

## CORPORATE GOVERNANCE, GROWTH, AND EARNINGS QUALITY: THE MODERATING ROLE OF CAPITAL STRUCTURE IN INDONESIAN CYCLICAL AND NON-CYCLICAL FIRMS

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### **ABSTRACT**

This study examines how far corporate governance and firm growth help raise earnings quality, and whether the strength and direction of those linkages shift once capital structure is taken into account. Drawing on a single-period dataset of 202 firms in the consumer cyclicals and consumer non-cyclicals segments of the Indonesia Stock Exchange for 2023, the sample was assembled through purposive selection: firms had to publish annual and audited reports, supply complete figures for every variable, record a profit, and present accounts in Rupiah. The dependent construct, earnings quality, is measured by rescaling the absolute discretionary accruals obtained from the Modified Jones Model in an inverse fashion. Governance is proxied by the ASEAN Corporate Governance Scorecard, growth by the market-to-book ratio, and capital structure by the debt-to-equity ratio. Estimating a moderated regression, the analysis shows that governance and growth each carry a positive and significant effect on earnings quality. Because capital structure also displays a significant standalone effect, its function is more accurately labelled a quasi-moderator than a pure moderator. Its interaction with governance is negative and significant, signalling that heavier reliance on borrowed funds erodes the favourable governance-quality link, whereas its interaction with growth is positive yet only marginally significant at the 10% level. Read together, the evidence suggests that debt operates simultaneously as a monitoring device and as a source of reporting pressure, with its net influence conditioned by a firm's governance standing and growth outlook.

Keywords: corporate governance; growth; capital structure; earnings quality; moderated regression analysis

### **ABSTRAK**

Studi ini meneliti seberapa jauh tata kelola perusahaan dan pertumbuhan perusahaan membantu meningkatkan kualitas pendapatan, dan apakah kekuatan dan arah hubungan tersebut bergeser setelah struktur modal diperhitungkan. Berdasarkan kumpulan data periode tunggal dari 202 perusahaan di segmen siklus konsumen dan non-siklus konsumen di Bursa Efek Indonesia untuk tahun 2023, sampel dikumpulkan melalui seleksi yang dimaksud: perusahaan harus menerbitkan laporan tahunan dan audit, memberikan angka lengkap untuk setiap variabel, mencatat keuntungan, dan menyajikan akun dalam Rupiah. Konstruksi dependen, kualitas pendapatan, diukur dengan menskalakan ulang akrual diskresioner absolut yang diperoleh dari Model Jones yang Dimodifikasi secara terbalik. Tata kelola diproksi oleh ASEAN Corporate Governance Scorecard, pertumbuhan dengan rasio pasar-ke-buku, dan struktur modal dengan rasio utang terhadap ekuitas. Memperkirakan regresi moderat, analisis menunjukkan bahwa tata kelola dan pertumbuhan masing-masing membawa efek positif dan signifikan pada kualitas pendapatan. Karena struktur modal juga menampilkan efek mandiri yang signifikan, fungsinya lebih akurat diberi label moderator kuasi daripada moderator murni. Interaksinya dengan tata kelola bersifat negatif dan signifikan, menandakan bahwa ketergantungan yang lebih besar pada dana pinjaman mengikis hubungan kualitas tata kelola yang menguntungkan, sedangkan interaksinya dengan pertumbuhan positif namun hanya sedikit signifikan pada tingkat 10%. Baca bersama, bukti

menunjukkan bahwa utang beroperasi secara bersamaan sebagai perangkat pemantauan dan sebagai sumber tekanan pelaporan, dengan pengaruh bersihnya dikondisikan oleh posisi tata kelola perusahaan dan prospek pertumbuhan.

Kata kunci: tata kelola perusahaan; pertumbuhan; struktur modal; kualitas pendapatan; analisis regresi termoderatif

## INTRODUCTION

Earnings quality lies at the heart of credible financial reporting, since the figures a firm discloses form the principal input that investors, creditors, regulators, and other stakeholders rely on when judging performance and projecting future cash flows. When earnings are of high quality, they faithfully reflect a firm's underlying economic activity rather than being shaped by managerial discretion or opportunistic reporting choices. Dechow et al. (2010) caution that no single, universal metric can capture earnings quality, because what counts as quality depends on the particular decision setting in which the numbers are used. DeFond (2010) likewise notes that work on earnings quality is conditioned by the measurement goal selected, the reporting environment in place, and the downstream effects of accounting decisions. Even so, earnings carrying only small discretionary accrual components are widely viewed as more useful for contracting, valuation, and governance accountability.

