	Findings need to be validated in the context of firm-level financial reporting and Earnings quality.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Agency Theory

Agency theory, defined as the examination of contracts motivating agents to align with principals while also harboring interests potentially conflicting with those of principals, is credited to Scott [6] who elaborates that the resulting information asymmetry between principal (owner) and agent can lead to agent exploitation, such as engaging in tax avoidance to pursue their interests. Meanwhile, the agency relationship, illustrating an agreement between managers (agents) and shareholders (principals), is posited by Jensen and Meckling [7]. This relationship gives rise to the agency problem, characterized by information asymmetry between the principal and the agent.

B. Earnings Quality

Earnings quality plays a crucial role in supporting a company's sustainability, serving as a key parameter in assessing the achievement of corporate objectives, as noted by Syafrizal *et al.*, [8]. High Earnings quality reflects transparency and accuracy in a company's financial reporting, building trust among stakeholders, including investors, creditors, and regulators, by providing a clearer view of the company's financial condition.

Moreover, Earnings quality indicates the reliability of reported profits and whether they are based on sustainable and recurring operations rather than temporary or irregular factors. Companies with high Earnings quality typically report stable, predictable profits, offering a realistic picture of financial health and long-term operational performance.

Profit is also a critical indicator of financial performance, revealing the company's effectiveness in generating revenue that exceeds its operating expenses. Defined as the net difference between income and expenses over a specific period, profit highlights how well a company manages its resources. As Marpaung [9] notes, profit reflects a company's ability to control costs, optimize income, and create value. Higher profits indicate operational efficiency and competitive strength, which are essential for long-term growth and resilience.

C. Company Size

A company's size is commonly categorized into three major classifications: large, medium, and small. This classification provides essential insights into the scale of the company, which is a key factor in various analytical assessments concerning its operations, resource management, and overall performance [10]. Understanding the company's size is critical because it often correlates with its market presence, operational capabilities, and competitive positioning. Larger companies, for instance, tend to have greater resources and access to capital, which can impact their strategic decisions and market influence.

In this study, total assets serve as the primary indicator for measuring company size. Total assets not only reflect the resources a company controls but also indicate its capacity to generate revenue. The rationale behind using total assets as a measure is that they encompass both current and non-current resources, including cash, investments, inventory, property, and equipment. These assets are instrumental in driving a company's operational and financial activities.

As a company grows in size and acquires more assets, there exists a heightened potential for profit growth. However, this growth potential is contingent upon the company's ability to manage its assets effectively and efficiently. Asset management plays a vital role in determining whether these resources contribute to an increase in revenue. When a company successfully leverages its assets, it can streamline operations, reduce costs, and increase productivity, all of which enhance profitability.

Consequently, an increase in revenue driven by well-managed assets is expected to have a positive impact on the company's profit growth trajectory. This growth trajectory is not only beneficial for the company's financial performance but also contributes to long-term stability and shareholder value. In summary, a company's size, as indicated by its total assets, can serve as a powerful predictor of its potential for profit growth and overall financial health.

D. Foreign Ownership

Capital structure, an essential component of financial management, involves the balance between internally generated capital, such as retained Earnings, and externally sourced funds, including debt and equity financing. This balance is critical as it reflects the company's strategic choices in financing its growth and operations. A company's capital structure serves as a key metric in assessing its reliance on external creditors to fund its assets, thereby indicating its financial stability and risk profile.

A high dependency on external financing, particularly through debt, can substantially impact the company's Earnings quality. When a company has a high leverage ratio, it means a significant portion of its business activities is funded through borrowed capital rather than its resources. This elevated level of debt creates financial obligations that may affect the company's profitability and flexibility in managing cash flow. Interest payments and principal repayments become fixed costs, which, if unmanaged, can strain the company's liquidity and ability to reinvest in growth.

This reliance on external funding also introduces risks and complexities to the company's financial structure, potentially influencing both Earnings quality and overall financial health. High leverage increases financial risk, as the company must generate sufficient income not only to cover operational expenses but also to meet its debt obligations. Consequently, the company's profitability can become more vulnerable to market fluctuations and economic downturns, given its heightened exposure to interest rate changes and creditor demands.

