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Systematic Risk, Earnings Persistence, and Earnings Response Coefficient: Moderator and Mediator Analysis (Evidence from Emerging Market Indonesia)

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Abstract
The results showed that systematic risk negatively and significantly affected the earnings response coefficient. Earnings persistence and investment opportunity set positively and significantly affected the earnings response coefficient. Both systematic risk and earnings persistence positively and significantly affected the investment opportunity set. The investment opportunity set did not mediate the relationship between systematic risk, earnings persistence, and the earnings response coefficient. However, audit quality moderated the effect of systematic risk and earnings persistence on the earnings response coefficient.

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Systematic Risk; Earnings Persistence; Investment Opportunity Set; Audit Quality; Earnings Response Coefficient.

INTRODUCTION

Information about earnings is a primary concern for investors in deciding on an investment. With financial information, investors can estimate returns on investment and assess the likelihood of unexpected earnings. Earnings play an important role in providing predictive value, assessing management performance, and predicting investment risk. This informative power of earnings determines the direction of stock movements in the capital market through market reaction.

This research uses signaling theory, first proposed by Spence in 1973. According to Spence (1973), in his research on Job Market Signaling, information asymmetry occurs in the labor market. Spence developed the concept of signaling to help companies make hiring decisions based on factors such as educational background, work experience, race, gender, and personality. Companies cannot guarantee the productivity of new recruits. The signaling theory was later developed by Ross in 1977. Ross (1977) explained that information asymmetry can occur between a company's internal and external parties. This situation sends signals to investors about the company's future prospects. Investors are expected to respond to these signals, invest capital, and raise share prices.

Lestari and Wuryani (2017) explain that signaling theory focuses on the importance of information published by companies. This information plays a key role for outsiders when making investment decisions. According to Novalia and Nindito (2016), if a company's announced information is positive, the market is expected to react. Wulandari and Wirajaya (2014) state that profit has strong response power. Galantika and Siswantaya (2016) add that the earnings response coefficient reflects the market's reaction to earnings information.

Scott (2009) defines the Earnings Response Coefficient (ERC) as a measure of abnormal returns in a security following unexpected earnings. Abnormal return is the difference between actual and expected return. Meanwhile, unexpected earnings refer to the difference between expected and reported or actual earnings. Scott (2009) also explains that the ERC assesses earnings informativeness based on differences in market responses to earnings announcements. Sudarsono and Sudiyatno (2016) add that after a company announces information, investors analyze whether it is good or bad news. If market participants see information as good news, this can lead to a positive market reaction.

Accordingly, the informational value of earnings significantly influences stock price movements in the capital market through subsequent market reactions.

The phenomenon of changes in stock prices is shown by trade, industry, and consumer goods industry companies on the Indonesia Stock Exchange (BEI) during the 2012-2014 period, such as companies in the retail sub-sector, PT ACE Hardware Indonesia Tbk, and the household product sub-sector, PT Kedaung Indah Can Tbk. In 2012, PT ACE Hardware Indonesia Tbk made a profit of 428,829,175,516 IDR, and in 2013, profit rose to 503,004,238,918 IDR. However, stock prices declined from 820 to 590. Furthermore, in 2014, PT ACE Hardware Indonesia Tbk again recorded an increase in profit to 548,892,765,278 IDR, followed by a rise in share prices to 785 levels (Indonesia-Investments.com, 2020).

In 2012, PT Kedaung Indah Can Tbk reported a profit of 2,259,475,494 IDR, followed by a share price of 270. In 2013, there was a higher profit of 7,419,500,718 IDR and an increase in the share price of 285. Furthermore, in 2014, profit was 4,703,508,241 IDR, followed by a decline in share prices to level 280 (Indonesia-Investments.com, 2018). As it turns out, there is a different market response to the publication of company profits. It shows that an increase in profit is not always followed by positive stock price changes. Thus, investors use earnings information as a primary benchmark but also consider other factors when investing.

From a conceptual perspective, information asymmetry occurs when a company's internal stakeholders possess more information than external stakeholders.

Therefore, auditors have a role in mitigating the information asymmetry. Al-Thuneibat et al. (2011) explained that the audit process is designed to determine whether the financial statements honestly report the company's operating results and actual financial position.