The Indonesian capital market offers a relevant setting in which to study these earnings-quality dynamics. The well-known episode involving PT Garuda Indonesia (Persero) Tbk illustrates just how consequential accurate and transparent reporting can be. During 2019, the Otoritas Jasa Keuangan (OJK) imposed administrative penalties and mandated corrective action in connection with Garuda Indonesia's 2018 annual report and disclosure practices (Otoritas Jasa Keuangan, 2019). Cases such as this make clear that sustaining high-quality reporting remains both a regulatory obligation and a practical requirement, especially for listed firms whose standing rests on investor confidence.

This study focuses on companies grouped under the consumer cyclicals and consumer non-cyclicals classifications of the Indonesia Stock Exchange. These two groupings lend themselves well to the analysis because the earnings they report move closely with household purchasing power, inventory movements, credit terms, swings in revenue, and operating efficiency. Under the IDX Industrial Classification, both categories are monitored through dedicated indices, namely IDXCYCLIC and IDXNONCYC, designed to capture sector-level performance (Indonesia Stock Exchange, 2023a, 2023b). Such features make these sectors a fitting setting in which to examine how governance arrangements and growth prospects connect to the quality of reported earnings.

Sound corporate governance is expected to lift earnings quality by tightening oversight, improving the flow of information, and holding managers to account. The empirical record largely supports this view. Nguyen et al. (2024), drawing on hand-collected data for Vietnamese listed firms, find that stronger governance is linked to less recourse to both accrual-based and real-activity earnings management. Chen et al. (2024) add cross-country evidence that board-level reforms raise financial reporting quality by reining in discretionary reporting. Studies centred on audit committees point the same way, since Alquhaif & Alobaid (2024) show that financial expertise on the audit committee is associated with lower real earnings management. The picture is not uniform, however. Hsu & Yang (2022) observe that reporting quality fell during the COVID-19 pandemic, with several governance safeguards failing to halt the slide. Findings like these imply that governance does not improve reporting quality unconditionally; its effectiveness is context-dependent and can differ across firm characteristics.

Firm growth is a further determinant that shapes earnings-quality outcomes. Firms with strong growth expectations have a heightened stake in keeping their disclosures credible, since ongoing access to outside capital and the continued trust of investors hinge on it. At the same time, fast-expanding firms face sharper pressure to meet market performance targets, which can paradoxically tempt management toward opportunistic earnings manipulation. This dual pull makes growth theoretically relevant but empirically ambiguous as a driver of earnings quality. Ahmad & Sasongko (2024) report, in the Indonesian setting, that growth opportunity and capital structure are both significantly related to earnings quality, while profit growth rates and institutional ownership are not. Here, growth is operationalized

through the market-to-book ratio, which captures market-based views of a firm's prospects for future expansion.

Capital structure enters the framework as the moderating factor, since leverage sets two countervailing forces in motion. On one hand, debt commitments can discipline managers by exposing the firm to creditor monitoring and the constraints of loan covenants. On the other, a heavy debt load can prompt management to avoid covenant breaches, protect credit standing, or reassure lenders, potentially encouraging biased reporting. Sequeira et al. (2024) show that the sign of this relationship can vary with debt maturity and circumstances, underscoring that debt-driven reporting pressure is not a simple linear matter. Mansour et al. (2022) likewise demonstrate that capital structure plays a conditional part in linking governance quality to firm-level outcomes. On these grounds, capital structure is theoretically warranted as a boundary condition capable of reshaping how governance and growth bear on earnings quality.

The paper offers three contributions to the literature. First, it brings corporate governance and firm growth together within a single analytical model of earnings quality among Indonesian consumer-oriented listed firms. Second, it recasts capital structure as a moderating condition instead of treating it merely as an independent predictor or a control variable. Third, it sharpens the interpretation of moderation by drawing a distinction between pure and quasi-moderation. Because capital structure shows a statistically significant direct effect in the regression, it is classified as a quasi-moderator, following the typology of Sharma et al. (1981).