In summary, a company's capital structure plays a critical role in shaping its financial performance. High leverage may yield short-term gains by enabling rapid expansion, but it can also challenge the company's long-term Earnings quality and stability. Balancing internal and external financing sources is, therefore, crucial for maintaining financial resilience and sustainable growth [11].

E. Inflation

Inflation, defined as a persistent and general rise in the price level, diminishes the purchasing power of money, which has significant implications for a company's Earnings quality. As prices increase, the real value of a company's income and assets effectively decreases, meaning that what may appear as nominal growth in revenue or asset values may represent less purchasing power or real growth after accounting for inflation. This can obscure the true economic performance of a company and lead to challenges in financial reporting and performance evaluation [12].

From a broader perspective, inflation is a persistent issue in the economic environment that impacts both individuals and businesses. Over time, rising prices erode the real income of society, meaning that consumers can afford fewer goods and services with the same nominal income. This decline in real income not only affects purchasing decisions and demand but also reduces overall economic productivity and growth potential. In turn, companies may face lower consumer demand and higher input costs, which can strain profitability and disrupt business operations.

For businesses, inflation also complicates long-term planning and financial forecasting. Costs of goods, wages, and other operational expenses rise with inflation, potentially shrinking profit margins if prices cannot be adjusted quickly enough to compensate. Additionally,

inflationary pressures may push interest rates higher as central banks intervene to stabilize prices, increasing borrowing costs for businesses reliant on debt.

In sum, inflation poses a complex challenge for Earnings quality and financial stability. Companies must carefully manage their strategies to preserve the real value of their assets and Earnings amid inflationary pressures, as these factors can profoundly impact both corporate performance and the wider macroeconomic landscape [13].

F. Profit Growth

Profit growth represents the changes observed in a company's financial performance over a specific period, typically reflected in fluctuations in net profit. These fluctuations are crucial indicators of a company's financial trajectory, offering valuable insights into its overall performance, efficiency, and potential for future growth. Profit growth is often seen as a direct reflection of a company's ability to improve its operations, expand its market share, and optimize its revenue streams. It serves as a key metric for assessing whether the company is moving in a positive direction financially, as increased profit generally suggests effective management and a sound strategy.

On the other hand, profitability, which is expressed as a ratio, indicates the extent to which a company can generate profit relative to its revenues, expenses, and investments. Profitability is a vital metric for evaluating the financial strength and operational effectiveness of a company. By comparing profits to the company's costs and capital investments, profitability ratios offer stakeholders a clear picture of how well the company is utilizing its resources to generate Earnings. These ratios provide insights into whether a company is making the best use of its assets, controlling costs, and ensuring that its investments are yielding returns [14]. Furthermore, profitability ratios are essential tools for assessing how efficiently a company translates revenue from sales or investments into actual profit. They serve as a benchmark for operational success, guiding management decisions and offering investors a reliable gauge of the company's ability to maintain profitability over time [15]. By analyzing these ratios, stakeholders can better understand how a company's revenue-generating activities contribute to its financial health.

In conclusion, profit growth reflects an increase in net profit over time, expressed as a percentage, which highlights a company's ability to effectively manage its assets and improve its financial performance. The relationship between profit growth and profitability ratios underscores how well a company is leveraging its resources to maximize profits and ensure sustainable financial success. Thus, both metrics are crucial for assessing a company's overall economic performance and its capacity to thrive in competitive markets.

G. Country Risk Premium (CRP)

The Country Risk Premium (CRP) is a critical measure that captures the level of investment risk associated with a specific country. It reflects the additional return that investors demand for taking on the risks related to investing in that country, such as political instability, economic volatility, or currency fluctuations. Changes in CRP can have a substantial effect on how companies disclose their Earnings, as these fluctuations often indicate varying levels of uncertainty in the investment environment [16].

In countries with a high CRP, businesses may face elevated levels of perceived risk, which can influence their financial reporting behavior. Faced with these risks, companies might feel compelled to engage in more aggressive Earnings management practices to present a more favorable financial position to investors and stakeholders. These practices could include manipulating Earnings figures, deferring expenses, or recognizing revenues prematurely, all of which may artificially enhance reported profits in an attempt to mitigate the impact of economic instability or other external uncertainties.

