The Positive Investor Perception On Earnings Quality And Tax Management

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Abstract. *Empirically, high earnings quality positively influences market price movement. This is because it serves as a brief management guideline for implementing accounting standards and tax regulations for continuous meaningful improvement. This research tests investor's perception of high earnings quality and tax management for a better prospect as indicated by future market value. An analysis of future return and dividend payout shows that the firm is currently on the right track, which significantly impacts the risk and agency fluctuation in the following period. This study used questionnaires to gather information from 384 respondents, including related parties with a dominant influence on the investment decision. Through structural equitation modeling, unobserved variables included earnings quality, tax management, and future market value, including dividend policy. The observed variable was the push for increasing the accounting information quality. The high earnings quality indicates management's obedience in implementing all available regulations, both accounting standard and tax regulation. The dividend policy, related to earnings quality and tax management, positively contributes to a high financial reporting quality. Concerning Decision Tree Model and Bayes Theorem, the high accounting information quality is an application of game theory, including estimating the probability of long or short positions. As a mandatory obligation, the dividend policy is used to pressure the management to provide high-quality accounting information.*

Keywords: *earnings quality, future market value, tax management.*
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INTRODUCTION

The primary objective of high-quality financial reporting is to force the management to level up the earnings quality to indicate high performance. It positively contributes to a stable market price movement, including estimating accurate future returns (Darjezi, 2016) and (Lebert, 2019). additionally, high-quality financial reporting is related to high obedience in accounting standard and tax regulation compliances, which minimizes opportunistic motives as an obstacle in capturing real earnings. It has minimized abnormal returns probability, with high accruals quality positively affecting the market value as a sign of low risk (Elayan, Li, Liu, Meyer, & Felton, 2016; Ping, 2016). This aspect indicates no disparity between actual and expected returns.

The investor, concerned with high earnings quality, has strategically dominant ownership of the company, taking methodically comprehensive procedures to monitor and check the corporate decision (Abbadi, Hijazi, & Al-Rahahleh, 2016; Al-Rassas & Kamardin, 2016). Tax accruals are connected to tax savings as an achievement, leveling up the high probability of tax investigation in subsequent periods (Ifada & Wulandari, 2015). This could lead to a negative investor's perception of future unprecedented agency costs (Lee, 2016). There is zero tolerance on violation of tax

regulation relevant to the estimated earnings.

The dividend policy is a critical measurement of low earnings manipulation. According to (He, Ng, Zaiats, & Zhang, 2017) and (Deng, Li, & Liao, 2017), the implementation of high yielded dividends reduce internal conflicts and minimizes information distortion and ensures high shareholder involvement. This research uses dividend policy as a debatable issue. The dividend payout ratio during the period 2000-2019 was at 28.23 %, the growth sales average 17.51 %, and net margin profit 21.38 %. The management disseminates information using the dividend policy, increasing the probability of a better prospect. As an agency theory application, the dividend policy predicts the actual and expected future returns (Chaudhary, Hashmi, & Younis, 2016).

High earnings quality indicates the management's prudent implementation of the accounting standard in the existing accruals with no distortion on actual and real earnings (Dempster & Oliver, 2019). However, the investor often emphasizes high tax regulation compliance with no tolerance for book and market values (Pompili & Tutino, 2019). Based on the fiscal policy, the gap between accounting standards and tax regulation cannot influence tax accruals because the investor mostly recognized the correction fiscal (Hu, Cao, & Zheng, 2015). A lack of infringements on the available regulations positively influences market price movement by covering all efforts to minimize opportunistic accruals, improving consistent obedience.

This research tests the relationship between earnings quality and tax management on future market value, including the impact of dividend policy as an observed variable directly influencing all unobserved and observed variables. Questionnaires and Forum Group Discussion (FDG) were used to gather primary data. The research analyzed all observed variables to provide the appropriate model for investor perception on the high-quality accounting information during the publication period. This explains the reason for the management's implementation of the high yielded dividend policy. It gives an empirical explanation of the interactive feedback between earnings quality and tax management on the investment decision, with high financial reporting quality and dividend policy as the primary input in reviewing the actual performance. Based on dividend policy application in risk deduction, the research focuses on all unobserved variables with a positive contribution to earnings quality, tax management, and future market value.

The Problem Identification.

The research problems are based on whether

1. earnings quality contributes to future market value.
2. Tax management contributes to future market value.
3. Earnings quality contributes to tax management.
4. Dividend influence future market value.
5. Dividend influence earnings quality.
6. Dividend influence tax management.

