RISET
JURNAL APLIKASI EKONOMI AKUNTANSI DAN BISNIS
https://ejournal.ibik.ac.id/index.php/riset
E-ISSN : 2656-7113 P-ISSN : 2797-4057
DOI : doi.org/10.37641/riset.v7i2.2641

FACTORS AFFECTING EARNINGS QUALITY: THE MODERATING ROLE OF MANAGERIAL OWNERSHIP

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ARTICLE INFO

Submitted:
10 – March – 2025
Revised:
10 – June – 2025
Accepted:
11 – August – 2025

ABSTRACT

This study examines the impact of capital structure, profitability, Corporate Social Responsibility (CSR), and accounting conservatism on earnings quality, with managerial ownership as a moderating factor. Earnings manipulation has been carried out by directors and deputy directors of the Renault-Nissan-Mitsubishi Alliance of approximately US$44 million, affecting the quality of earnings generated. Focusing on industrial and energy sector companies listed on the IDX from 2021 to 2023, this study uses a quantitative approach, selecting samples using purposive sampling techniques and analyzing 39 selected companies using panel data regression and MRA in E-Views. The results show that profitability and CSR negatively affect earnings quality, while capital structure and accounting conservatism have no significant impact. Managerial ownership moderates the effects of capital structure, profitability, and CSR on earnings quality but does not influence the role of accounting conservatism. The results of this study suggest that companies in the industrial and energy sectors should optimally implement CSR and accounting conservatism to attract investors, improve earnings quality, and support management and stakeholder decision-making.

Keywords: Capital Structure, Profitability, CSR, Accounting Conservatism, Managerial Ownership, Earnings Quality.

INTRODUCTION

Financial reports typically summarize a company's management performance and are an essential communication medium for stakeholders. They enable knowledgeable decision-making by providing insights into the company's financial status and operational results. Therefore, companies must consider the quality of financial reports, especially earnings reports (Khabibah, 2020). Earnings quality is an essential factor to consider when analyzing the economic health of businesses, investors, creditors, and users of financial statements (Amalia & Dura, 2022). Carlos Ghosn and Greg Kelly are the directors and deputy directors of the Renault-Nissan-Mitsubishi Alliance, which once manipulated profits at the company, which is one of the industrial companies. Carlos

Ghosn allegedly manipulated earnings totaling around US$44 million, or around Rp 641 billion, thus impacting the quality of earnings generated (Andhika et al., 2024).

Earnings quality is one of the important information investors use, causing many researchers to conduct empirical testing on earnings quality and the factors that influence it. These factors are capital structure (Amalia & Dura, 2022), profitability (Magdalena & Trisnawati, 2022), Corporate Social Responsibility/CSR (Witjaksono & Djaddang, 2018), accounting conservatism (Azizah & Khairudin, 2023), managerial ownership (Aldoseri & Hussein, 2024), institutional ownership and board of commissioners (Aningrum & Muslim, 2021), book tax differences (Ashma' & Rahmawati, 2019), and current ratio, size, and investment opportunity set (Sholikhah & Baroroh, 2021). However, this study uses accounting conservatism, profitability, capital structure, and CSR as determinants of earnings quality.

Financial elements affecting earnings quality involve capital structure and profitability, while non-financial elements include Corporate Social Responsibility (CSR) and accounting conservatism. The interplay of these factors offers a thorough view of a company's financial status in earnings reports, aiding in a more accurate evaluation of its performance and stability. Capital structure is a key element of business strategy, significantly influencing a company's success. Sufficient funding is crucial for meeting operational requirements, guaranteeing business viability and enduring growth (Amalia & Dura, 2022). When a company depends on debt financing, it signifies optimism about its future financial outlook. Capital structure denotes the ratio of financial resources obtained from long-term debt (liabilities) and equity (shareholders' capital) utilized for corporate financing (Murdiansyah et al., 2020). A study by Amalia & Dura (2022) explores the connection between capital structure and earnings quality, demonstrating a notable influence. Comparable findings are reported in research by Hasna & Aris (2022), Ashma' & Rahmawati (2019), Septiarini & Setiyawati (2024), and Sijabat & Nursyirwan (2023), which yield similar outcomes. Nevertheless, these outcomes oppose the conclusions of Luas et al. (2021), which claim that capital structure does not influence earnings quality.