This dynamic leads to the formulation of the following hypothesis: in high CRP environments, companies are more likely to adopt aggressive Earnings management strategies to reduce the perceived risk and volatility of their financial performance, as suggested by Anderson and Reeb [17].

Based on the background explanation, the problems that will be discussed in this study are as follows:

H1: Firm size significantly affects Earnings quality
H2: Foreign ownership significantly affects Earnings quality
H3: Inflation has a significant impact on Earnings quality
H4: Profit growth significantly impacts Earnings quality
H5: The Indonesia country risk premium significantly affects Earnings quality

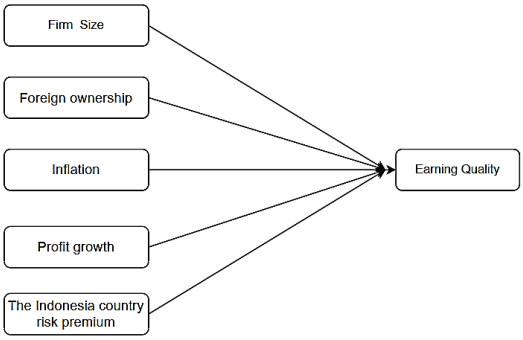

FIGURE 1. RESEARCH FRAMEWORK

Based on the conceptual framework presented in Figure 1, this study aims to explore the impact of several factors on earnings quality. The hypotheses are grounded in the idea that firm size, foreign ownership, inflation, profit growth, and the Indonesia country risk premium are significant variables influencing earnings quality. Specifically, it is hypothesized that larger firms, higher foreign ownership, better profit growth, and lower inflation rates will be positively correlated with higher earnings quality. Additionally, the study posits that the Indonesia country risk premium plays a significant role in shaping earnings quality for companies listed in Indonesia. The findings of this study are expected to provide deeper insights into the relationship between these factors and earnings quality, contributing to the broader understanding of financial reporting practices in emerging markets.

III. METHOD

This study investigates the financial performance of transportation companies listed on the Indonesia Stock Exchange, including those in land, sea, air, and logistics sectors. These companies play a crucial role in the country's economy, and the research aims to explore how various factors impact earnings quality. Using purposive sampling, 28 companies with complete financial reports from 2020 to 2022 are selected for in-depth analysis. Although the sample size is relatively small, this approach ensures that only companies with available and relevant data are included, leading to a more focused investigation. Statistical testing is performed using SPSS 25, covering three research periods and generating 84 observations. While the limited sample size may restrict the ability to generalize findings to other industries or regions, this study provides valuable insights into the financial dynamics and earnings quality within the transportation sector in Indonesia, offering a thorough evaluation of the sector's financial trends and their influence on earnings quality. The variables in this study

consisted of three types, namely dependent, independent, and control variables as shown in Table IV.

This study employs various statistical tests, including Descriptive Statistics, Classical Assumption Tests, Normality Tests, Multicollinearity Tests, Heteroskedasticity Tests, and Autocorrelation Tests. The chosen analytical method is Multiple Regression Analysis. The hypothesis tests applied are the R-squared Test, F Test, and T-test. The Multiple Regression Analysis model used in this study is presented as follows:

$$Y=\alpha+\beta1X1+\beta2X2+\beta3X3+\beta4X4+\beta5X5+e \quad (1)$$

Where:
Y = Earnings Quality
α = Intercept or constant
β = Regression coefficients
X1 = Company Size
X2 = Foreign Share Ownership
X3 = Inflation
X4 = Profit Growth
X5 = Indonesia Country Risk Premium
e = Error

IV. RESULTS AND DISCUSSION

A. Descriptive Statistical Analysis

Descriptive statistical analysis is employed to provide an overview of the minimum value, maximum value, mean, and standard deviation for each variable. The descriptive statistics table for each research variable are presented in Table V. Based on the data presented in Table V, the analysis covers a total of 84 samples (N) from the years 2020 to 2022. The table outlines essential statistical metrics for each variable, including the minimum, maximum, mean, and standard deviation. These metrics provide a comprehensive understanding of how the data is distributed and its variability over the study period. The results from the descriptive statistical analysis are as present in Table IV, offering valuable insights into the trends and dispersion of each variable under investigation.