LITERATURE REVIEW

The Positive Accounting Theory

The Positive Accounting is developed out of the agency and signaling theory, where there is a separation between management and ownership functions by shareholders in a company, including the imposition of agency costs (Watts & Zimmerman, 2003). The previous theory has limitations in explaining the volatile fluctuation of market prices. The positive accounting theory also has assumptions in its approach to calculating contracting and monitoring costs associated with the

contract agreement. A company's engagement with the public and regulatory authorities encourages management to be prudent in designing the accounting treatment policy for real performance in reporting and operational procedures. The focus is often on incentive systems, debt agreements, and political costs.

The earnings quality has been phenomenal in the fluctuation of market prices. When the financial reporting dictates a high quality, there is consistently maximum obedience in accounting standards, reflected by a lack of a gap between required and expected return. The better prospect has been a critical factor in evaluating future performance, illustrated by the stable market price fluctuation. This means that the investor emphasizes high-quality accounting information (Zarowin, 2015). Due to asymmetric information and risk reduction, the management periodically publishes financial reporting for dissemination, including sending a real signal. By calculating the expected future returns, the excellent news positively influences the market price movement due to the high-quality financial reporting (Bhattacharya, Desai, & Venkataraman, 2012; Darjezi, 2016). As an efficient contracting, high earning quality was a guideline to set the management on the right track to realize better-expected returns in subsequent periods (Scott, 2016).

The Regulation Theory.

Considering the regulatory capture theory, (Stigler 2012) stated that the government's intervention with the fiscal policy has significantly contributed to its earnings, with the authority to fix tax tariff and regulation. There was a different model of calculating taxable and commercial income, implying a gap between accounting standard and tax regulation (Godfrey, Jayne, Hodgson, A., Tarca, A., Hamilton, Jane., Holmes, 2014). In general, the company should consistently implement the regulation concerning the volatile fluctuation of agency costs. By considering all investments in a secured area, the investor was concerned with high compliance and tax regulation, whose consequence was a penalty fee for any violation. Therefore, the investor demanded a precise implementation of the regulation by the management (Eskandari & Foumani, 2016). Concerning the taxable income as an effect of fiscal policy, the tax management was part of estimating high-quality accounting information. High tax avoidance in tax management negatively influences investors' perception (Ryu & Chae, 2014).

The Hypothesis

Since accruals indicate misleading information dissemination, negative feedback in a volatile fluctuation of market prices with high accruals could be detected in financial reporting (Zarowin, 2015; Dichev, Graham, Harvey, & Rajgopal, 2016). Accruals already exist in accounting treatment policy. Therefore, the management has a proclivity to cover up the negative pattern of earnings management by changing accruals' landscape to create a pseudo signal (Martínez-Ferrero, Banerjee, & García-Sánchez, 2016) and (Lennox, Wu, & Zhang, 2016). The investor pushes the management to precisely implement accounting standards with obedience. As illustrated by the negative movement of market prices, the management needs to be more prudent in using accruals. (Ozili, 2016)(Shin & Kim, 2019) and (Pompili & Tutino, 2019) stated that high earnings quality positively contributes to real asset valuation, with no disparity between book and market values. In this case, fair value can be employed justifiably with a positive impact on the future market value. According to (Lebert 2019) and (Beyer,

Marinovic, & Guttman, 2019), earnings quality influence future returns, where the gap between actual and expected return is in a restricted area. Connecting the two tests gives the following hypothesis:
H1: Earnings quality positively affects future market value.

Tax accruals have a negative investor perception when management has an implicit willingness to deduct the taxable income due to the high probability of tax investigation (Ryu & Chae, 2014). Spreading false information on current performance leads to higher tax payment in maximizing the firm value (Hu et al., 2015). High tax regulation compliance lowers the disparity between book and market values with infringements on tax regulation (Lee, 2016). According to Regulation Theory, tax regulation is mandatory. The investor recognized a gap between accounting standard and tax regulation, in which low tax accruals did not affect future volatile agency costs. This empirical research tests tax management's impact on future market value, using discretionary tax accruals quality (DTAQ) and tax conformity. The DTAQ indicates high tax regulation compliances measured by high tax accruals, while tax conformity is determined by a violation of tax rule, in relation to administrative and legal approaches, including penalty expenses. From a combination of the two tests, the hypothesis below can be stated:
H2: Tax Management has a positive effect on future market value.

The high earning quality has covered up the obedience on accounting standards and the tax regulation compliances. This research has statistically connected the two factors link to come up with the hypothesis below:
H3: Earnings quality positively affects tax management.