The primary objective of a business is to enhance profits, which can be assessed via profitability ratios (Magdalena & Trisnawati, 2022). Profitability gauges a firm's ability to produce earnings during a particular timeframe, depending on the connection between revenue, assets, and equity (Luas et al., 2021). A study by Yuliana & Fauziah (2022) indicates that a high level of profitability does not necessarily reflect strong performance in generating high-quality earnings. Therefore, if a business attains significant profitability yet lacks operational efficiency, the quality of the resulting earnings could be poor. On the other hand, low profitability does not automatically mean low earnings quality. Research by Magdalena & Trisnawati (2022) on the relationship between profitability and earnings quality found a positive and significant relationship between profitability and earnings quality. Similar findings were also reported in research by Silaban & Harefa (2021), Yuliana & Fauziah (2022), Kepramareni et al. (2021), Septiarini & Setiyawati (2024), and Anggraeni & Widati (2022). However, this study does not support the research conducted by Manalu et al. (2023) and Soa & Ayem (2021), which explains that profitability does not affect earnings quality.

One significant trend that can enhance a company's value and should be implemented and disclosed is Corporate Social Responsibility (CSR) initiatives. The government has reinforced the importance of CSR through Law No. 40 of 2007 on Limited Liability Companies, particularly in Chapter IV, Article 66, Paragraph 2b, and Chapter V, Article 74, which mandate CSR as a compulsory corporate practice (Hutapea, 2019). Increasing CSR in Indonesia is crucial to achieving the Sustainable Development Goals (SDGs) that must be completed by 2030. Poverty alleviation, human rights issues, environmental health and safety, waste and pollution, social and political insecurity, and the need for foreign direct investment are some of the problems. CSR has almost been implemented in Indonesia, but not thoroughly and on target (Wiranata & Rusmawati, 2022). Witjaksono & Djaddang (2018) examined the impact of CSR on earnings quality and discovered a notable connection between them. Their results are consistent with those of Witjaksono & Darmansyah (2016) and Siswantaya (2022), who obtained comparable findings. Nonetheless, Sunjaya (2019) reached contrasting conclusions, as referenced by Heriyah & Sukirno (2024), who discovered that CSR does not affect earnings quality.

Accounting conservatism is generally thought to improve earnings quality. Conservatism reflects a company's careful presentation of its financial statements by not immediately recognizing assets and profits but first recognizing debts and losses that may occur (Magdalena & Trisnawati, 2022). This principle is apparent in the creation of financial statements, which ultimately seek to guarantee that financial reports offer valuable and trustworthy information for users (Charisma & Suryandari, 2021). Recognition of costs and liabilities is done early if there is a potential loss. Conversely, revenue and asset recognition should not be made immediately, but only when the revenue and assets are realized. Applying this principle lowers the recognition of profits and asset values, which reduces the possibility of misunderstanding by the users of financial statements. It suggests high reported earnings quality (Maulia & Handojo, 2022). The positive effect of accounting conservatism on earnings quality has been demonstrated by Anggraeni & Widati (2022), Ritonga et al. (2023), Halim (2022), Yusmaniarti et al. (2023), and Nizar & Kiswanto (2022), who state that there is a positive influence between conservatism and earnings quality. However, this study contradicts research conducted by Azizah & Khairudin (2023), who said that accounting conservatism means that accountants are cautious or tend to be pessimistic in the face of uncertainty regarding profit or loss.