The descriptive analysis shows that Company Size ranges from a minimum value of 18.11 to a maximum value of 36.04, with an average (mean) value of 26.86 and a standard deviation of 2.47. The mean value of 26.86 suggests that, on average, the companies in the sample tend to have a size closer to the lower end of the scale, near the minimum value of 18.11. This implies that while there are some larger companies within the sample, the majority are relatively smaller in size. The standard deviation of 2.47 further indicates a moderate level of variation around the mean, reflecting a diverse range of company sizes. This distribution of Company Size highlights the presence of both smaller and larger companies in the sample, with a tendency toward the smaller end of the spectrum.

The Foreign Share Ownership variable, which is a dummy variable, takes a value of 1 for companies with foreign share ownership and 0 for those without. Based on the descriptive analysis, the minimum value for Foreign Share Ownership is 0.00, and the maximum value is 1.00, with an average (mean) value of 0.29 and a standard deviation of 0.45. These results suggest that, on average, the level of foreign share ownership in the sample is relatively low, closer to the minimum value of 0.00. The standard deviation of 0.45 indicates a moderate spread of values, meaning there is some variation in foreign ownership among the companies, but the majority have lower foreign share ownership.

TABLE III. SAMPLE SELECTION CRITERIA DATA

Criteria	Amount
Companies in the transportation sector are listed on the Indonesia Stock Exchange (BEI) for the period 2020-2022.	36
Sample Exclusion Criteria	
Companies that did not publish consecutive annual reports for the period 2020-2022.	-8
Total Companies Selected as Samples	28
The period of investigation.	3
Total Sample Data	**84**

TABLE IV. OPERATIONAL VARIABLES

Variables	Definition	Formula
Y: Earnings Quality	Earnings Quality is measured by calculating the ratio of operating cash flow to net income. A ratio greater than 1.0 indicates high earnings quality, whereas a ratio below 1.0 reflects lower earnings quality.	Earnings Quality = Operating Cash Flow / Net Income
X_1: Company Size	Company Size represents the scale or scope of a company, typically measured by its total assets or the logarithmic value of those assets, as outlined by Hartono [18]. This metric is determined by calculating the total assets held by the company.	Company Size = Ln Total Assets
X_2: Foreign Share Ownership	Foreign ownership refers to the percentage of a company's common shares that are held by individuals, organizations, government bodies, or affiliated entities that do not hold Indonesian citizenship or residency status, as outlined by Farooque *et al.*, [19]	Foreign Share Ownership = Outstanding SharesTotal Foreign Owned Shares
X_3: Inflasi	Inflation is defined as the process of increasing prices across an economy [20].	Inflation trends can be monitored on the website of the Central Statistics Agency (Badan Pusat Statistik - BPS).
X_4: Profit Growth	Profit growth is a ratio that reflects a company's ability to increase its net profit relative to the previous year [21].	Profit Growth is calculated using the formula:= Profit t – Profit t-1 / Profit t-1
X_5: Indonesia Country Risk Premium	Country Risk Premium (CRP) is a financial and economic concept that represents the extra return investors expect as compensation for the risks involved in investing or lending in a specific country.	The Country Risk Premium (CRP) is calculated as the difference between the Equity Risk Premium of a specific country (ERP Nation) and the Global Equity Market Risk Premium.

TABLE V. DESCRIPTIVE STATISTICAL

Descriptive Statistics					
Variables	**N**	**Min**	**Max**	**Mean**	**Std. Dev**
Company Size	84	18.11	36.04	268.68	247.35
Foreign Share Ownership	84	0.00	1.00	0.2976	0.4599
Inflation	84	0.02	0.06	0.0333	0.0189
Profit Growth	84	-81.56	351.36	57.400	4.595.754
Indonesia Country Risk Premium	84	0.02	0.03	0.0233	0.0068
Earnings Quality	84	-39.48	37.78	0.9857	990.428
Valid N (listwise)	84				

The analysis shows that Inflation ranges from a minimum value of 0.02 to a maximum value of 0.06, with an average (mean) value of 0.03 and a standard deviation of 0.01. These results indicate that, on average, Inflation tends to be on the lower end of the scale, closer to the minimum value of 0.02. The standard deviation of 0.01 suggests that there is relatively little variation in inflation across the period, with most values clustering near the mean.