The dividend policy is positively related to the fluctuations in stock market prices. (He et al., 2017) and (Deng et al., 2017) stated that it indicated low earnings manipulation. (Chaudhary et al., 2016) pointed out that the policy shows the reduction of internal conflicts. This is a practical application of agency theory (Taleb, 2012) to disseminate a good signal and better prospects, which is a critical factor for high earnings quality and low risk (Jeong & Sohn, 2013). The relationship between the dividend policy and the future return is a willingness to implement the high yielded dividend policy to satisfy the investor and minimize internal conflicts. This is the main reason for settling high yielded dividends for the future benefit (Nekhili, Fakhfakh, Amar, Chtioui, & Lakhal, 2016). Politically, the reason is to prevent the other party from taking control of the company, due to trustworthy performance with no earnings manipulation (Ge & Kim, 2011), (Lilian, Wen, Nataliya, & Zhang, 2012) and (Chansarn & Chansarn, 2016). Based on the dividend policy as an observed variable with an influence on all unobserved variables, the following hypotheses can be stated: Dividend policy positively influences
H4: future market value.
H5: earnings quality.
H6:management.

The Research Framework

The research framework can be designed methodically, as follow

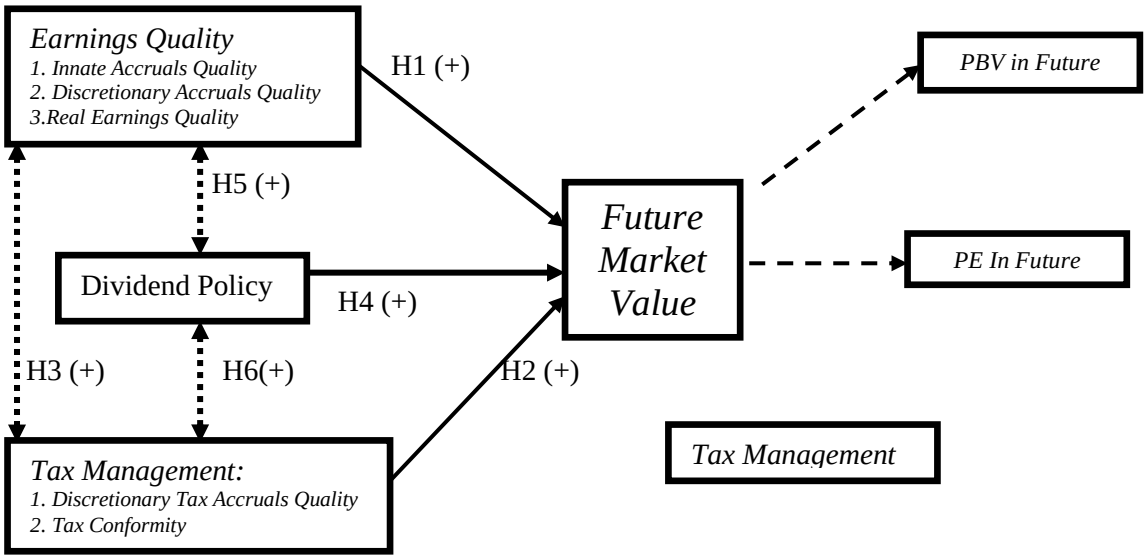


Figure 1. The Conceptual Research Framework

METHODOLOGY

This qualitative research uses the structured equitation model (SEM) to illustrate a comprehensive mapping of earnings quality, tax management, and future market value as a solution for the volatile movement of the market price (Hair, Joseph Jr., Black William.C., Babin, Barry.J.. Anderson, 2010). The primary data was collected within eight months in 2019 by administering questionnaires to respondents with potential influences on investment decisions. This involved forum group discussions (FGD) in big cities such as Jakarta, Bandung, Semarang, Solo, and Surabaya. FGD was held to confirm the questionnaire results and deduct the bias or error in the answers to related questions. Based on data intervals from all operational variables, the earnings quality, tax management, and future values have been treated as unobserved variables, while dividend policy as the observed variable, with feedback on unobserved variables.

Population, Sample and Data Collection Model

To test the validity through purposive sampling, the research uses the following criteria in selecting the respondents (Sekaran & Bougie, 2016):

The respondents

1. Have invested in the capital market during the observation period with a nominal investment of about 2 billion (IDR).
2. Are fund and investment managers with significant influence on investment decisions. They, therefore, have the superior capability in analyzing the earning quality and future performance.
3. Are representatives of institutional shareholders as CEO, CFO, or commissioner.
4. Are creditors, focusing on high earnings accounting information. In some cases, the creditors change into majority shareholders.

This observation has 384 respondents, with about 75% in Jakarta, and the rest distributed in other cities. FGD supports it

for confirming all answerable questionnaires. In brief, it can be statistically analyzed to attain high validity.