Inconsistent research results on the influence of capital structure variables, profitability, CSR, and accounting conservatism are a gap in this study. This research develops previous research with three novelties: the addition of managerial ownership variables as moderating variables, differences in sectors used, and the latest observation period. The primary distinction of this research is the incorporation of managerial ownership as a moderating factor. Managerial ownership indicates the percentage of company shares owned by management, which can impact strategic decision-making (Benarda & Desmita, 2022). The addition of this variable is driven by discrepancies in earlier research results concerning the effect of managerial ownership on earnings quality. Consequently, this research offers a fuller insight into the significance of managerial ownership. Therefore, management ownership of firm shares is anticipated to mitigate the disparities in interests between owners and management (Lusiani & Khafid, 2022). Managerial ownership may affect earnings quality since a more significant proportion of shares owned by management motivates them to boost their performance, which in turn enhances earnings quality (Zabrina & Widiatmoko, 2022). Aldoseri & Hussein (2024) conducted research showing that managerial ownership positively and significantly impacts earnings quality. Putri & Imron (2022) and Niwat & Erawati (2022) support this research, which obtained similar results. However, this study contradicts Ramadhan et al. (2023), who found that managerial ownership has no significant effect on earnings quality.

The second difference lies in this study's industrial and energy sectors. The selection of this sector is based on the consideration that industry and energy have significant environmental impacts, such as carbon emissions, waste production, and the exploitation of natural resources. Thus, this study aims to analyze further how the factors studied play a role in sectors that significantly contribute to sustainability and environmental issues. The second difference in this study lies in the industry that is the object of study, namely, the industrial and energy sectors. The selection of these sectors is based on the consideration that industry and energy significantly impact the environment, such as carbon emissions, waste production, and the exploitation of natural resources. These factors make the industry and energy sectors relevant to sustainability research. Although the energy sector is vital in supporting community development, it remains the leading contributor to global greenhouse gas (GHG) emissions. According to the IEA (2023), the sector accounts for approximately 23% of global emissions. Extracting, processing, and distributing oil and gas to consumers is crucial for meeting the world's energy needs. However, these activities have significant environmental impacts, including increased emissions and ecosystem degradation (Santoso et al., 2024). It is strongly linked to a key aspect of this research: Corporate Social Responsibility. CSR significantly promotes more accountable corporate practices, particularly regarding governance and environmental and social (ESG) factors.

The last difference is in the observation periods used. Researchers used the latest research year period of 2021–2023. In addition, there was a difference in the observation period. This study examines data from the latest period, namely 2021-2023. The selection of this period allows for a more up-to-date analysis of the dynamics of the factors affecting the industrial and energy sectors. Building on this background, this study seeks to empirically analyze and validate the impact of capital structure, profitability, CSR, accounting conservatism, and managerial ownership on the earnings quality of industrial and energy sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023.