The descriptive analysis reveals that Profit Growth has a minimum value of -81.56 and a maximum value of 351.36, with an average (mean) value of 5.74 and a standard deviation of 45.95. The mean value of 5.74 suggests that, on average, Profit Growth is relatively modest, and it is skewed toward the lower end of the scale, approaching the minimum value of -81.56. The high standard deviation of 45.95 indicates significant variability in the profit growth figures, meaning that the data exhibits considerable fluctuations between negative and positive values across the sample.

The descriptive analysis shows that the Indonesia Country Risk Premium ranges from a minimum value of 0.02 to a maximum value of 0.03. The mean value is 0.02, suggesting that, on average, the country risk premium remains relatively stable around this level. The standard deviation of 0.00689 indicates a low level of variation in the risk premium, meaning that most values tend to cluster closely around the mean. This suggests a relatively consistent perception of risk associated with investing in Indonesia over the study period, with only small fluctuations between the minimum and maximum values.

The descriptive analysis reveals that Earnings Quality has a minimum value of -39.48 and a maximum value of 37.78, with an average (mean) value of 0.98 and a standard deviation of 9.90. The mean value of 0.98 indicates that, on average, Earnings Quality tends to be relatively low, and the data shows considerable variation with a standard deviation of 9.90. The large spread between the minimum and maximum values suggests significant fluctuations in Earnings Quality across the sample. While the mean is closer to the lower end of the scale, the presence of values as high as 37.78 highlights that some companies exhibit much higher Earnings quality compared to others in the sample.

B. Normality Test

The normality test is an essential procedure to assess whether both the dependent and independent variables in the regression model follow a normal distribution. This is crucial because many statistical methods, including regression analysis, assume that the data is normally distributed. To test for normality, two approaches are employed: the non-parametric Kolmogorov-Smirnov (K-S) statistical test and the Normal Probability Plot graphs.

In the Kolmogorov-Smirnov (K-S) test, if the significance value (p-value) is greater than the 5% alpha level, the data is considered to have a normal distribution. This means that the distribution of the data does not significantly deviate from the expected normal distribution. On the contrary, if the p-value is less than 5%, the data is considered not to follow a normal distribution, indicating that the data may have outliers or other non-normal characteristics.

The results of the normality test provide insights into the distribution of the data, and understanding whether the data meets this assumption is key to ensuring the reliability and validity of the regression model's results. Table VI presents the findings of the normality test for the variables in the model.

The results of the normality test indicate that the multiple regression model used in this study follows a normal distribution. This conclusion is drawn from the significance value of the test, which is greater than 0.05 ($0.05 < 0.053$). Since the p-value exceeds the 5% threshold, it suggests that the data does not significantly deviate from a normal distribution. Therefore, it can be concluded that the regression model employed in this research meets the normality assumption, making the model's findings reliable for further analysis and interpretation.

TABLE VI. ONE-SAMPLE KOLMOGOROV-SMIRNOV TEST

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		84
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	9.60678203
Most Extreme Differences	Absolute	0.212
	Positive	0.180
	Negative	-0.212
Test Statistic		0.212
Asymp. Sig. (2-tailed)		.053[c]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. Based on 84 sampled tables with starting seed 299883525.		

C. R-squared Test

The R-squared test is performed to assess the proportion of the variance in the dependent variable that can be explained by the independent variables in the regression model. This test quantifies the combined effect of all the independent variables on the dependent variable, providing a measure of how well the model fits the data. The higher the R-squared value, the greater the percentage of variation in the dependent variable that is accounted for by the independent variables.

Referring to the data in Table VII, the Adjusted R Square value is found to be 0.589. This suggests that the independent and control variables, including Profit Growth, Company Size, Foreign Share Ownership, Inflation, and Indonesia Country Risk Premium, collectively account for 58.9% of the variation in the dependent variable, Earnings Quality. The remaining 41.1% of the variation in Earnings Quality is attributed to other factors not included in the model. This indicates that while the chosen variables have a notable influence on Earnings Quality, there are additional variables or external factors that contribute to the remaining unexplained variation in the data.