Variable Operational

To better understand the measurement of other operational variables, this research provides theoretical definitions as follows.

Earnings Quality

To measure earnings quality, this research uses maximum accounting standard obedience. The high earnings quality means high consistent obedience. There is no information distortion, and the manager has low discretionary accruals in accounting treatment policy. The earnings quality has two proxy measurements, innate accruals quality, discretionary accruals quality, and real earnings quality. The innate accruals have no violence on the accounting standard. It depicts the company's real fundamental condition, including the existence and growing concern in the future. This can be recognized as non-discretionary, in which high accruals quality indicates better prospects in subsequent periods. The discretionary accruals have some violence on the accounting standard. In case this accrual is low, its quality is said to be high. Thirdly, the real earnings quality measures how the management implements the real manipulation activity at a low level based on abnormal cash flow, cost production, and discretionary expenses. When the manipulation activity is low, the real earnings quality is high. All observed variables illustrate high earnings quality because there is no space for not doing accruals in accounting treatment policy since some transactions have required subjective judgments. Every proxy of earnings quality has five questions for confirmation process with an average score every point question.

Tax Management

This research developed an indicator of tax management using discretionary tax accruals quality and tax conformity. The discretionary tax accruals quality has some infringement on the available tax regulation. The tax conformity measures the level of infringement on tax rules, especially a penalty expense.

When both variables are at a low level, the management has high compliance with tax regulation and tax conformity, illustrating the management pattern in implementing tax regulation. The gap between book value and tax accruals in tolerance limit is related to accounting treatment and correction fiscal on the taxable income, reflecting the potential future reduction of agency cost.

Future Market Value

To predict the investor perception of the published financial reporting, this research used future market value. A positive perception during the publication period will have a positive market price movement in the subsequent period. This research proved that the perception of earnings quality is the main factor in the volatile fluctuation. Since the future market value is an unobserved variable, the two proxies for this indicator, future PBV, and PE can be positive or negative. The future PBV is an estimation of Price Book Value for the coming period. It is the same with future Price Earnings because of time lags in estimating the impact of earnings quality.

Dividend Policy

Using the respondents' data, this research has provided the impact of dividend policy on the earnings quality and future market value. This test gives a comprehensive mapping of this policy, pushing the management to implement the high yield to deduct internal conflicts.

The Descriptive Analysis

By doing *outlier testing* with *a winzorize* model or data reduction in obtaining the highly significant, the testing limit is -1.5 > *Z Score* > 1.5 (D. N. 1995. Gujarati, 2004) for shunning the inconsistency and extreme data pragmatically. The valid observation was 204 data with a 5% error. This can be displayed as follows:

Table 1. The Summary Composition of Respondent

Descriptions	All Observation		Valid Observation		Notes
Model Of Investor	Number	%	Number	%	
1. Retail Investor	101	26.30%	85	39.72%	Investment > 2 billion IDR
2. Institutional Investor	19	4.95%	10	4.67%	Presented by Top Executive
3. Fund Manager	16	4.17%	8	3.74%	Interpersonal Meeting
4. Investment Manager	22	5.73%	11	5.14%	Interpersonal Meeting
5. Investment Corporation	23	5.99%	7	5.61%	Presented by Vice President
6. Mutual Fund	90	23.44%	37	19.63%	Presented by Manager
7. Majority Shareholder	10	2.60%	4	1.87%	Presented by Vice President Of Holding Company
8. Retail Creditor	23	5.99%	9	4.21%	Presented by Vice President
9. Institutional Creditor	80	20.83%	33	15.42%	Presented by Vice President
Total	384	100.00%	204	100.00%	

Source: Primary Data

ANALYSIS AND FINDINGS

The Validity and Reliability Testing.

A validity and reliability testing were conducted to prove that the empirical testing had fulfilled the BLUE (Blue Linearity Unstandardized Estimation) as the main requirement for the high significant SEM. Pearson Correlation with two-tailed was used as a validity test. A lack of a strong correlation between all variables means that this data has been valid enough. Based on Cronbach's Alfa as a reliability test, a coefficient of more than 0.7 means the data is reliable enough. The summary of the test is shown in Table 2 below:

Table 2. The Summary of Validity and Reliability Testing

Variables	IAQ	REQ	DAQ	Future PBV	Future PE	TC	DTAQ	Dividend	Cronbach"s Alfa
IAQ	1.000								0.761
REQ	0.783	1.000							0.783
DAQ	0.796	0.786	1.000						0.792
Future PBV	0.782	0.793	0.774	1.000					0.813
FuturePE	0.780	0.774	0.795	0.776	1.000				0.789
TC	0.704	0.718	0.706	0.838	0.796	1.000			0.774
DTAQ	0.710	0.702	0.713	0.844	0.804	0.853	1.000		0.827
Dividend	0.720	0.718	0.702	0.886	0.825	0.709	0.732	1.000	0.806