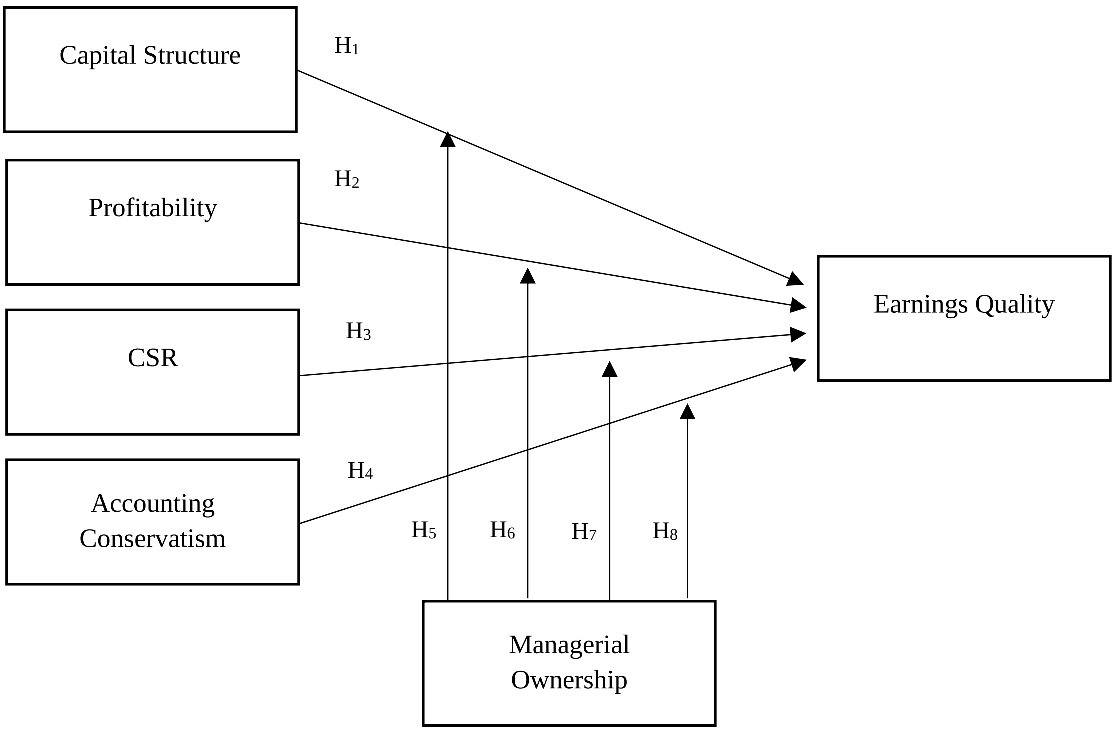

Figure 1. Conceptual Framework
Source: Research Data, 2025

The figure above presents the conceptual framework of this study, which explains that profitability, CSR, and accounting conservatism positively affect earnings quality. In contrast, capital structure hurts earnings quality. This study also includes a moderating variable, managerial ownership, which strengthens all independent variables on earnings quality.

According to Ghozali (2020), agency theory relates to a contractual relationship, namely, the principal gives decision-making authority to the agent. In this framework, the principal depends on the agent to manage the company effectively, guaranteeing its sustainability and enduring success. The principal wants to prosper through the company's profitability, which always increases. The agents do not always align with the principal's interests when carrying out their responsibilities. Agents possess more information than principals, while principals seek complete transparency, including financial and non-financial information, such as capital structure, profitability, social responsibility, and corporate governance (Amalia & Dura, 2022). Accounting conservatism can limit the opportunistic actions of managers who focus only on personal interests, so companies can produce higher-quality earnings by reducing earnings management practices. The precautionary principle or conservatism also plays a role in reducing agency conflicts between shareholders and management because it can prevent managers' actions that only benefit themselves. Conservatism is applied in accounting because financial statements are prepared and presented based on accrual principles (Salsabila & Hasanah, 2024).

Signaling theory explains the actions taken by signalers in an attempt to influence the behavior of signal receivers. Signals can take many forms, such as those that can be observed directly or must be examined first (Ghozali, 2020). According to research by Ashma' & Rahmawati (2019), each party receives different information. Signaling theory explains how companies must communicate with financial statement users. Managers must provide information to stakeholders through the issuance of financial statements because signals are conveyed to owners or stakeholders in the form of information about the company's status. Profit is one of the outputs generated by management as an answer to the company's owner. Managers provide earnings information through financial statements; however, they must apply appropriate and correct accounting rules to achieve high-quality earnings without overstating earnings so that this information can help users of financial statements make decisions (Witjaksono & Djaddang, 2018). Companies that disclose more CSR information are less likely to engage in earnings management or manipulate actual operational activities. CSR disclosure aims to meet stakeholders' expectations and signal to investors that the company presents more transparent and reliable financial information. The more CSR activities are carried out, the lower the earnings management activities, ultimately affecting the quality of the company's earnings (Sitepu et al., 2022).

Capital structure is essential for a company's sustainability. Companies fund operational activities using debt or equity (Hasna & Aris, 2022). Agency theory explains that agency conflicts occur because the interests of management and external parties differ. Debt costs arise due to agency conflicts between management and company owners, the desire of company owners to increase company value, and insufficient company capital. The higher the company's debt, the more dynamic its financial conditions. This is due to debt, which is a dependency that must be repaid within a specific period, including principal and interest payments. When companies have large amounts of debt, they must manage cash flow more carefully so that the income earned can cover these obligations (Ashma' & Rahmawati, 2019). Studies conducted by Amalia & Dura

(2022) and Ashma' & Rahmawati (2019) indicate that earnings quality is affected by capital structure. Likewise, research in Indonesia by Ashma' & Rahmawati (2019), Septiarini & Setiyawati (2024), and Sijabat & Nursyirwan (2023) shows that capital structure significantly affects earnings quality. The first hypothesis is presented as follows, based on previous research and agency theory.