D. F-test

The F-test is used to assess whether the independent variables in a regression model, when considered together, have a statistically significant effect on the dependent variable. This test evaluates the overall fit of the model by determining if the variation explained by the independent variables is greater than the variation unexplained by the model. A significant F-test indicates that the independent variables, as a group, contribute meaningfully to explaining the dependent variable, whereas a non-significant result suggests that the model does not adequately explain the variability in the dependent variable.

The F-test results in Table VIII reveal a significance value of 0.013, which is less than the 0.05 significance level ($\alpha = 0.05$), and the calculated F-value is 4.692, which is greater than the critical F-value of 2.49. These findings allow us to reject the null hypothesis (H0) and accept the alternative hypothesis (H1). This implies that the independent variables in the model—company size, foreign share ownership, inflation, profit growth, and Indonesia Country Risk Premium—collectively have a significant impact on the dependent variable, Earnings quality. In other words, the combination of these variables explains a meaningful portion of the variation in Earnings quality, confirming their relevance in the regression model.

E. t-test

The t-test is performed to evaluate the individual impact of each independent variable on the dependent variable. By testing the significance of each variable, the t-test helps determine whether a specific independent variable has a statistically significant effect on the dependent variable while holding other variables constant. A significant t-test result indicates that the corresponding independent variable has a meaningful contribution to explaining the variation in the dependent variable, while a non-significant result suggests that the variable may not play a significant role in influencing the dependent variable.

TABLE VII. R-SQUARED TEST

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.340[a]	0.716	0.589	7.682.548.640
a. Predictors: (Constant), Indonesia Country Risk Premium, Foreign Share Ownership, Profit Growth, Company Size, Inflation				

TABLE VIII. F-TEST

ANOVA[a]						
Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	*Regression*	606.404	6	101.067	4.692	.013[b]
	Residual	4.599.111	77	59.729		
	Total	5.205.515	83			
a. Dependent Variable: Earnings Quality						
b. Predictors: (Constant), Unstandardized Residual, Indonesia Country Risk Premium, Foreign Share Ownership, Profit Growth, Company Size, Inflation						

TABLE IX. **t-**TEST

Coefficients							
Model		***Unstandardized* Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Sig. One-Tailed**
		B	**Std. Error**	**Beta**			
1	(Constant)	15.644	33.001		0.474	0.637	0.319
	Company Size	0.846	0.350	0.264	2.420	0.018	0.009
	Foreign Share Ownership	6.153	1.026	0.146	5.996	0.000	0.000
	Inflation	6.680	1.758	0.092	3.800	0.040	0.020
	Profit Growth	5.507	0.872	0.102	6.318	0.035	0.018
	Indonesia Country Risk Premium	3.092	2.667	2.151	1.159	0.250	0.125
a. Dependent Variable: Earnings Quality b. T Table: 1.99045							

$$Y=15.644 + 0.846X1 + 6.153X2 + 6.680X3 + 5.507X4 + 3.092X5 + e \quad (2)$$

Here's a summary of each variable's impact based on the t-values and significance.

- Company Size: Coefficient of 0.846 with a t-value of 2.420 and a significance level of 0.018 (one-tailed significance of 0.009). This indicates a statistically significant positive relationship between Company Size and Earnings Quality.

- Foreign Share Ownership: Coefficient of 6.153 with a t-value of 5.996 and a significance level of 0.000. This strong significance suggests that Foreign Share Ownership positively influences Earnings Quality.
- Inflation: Coefficient of 6.680 with a t-value of 3.800 and a significance level of 0.040 (one-tailed significance of 0.020), indicating that Inflation has a positive and statistically significant effect on Earnings Quality.
- Profit Growth: Coefficient of 5.507 with a t-value of 6.318 and a significance level of 0.035 (one-tailed significance of 0.018). This suggests that Profit Growth significantly and positively impacts Earnings Quality.
- Indonesia Country Risk Premium: Coefficient of 3.092 with a t-value of 1.159 and a significance level of 0.250 (one-tailed significance of 0.125). This variable does not show a statistically significant relationship with Earnings Quality.