Notes : IAQ = Innate Accruals Quality DTAQ =Discretionary Tax Accruals Quality DAQ=Discretionary Accruals Quality
TC = Tax Conformity REQ = Real Earnings Quality

This result can be interpreted statistically as follows: (D. Gujarati, 2011)

1. Based on Pearson Correlation, there is no strong correlation

between all operational variables. This indicated by the correlation coefficient of more than 0.95. All correlations are more than 0.95. Therefore, the data is valid enough.

2. Based on Cronbach's Alfa, all coefficients are more than 0.7. Therefore, the data is reliable enough.

The Classic Statistical Testing

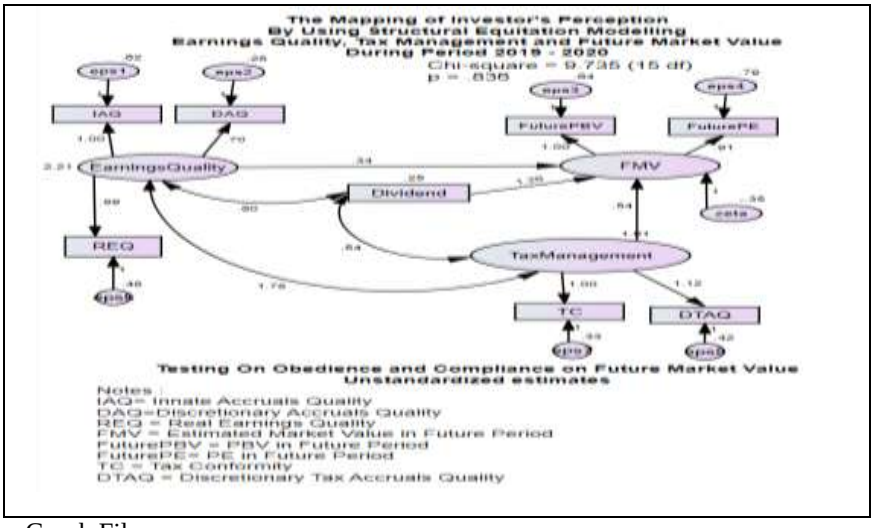
As a general procedure for obtaining BLUE, a classic statistics test was done. The results can be summarized as follows: (Hair, Joseph Jr., Black William.C., Babin, Barry.J.. Anderson, 2010)

1. From the normality test, all operational variables have a normality curve indicated by a Kolomogorov Smirnov model, with a significant level under 0.05 as a significant error in this research.
2. Based on the heteroscedasticity test with Park Testing Model, this result characterizes a homogeny, indicated by a significant level above 0.05.
3. Based on the multi-collinearity test, all variables have TOL less than 1 and VIF less than 10. Therefore, there is no multi-collinearity.
4. Based on the auto-correlation test with Durbin Watson Model with 204 observations, the criteria is d_u= 1.69663 and d_l=1,8413, the maximum point is 4-1.84133 = 2.15867, the limit is in d_u<d< 4- d_u. All variables have the area from1,989 to 2.009. Therefore there is no auto-correlation.

Finally, the data fulfilled all criteria for obtaining BLUE. Therefore this error is under the accepted tolerance limit.

The Statistical Testing Model

The statistical testing for Structural Equitation Modelling with Amos can be run analytically illustrated;



Source: Amos Graph File

Figure 2. The Diagram SEM for Earnings Quality, Dividend and Future Market Value

From Figure 2, this modeling shows that earnings quality and tax management have a positive impact on the future market value, where the dividend plays a double function to influence future performance and high earnings quality. There is interactive feedback between earnings quality, tax management, and dividend. This means that market price fluctuation is viewed differently by the management and

investor because the same perception by both of them will have a positive impact. This testing can be detailed follows:

Table 3. The Summary of All Index *Goodness of Fit*

Criteria	Model Testing	Critical Value	Notes
Chi-Square	7.735	Small	Fulfilled
Probability	0.836	≥0,05	Fulfilled
RMSEA	0.000	≤0,08	Fulfilled
GFI	0.988	≥0,90	Fulfilled
AGFI	0.971	≥0,90	Fulfilled
CMIN/DF	0.649	≤2,00	Fulfilled
TLI	1.005	≥0,95	Fulfilled
CFI	1	≥0,95	Fulfilled

Source: Amos Text file

This result can be analyzed statistically as follows:

1. Based on Chi-Square and all indicators, the less small indicates a highly fitted model. This result shows that the model fits recognized error and predictive approaches.
2. The relationship between all variables has no Heywood Case, while the model SEM should have no negative variances from the standardized model analysis.