In this case, audit quality will help investors in decision-making. We added the audit quality variable as a moderating variable. Thus, this study differs from previous studies. The selection of audit quality variables is used to determine whether these variables strengthen the relationship between systematic risks and earnings persistence in the earnings response coefficient. We use companies in the retail and household product subsector as research objects. Companies prepare financial statements to fulfill their corporate responsibility toward external parties.

The importance of audit quality relates to the manipulation of the company's financial statements, which raises concerns among investors. A case of financial statement manipulation has occurred in a company engaged in telecommunications, PT Katarina Utama Tbk. According to Okezone.com (2011), Bapepam-LK examined PT Katarina Utama Tbk for alleged misappropriation of funds from the 2009 initial public offering, amounting to IDR 33.6 billion. Funds that should have been used to purchase equipment, build working capital, and add branch offices have not been realized. Moreover, the company manipulated financial statements and inflated assets by including some fabricated receivables from many companies. This phenomenon illustrates the importance of high audit quality in financial statements. With high audit quality, the information in the company's financial statements does not mislead users, as it accurately reflects the company's actual condition.

Hence, a third party, an auditor, as the executor of a financial statement audit, is needed to provide an assessment of the reasonableness of financial statements. High audit quality in the company's financial statements is a strong signal to investors about the credibility of those statements. It will also facilitate investors' analysis of the level of systematic risk and the persistence of the company's earnings. This is due to the accounting numbers in financial statements being presented honestly and fairly. High audit quality will make it easier for investors to assess the risk posed by retail subsector companies and household products as material considerations in investment decisions. As Zhang et al. (2018) explained, the auditor can mitigate information asymmetry between management and investors and provide a high-quality audit, thereby increasing investor confidence.

Therefore, a high-quality audit can enhance investor confidence and positively affect the company's stock price. Based on previous research, several factors influence how market players respond to earnings information, including systematic risk and earnings persistence. Buana (2014) explains that systematic risk indicates how sensitive a company's shares are to changes in market conditions. Furthermore, Buana (2014) stated that systematic, or beta, risk is a risk that can affect all company shares. Hence, it is not preventable. There are risks such as interest rates, inflation, foreign exchange rates, economic recession, and government policies. Therefore, investors also consider the company's beta when making investment decisions. Even with high inflation, investment risk will increase, potentially affecting the market reaction to shares of companies in the retail and household products subsector.

Moreover, an example of a government policy that can also affect companies in the retail and household sub-sector is an increase in import duties. Several goods, including clothing, accessories, food, furniture items, machinery, vehicles, and others, were subject to increased import duties under Regulation No. 132/PMK.010/2015. The capital market observer Edwin Sinaga believes that companies that rely on raw materials or imported products will be negatively affected, as higher prices can reduce sales, while people's purchasing power has not improved (LIPUTAN6, 2015). The increase in import duties also contributed to the decline in share prices in the retail sector, such as MAPI shares falling 8.87 percent and ACES shares falling 21.02 percent (LIPUTAN6, 2015).

In other words, the level of systematic risks can affect the market's reaction to the shares of retail sub-sector companies and household products. Investors tend not to respond much to earnings information for a high-risk company. Hence, the earnings response coefficient will be lower. In other words, there is a negative relationship between systematic risks and the earnings response coefficient. Moreover, risks and returns in investments have a linear, positive relationship, following the concept of high risk, high return. The higher the return on investment, the higher the potential risk. High-risk companies offer

high returns, but their investments are also highly uncertain. Therefore, investors will be cautious in every investment decision involving high-risk companies. This risk consideration explains why investors react differently and influences the value of the ERC. Previous research examining the effect of systematic risk on the earnings response coefficient was conducted by Mulyani et al. (2007) and Susanto (2012), who found that systematic risk has a positive effect on the earnings response coefficient. Meanwhile, Delvira and Nelvirita (2013) state that systematic risk negatively affects the earnings response coefficient. Then, research results showing that systematic risk has no effect on the earnings response coefficient were reported by Yanti (2015), Buana (2014), and Rullyan et al. (2017).