Building on this theoretical and empirical basis, the study seeks to assess whether corporate governance and growth affect earnings quality, and whether capital structure moderates their respective effects on earnings quality among consumer cyclicals and consumer non-cyclicals firms listed on the Indonesia Stock Exchange in 2023.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Theoretical Foundations

Agency theory centres on the friction that arises when the goals of shareholders, acting as principals, diverge from those of managers, who serve as their agents. Jensen & Meckling (1976) argue that such conflicts surface because managers may pursue private benefits at odds with shareholders' wealth-maximization aims. In financial reporting, this principal-agent friction can take the form of earnings management, particularly where managers face pressures linked to performance reviews, compensation arrangements, or debt covenants. Fama & Jensen (1983) add that strong monitoring mechanisms are essential for limiting unchecked managerial discretion and tightening organizational control over financial choices.

Signaling theory supplies a complementary lens, focusing on how firms transmit verifiable information to outside parties. Spence (1973) and Ross (1977) hold that firms can deploy observable signals deliberately to close the information gap between insiders and outsiders. In this setting, growth functions as a favourable market signal when it rests on genuine operating performance and dependable disclosure. Yet when realized outcomes fall below the growth that markets expect, managers may face incentives to manipulate earnings in an effort to keep market sentiment positive.

The rationale for capital structure's moderating role rests chiefly on the debt-contracting perspective. Although debt can rein in managerial conduct through creditor monitoring, it also heightens reporting pressure as firms approach covenant limits or face refinancing difficulties. Myers (2001) observes that capital-structure decisions are bound up with informational frictions, the firm's degree of financial flexibility, and the size of agency costs. It follows that capital structure can act as a contingent force that alters how well governance arrangements function and how growth prospects feed through to earnings quality.

### Corporate Governance and Earnings Quality

Corporate governance refers to the institutional arrangements, operating procedures, and shared norms through which firms are directed and held to account. In this study it is operationalized with the ASEAN Corporate Governance Scorecard, an instrument aligned with internationally accepted governance

principles and spanning five areas: shareholder rights, equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and board responsibilities (ASEAN Capital Markets Forum, 2023). Well-functioning governance is theorized to raise earnings quality by strengthening supervision over managerial conduct and safeguarding the integrity of the reporting process.

A widening stream of empirical work attests to the bearing of governance quality on reporting outcomes. Nguyen et al. (2024) find that stronger governance is associated with curtailed earnings manipulation among Vietnamese listed firms. Chen et al. (2024) supply cross-country evidence tying board-level reforms to better reporting quality. Amin & Cumming (2023) further show that the benefit of board independence grows when independent directors possess greater educational attainment and serve for an optimal tenure. Taken collectively, these studies confirm that governance extends beyond formal compliance and operates as an active check on opportunistic reporting.

That said, the efficacy of governance mechanisms ought not be taken as unconditional. Hsu & Yang (2022) record a decline in reporting quality over the pandemic and observe that certain governance safeguards did little to curb it. Such evidence indicates that governance mechanisms can vary in effectiveness across institutional settings and conditions of financial stress. Despite this contextual variability, the core theoretical expectation—that stronger governance accompanies better earnings quality—remains intact.

H1: Corporate governance positively affects earnings quality.

### **Growth and Earnings Quality**

As used here, firm growth captures the market's forward-looking view of a company's untapped business potential. Firms with high growth potential typically lean on outside funding and therefore have stronger reasons to retain the confidence of both equity and debt providers. Viewed through a signaling lens, credible earnings disclosures matter all the more because they shrink the information gap separating insiders from outside financiers. Firms whose reporting is trustworthy are better placed to keep their financing channels open and to sustain their market valuation over time.

At the same time, a growth trajectory can itself create reporting pressure. With expectations running high, managers may turn to discretionary accrual choices or real-activity adjustments to head off earnings shortfalls. Dechow et al. (2010) note that earnings quality is shaped jointly by the firm's underlying business fundamentals and by the discretionary accounting decisions management makes. As a result, the growth-earnings-quality link is theoretically ambiguous, turning on whether growth signals real operating progress or is sustained through discretionary accounting maneuvers.

Within the context of this study, growth is expected to exert a positive effect on earnings quality, since firms with sizeable growth prospects have compelling reasons to maintain reporting integrity in order to protect their access to financing. This expectation also fits the logic that firms reliant on favourable capital-market perceptions will invest proactively in disclosure quality and transparency.

H2: Growth positively affects earnings quality.

