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THE EFFECT OF INVESTMENT OPPORTUNITY SET AND BOOK TAX DIFFERENCES ON EARNINGS GROWTH WITH MANAGERIAL OWNERSHIP AS MODERATING (A STUDY ON BASIC MATERIAL AND INDUSTRIAL COMPANIES)

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Abstract: This study looks at how Book Tax Differences (BTD) and Investment Opportunity Set (IOS) affect earnings growth in industrial and raw material companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. To evaluate the impact of managerial ownership on earnings growth through IOS and BTD, managerial ownership is included as a moderator. This study uses quantitative methodology and uses secondary data from the company's website, idnfinancials.com, and the IDX website. A total of 95 observations were obtained from a sample of 19 companies with purposive sampling technique for sampling. Eviews 12 is the program used for data analysis. The findings of this study are that earnings growth is significantly influenced by IOS and BTD. Meanwhile, managerial ownership has a role in moderating the positive effect of BTD on Earnings Growth but does not moderate the effect of IOS on Earnings Growth of raw material and industrial companies. This study has novelty from the aspect of sample characteristics that are more focused on raw material and industrial companies by combining the theories of IOS, BTD, Earning of Growth (PL), Manajerial Ownership (KM), Firm Size (FS), DER, CR and including 3 control variables FS, DER, CR and moderating variables, namely managerial ownership which have not been raised in previous studies, especially for research on raw material and industrial companies.

Keywords: Earnings Growth, Managerial Ownership, Investment Opportunity Set, Book Tax Differences, Firm Size, DER, CR

INTRODUCTION

Following the Covid-19 pandemic, businesses in Indonesia experienced different outcomes. Some were on the brink of bankruptcy due to the absence of market opportunities, while others managed to survive by implementing severe measures, such as downsizing or adapting their products to current market trends. A portion of companies, however, not only survived but also maintained stability by continuing to generate profits. As noted by Trisnowati Y. & Muditomo A. (2021), mining and manufacturing sectors, particularly basic materials and industrial firms, were among those that stayed resilient throughout and after the pandemic.

These companies can still generate profits and their share prices are not affected too much. For this stock market, investors only hold back for a moment during the pandemic and return to stock hunting when it starts to enter the endemic period. This is illustrated in the IHSG data for 2019-2022 which is an index to calculate and measure the performance of stock prices outstanding and traded in Indonesia as follows:

International Journal Management and Economic
IJME JOURNAL Vol. 5 No. 1 | January 2026 – pISSN: 2829-0399, eISSN: 2829-0526, Page 27-37

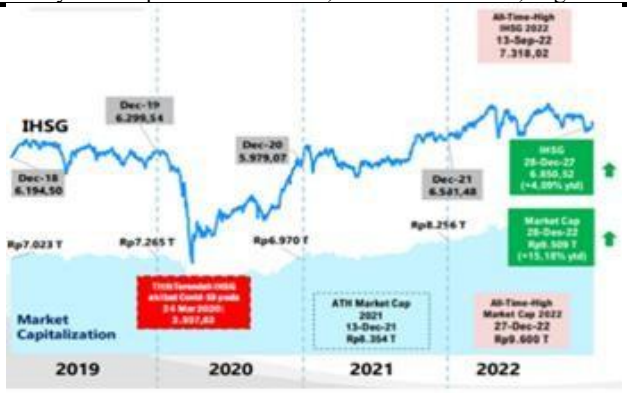

Figure 1. IHSG Graph for 2019-2022 (Source: Indonesia Stock Exchange, 2024)

Earnings growth is an indicator of how effectively a company operates, showcasing the efficiency and success of its activities. This metric is crucial to investors as it reveals the company's performance. Numerous studies suggest that earnings growth is closely tied to investment opportunities (Investment Opportunity Set).

The Investment Opportunity Set (IOS) plays a pivotal role in influencing the decisions of managers, owners, investors, and creditors. Companies with a substantial IOS are often focused on business expansion, which drives their need for external financing. This growth is closely linked to the firm's profitability calculations. According to Wahyuni D.K. & Murni S. (2018), the IOS positively impacts profit growth in Indonesian manufacturing firms, meaning that companies with more investment opportunities generally achieve higher profit growth. Thus, the IOS is a reliable indicator of profit growth.