Furthermore, this study also added the earnings persistence variable as an exogenous variable. Meanwhile, according to Goenawan (2013), earnings persistence is a measure of earnings quality that indicates a company's ability to maintain current earnings. Therefore, earnings persistence has predictive value for users of financial information in predicting future events. Retail and household product subsector companies have strong consumer visibility because their products are household essentials. It shows that retail and household product subsector companies are widely known to the public and can achieve high sales levels. Thus, companies in the retail and household products subsector with good earnings quality will experience a positive market reaction to their shares. Therefore, earnings persistence certainly increases the market reaction to companies' shares.

This study is supported by previous research examining the effect of earnings persistence on the earnings response coefficient conducted by Jalil (2013) and Delvira and Nelvirita (2013), who found that earnings persistence positively influences the earnings response coefficient. However, the results of that research differ from the research of Romasari (2013) and Susanto (2012), which show that earnings persistence has no effect on the earnings response coefficient. Based on this description, it is necessary to conduct further research related to the effect of earnings persistence on the earnings response coefficient.

Additionally, this study included an investment opportunity set (IOS) as an intervening variable. Thus, this research also differs from previous studies. Rosmaryam and Zainuddin (2014) explained that the investment opportunity set reflects the company's growth prospects for future profits. Therefore, companies with high growth opportunities signal good news to investors, who respond positively. The addition of IOS intervening variables shows the indirect effect of IOS on the relationship between systematic risk and earnings persistence in the earnings response coefficient (ERC) for retail and household product subsector companies. The occurrence of systematic risks can negatively affect market reaction, leading to a decline in the company's stock price. In this case, the company's management will try to provide positive signals to minimize the impact of systematic risks. It is a result of market reaction. The company's growth prospects, reflected in the high investment opportunity set value, can signal good news for investors.

In utilizing investment opportunities, management requires investment capital that can be obtained through retained earnings, which is the company's net income that is not in the form of dividends. Therefore, the company will increase retained earnings to support future investment financing, thereby increasing the value of the company's IOS. It is a good signal to investors that the company is in the growth stage. According to Rosmaryam and Zainuddin (2014), the prospect of a growing company is profitable because the investment will provide a high return. Therefore, investors will be interested in high returns. Thus, the value of the investment opportunity set indirectly affects systematic risk and the market reaction of retail and household product subsector companies.

Furthermore, investment opportunity sets also indirectly affect earnings persistence and market reactions. Retail and household product subsector companies that can generate persistent profits certainly have more investment opportunities. Profit generated will be utilized as retained earnings for investment capital to be made by the company. If retailers and household product subsector companies use investment opportunities effectively, they can improve their growth prospects and generate higher profits. It aligns

with Wulansari's (2013) finding that companies with high IOS levels can generate higher future profits. Hence, the positive market response will increase for companies in the retail and household product sub-sector, driven by expectations of higher returns in the future. In other words, the investment opportunity set will mediate the earnings persistence and market response.

Thus, the variables previously explained are sufficient to inform investors' investment decisions. The systematic risk variable, earnings persistence, audit quality, and investment opportunity set serve as corporate information signals that influence market reactions to company earnings announcements in the retail and household products subsector.

METHOD

The data needed for this study include financial statements and share price information for retail and household product subsector companies listed on the Indonesia Stock Exchange for 2009-2018. These data are obtained from www.idx.co.id, www.idnfinancials.com, and finance.yahoo.com. Our sample selection uses panel data and a purposive sampling method to get a representative sample. The samples in this study are from 21 retail sub-sector companies and 7 household product sub-sector companies. The final samples contained in the period 2009-2018 are 115. The selected samples depend on the following six characteristics:

- Retail and household product sub-sector companies listed on the Indonesia Stock Exchange (IDX) from 2009-2018.
- The company has not delisted or moved sectors during the research period.
- The company's financial statements for the period 2007-2018 are presented in a row as of December 31.
- Companies that earn profits for at least three years in a row in the study period.
- Financial statements presented in Rupiah.
- The company's financial statements are available, and it has the required information for calculating the variables in this study.