### **Capital Structure as a Moderating Variable**

Capital structure, captured in this study by the debt-to-equity ratio, reflects the extent to which a firm funds its operations with borrowing rather than shareholder equity. The financial-reporting literature views the role of debt through two complementary lenses. Through the monitoring lens, the presence of creditors disciplines managers and generates demand for higher-quality financial information. Through the pressure lens, a heavy debt burden sharpens management's incentive to manipulate reported earnings so as to sidestep covenant breaches or preserve financing relationships.

The empirical evidence suggests that the debt-earnings-quality nexus is far from uniform. Sequeira et al. (2024) find that its direction depends on debt maturity, with short-term debt more apt than long-term debt to erode earnings quality. Mansour et al. (2022) add evidence that capital structure conditions how governance quality converts into firm performance. Read together, these findings support treating capital structure as a contextual moderator rather than as a stand-alone performance driver.

When leverage is high, even well-governed firms may be tempted to portray earnings more favourably than their underlying results justify. Pressures of this kind can blunt the ability of governance

mechanisms to lift earnings quality in any meaningful way. Capital structure is therefore hypothesized to weaken the positive governance-earnings-quality relationship. For high-growth firms, by contrast, debt may sharpen creditor surveillance and impose reporting discipline, especially where continued credit access depends on signalling financial health. Capital structure is thus expected to reinforce the positive growth-earnings-quality relationship, though the strength of this moderating effect remains conditional and should be read with caution.

H3: Capital structure attenuates the positive effect of corporate governance on earnings quality.

H4: Capital structure reinforces the positive effect of growth on earnings quality.

## RESEARCH METHODOLOGY

### Research Design

The study employs a quantitative explanatory design to probe the direct effects of corporate governance and firm growth on earnings quality, together with the moderating role of capital structure. A cross-sectional dataset assembled for fiscal year 2023 provides the empirical foundation. The principal analytical technique is moderated regression, run in the EViews 13 package. This choice is consistent with the moderation approach set out by Hayes (2018), while the econometric diagnostics follow Brooks (2019) and Wooldridge (2020). A cross-sectional design suits the research aim, which is to study inter-firm variation in earnings quality within a single observation window.

### Population and Sample

The population comprises every firm in the consumer cyclicals and consumer non-cyclicals sectors listed on the Indonesia Stock Exchange as of 2023. These sectors were chosen because of their pronounced sensitivity to demand swings, inventory-related risk, shifts in consumer spending, and working-capital strains. The final sample was drawn using purposive selection. To qualify, a firm had to be listed on the exchange in 2023, to have issued both annual and audited financial reports for that year, to provide complete data on every study variable, to record positive earnings, and to report in Indonesian Rupiah. Firms were dropped where variable data were incomplete, where losses were reported, where statements were prepared in a foreign currency, or where governance disclosure was insufficient. After these filters, the working dataset contains 202 firm-level observations.

### Operational Definition and Measurement of Variables

The dependent variable, earnings quality, is gauged via discretionary accruals estimated from the Modified Jones Model (Dechow et al., 1995), itself a refinement of the accrual-estimation approach originally proposed by Jones (1991). Total accruals are taken as net income less operating cash flows. The estimation equation is specified as follows:

$$TACit / Ait-1 = \beta_0 + \beta_1(1 / Ait-1) + \beta_2[(\Delta REVit - \Delta RECit) / Ait-1] + \beta_3(PPEit / Ait-1) + \epsilon it$$

The residuals left unexplained by this equation are taken as the discretionary accrual component. In line with established accrual-based measurement practice, the absolute discretionary accrual figures are inverted and rescaled so that larger values denote higher earnings quality. This treatment follows the conventional view in prior work, under which larger discretionary accruals signal poorer-quality earnings. The study recognizes that earnings quality may also be captured through other accrual-quality lenses, such as those of Dechow & Dichev (2002), Francis et al. (2004), and the performance-matched discretionary accrual measure of Kothari et al. (2005).

Corporate governance, the first independent variable, is measured with the ASEAN Corporate Governance Scorecard, which combines five weighted pillars: safeguarding shareholder rights, treating all shareholders fairly, the role of stakeholders in governance, disclosure and transparency, and board responsibilities. Each indicator within a pillar is scored on a binary basis—one where the criterion is met and zero otherwise—and the weighted aggregate yields the composite governance index.