Book Tax Differences (BTD) serve as another important measure, highlighting discrepancies between accounting profit (pre-tax income) and fiscal profit (taxable income). BTD offers valuable insights into a company's financial performance by revealing temporary earnings components and the quality of financial figures. Yulianto and Lindawati (2022) showed that BTD has an impact on earnings growth, particularly in companies with the largest market capitalizations in Indonesia.

Managerial ownership is another factor that can be considered in relation to earnings growth because managerial ownership creates strong work motivation to improve company performance including profit growth through better and more efficient decisions. Conversely, managerial ownership can also create dominant power for inefficient use of resources and resistance to change so that company performance will not be good.

This research seeks to analyze the influence of the Investment Opportunity Set and Book Tax Differences on earnings growth within raw material and industrial firms, with managerial ownership serving as a moderating factor. The study aims to assist company management in formulating policies to optimize financial performance, while also offering valuable insights for investors and practitioners when assessing earnings growth in these sectors. The findings can also serve as a useful reference for making informed investment decisions.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Investment Opportunity Set (IOS)

Investment is important for economic growth due to its contribution (Robiyanto, 2018). One of the most important elements of market value is the investment opportunities available to the company. The value of the set of investment opportunities depends on future discretionary spending by managers if further investments in assets that are not needed are made.

To calculate IOS, several proxies can be used including price-based calculations, namely Market- to-Book Ratio (M/B): This ratio compares the market value of a company's equity to the book value of its assets. A high M/B indicates that investors expect the company to grow faster in the future. Another way is Tobin's

Q: A variation of M/B that also considers the market value of the company's debt. A high Tobin's Q indicates that the company has many valuable investment opportunities.

Firms with high levels of IOS generally have strong future growth potential (Chasanah et al., 2017). This view is echoed by Andariesta (2021), who suggests that companies with substantial investment opportunities exhibit large growth potential, affecting profit margins and the quality of their earnings. Numerous studies, including Chasanah et al. (2017), have found that IOS positively impacts profit growth. Similarly, Syahidah (2019) points out that the Investment Opportunity Set simultaneously affects and influences earnings growth.

H1: Investment Opportunity Set (IOS) has significant effect on earnings growth (PL).

Book Tax Differences (BTD)

The book-tax difference refers to the discrepancy between accounting profit, commercial profit, and taxable profit (fiscal profit). This difference arises from variations in how revenue and expenses are recognized between tax and accounting standards, resulting in both temporary and permanent differences. Jackson (2009) observed that permanent differences are positively correlated with earnings growth only when there is a negative correlation with an increase in tax expense. This suggests that future net income will rise as permanent differences reduce future tax liabilities. An increase in book- tax disparity has likely contributed to the earnings growth observed in Indonesian manufacturing companies, as noted by Praditha et al. (2022).

Several studies have demonstrated the influence of book-tax disparity on earnings growth. The findings suggest that both temporary and permanent differences affect wage growth (Isnaini, 2023; Daniati, 2013; Jackson, 2009). However, other research suggests that while temporary differences impact wage growth, permanent differences do not (Brolin & Rohman, 2014; Waluyo, 2016).

H2: Book Tax Differences (BTD) has significant effect on earnings growth (PL).

Earnings Growth (PL)

According to the Indonesian Institute of Accountants (IAI) profit is an increase in economic benefits during one accounting period in the form of income or additional assets or a decrease in liabilities resulting in an increase in equity that does not come from the contribution of capital roles. The company's profit growth can be measured using the growth ratio (growth) by showing the company's ability to increase net profit compared to last year (Sofyan Syafri Harahap, 2018: 194).

Earnings growth, defined as the rate of increase in a company's value over time (Brealey et al., 2023), is a primary objective of corporate management. Companies can adopt several strategies to foster profit growth, including acquisitions and mergers, which expand the customer base, scale operations, and boost profits. Additionally, investing in research and development can result in innovative products or services that drive profit growth. Effective capital management, such as optimizing the company's capital structure, can enhance efficiency and profitability. Moreover, good corporate governance ensures responsible and transparent decision-making, which can boost investor confidence and enhance corporate value.

Managerial Ownership (KM)

A manager must possess shares in the company in order to have managerial ownership. Managerial ownership refers to the dual responsibilities of a manager, who maximizes company profits while preventing financial difficulties or bankruptcy, which can result in reduced returns on investment and the loss or reduction of incentives (Yulius Jogi Christiawan & Josua Tarigan, 2007).