The data analysis method in this study uses the WarpPLS 5.0 and SPSS version 22.0 programs to process the regression data for the earnings response coefficient, systematic risks, and earnings persistence variables. The WarpPLS 5.0 program uses the structural equation model (SEM) to estimate mediating (intervening) and moderating effects. Hypothesis testing related to moderating variables, using model analysis with Two-Way Interactions, in which Two-Way Interactions assume that there is only one moderator variable in the model, or often called a simple-moderator (Latan & Ghozali, 2017). The equation for the models can be written as follows:

$$\mathbf{Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3M + \beta 4\ (X1*M) + \beta 5\ (X2*M) + e}$$

where α is a constant, β1 - β5 are coefficients beta, X1 is the systematic risks, X2 is the earnings persistence, M is audit quality, X1*M is audit quality as a moderator between systematic risks and earnings response coefficients, X2*M is audit quality as a moderator between the earnings persistence and earnings response coefficients, and e is an error component.

RESULTS AND DISCUSSION

Summary Statistics

Since we use a predictive regression, the summary statistics for the independent and dependent variables are based on financial reports and share prices of retail and household subsector companies listed on the Indonesia Stock Exchange for 2009-2018. Table 1 reports the summary statistics.

Table 1 presents the descriptive statistics of the variables. The variables are SR as systematic risks, the regression between stock return and market return; EP as earnings persistence, the regression between earnings after tax in year t and earnings after tax in year t-1; IOS as investment opportunity set measured in MVBA formula; AQ as audit

quality measured in Audit Opinion; And ERC as earnings response coefficient, the regression between CAR and UE. The table presents the number of observations, minimum, maximum, mean, and standard deviation.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SR	115	-2	4	0.80	1,125
EP	115	-3	4	0,42	1,006
IOS	115	1	19	3,06	4,122
AQ	115	4	5	4,63	0,486
ERC	115	0	0	0,00	0,031
Valid N (listwise)	115				

Regression Results

In this subsection, we present the regression results for all variable measures. In this study, we use linear regression analysis to examine the effects of exogenous variables on the endogenous variable, as well as the roles of mediating and moderating variables in shaping those effects. The regressions are run in the PLS-SEM analysis by using the WarpPLS 5.0 program.

Table 2 presents the summary results of panel regressions for all variables. The endogenous variable is the earnings response coefficient, and the exogenous variables are systematic risks and earnings persistence. Meanwhile, the mediating variable is the investment opportunity set, and the moderating variable is audit quality. SR as systematic risks, the regression between stock return and market return; EP as earnings persistence, the regression between earnings after tax in year t, and earnings after tax in year t-1; IOS as investment opportunity set is measured in MVBA formula; AQ as audit quality is measured in Audit Opinion; and ERC as earnings response coefficient, the regression between CAR and UE. The final samples are 115 units from 21 retail sub-sector companies and 7 household sub-sector companies. This regression also uses a significance level of 10%.

Table 2. Regression Result

Summary of Hypothesis Testing of all Variables

Hypothesis Testing	Coefficients		P-Value		Standard errors of indirect effects for paths with 2 segments		P-value of indirect effects for paths with 2 segments	
	ERC	IOS	ERC	IOS	SR	EP	SR	EP
SR	-0.123	0.125	0.087*	0.085*				
EP	0.154	0.304	0.045*	<0.001*		0.052		0.214*
IOS	0.171		0.029*					
AQ								
ERC					0.021		0.373*	
AQ*SR	0.275		<0.001*					
AQ*EP	0.175		0.026*					
R-squared	0.215	0.107						
Adjusted R-squared	0.179	0.091						