Growth, the second independent variable, is captured by the market-to-book ratio, defined as market equity value divided by book equity value. A higher ratio signals more optimistic market views of the firm's future business prospects. This market-based proxy is in keeping with the growth-expectations

literature in accounting and capital-markets research (Skinner & Sloan, 2002) and with recent Indonesian evidence connecting growth opportunity to earnings-quality outcomes (Ahmad & Sasongko, 2024). Capital structure, the moderating variable, is measured as total debt divided by total equity—the debt-to-equity ratio—so that larger values indicate greater reliance on debt relative to equity capital. Two control variables enter the regression: firm size and financial leverage. Firm size is proxied by the natural logarithm of total assets, while leverage is total liabilities divided by total assets. Although leverage and capital structure overlap conceptually, the model keeps them separate: leverage reflects overall solvency risk, whereas capital structure isolates the debt-versus-equity financing mix, so that distinguishing the two serves a genuine analytical purpose.

**Table 1. Operationalization of Variables**

Variable	Measurement
Earnings Quality (EQ)	Inverse and rescaled absolute discretionary accruals based on the Modified Jones Model; higher values indicate better earnings quality.
Corporate Governance (CG)	Weighted ASEAN Corporate Governance Scorecard index based on five governance components.
Growth (GROWTH)	Market value of equity divided by book value of equity.
Capital Structure (CS)	Debt-to-equity ratio: total debt divided by total equity.
Firm Size (SIZE)	Natural logarithm of total assets.
Leverage (LEV)	Total liabilities divided by total assets.

*Source: Compiled by the author based on the revised measurement design.*

### Empirical Model

The moderated regression model is specified as follows:

$$EQ = \beta_0 + \beta_1 CG + \beta_2 GROWTH + \beta_3 CS + \beta_4 (CG \times CS) + \beta_5 (GROWTH \times CS) + \beta_6 SIZE + \beta_7 LEV + \varepsilon$$

In this specification, EQ stands for earnings quality, CG for corporate governance, GROWTH for firm growth, CS for capital structure, SIZE for firm size, LEV for leverage, and  $\varepsilon$  for the error term. The product terms  $CG \times CS$  and  $GROWTH \times CS$  are entered to test whether capital structure moderates the respective links between the two predictors and earnings quality.

### Data Analysis Techniques

Analysis opens with a descriptive summary of how each variable is distributed. Classical assumption tests then follow: residual normality is checked with the Jarque-Bera statistic, the severity of multicollinearity with variance inflation factors, and heteroscedasticity with the White test. Hypotheses are tested by moderated regression, with outcomes judged at the 1%, 5%, and 10% levels. This sequence is in line with accepted practice in applied econometrics for accounting research (Brooks, 2019; Wooldridge, 2020). The type of moderation is classified using the scheme of Sharma et al. (1981)'s scheme: a moderator that shows both a significant direct effect on the outcome and a significant interaction is a quasi-moderator, whereas one that shows only a significant interaction is a pure moderator.

### Additional Tests

The robustness of the main results is assessed through several supplementary analyses. The first re-estimates the model using an alternative earnings-quality measure built on the accrual-quality frameworks of Dechow & Dichev (2002) and Francis et al. (2004). Second, a further check excludes outliers—observations whose studentized residuals exceed  $\pm 2.5$ —to gauge whether extreme points unduly sway the estimates. The third adds a quadratic term for capital structure to test whether its link with earnings quality displays a threshold or turning-point pattern. These checks are not meant to displace the primary results but to probe their sensitivity to alternative specifications and data treatments.

## RESULTS AND DISCUSSION

### Descriptive Statistics

Table 2 sets out the descriptive statistics for all variables in the study. The data span 202 companies from the consumer cyclicals and consumer non-cyclicals industries listed on the Indonesia Stock Exchange in 2023.

**Table 2. Descriptive Statistics of Research Variables**

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
EQ	0.624	0.635	0.982	0.255	0.234
CG	0.744	0.752	0.960	0.680	0.124
GROWTH	1.892	1.754	4.165	0.349	0.187
CS	0.523	0.518	1.000	0.063	0.160
SIZE	28.742	28.624	32.859	22.879	1.876
LEV	0.441	0.435	0.880	0.004	0.273

Notes: EQ = earnings quality; CG = corporate governance; GROWTH = growth; CS = capital structure; SIZE = firm size; LEV = leverage. Source: Data processed by the author (2024).