Possession of shares by managers can undoubtedly serve to align their interests with those of shareholders, since the management will directly benefit from their decisions and, naturally, the information will be beneficial to shareholders. Management's capacity to own shares is probably going to boost earnings (Anggraeni & Ardini, 2020).

According to certain study findings, managerial effectiveness significantly affects earnings growth (Wahyuni & Prayogi, 2019; Hanifah et al., 2020; Martini & Siddi, 2021).

H3a : Manajerial Ownership (KM) significantly moderates the effect of Investment Opportunity Set (IOS) on earnings growth (PL).

International Journal Management and Economic
IJME JOURNAL Vol. 5 No. 1 | January 2026 – pISSN: 2829-0399, eISSN: 2829-0526, Page 27-37

H4b : Manajerial Ownership (KM) significantly moderates the effect of BTD on earnings growth (PL).

Firm Size (FS), DER and CR

According to Dang et al. (2018), a company's size is determined by a number of factors, including its total assets, average total assets, stock market value, total sales, average sales, total profits, and number of employees. According to Houston (2015), the average value of total net sales for a given period, such as the last ten years or five years, can be used to determine a company's size. According to Kasmir (2015), debt with equity is evaluated using the debt to equity ratio. The debt-to-equity ratio displays the findings of contrasting the company's usage of debt with its capital. On the other side, a smaller ratio denotes a lower level of risk for the organization. The larger the ratio, the higher the financial risk of the company. The current ratio, which measures the company's capacity to settle all of its short-term debts using current assets possessed by, is a form of liquidity ratio (Lutfi & Sunardi, 2019). One of the metrics utilized in the business's decision-making process is the current ratio, which enables interested parties to swiftly assess the financial situation (Nainggolan et al, 2020). (Matondang et al, 2022).

METHODS

This research employs a quantitative methodology grounded in the philosophy of positivism, utilizing quantitative and statistical data analysis to test the proposed hypotheses (Sugiyono P.D., 2019). The unit of analysis consists of companies in the raw materials and industrial goods sectors listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022. The data used in the study is secondary data sourced from the official IDX website (www.idx.co.id), idnfinancials.com, and the official websites of the listed companies.

The sample was selected using purposive sampling, resulting in 19 companies and a total of 95 observations. Data analysis was conducted using Eviews 12 software. The independent variables are the Investment Opportunity Set (IOS) (X1) and Book-Tax Differences (BTD) (X2), while the dependent variable is Earnings Growth (Y). Control variables include Firm Size (K1), Debt to Equity Ratio (DER) (K2), and Current Ratio (CR) (K3), with Managerial Ownership (Z) serving as the moderating variable.

RESULT AND DISCUSSION

Model Determination

Panel data analysis begins with determining the appropriate model and this research ultimately uses the Common Effect Model (CEM) after going through the Chow Test, Hausman Test and Lagrange Multiplier (LM). Test whose results are shown in Table 1.

Table 1. Model Determination Results

Test	Value	Model
Chow	Prob. 0.005 < 0.05	FEM
Hausman	Prob. 0.211 > 0.05	REM
LM	Prob. 0.266 > 0.05	CEM

Classical Assumption Test

a. Normality Test

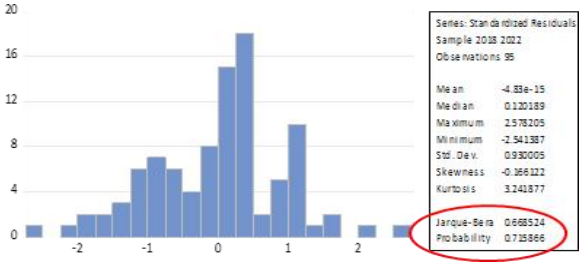

Figure 2. Normality graph

The Jarque-Bera value is 0.669 with a P value of 0.716 and the P value > 0.05 so the data is proven to be normally distributed.