The interpretation of the t-test in this context is to examine the individual impact of each independent variable on the dependent variable, Earnings Quality. The t-test assesses whether each independent variable (such as Company Size, Foreign Share Ownership, Inflation, Profit Growth, and Indonesia Country Risk Premium) significantly contributes to explaining the variance in Earnings Quality. Each t-test result provides a t-value and a significance (p-value), which indicates whether the observed effect of the independent variable on Earnings Quality is statistically significant.

F. Hypothesis 1: Firm size significantly affects Earnings quality.

The t-test result for Company Size shows a significance level of 0.009, which is below the 0.05 threshold (0.009 < 0.05), and it indicates a statistically significant effect. With an unstandardized beta of 0.846 in a positive direction and a t-value greater than the T-Table (2.420 > 1.99045), this finding suggests that as company size increases, Earnings Quality also tends to improve. Larger firms may experience better Earnings quality due to factors such as operational stability, resource accessibility, and stronger internal controls. Additionally, larger companies are often under greater scrutiny from regulators, auditors, and stakeholders, which can incentivize higher standards in financial reporting. This result supports the research hypothesis but contrasts with findings from Nirmalasari *et al.,* [3], who observed that company size had no significant impact on Earnings quality. The difference in results could stem from variations in sample characteristics, industry context, or regulatory environment, highlighting that the effect of company size on earnings quality may depend on specific external factors.

G. Hypothesis 2: Foreign ownership significantly affects Earnings quality.

The t-test result for the Foreign Share Ownership variable shows a significance value of 0.000, which is smaller than the alpha level of 0.05 (0.000 < 0.05), and it indicates a statistically significant effect. The unstandardized beta coefficient of 6.153 suggests a positive relationship between foreign share ownership and earnings quality. The calculated t-value of 5.996 is also greater than the critical T-Table value of 1.99045, further supporting the conclusion that foreign share ownership has a significant positive impact on earnings quality. As a result, H2 is accepted, indicating that foreign share ownership contributes positively to the quality of earnings. This finding is in line with the research hypothesis and is consistent with the study by Dewi and Fachrurrozie [4], which also found that foreign share ownership plays a significant role in enhancing earnings quality. The positive effect of foreign ownership can be attributed to the potential for increased monitoring and accountability, as foreign investors may demand higher transparency and stricter financial reporting standards.

H. Hypothesis 3: Inflation has a significant impact on earnings quality.

The t-test result for the Inflation variable shows a significance value of 0.020, which is below the alpha threshold of 0.05 (0.020 < 0.05), and it indicates that the effect is statistically significant. The unstandardized beta value of 6.680, in a positive direction, suggests that inflation positively influences earnings quality. In addition, the calculated t-value of 3.800 is greater than the critical T-Table value of 1.99045, confirming the significant positive effect of inflation on earnings quality. Consequently, H3 is accepted, and it indicates that inflation plays a positive role in influencing earnings quality. This result aligns with the research hypothesis but contrasts with the findings of Anjani [2] who found that inflation had no significant impact on earnings quality. The discrepancy between these findings could stem from differences in the study context, industry characteristics, or the economic environment during the respective study periods. The positive effect of this study may reflect the broader economic environment where inflation can drive changes in financial reporting behaviour and expectations.

I. Hypothesis 4: Profit growth significantly impacts earnings quality.

The t-test result for the Profit Growth variable shows a significance value of 0.018, which is below the alpha level of 0.05 (0.018 < 0.05), and it indicates a statistically significant effect. The unstandardized beta value of 5.507, in a positive direction, suggests that profit growth positively impacts Earnings quality. The calculated t-value of 6.318 exceeds the critical T-Table value of 1.99045, confirming that profit growth has a significant positive effect on Earnings quality. As a result, H4 is accepted, meaning that profit growth contributes positively to Earnings quality. This finding supports the research hypothesis but contradicts the results of Jaenal Abidin *et al.*, [1], who found no significant effect of profit growth on Earnings quality. The divergence in results could be attributed to differences in the study sample, industry types, or the economic conditions at the time of the research. In this study, profit growth may indicate financial stability and stronger performance, factors that tend to encourage better reporting practices and higher Earnings quality.