H_1 : Capital Structure Negatively Affects The Quality of Earnings Quality

Profitability is a measure of a company's operational effectiveness, shown through its ability to produce substantial profits (Mayliza et al., 2023). A company's robust financial results, characterized by significant profits, correlate with enhanced earnings quality (Magdalena & Trisnawati, 2022). Based on agency theory, principals anticipate that companies will attain high profitability as a yield on their investments. A substantial degree of profitability indicates effective management of resources and operations, allowing the firm to optimize its profits. Good profitability also reflects the company's successful business strategy in cost control, revenue generation, and asset utilization to generate profits and affect the quality of earnings generated. Research by Yuliana & Fauziah (2022) and Anggraeni & Widati (2022) states that profitability affects earnings quality. The same is found in research conducted by Magdalena & Trisnawati (2022) and by Kepramareni et al. (2021), which states in their study that profitability affects earnings quality. The second hypothesis is presented as follows, based on previous research and agency theory.

H_2 : Profitability Has a Positive Effect on The Quality of Earnings Quality

Companies can dedicate themselves to enhancing social and environmental wellness by adopting sound business practices and allocating some of their resources to support CSR efforts. A company's level of CSR disclosures is positively linked to improved accrual quality and reduced earnings management practices (Sitepu et al., 2022). A study by Witjaksono & Darmansyah (2016), which is aligned with signalling theory, indicates that CSR functions as a strategic Communication mechanism for businesses to regain stakeholder trust. Signal theory explains that companies can convey specific signals to external parties to inform them of the actual conditions, especially when there is information asymmetry between management and stakeholders. This is important for stakeholders who lose trust due to earnings management practices, which, in turn, also affect perceptions of the quality of reported earnings. Companies that are active in running CSR programs are generally considered to have more integrity and better accountability in their financial reporting. The effect of CSR on earnings quality is found in the research of Witjaksono & Djaddang (2018) and Witjaksono & Darmansyah (2016), showing that CSR significantly affects earnings quality. Similar results were found by Siswantaya (2022) and Sitepu et al. (2022), who stated that the more CSR disclosures made by companies, the lower the earnings management practices. Low earnings management practices indicate that the quality of earnings the company generates is increasing. The third hypothesis is presented as follows, based on previous research and signaling theory.

H_3 : CSR Has a Positive Effect on The Quality of Earnings Quality

Accounting conservatism improves earnings quality by promoting a cautious approach to financial reporting. This principle helps prevent managers from engaging in opportunistic behavior, such as inflating earnings to make the company's performance appear better than it is (Halim, 2022). According to agency theory, accounting conservatism helps reduce conflicts of interest between managers and company owners (Halim, 2022). These conflicts arise because managers, who oversee daily operations, have more access to financial information than owners, creating an imbalance known as information asymmetry. This gap allows managers to make decisions that serve their interests. By applying accounting conservatism, companies can minimize the risk of financial manipulation. Beyond limiting opportunities for earnings management, conservatism also ensures that reported earnings are more accurate and reliable, reflecting a true picture of the company's financial health (Nizar & Kiswanto, 2022). Research by Ritonga et al. (2023) and Halim (2022) supports that accounting conservatism positively impacts earnings quality. Similarly, studies by Yusmaniarti et al. (2023) and Nizar & Kiswanto (2022) confirm that implementing accounting conservatism benefits companies by improving the credibility of their reported earnings. Based on previous research and agency theory, the fourth hypothesis is presented as follows.

H_4 : Accounting Conservatism Has a Positive Effect on The Quality of Earnings Quality

Capital structure can be interpreted as the amount of company assets financed by capital or debt. Managerial ownership refers to the management shares held by the company (Niwat & Erawati, 2022). Lusiani & Khafid (2022) explain that, based on agency theory, management has different interests, so they indirectly commit fraud in financial reports. The management ownership of company shares will increase supervision by managers, the resulting profit will be of high quality, and managers will be careful in making decisions. According to research conducted by Lusiani & Khafid (2022), managerial ownership can moderate the effect of capital structure on earnings quality because a large amount of share ownership is needed to generate optimal profits, and the level of supervision of managers will increase along with it, affecting the quality of earnings generated. This research is in line with that conducted by Safira et al. (2022) and Putri & Imron (2022), which states that the greater the proportion of management ownership in the company, the management tends to make decisions that are in line with shareholders including in making decisions related to capital structure, which affects the quality of earnings. Based on previous research and agency theory, the fifth hypothesis is presented as follows.