International Journal Management and Economic
IJME JOURNAL Vol. 5 No. 1 | January 2026 – pISSN: 2829-0399, eISSN: 2829-0526, Page 27-37

b. Multicollinearity Test

Table 2. Multicollinearity Test Value

Variabel	IOS	BTD	FS	DER	CR
IOS	1.000000	0.470731	0.070466	0.010339	0.034676
BTD	0.470731	1.000000	-0.007541	-0.011482	0.034971
FS	0.070466	-0.007541	1.000.000	0.571232	-0.632394
DER	0.010339	-0.011482	0.571232	1.000.000	-0.821914
CR	0.034676	0.034971	-0.632394	-0.821914	1.000.000

The correlation matrix test found all values < 0.80 so there is no multicollinearity.

c. Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Panel Least Squares Regression Results
Dependent Variable: ABSRESID
Method: Panel Least Squares
Sample Period: 2018–2022
Periods Included: 5
Cross-sections Included: 19
Total Balanced Observations: 95

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	-1.583327	1.258594	-0.125801	0.9002
IOS	-2.245689	6.734628	-0.333454	0.7396
BTD	0.540176	4.371752	0.123561	0.9019
FS	-0.036354	0.070138	-0.518320	0.6055
DER	0.037252	0.033765	1.103283	0.2729
CR	3.350148	6.95328	0.481390	0.6314

This test uses the Glejser test with the results showing that the Prob value > 0.05 then there is no heteroscedasticity.

d. Autocorrelation Test

Table 4. Autocorrelation Test

Panel Least Squares Regression Results
Dependent Variable: PL
Method: Panel Least Squares
Sample Period: 2018–2022
Periods Included: 5
Cross-sections Included: 19
Total Balanced Observations: 95

Statistic	Value
R-squared	0.476370
Adjusted R-squared	0.448953
S.E. of regression	9.55772
Sum squared residuals	8.130145
Log likelihood	-1.274028
F-statistic	1.619350
Prob (F-statistic)	0.000000
Mean dependent variable	5.124482
S.D. dependent variable	1.285207
Akaike information criterion	2.808480
Schwarz criterion	2.989777
Hannan–Quinn criterion	2.872856
Durbin–Watson statistic	1.869168

International Journal Management and Economic
IJME JOURNAL Vol. 5 No. 1 | January 2026 – pISSN: 2829-0399, eISSN: 2829-0526, Page 27-37

This test uses the Durbin-Watson (DW) Test. n = 95 and independent variables (k) = 5 according to the Durbin-Watson table DU = 1.78, DL = 1.56. The value in the estimation output is 1.87 then DU < DW < 4-DU = 1.78 < 1.87 < 2.44 so there is no autocorrelation.

Regression Analysis

Table 5. CEM Model Estimation Output

Panel Least Squares Regression Results
Dependent Variable: PL
Method: Panel Least Squares
Sample Period: 2018–2022
Periods Included: 5
Cross-sections Included: 19
Total Balanced Observations: 95

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	20.38583	2.012570	1.011932	0.3143
IOS	-53.76984	1.076909	-4.992982	0.0000
BTD	61.55777	6.990701	8.805684	0.0000
FS	-0.016775	0.112155	-0.149589	0.8814
DER	-0.057919	0.053992	-1.072721	0.2863
CR	-15.74890	1.112840	-1.415020	0.1608

Model Summary Statistics	
Statistic	**Value**
R-squared	0.476370
Adjusted R-squared	0.448953
S.E. of regression	9.55772
Sum squared residuals	8.130145
Log likelihood	-1.274028
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Hannan–Quinn criterion	2.873656
Durbin–Watson statistic	1.869168

The regression equation of this model based on the constant and regression coefficient values obtained from data processing with Eviews in Table 2 is:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 K_1 + \beta_4 K_2 + \beta_5 K_3 + \varepsilon$

PL = 20.366 - 53.77*IOS + 61.558*BTD -0.017*FS - 0.058*DER - 15.747*CR

Y: Earnings Growth (PL)
X_1: Investment Opportunity Set (IOS)
X_2: Book Tax Differences (BTD)
K_1: Firm Size (FS)
K_2: Debt to Equity Ratio (DER)
K_3: Current Ratio (CR)
β_0: Constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$: Regression coefficient of each variable

The regression result can explain that:

a. Investment Opportunity Set (IOS): A lower earnings growth rate is correlated with a greater IOS, as seen by the negative coefficient of -53.770. According to this, businesses who have greater investment prospects might concentrate on growing their business and funding new ventures, which could momentarily slow earnings growth but set the stage for future expansion.