By analyzing the relationship between all variables, the following statistical results can be found:

Table 4. The Summary of Regression Weights

The Relationship Between Variables	Estimate	SE.	CR.	P	Hypothesis	Notes
FMV <---> EarningsQuality	0.339	0.047	7.201	***	H1 Accepted	Significant
FMV <---> TaxManagement	0.544	0.051	10.690	***	H2 Accepted	Significant
EarningsQuality <---> Dividend	1.780	.212	8.399	***	H3 Accepted	Significant
FMV <---> Dividend	1.258	0.092	13.654	***	H4 Accepted	Significant
EarningsQuality <---> Dividend	0.596	0.071	8.375	***	H5 Accepted	Significant
Dividend <---> TaxManagement	0.538	0.064	8.401	***	H6 Accepted	Significant

Source: Amos Text File

Table 4 shows the following statistical analysis:

1. Earnings quality positively affects future market value, indicated by a coefficient regression of 0.339 and the critical ratio of 7.201 (more than 2 as a valid criterion). Therefore the H1 hypothesis is accepted. The relationships between unobserved variables have a significantly high level because 0.000 is less than 0.05.
2. Tax Management has a positive effect on future market value, indicated by a coefficient regression of 0.544 and a critical ratio of 10.690 (more than 2 as valid criteria). Therefore, the H2 hypothesis is accepted. The relationships between unobserved variables have a significantly high level because 0.000 is less than 0.05.
3. Earnings quality has a positive effect on dividend, indicated by a coefficient regression of 1.780 and a critical ratio of 8.399 (more than 2 as a valid criterion). Therefore, the H3 hypothesis is accepted. The relationships between

unobserved variables have a significantly high level because 0.000 is less than 0.05.

4. The dividend has a positive effect on future market value, indicated by a coefficient regression of 1.258 and a critical ratio of 13.654 (more than 2 as valid criteria). Therefore, the H4 hypothesis is accepted. The relationships between unobserved and observed variables have a significantly high level because 0.000 is less than 0.05.
5. The dividend has a positive effect on earnings quality, indicated by a coefficient regression of 0.596 and a critical ratio of 8.375 (more than 2 as valid criteria). Therefore, the H5 hypothesis is accepted. The relationships between unobserved and observed variables have a significantly high level because 0.000 is less than 0.05.
6. The dividend has a positive effect on tax management, indicated by a coefficient regression of 0.538 and a critical ratio of 8.401 (more than 2 as valid criteria). Therefore the H6 hypothesis is accepted. The relationships between unobserved and observed variables have a significantly high level because 0.000 is less than 0.05.

Discussion

From the first hypothesis, the high earnings quality indicates the high obedience to accounting standard and tax regulation compliance, proving (Zuo, 2015) and (Beyer et al., 2019). The accruals hurt the calculation of company profits, which positively influences the investor's capability to precisely predict the future. From the statistical results, the high level of accruals quality has critically influenced the expected return, supporting (Ozili, 2016) and (Pompili & Tutino, 2019).

From the second hypothesis, tax management positively contributes to future market value (FMV) and earnings. The empirical testing (Hu et al., 2015) and (Lee, 2016) on tax management have the following implications:

1. The investor ensures a high level of consistent implementation and recording of the net fixed asset value.
2. The investor can take a tolerance level between net fixed asset value, based on the tax regulation and accounting standard, including the taxable and commercial income. When the gap is immaterial number, the investor puts trust in management for a better prospect.

The third hypothesis provided proof of relationship of earnings quality and tax management, theoretically supporting (Elayan et al., 2016) and (Bassiouny & Ragab, Mohamed Moustafa, Soliman, 2016), where the investor pushes the management to level up the financial reporting's quality. The high earnings quality is protective action for investment in a secured area, covering up the low probability of tax investigation and agency cost reduction in the subsequent period. The high earnings quality has covered up the high tax regulation compliance related to the agency cost in the coming period.

The fourth hypothesis shows that the dividend policy has a positive effect on future market value. Investors can accurately calculate future market prices based on the dividend policy in the previous period. This result strengthens (Chaudhary et al., 2016), who stated that the dividend policy is a strategic corporate action to obtain low capital costs as an agency conflict's effect. This test proves that the policy is an indicator for investors to trace the level of business risk. A higher dividend payout indicates lower risk because of the better prospect.