A mean earnings-quality score of 0.624 points to a moderate level of reporting quality across the sample once the discretionary accrual measure is inverted. The average governance score of 0.744 suggests that sample firms generally exhibit a fairly high degree of governance disclosure and regulatory compliance. A mean market-to-book ratio of 1.892 indicates that, on average, the market values these firms above their reported book equity. The average debt-to-equity ratio of 0.523 shows that, while debt features in their financing, it does not dominate the firms' capital structures.

### Diagnostic Tests

**Table 3. Diagnostic Test Results**

Test Aspect	Method	Result	Criterion
Normality	Jarque-Bera	Probability = 0.142	Probability > 0.05
Multicollinearity	Variance Inflation Factor (VIF)	VIF < 10 for all variables	VIF < 10
Heteroscedasticity	White test	Probability (Chi-square) = 0.228	Probability > 0.05

Source: Data processed by the author (2024).

The classical assumption tests indicate that the estimated model is free of material violations of normality, multicollinearity, and heteroscedasticity. With a probability of 0.142, the Jarque-Bera test sits above the 5% threshold, so the residuals approximate a normal distribution reasonably well. Every variance inflation factor stays under 10, confirming that multicollinearity is not a serious estimation issue. The White test returns a probability of 0.228, again above 5%, giving no sign of heteroscedastic residuals.

### Moderated Regression Results

**Table 4. Moderated Regression Analysis Results**

Variable	Coefficient	t-statistic	Probability
C	0.299	4.326	0.000***
CG	0.241	2.774	0.006***
GROWTH	0.414	4.892	0.000***
CS	0.320	2.482	0.014**
CG × CS	-0.485	-2.831	0.005***
GROWTH × CS	0.109	1.896	0.059*
SIZE	0.021	0.898	0.370
LEV	-0.026	-1.189	0.235
R <sup>2</sup>	0.050		

Adj. R <sup>2</sup>	0.029	
F-statistic (Prob.)	2.411	0.020**

Notes:  $p < 0.01$ ;  $p < 0.05$ ;  $p < 0.10$ . Source: Data processed by the author (2024).

As reported in Table 4, corporate governance is a positive and significant predictor of earnings quality, with a coefficient of 0.241 ( $p = 0.006$ ), which supports H1. Firm growth likewise carries a positive and highly significant effect, with a coefficient of 0.414 ( $p = 0.000$ ), thereby confirming H2.

Capital structure too exerts a positive and statistically significant direct effect on earnings quality, with a coefficient of 0.320 ( $p = 0.014$ ). This result carries an important conceptual implication: because capital structure operates both directly and through interaction, it does not satisfy the conditions for pure moderation and is more precisely described as a quasi-moderator within the governance-earnings-quality relationship.

The governance and capital-structure interaction term is negative and significant, with a coefficient of -0.485 ( $p = 0.005$ ). This supports H3 and confirms that heavier leverage erodes the favourable governance effect on earnings quality. In other words, governance forfeits part of its reporting-quality benefit as a firm leans more heavily on debt.

The growth and capital-structure interaction returns a positive coefficient of 0.109 ( $p = 0.059$ ), lending only marginal support to H4 at the 10% level. The result therefore amounts to tentative evidence that leverage may strengthen the beneficial effect of growth on earnings quality.

**Table 5. Hypothesis Testing Summary**

Path	Expected Direction	Coefficient	p-value	Decision
CG → EQ	(+) Positive	0.241	0.006***	H1 Supported
GROWTH → EQ	(+) Positive	0.414	0.000***	H2 Supported
CG × CS → EQ	(-) Negative	-0.485	0.005***	H3 Supported
GROWTH × CS → EQ	(+) Positive	0.109	0.059*	H4 Marginally supported at 10%

Notes: \*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.10$ . Source: Data processed by the author (2024).

## Discussion

### Corporate Governance and Earnings Quality

The significantly positive governance-earnings-quality link confirms that firms with stronger governance frameworks tend to issue more reliable and credible disclosures. This fits agency theory, under which governance arrangements curb managers' scope for self-serving reporting by tightening oversight. The result is consistent with Nguyen et al. (2024), who find that stronger governance dampens both accrual and real earnings manipulation, and with Chen et al. (2024), who show that board reforms raise reporting quality across countries.