International Journal Management and Economic
IJME JOURNAL Vol. 5 No. 1 | January 2026 – pISSN: 2829-0399, eISSN: 2829-0526, Page 27-37

b. Book Tax Differences (BTD): The data indicates a positive correlation between a greater BTD and a higher profits growth rate, with a coefficient of 61.558. This suggests that businesses may have more opportunity to take advantage of tax benefits, which could result in higher profits, if there are more disparities between their accounting profit and taxable income.
c. Firm Size: With a negative coefficient of -0.0168, larger businesses often see slower rates of earnings growth. This is in line with the theory that as larger businesses mature and encounter more competition, they may have a harder time continuing to develop quickly.
d. Debt to Equity Ratio (DER): A negative coefficient of -0.058 indicates that the rates of earnings growth are typically lower for enterprises with larger debt levels. This is probably because larger debt levels come with a greater risk and financial strain.
e. Current Ratio (CR): A negative coefficient of -15.747 suggests that lower current ratio companies (corporations with less liquidity) generally have slower rates of earnings growth. This implies that the company can invest and look for development possibilities but the company must have sufficient cash.

Hypothesis Testing Results

The results of the partial hypothesis testing indicate that Investment Opportunity Set (IOS) has a negative and statistically significant effect on Earnings Growth (PL). This is evidenced by a t-statistic value of −4.993 with a probability (significance) value of 0.000, which is lower than the significance level of 0.05. Therefore, Hypothesis 1 is accepted. These findings suggest that an increase in the Investment Opportunity Set is associated with a decrease in earnings growth in raw material and industrial companies. This negative relationship implies that firms with higher growth opportunities may prioritize long-term investment strategies that do not immediately translate into short-term earnings growth. Furthermore, the testing of Hypothesis 2 shows that Book Tax Differences (BTD) have a positive and statistically significant effect on Earnings Growth (PL). The t-statistic value of 8.806 and a probability value of 0.000, which is also below 0.05, confirm the significance of this relationship. Thus, Hypothesis 2 is accepted. This result indicates that higher book–tax differences are associated with higher earnings growth in raw material and industrial companies. The positive effect may reflect the role of tax planning strategies and temporary differences that enhance reported accounting earnings growth. Overall, these findings demonstrate that IOS and BTD play important but contrasting roles in influencing earnings growth, highlighting the relevance of investment decisions and tax-related accounting differences in corporate financial performance.

Test Coefficient of Determination (KD)

The Adjusted R-squared value obtained is 0.447 which means that the independent variables in this study, namely IOS, BTD, Firm Size, DER, CR and Managerial Ownership, have an influence on the dependent variable, namely Earnings Growth by 45% and the remaining 55% is influenced by other variables.

Moderated Regression Analysis (MRA)

Table 6. Moderated Regression Analysis (MRA) Test

Panel Least Squares Regression Results (Moderation Model)
Dependent Variable: PL
Method: Panel Least Squares
Sample Period: 2018–2022
Periods Included: 5
Cross-sections Included: 19
Total Balanced Observations: 95

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	5.249923	0.853747	6.271585	0.0000
IOS	0.095711	0.559711	0.171000	0.8648
BTD	-4.519818	1.693235	-2.666580	0.0095
FS	0.000455	0.002070	0.219878	0.8264
DER	-0.778205	0.001000	-0.898706	0.3731
CR	-0.127134	0.028876	-0.441560	0.6544
IOS_KM	-0.031779	0.311951	-0.101518	0.9194
BTD_KM	-0.098226	0.008181	-1.416498	0.0000

International Journal Management and Economic
IJME JOURNAL Vol. 5 No. 1 | January 2026 – pISSN: 2829-0399, eISSN: 2829-0526, Page 27-37

Model Summary Statistics	
Statistic	**Value**
R-squared	0.993832
Adjusted R-squared	0.991818
S.E. of regression	0.017437
Sum squared residuals	0.028014
Log likelihood	2.259447
F-statistic	63.2610
Prob (F-statistic)	0.000000
Mean dependent variable	5.124482
S.D. dependent variable	1.285207
Akaike information criterion	-4.75958
Schwarz criterion	-4.52707
Hannan–Quinn criterion	-4.66320
Durbin–Watson statistic	1.864992

This study examines the moderating effect of Managerial Ownership (KM) on the relationship between the Investment Opportunity Set (IOS) and Book Tax Differences (BTD) on Earnings Growth (PL). The results of the moderated regression analysis presented in Table 4 provide several important findings.