The fifth hypothesis shows that dividend policy plays a role in improving earnings quality. The test proves (Chansarn & Chansarn, 2016) (He et al., 2017) and (Deng et al., 2017) that the policy is a sign of low earnings manipulation, indicating strong, positive

correlation. It can be used to monitor prospects. This test has supported (Nekhili et al., 2016) that when this policy is a drive for investors' high involvement, management should discreetly increase the earning quality. Irrevocably, misleading information is at a minimum level. (Dichev et al., 2016) encourages management to provide the actual earnings, as the final point this high-quality accounting information is a valid illustration of the real fundamental condition of the period ahead.

The sixth hypothesis shows that the dividend policy has a positive effect on tax management. From the second and third hypotheses, any infringement of tax regulation brings the management a consequence administrative expense penalty. Considering the fluctuation of agency cost as an implication of tax investigation, this dividend policy has deducted the management's willingness to implement tax accruals because of operational cash liquidity. This result supported (Oladipupo & Ibadin, 2013), with reference to the negative relationship between the dividend and working capital. Due to limited funding in the reduction of the internal conflict, the policy levels up the earnings quality, where (Shin & Kim, 2019) stated that the high earnings quality has no negative consequences.

A correlation between all variables gives the following statistical results:

Table 5. The Summary of Correlation Weights

Correlation Between Variables	Estimate
EarningsQuality <---> Dividend	0.803
Dividend <---> TaxManagement	0.78
EarningsQuality <--->TaxManagement	0.864

Source: Amos Text File

Table 5 maps investors' decision behavior using a decision tree model arranged scientifically in Figure 3 below:

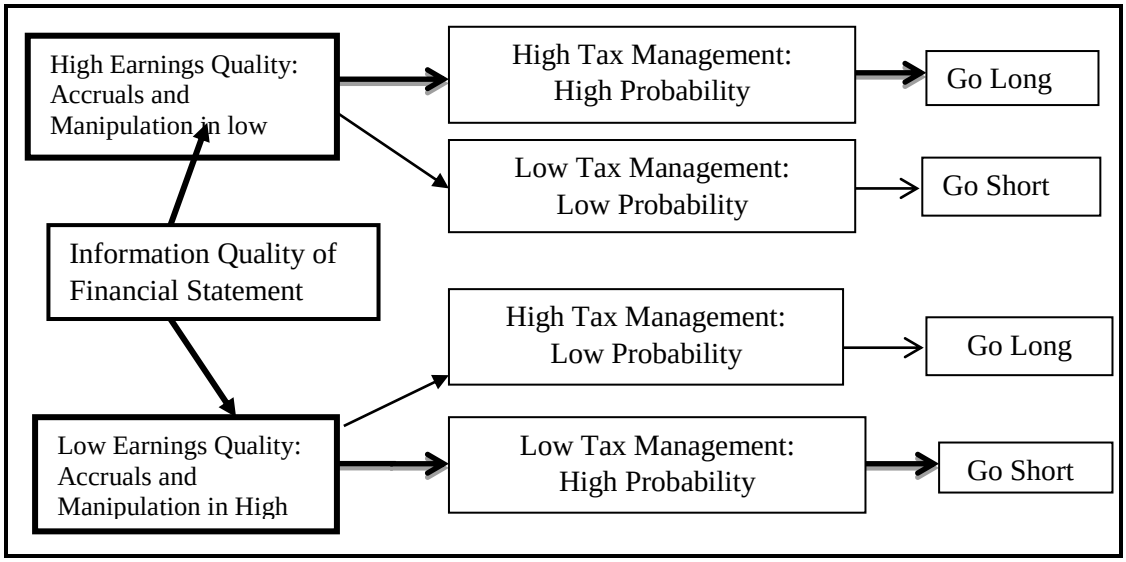


Figure 3. The Mapping of Earning Quality and Dividend Policy.

To combine the decision tree model with Bayes Theorem, it can be predicted the opportunity for investor behavior to publish financial statements. The development of predictive models for high earnings quality and tax management in a

long position can be arranged as follows: (Kaplan,1996)

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$$P(TaxT|EQ>) = \frac{P(EQ>|TaxT) \times P(EQ>)}{P(EQ>|TaxT) \times P(EQ>)+P(EQ>|TaxR) \times P(TaxR)} \quad \ldots\ldots\ldots\ldots(3)$$

Note:

- P(EQ>) is the probability of earnings quality at a high level.
- P(TaxT) is the probability of high tax management implemented.
- P (TaxR) is the probability of low tax management implemented.
- P(EQ>|TaxT) is the probability of earnings quality at a high level when high tax management has been implemented.
- P(EQ>|TaxR) is the probability of earnings quality at a high level when low tax management has been implemented.
- P(TaxT| EQ>) is the probability of high tax management implemented when earnings quality is high.