*)significance at 10%
N=115

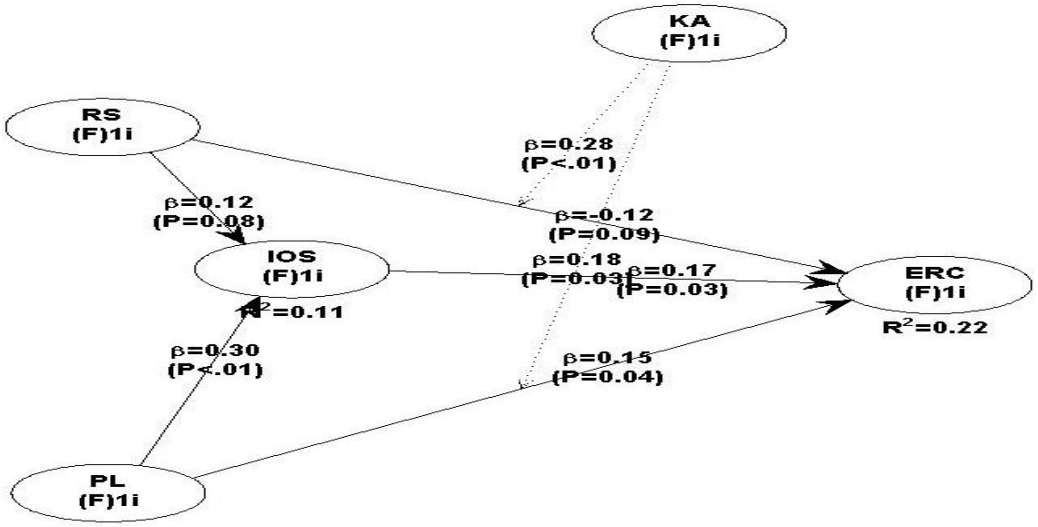

Figure 1. Path Analysis

Discussion

The hypothesis results were evaluated by examining the β (path coefficient) value in Table 2 and the P-value in Table 3. The direction of the relationships between exogenous and endogenous variables is presented in Table 2. The positive values in Table 2 indicate positive influences, and the negative values indicate negative influences. If P <0.1 in Table 3, it means that there is a strong (significant) influence between exogenous variables on endogenous variables and vice versa. The first row of Table 2 presents the regression results for systematic risks relative to the investment opportunity set and the earnings response coefficient. The first result on the earnings response coefficient shows a negative, significant effect of systematic risk, with β = -0.123 and a P-value of 0.087. Beta analysis, or systematic risk level of the company, is an information signal related to the level of security returns in response to changes in market returns.

Judging from the average beta value of 0.80 (β<1) for companies in the retail and household product subsector, the systematic risk of company shares is lower than that of the market. Therefore, it indicates that the systematic risk of stock companies is lower than that of the market (this type of stock is referred to as a defensive stock). That means shares of companies in the retail and household subsector can survive in times of economic crisis, but β < 1 also indicates that companies' stock returns are smaller than market returns. Investors become hesitant to get the expected return. Then, although the research period shows that the beta of the company's shares is lower than the market risk, several other factors also weaken the market reaction. Among them are higher benchmark interest rates, higher basic electricity prices, the removal of fuel subsidies, economic growth, and a low consumer confidence index (Bisnis.com, 2016). In 2015, the retail and household products sub-sector was under pressure due to the benchmark interest rate at 7.5%. It has resulted in changes in consumer behavior that limit consumption, vehicle purchases, and credit applications. It led to a decline in companies' performance in the retail and household products subsector, as measured by profit generation. Therefore, investors still respond negatively to the level of systematic risks in retail and household product sub-sector companies. The results of this study are consistent with those of Delvira and Nelvirita (2013) and Kurnia and Sufiyati (2015), which indicate that systematic risks have a negative and significant effect on the earnings response coefficient.

The next result of systematic risk on the investment opportunity set is positive and significant, with β = 0.125 and a P-value of 0.085. Judging from the average beta of 0.80 in retail and household product subsector companies, β < 1, the systematic risk of company shares is smaller than the market's. Hence, it will be tough to face an economic

crisis. Therefore, defensive companies can use this set of investment opportunities to maximize returns later by pursuing profitable investment opportunities. The results of this study are consistent with those of Chung and Charoenwong (1991) and Gumanti and Novi (2008), which indicate that systematic risks are positively related to investment opportunity sets.