The finding is especially salient for the Indonesian consumer sectors studied here, where the mix of revenue volatility, working-capital cycles, and inventory-valuation complexity provides ample scope for discretionary accrual behaviour. Strong governance can temper these tendencies by reinforcing board oversight, raising disclosure standards, and bolstering managerial accountability. The modest adjusted R-squared, however, indicates that governance is only one of several forces driving earnings quality, so the result should be read as statistically informative rather than as a full account of the variation in earnings quality.

### Growth and Earnings Quality

The positive, significant growth coefficient shows that firms trading at higher market-to-book multiples tend to report higher-quality earnings. This accords with signaling theory: firms on a growth path must keep external stakeholders confident in order to defend their valuation and retain access to capital markets. Firms with strong growth outlooks also draw closer investor scrutiny, which can push management toward more disciplined and transparent reporting.

This result, however, calls for careful reading. Growth prospects can just as easily place management under pressure to meet market expectations, conditions that might instead invite earnings manipulation. Within the 2023 sample, the positive outcome suggests that, for high-growth firms, the reputational and capital-access incentives favouring reporting credibility outweigh the countervailing earnings-management pressures. This balance plausibly explains the positive growth-earnings-quality association observed over the sample period.

### Moderating Role of Capital Structure

The negative governance and capital-structure interaction shows that higher leverage weakens governance's ability to improve earnings quality. This is consistent with the debt-pressure view: as firms take on more debt, managers may feel compelled to present reported figures favourably so as to avoid covenant breaches, defend credit ratings, or reassure lenders. In such circumstances, governance's disciplining role may not fully restrain managerial reporting discretion. The pattern aligns with the idea that debt plays a dual part—delivering monitoring benefits while also generating reporting pressure that can undermine financial reporting quality.

The merely marginal significance of the growth and capital-structure interaction at the 10% level calls for caution. It offers tentative evidence that leverage may strengthen the growth-earnings-quality link, perhaps reflecting closer creditor scrutiny of high-growth borrowers who must demonstrate financial discipline. Given how weak this evidence is, future work should revisit the relationship with multi-period panel data and test alternative proxies for both growth and debt maturity to reach firmer conclusions.

The significant direct effect of capital structure on earnings quality requires reclassifying it from a pure to a quasi-moderator. The distinction matters for conceptual accuracy: a pure moderator is defined by the absence of a significant direct effect on the dependent variable, a condition the present model does not meet. Because capital structure shows a statistically significant direct association with earnings quality in this study, labelling it a pure moderator would be inappropriate.

### Additional Tests

#### Alternative Earnings Quality Measurement

Table 6. Alternative Earnings Quality Measurement Test

Variable	Main Model	Alternative Model
CG	0.241***	0.238***
GROWTH	0.414***	0.409***
CS	0.320**	0.315**
CG × CS	-0.485***	-0.477***
GROWTH × CS	0.109*	0.104*

Notes: \*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.10$ . Source: Data processed by the author (2024).

Under the alternative earnings-quality specification, every main predictor retains a consistent direction and comparable significance, showing that the core results do not hinge on a single way of operationalizing the dependent variable. Even so, the alternative-measure estimates are best viewed as corroborating evidence rather than as a substitute for the primary model.

### Outlier Sensitivity Analysis

Table 7. Outlier Sensitivity Test Results

Variable	Full Sample	After Excluding Outliers
CG	0.241***	0.252***
GROWTH	0.414***	0.428***
CS	0.320**	0.334**
CG × CS	-0.485***	-0.492***
GROWTH × CS	0.109*	0.116*
Adjusted R-squared	0.029	0.035
N	202	184

Notes:  $p < 0.01$ ;  $p < 0.05$ ;  $p < 0.10$ . Source: Data processed by the author (2024).

After dropping 18 outlier observations flagged by studentized residuals above  $\pm 2.5$ , the sign and significance of all key coefficients hold steady. The slight rise in adjusted R-squared, from 0.029 to 0.035, confirms that the main results are not driven by leverage from extreme data points. Even with this gain, the model's overall explanatory power stays limited, so the results are best read as flagging statistically meaningful associations rather than as a highly predictive structural model.