The development of predictive models for estimating the probability of selling (short position), when earnings quality is low, mainly the tax management has been implemented. This model can be formulated as follows: (Kaplan, 1996).

$$P(TaxT|EQ<) = \frac{P(EQ<|DTaxT) \times P(EQ<)}{P(EQ<|TaxT) \times P(EQ<)+P(EQ<|DTaxR) \times P(TaxR)} \quad \ldots\ldots\ldots\ldots\ldots(4)$$

Note:

- P(EQ <) is the probability of earnings quality at a low level
- P(TaxT) is the probability of high tax management implemented.
- P (TaxR) is the probability of low tax management implemented.
- P(EQ <|TaxT) is the probability of earnings quality at a low level when high tax management has been implemented.
- P(EQ <|TaxR) is the probability of earnings quality at a low level when low tax management has been implemented.
- P(TaxT| EQ <) is the probability of high tax management implemented when earnings quality is at a low level.

P(TaxT) and P(TaxR) is a measurement of management probability in implementing high or low tax management for leveling the internal conflict. It shows how tax management plays a role as a communication channel in predicting future performance to measure quality for the high tax regulation compliances. P(TaxT| EQ) pointed out the probability of obtaining positive or negative investor's perception of the high earnings quality when the management implemented the tax regulation. This research has proven the following;

1. The positive investor's perception can be formed when the probability "to go long" has much higher "to go short," signed by the bold line. It positively affects market price movement and low fluctuation because of the small disparity between actual and expected returns.
2. The negative investor's perception can be formed when the probability "to go short" has much higher "to go long," signed by the thin line. It negatively affects the movement of market price and volatile fluctuation because of the enormous disparity between actual and expected returns.

The positive perception puts a strong pressure on "to go short" more than a pressure for "to go long." The management has a proclivity to use the earning quality to change the pressure for "to sell" much less than pressure for "to buy," including a communication process from *"bad news "* into "*good news*."

The Conclusion

The following conclusions can be drawn from the research:

1. Earnings quality has a significant positive effect on future market value, while high obedience on accounting standards ensures better a prospect for this company. The strategic advantages are low risk and cost of capital. Therefore, this research underlined that the investor should create an attractive incentive for management to publish high-quality financial reporting backed up by a strict law approach model.
2. Tax management has a significant positive effect on future market value, while high tax regulation compliance has brought this company a stable future agency cost movement. This ensures a low probability of tax investigation, helping the investors to predict prospects with better performance. The research underlined that the investor should create a platform for high-quality financial reporting to minimize the accounting standard and tax regulation gap.
3. Tax management has a positive effect on earnings quality, whereby high obedience on accounting standard and tax regulation compliances have brought better prospects for this company. The investor has no tolerance for any infringement on available regulation related to the security of their investment. The research underlined that the high quality of financial reporting critically influences the movement of market prices.
4. The dividend policy has significantly influenced future market value, encouraging the management to give an actual picture of the current earnings in the current. Dividend policy is an actual indicator for company performance, enabling the investor to monitor and check all strategic decisions when all opportunistic motives have been minimized by high shareholder involvement.
5. The dividend policy has significantly influenced earnings quality, encouraging the management to level up the accruals quality. Having recognized the book's gap and market values in the tolerance limit, they focus on high obedience on accounting standards and tax regulatory compliance. Since this policy is a sign of low manipulation, the investor should fix an attractive platform for the management to run this policy as a mandatory obligation, pushing for the release of high-quality accounting information.
6. The dividend policy has significantly influenced tax management, encouraging the management to level up the tax accruals quality. Considering future additional agency costs as a negative consequence of infringement, there is an intense pressure on management to implement tax regulation by continuous improvement maximally.

The Research Limitation

Some of the limitations of this research were as follows

1. This test uses retail investors. The respondents could be having
2. opportunistic motives by short-term or profit-oriented investment. This needs accurate tracking to recognize the actual decision, investment maker.
3. It reflects a high level of dispersed primary data on the perception of earnings quality and tax management. There are 180 rejected samples out of the total 384. Some respondents

realized that accruals have always existed in accounting treatment.

The Recommendation for Future Research

This study had the following limitations

1. The mapping of earnings quality and future performance can be conducted by non-linear regression method such as logit, because of the limited assumptions of linear regression in predicting the investor reactions on the quality of financial statements.
2. In determining the respondents, inserting the length of the investment period should be considered. There is a bias, where a respondent has invested in short-term or for profit, due to irrational decision.

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