First, the Investment Opportunity Set (IOS) variable shows a regression coefficient of 0.096 with a p-value of 0.865, indicating that IOS does not have a statistically significant effect on earnings growth at the 5% significance level. This finding suggests that variations in firms' investment opportunities do not directly influence earnings growth in the observed companies when managerial ownership is included in the model. Second, Book Tax Differences (BTD) exhibit a regression coefficient of −4.520 with a p-value of 0.000, demonstrating a statistically significant and negative effect on earnings growth. This result indicates that higher book–tax differences are associated with lower earnings growth, implying that greater discrepancies between accounting income and taxable income may reflect earnings management or aggressive tax strategies that negatively affect earnings growth.

Third, the Managerial Ownership (KM) variable itself has a regression coefficient of −0.004 and a p-value of 0.991, which indicates no statistically significant relationship between managerial ownership and earnings growth. This suggests that managerial ownership, when considered independently, does not directly influence earnings growth in raw material and industrial companies.

Regarding the interaction effects, the IOS_KM variable, which represents the interaction between IOS and managerial ownership, has a regression coefficient of 0.010 with a p-value of 0.971. This result indicates that managerial ownership does not moderate the relationship between investment opportunity set and earnings growth. In other words, the presence or absence of managerial ownership does not alter the impact of IOS on earnings growth.

In contrast, the BTD_KM interaction variable shows a regression coefficient of 0.869 with a p-value of 0.000, indicating a statistically significant moderating effect. This finding implies that managerial ownership significantly moderates the relationship between book–tax differences and earnings growth. Specifically, managerial ownership influences how book–tax differences affect earnings growth, suggesting that managers with ownership stakes may play a role in mitigating or intensifying the impact of tax-related accounting differences on firm performance.

Overall, the results indicate that managerial ownership does not moderate the effect of IOS on earnings growth but does significantly moderate the relationship between BTD and earnings growth. These findings highlight the importance of governance mechanisms, particularly managerial ownership, in shaping the consequences of tax-related accounting practices on corporate earnings growth.

Table 7. Resume of Hypothesis

Hypothesis	Regression Coefficient	t Statistic	P Value
IOS → PL	- 53.77	- 4.993	0.000

International Journal Management and Economic
IJME JOURNAL Vol. 5 No. 1 | January 2026 – pISSN: 2829-0399, eISSN: 2829-0526, Page 27-37

BTD → PL	61.558	8.806	0.000
IOS*KM → PL	0.010	0.036	0.971
BTD*KM → PL	0.869	514.161	0,000

The values in Table 7 show that there are four hypotheses proposed in this study and one of them is rejected, namely the effect of IOS on Earnings Growth moderated by Managerial Ownership because the significance value is > 0.05, meaning that the Managerial Ownership variable does not moderate the effect of IOS on Earnings Growth so that the alternative hypothesis is rejected. On the other hand, there are 3 other hypotheses that are accepted because the significance value is <0.05, which shows the significant effect of IOS on PL, BTD on PL, and KM variables significantly moderate the effect of BTD on KM.

Discussion

Investment Opportunity Set and Earnings Growth

The results of the t-test indicate that the Investment Opportunity Set (IOS) has a significant negative impact on earnings growth in raw material and industrial companies. A high IOS provides the firm with more investment opportunities, prompting it to increase capital requirements by issuing more debt or equity. This rise in capital costs leads to a reduction in the company's net profit. Additionally, firms with high IOS tend to focus on long-term investments, which are often high-risk but offer the potential for substantial future returns. The profitability and efficiency of these long-term projects are influenced by management's evaluation of internal operations. Investments associated with high IOS frequently require new technologies, untested regulations, or entry into unfamiliar markets. This increased level of risk may cause fluctuations in profitability, leading to uncertainty and ultimately limiting revenue growth. Companies may also delay investments due to the uncertainty surrounding which projects will yield the highest returns, causing them to miss market opportunities and experience slower revenue growth. Research by Sari D.R. & Astuti D.W. (2023) suggests that firms with high IOS often increase borrowing to finance their investments, which raises risk and diminishes earnings quality. Anggraini A. & Sari D.R. (2024) further argue that high IOS can drive companies to undertake riskier investments, which in turn may reduce the quality of their earnings.