The second row of Table 2 presents the regression results on earnings persistence toward the investment opportunity set and the earnings response coefficient. The result for earnings persistence on the earnings response coefficient is positive and significant, with $\beta = 0.154$ and a P-value of 0.045. By producing consistent profits, the company's shares tend to perform well. Therefore, companies in the retail and household product sub-sector with strong earnings persistence attract investor confidence, enabling them to invest their capital in the company. This is shown by the average earnings persistence in retail and household product subsector companies, which is 0.42, or $\beta > 0$. That means the profits of the retail and household product sub-sector companies are persistent. So, the market reaction will be positive. The results of this study are consistent with those of Ngadiman and Hartini (2011) and Delvira and Nelvirita (2013), who found that earnings persistence has a positive and significant effect on the earnings response coefficient. The next result on earnings persistence and the investment opportunity set is also positive and significant, with $\beta = 0.304$ and a P-value < 0.001. As household consumption of goods/services increases each year, the company will expand its opportunities. Therefore, companies in the retail and household product sub-sector with strong earnings persistence can support the implementation of investment activities, such as expansion, in an appropriate manner to produce even higher profits. Thus, earnings persistence positively affects IOS. The third row of Table 2 presents the regression results for the investment opportunity set, which shows a positive and significant effect on the earnings response coefficient ($\beta = 0.171$, P-value = 0.029). The Investment Opportunity Set serves as a benchmark for the company's future growth opportunities by assessing its ability to generate profits from investment activities. Thus, companies with a high investment opportunity set are interpreted as a signal of good news for investors, because it means the company's profitable investment activities will increase profits and, later, dividends. Having this positive information, investors are assured that the company has strong growth prospects. Thus, IOS has a positive effect on market reaction. The results of this study are in line with Wulansari (2013), who states that IOS has a positive impact on market reactions and explains that companies that cannot take advantage of investment opportunities will incur higher expenses than the value of the lost opportunities. Thus, IOS will be responded to positively by investors.

The column of Table 2 also shows that the investment opportunity set fails to mediate the relationship between systematic risks and earnings persistence toward the earnings response coefficient. The mediating effect testing with the standard error value of the indirect effect for the paths with two segments is 0.021, and the p-value of the indirect effect for the paths with two segments is 0.373. The results indicate that the investment opportunity set does not mediate the relationship between systematic risks and the earnings response coefficient. The rejection of this hypothesis depends on the limited information available, which creates an information asymmetry between internal parties and external companies, as explained by signaling theory. The company management has more information about the prospects of the company's actual sustainability activities in the future. For company management, it will be easier to assess the company's growth opportunities through the value of IOS and measure the level of inherent risk in the investment. Meanwhile, limited information for investors, as external parties to the company, makes it difficult to interpret investment risks. Therefore, IOS is not the main driver of investor decisions. Moreover, Indonesia's economic growth has declined each year from 2010 to 2015 (KOMPAS.com, 2016). Economic growth, which was 6.81% in 2010, fell to 4.79% in 2015. One of the main factors slowing economic growth until 2015 was the decline in household consumption. Additionally, the implementation of policies raising import duties led to a decline in public purchasing power. Several items, such as clothing, accessories, food, furniture, machinery, vehicles, and others, are subject to increased

import duties as mentioned in Regulation No. 132 / PMK.010 / 2015.015.5. It significantly affects companies that rely on raw materials or imported products, as it leads to rising product prices; consequently, sales decline while purchasing power remains unchanged. The decline in share prices occurred across the retail sector, with MAPI shares falling by 8.87 percent and ACES shares by 21.02 percent (LIPUTAN6, 2015). Therefore, investors do not respond positively when companies in the retail and household products subsector adopt policies to capitalize on investment opportunities amid slowing economic growth. Investors do not believe that the investment activities of these companies will benefit them, because, as Sandi (2013) explains, they also tend to seek short-term profits through capital gains.s.

Thus, it results in IOS-owned companies being unable to mediate the relationship between the level of systematic risks and the market reaction to the shares of retail and household product sub-sector companies.

The next result is the mediation effect test, with the standard error of the indirect effect for paths with two segments equal to 0.052 and the p-value for the indirect effect equal to 0.214. The results indicate that the investment opportunity set does not mediate the relationship between earnings persistence and the earnings response coefficient. The retail and household product subsector has an average earnings persistence of 0.42, or $\beta > 0$, indicating that earnings are persistent. Thus, the company is capable of generating high profits in the future. Therefore, investors expect to achieve the expected return. However, the number of investment activities companies undertake to grow will increase retained earnings, thereby lowering investor returns than expected. Besides, the rapid development of technology, information, and communication has brought significant progress to MSMEs (Micro, Small, and Medium Enterprises) in Indonesia. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (2018) on the number of MSME business units from 2015 to 2018, there was a significant increase from 59,267,759 in 2015 to 62,922,617 in 2018. Businesses are leveraging the digital era through technologies such as smartphones and social media applications. Specifically, around 9.61 million SMEs went digital in 2018 (Katadata.co.id, 2019). The rise of financial technology that enables convenient online payments is driving trends in online sales. Therefore, this shift has led from conventional shopping trends, such as visiting physical stores in various locations, to online shopping. Therefore, given the level of market competition, the company's IOS in the retail and household product sub-sector is no longer the main driver of investor interest. Investors will need a long time to obtain a return if the company takes steps to expand, as a way to utilize the investment opportunity set. The expansion is also inefficient when consumers have switched to e-commerce. As a result, investors do not respond positively. It is evidenced by Ramayana, which since 2016 closed and shut down 18 supermarket outlets (WartaEkonomi.co.id, 2020), PT Mitra Adiperkasa, which eventually closed operations of all Lotus Department outlets (Kontan. Co, 2017), and Hero Supermarket, which closed 26 outlets throughout Indonesia and laid off as many as 532 employees (Termination of Employment) (Merdeka.com, 2019). Therefore, IOS is unable to mediate the relationship between earnings persistence and market reaction.