H_5 : Managerial Ownership Strengthens The Impact of Capital Structure on Earnings Quality

Every company has the same main goal: wanting the company's performance to be carried out well and maximally to generate the desired profit (Luas et al., 2021). These profits can be an indicator of whether the company is considered good or not (Lusiani & Khafid, 2022). In agency theory, conflicts of interest occur between the agent and the principal because of the transfer of managerial authority from the owner to management. As a result, managers' ownership of company shares is anticipated to reduce conflicts of interest. With a rise in managerial ownership, profitability is expected to increase, leading to a favourable effect on earnings quality. Research on managerial ownership influences the connection between profitability and earnings quality identified in studies (Lusiani & Khafid, 2022). The research emphasizes that companies with substantial assets streamline their operational processes to produce high-quality profits. These results are consistent with studies by Rumapea et al. (2024) and Niwat & Erawati (2022), indicating that having executives as stakeholders improves the quality of corporate earnings. Based on previous research and agency theory, the sixth hypothesis is presented as follows.

H_6 : Managerial Ownership Strengthens The Impact of Profitability on Earnings Quality

Companies prioritizing CSR can boost profitability by earning customer trust in their products or services (Laksono & Trisnaningsih, 2023). As per agency theory, goal discrepancies between agents and principals may result in conflicts, which can be reduced via managerial ownership. With share ownership in the company, managers are more likely to make decisions that align with the interests of shareholders, including CSR disclosure. Therefore, management ownership can serve as a mechanism to align the interests of both parties and reduce agency costs. The higher the management ownership in a company, the higher the CSR disclosure. The level of CSR disclosure can affect the quality of earnings. Research from Aldoseri & Hussein (2024) and findings by Putri & Imron (2022) indicate that managerial ownership influences earnings quality. From this study's and agency theory results, managerial ownership can minimize the misalignment of decisions between management and shareholders, including decision-making related to CSR disclosure. These results are consistent with studies by Sitepu et al. (2022) and work by Witjaksono & Darmansyah (2016), illustrating that CSR also significantly influences earnings quality. Based on previous research and agency theory, the seventh hypothesis is presented as follows.

H_7 : Managerial Ownership Strengthens The Impact of CSR on Earnings Quality

Theory agency suggests that managerial share ownership can influence a company's accounting conservatism. Managers with a high share of ownership tend to be more careful in recognizing profits. This conservative attitude arises because managers feel the negative impact of recognizing profits too early. A company's accounting conservatism increases with management's increased share ownership. Higher accounting conservatism reflects accounting policies that are more cautious in recognizing income and faster in recognizing potential losses. Thus, companies with higher accounting conservatism tend to produce more reliable and higher-quality earnings reports. A study by Safira et al. (2022) and Niwat & Erawati (2022) indicates that a rise in managerial ownership improves the quality of earnings produced. This conclusion is backed by research from Yusmaniarti et al. (2023) and Halim (2022), which shows that correctly applying accounting conservatism in a firm enhances the quality of earnings. From the results of these studies and signal theory, the higher the level of managerial ownership, the more the company management tends to increase the use of the principle of accounting conservatism as a signal that will be given to shareholders. The final hypothesis is presented as follows, based on previous research and agency theory.

H_8 : Managerial Ownership Strengthens The Impact of Accounting Conservatism on Earnings Quality

RESEARCH METHODS

This research adopts a quantitative method, drawing on data obtained from annual financial documents and sustainability reports of corporations. The official sources utilized were the Indonesia Stock Exchange (IDX) website (www.idx.co.id), and individual companies were used as official sources. The research occurred between 2021 and 2023, involving 155 firms listed on the IDX within the industrial and energy industries. A purposive sampling technique is utilized, and samples are chosen according to defined criteria. The criteria used were having and publishing annual and sustainability reports, not experiencing losses, and having managerial ownership during the 2021-2023. After selecting the sample, 39 companies met the criteria.