J. Hypothesis 5: The Indonesian country's risk premium significantly affects *Earnings quality*

The t-test result for the Indonesia Country Risk Premium variable shows a significance value of 0.125, which is greater than the alpha level of 0.05 (0.125 > 0.05), and it indicates that the effect is not statistically significant. Despite an unstandardized beta value of 3.092 in a positive direction, the calculated t-value of 1.159 is less than the critical T-Table value of 1.99045, suggesting that the Indonesia Country Risk Premium does not significantly impact Earnings quality. Therefore, H5 is rejected, meaning the Indonesia Country Risk Premium variable does not have a significant partial effect on Earnings quality. This result contradicts the research hypothesis and is consistent with the findings of Rahman *et al.*, [5], who observed that the Country Risk Premium does not significantly influence the relationship between financial market development and the shadow economy. The lack of a significant effect in this study could be due to various factors, such as the economic conditions, market volatility, or the specific characteristics of the firms included in the sample, which may limit the impact of country risk premiums on Earnings quality in the Indonesian context.

V. CONCLUSION

The results of this study underscore the significant role that company size, foreign share ownership, inflation, and profit growth play in influencing the earnings quality of transportation companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2022 period. Larger companies, characterized by greater resources and operational scale, tend to

exhibit higher earnings quality. Similarly, foreign share ownership is positively associated with earnings quality, suggesting that companies with higher foreign investor participation may benefit from enhanced monitoring and more stringent financial reporting standards. Interestingly, inflation, which is typically seen as a negative economic factor, shows a positive correlation with earnings quality in this study. This anomaly may be specific to the transportation sector in Indonesia, where inflationary pressures might be managed more effectively or passed on to consumers through fare adjustments, ultimately supporting financial stability. Additionally, profit growth emerges as a key driver of earnings quality, highlighting that companies that prioritize growth strategies tend to maintain better financial performance and transparency.

Conversely, the Indonesia Country Risk Premium does not significantly impact earnings quality in this study, suggesting that external macroeconomic risks, including those tied to political and economic instability, did not notably affect the earnings quality of transportation companies during this period. While these findings challenge expectations, they also imply that domestic firms may have been more resilient or better insulated from global risk factors. Nonetheless, companies should not underestimate the potential influence of such risks in the future, as they could affect business operations, investor confidence, and financial reporting standards.

In addition, this study highlights the critical role of infrastructure and sustainability practices in enhancing earnings quality. Efficient infrastructure enables smoother operations, reducing costs and improving profitability, which directly impacts earnings quality. Moreover, adopting sustainability practices not only strengthens a company's reputation—especially among foreign investors—but also prepares it to adapt to evolving economic conditions, such as inflation and increasing regulatory demands related to environmental concerns. In conclusion, transportation companies in Indonesia should prioritize strategies that manage company size, optimize foreign share ownership, adapt to inflation, and foster profit growth, while investing in robust infrastructure and sustainability. These combined efforts will not only improve earnings quality but will also strengthen the companies' long-term competitiveness in both local and global markets.

This study has several limitations that should be acknowledged. First, the focus on companies listed in Indonesia restricts the ability to generalize the findings to firms in other countries, as differences in economic conditions, regulations, and corporate practices might affect the relationship between the variables and earnings quality. Second, the quality and availability of data play a crucial role in the study's accuracy; incomplete, outdated, or inconsistent financial reporting may impact the results. In addition, the use of proxies such as firm size, profit growth, and inflation rates may not fully capture the complexity of the variables influencing earnings quality, while the broad measure of Indonesia's country risk premium might overlook certain factors that could shape corporate financial practices. The research also relies on a specific time frame, limiting its capacity to account for dynamic changes in the economic or regulatory environment that could influence earnings quality. Moreover, the cross-sectional nature of the study means that it cannot establish causal relationships or assess how these factors may change over time. Unmeasured factors, such as corporate governance and managerial incentives, might also influence earnings quality but are not included in the analysis. Lastly, the subjective nature of the country's risk premium could result in variations in its measurement, potentially affecting the consistency of the findings. These limitations point to the need for future research that could address these issues by expanding the sample, using longitudinal data, or incorporating additional factors that may impact earnings quality.

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