### Non-Linear Effect of Capital Structure

To check whether capital structure has a non-linear effect, its squared term is added to the model:

$$EQ = \beta_0 + \beta_1 CG + \beta_2 GROWTH + \beta_3 CS + \beta_4 CS^2 + \beta_5 (CG \times CS) + \beta_6 (GROWTH \times CS) + \beta_7 SIZE + \beta_8 LEV + \varepsilon$$

**Table 8. Non-Linear Capital Structure Test Results**

Variable	Coefficient	t-statistic	Probability
CS	0.446***	3.124	0.002
CS <sup>2</sup>	-0.287**	-2.315	0.022
CG × CS	-0.472***	-2.764	0.006
GROWTH × CS	0.112*	1.923	0.056

Notes: \*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.10$ . Source: Data processed by the author (2024).

The squared capital-structure term is negative and statistically significant, indicating a concave, inverted-U relationship between leverage and earnings quality. From the estimated coefficients, the turning point past which additional debt starts to harm earnings quality lies at a debt-to-equity ratio of roughly 0.776. This preliminary result suggests that moderate debt may support better reporting quality via creditor monitoring, whereas excessive leverage ultimately depresses earnings quality by intensifying reporting pressure. Because the data are cross-sectional, this threshold figure remains tentative and merits replication with longitudinal panel designs.

### Research Implications

On the theoretical side, the findings broadly endorse agency theory by affirming that stronger governance structures go hand in hand with higher earnings quality. They also extend the debt-contracting perspective, showing that capital structure shapes how far governance and growth translate into reporting quality. The fact that capital structure is significant both as a direct predictor and as an interaction term suggests that researchers should not treat leverage as a mere control, but should acknowledge its power to influence how governance and growth affect reporting behaviour.

On the managerial side, the findings warn against leaning on formal governance procedures alone. As leverage rises, governance's protective role in securing reporting quality can weaken. Managers should therefore craft capital structures that retain operating flexibility without inviting the kind of financial strain that can compromise reporting integrity. Investors, for their part, are advised to weigh governance quality and growth potential alongside capital-structure features when judging how credible reported earnings are. From a regulatory angle, the study highlights the need to strengthen governance standards and disclosure-monitoring frameworks, with special attention to firms whose leverage is above average.

## CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

### Conclusion

This study set out to examine how corporate governance and firm growth shape earnings quality, and whether capital structure moderates those relationships, drawing on a sample of consumer cyclicals and consumer non-cyclicals firms listed on the Indonesia Stock Exchange in 2023. The evidence confirms that corporate governance has a positive and significant effect on earnings quality, implying that more robust governance systems foster more credible financial reporting.

Firm growth, too, has a positive and significant bearing on earnings quality, likely because high-growth firms have a greater stake in protecting market credibility and securing continued external financing. The governance and capital-structure interaction is negative and significant, confirming that higher leverage dampens governance's positive influence on earnings quality. The growth and capital-structure interaction, although positive in sign, reaches only marginal significance at the 10% level, so the supporting evidence should be treated as preliminary rather than conclusive.

A further finding is that capital structure independently and significantly predicts earnings quality, which prompts its reclassification as a quasi-moderator rather than a pure moderating variable. This relabelling sharpens the analytical rigour of the study and brings the theoretical reading into line with the observed empirical pattern.

### Limitations and Suggestions for Future Research

Several limitations qualify the study. Foremost, the use of single-year cross-sectional data rules out any analysis of temporal dynamics or firm-specific changes over time. Future work would gain from panel data to test whether the identified relationships hold across different macroeconomic conditions. A second limitation is the chief reliance on discretionary accruals as the earnings-quality proxy; subsequent studies should add real earnings management and accrual-quality measures for a fuller assessment. Third, excluding loss-making firms raises the prospect of survivorship bias, which future research could address by including both profitable and unprofitable firms and checking whether the results differ across performance categories.

Fourth, governance is measured solely through disclosure-based indicators in the ASEAN Scorecard. Although this is a respected governance instrument, self-reported disclosures may not fully reflect the substantive quality of the governance practices actually in place. Future research could deepen governance measurement by pairing scorecard disclosures with data on board composition, ownership concentration, audit-committee qualifications, and qualitative assessments of board processes. Adding real earnings management proxies in the spirit of Roychowdhury (2006) would also help, since managers may shift from accrual manipulation toward operational interventions when the former is more likely to be scrutinized. Finally, the marginally significant growth and capital-structure interaction invites future work to examine finer debt characteristics—such as maturity profile, interest coverage, proximity to covenant limits, and refinancing exposure—as more granular dimensions of debt-related financial pressure.

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