Book Tax Differences and Earnings Growth

The findings of this study are that Book Tax Differences (BTD) affect the profit growth of raw material and industrial companies. Some conditions or company activities that support this include investment in intangible assets such as Research and Development (R&D) which will be able to increase company profits in the long term. Research conducted by Wulandari R.A & Setiawan D (2018) and conducted by Wahyuni S and Saraswati R (2021) found that manufacturing companies in Indonesia that have high temporary differences tend to experience greater profit growth. High Book Tax Differences (BTD) can be a sign or provide a positive signal for investors. In fact, BTD can affect earnings growth depending on the type of temporary or permanent differences, industry type, size and tax strategy. Raw material and industrial companies are large companies that certainly have considerable resources with complex tax planning so that what is a recording difference still has benefits for earnings growth.

Investment Opportunity Set (IOS), Earnings Growth and Managerial Ownership

This study revealed that Managerial Ownership does not moderate the relationship between the Investment Opportunity Set (IOS) and Earnings Growth in raw material and industrial companies. One possible explanation is the conflict of interest that arises when management holds company shares. In such cases, managers may prioritize short-term gains in share value over pursuing long-term investment opportunities offered by the IOS, in order to demonstrate favorable performance to shareholders and the capital market. Additionally, limited access to resources can hinder the full utilization of the IOS, as share ownership does not necessarily guarantee access to the necessary capital. Another issue stems from differing perspectives on investment risks and returns between managers and shareholders. Managers who own shares tend to be more cautious about making risky investments, whereas shareholders may push for more aggressive investment strategies to maximize profit growth. Research by Chen et al. (2022) and Putri A.R.M. et al. (2022) found that managerial ownership negatively affects the relationship between the IOS and firm value. This suggests that high managerial ownership can diminish the positive impact of the IOS on firm value, which may indirectly influence earnings growth.

Book Tax Differences (BTD), Earnings Growth and Managerial Ownership

When managers hold company stock, they are more incentivized to increase the stockholders' share price. Managers with higher-quality stock are often inclined to make decisions that may slow down the growth of the company's inventory. Book-Tax Differences (BTD) can serve as an effective tool to achieve this objective. Managers with significant stock holdings also have greater access to information about the company and its operations, allowing them to better understand how BTD affects cash flow and overall business performance. This enables them to utilize BTD more strategically to maximize earnings growth.

A larger shareholding gives managers more flexibility in decision-making. BTD can be leveraged to explore strategies, such as investing in new projects or conducting analyses, which might not be available to firms with fewer resources. Additionally, managers with more shares tend to have greater experience and expertise in managing BTD, which helps them utilize it more effectively to boost earnings growth. Astuti D. et al. (2023) found that managerial ownership positively moderates the relationship between BTD and earnings growth. The study suggests that the higher the managerial ownership, the stronger the positive effect of BTD on earnings growth, as managers are more motivated to use BTD to enhance company profits. Similarly, Widiastuti R. et al. (2022) found that higher managerial ownership reduces the negative impact of tax risk on earnings growth, indicating that managers with greater ownership are more inclined to manage tax risks effectively to increase corporate profitability.

CONCLUSION

This study found that the Investment Opportunity Set (IOS) negatively impacts earnings growth, while Book Tax Differences (BTD) have a positive effect. Managerial ownership strengthens the relationship between BTD and earnings growth but does not influence the effect of IOS. Therefore, raw material and industrial companies should carefully weigh the risks and benefits of investment, balance long-term strategies with short-term objectives, apply risk management, and leverage innovation and governance to drive sustainable profit growth. To enhance BTD, companies can invest in intangible assets and engage in strategic tax planning. Investors should consider BTD when evaluating financial performance, and policymakers should be mindful of how tax regulations affect BTD and earnings growth. The findings suggest that when managers hold a significant stake in the company, they may prioritize short-term profits, potentially compromising long-term growth. This highlights the need to align the interests of managers and shareholders. Companies should implement governance practices that incentivize long-term value creation, such as performance-based metrics and long-term incentive plans.

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