The next rows of Table 2 show the role of audit quality, which is proven to successfully moderate the relationship between systematic risks and earnings persistence toward the earnings response coefficient. As for this study, the type of moderation is quasi-moderation. Quasi-moderation is a variable that moderates the relationship between the independent variable and the dependent variable, which also becomes the independent variable. This quasi-moderation is supported by a significant relationship between audit quality and ERC, as indicated by p-values of 0.044 and <0.001 for the moderation effect of audit quality on the relationship between systematic risks and ERC.

Then, the moderation effect test with $\beta = 0.275$ and p-value < 0.001 indicates that audit quality strengthens the relationship between systematic risks and the earnings response coefficient. We show that audit quality in financial statements is a signal of information, which is strong enough to influence investor considerations in making investment decisions. The main considerations for investors are the information content of the company's earnings in its financial statements and the risks investors must bear when

investing in the company. Therefore, companies with high-quality audits make it easier for investors to carefully analyze the accounting numbers presented in financial statements before making an investment decision.

Then, the moderation effect test with $\beta = 0.175$ and p-value < 0.026 indicates that audit quality strengthens the earnings persistence relationship, as evidenced by the earnings response coefficient. Retail and household product sub-sector companies tend to have persistent profits. It certainly fulfills investor expectations because the company can generate profits from time to time. Thus, the company has the potential to generate profits in the future. Therefore, investors will certainly interpret profits accompanied by a good-quality audit as a positive signal. Investors become confident in making investment decisions by paying attention to audit quality in financial statements. It is consistent with research by Sholihah et al. (2019), which shows that the higher a company's audit quality, the more positive its market response. Thus, audit quality can strengthen the relationship between the earnings persistence and earnings response coefficients.

CONCLUSIONS

This study investigates the role of variables in the earnings response coefficient. We show that systematic risks have a negative and significant effect on the earnings response coefficient. The earnings persistence variable has a positive and significant effect on the earnings response coefficient. The systematic risk and earnings persistence variables have positive, significant effects on the investment opportunity set. The investment opportunity set positively affects the earnings response coefficient. Meanwhile, the investment opportunity set, as a mediating variable, does not affect the relationship between systematic risk and earnings persistence on the earnings response coefficient. Furthermore, audit quality, as a moderating variable, strengthens the relationship between systematic risks and the earnings response coefficient.

The results also indicate that companies need to consider the momentum of utilizing the set of investment opportunities in line with the current condition of the Indonesian economy, which will directly affect thecompany's investment activities and its impact on market reaction. Companies are also expected to anticipate competition by strengthening sales strategies, innovating in e-commerce, and leveraging technology, information, and communication trends in the digital age to drive market reaction and investor interest in the company. Moreover, companies should publicize financial statements free of misstatements and pay attention to the importance of high-quality audits, making it easier for users of financial statements, such as investors, to use this information to make investment decisions. Besides, investors should be more careful when making investment decisions by considering information in financial statements and the latest economic updates that may affect their decisions. Those are for anticipating the possible risks inherent in investments.

Further research can develop the results of this study by using variables other than audit quality for the moderating variable and using variables other than the investment opportunity set for the mediating variables, which have a strong relationship between variables, both the relationship of the independent variable to the intervening variable and the relationship of the intervening variable to the dependent variable.

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