Table 1. Operational Variables

Variable	Definition	Indicator
Earnings Quality	Earnings quality is an important factor to consider when analyzing the financial health of businesses, investors, creditors, and users of financial statements.	KL = Operating Cash Flow / Net Income (Yusmaniarti et al., 2023)
Capital Structure	Capital structure is how companies with fixed costs use their assets and funds to increase shareholder returns.	DER = Total Debt / Total Capital (Hasna & Aris, 2022)
Profitability	Profitability indicates a company's success, as it generates high future profits.	ROA = Net Income / Total Assets (Magdalena & Trisnawati, 2022)
CSR	Corporate Social Responsibility (CSR) refers to a company's commitment to social responsibility, encompassing economic, legal, ethical, and policy aspects that society expects from an organization.	∑Ni 91 = ∑ XYi / (∑ XYi /Ni) (Siswantaya, 2022)
Accounting Conservatism	Accounting conservatism is the practice of prudence in accounting in the face of uncertain economic activity in the business world.	Market to Book Ratio = Market Value of Common Equity / Book Value of Common Equity (Agustina et al., 2023)
Managerial Ownership	Managerial ownership is share ownership by management that influences a company's decision-making.	KM = Total Manager Shares / Total Shares Outstanding (Lusiani & Khafid, 2022)

Source: Research Data, 2025

This study conducted descriptive statistical analysis, model selection analysis, and several classical assumption tests. This study used Panel data regression analysis to test hypotheses 1, 2, 3, and 4. Panel data are derived from a combination of time-series and cross-sectional data. It enables a more comprehensive analysis by accounting for individual variations (cross-section) and changes over time (time series). Meanwhile, hypotheses 5, 6, 7, and 8 were tested using moderation regression analysis (MRA). The panel data regression equation used in this study is presented as follows.

$$KL = \alpha_i + \beta_1 ST + \beta_2 PR + \beta_3 CSR + \beta_4 KA + e$$

Meanwhile, the moderation regression analysis equation in this study is as follows:

$$KL = \alpha_i + \beta_1 SM + \beta_2 PR + \beta_3 CSR + \beta_4 KA + \beta_5 {*}Z + \beta_6 SM{*}Z + \beta_7 PR{*}Z + \beta_8 CSR{*}Z + \beta_9 KA{*}Z + e$$

Description:

KL : Earnings quality

α_i : Constant of the i-th cross-section unit

β_1-β_9 : Regression coefficient

SM : Capital structure variable

PR : Profitability variable

CSR : CSR variable

KA : Accounting conservatism variable

Z : Managerial ownership variable

e : Estimated probability of error

RESULTS AND DISCUSSION

Descriptive statistical analysis summarizes and depicts the traits of the data being analyzed. This assessment includes metrics like the mean (average), standard deviation, highest and lowest values, variance, and visual formats like graphs and bar charts (Aziza, 2020). The findings from the descriptive statistical analyses are shown in the following section.

Table 2. Descriptive Statistical Test Results

	Minimum	Maximum	Mean	Std. Deviation
Earnings Quality	0.072	59.956	3.599	9.173
Capital Structure	-1.920	10.521	1.149	1.747
Profitability	0.001	0.593	0.148	0.152
CSR	0.021	0.451	0.194	0.108
Accounting Conservatism	0.104	8.464	1.902	1.672
Managerial Ownership	1.000	5.730	0.142	0.219

Source: Research Data, 2025

In 2023, PT Arkha Jayanti Persada Tbk achieved the lowest earnings quality. While the highest is by PT Atlas Resources Tbk., with an average of 3.599, reflecting earnings efficiency. The lowest capital structure was recorded at PT MNC Energy Investments Tbk., and the highest at PT Bakrie & Brothers Tbk., with an average of 1.149, indicating the dominance of debt financing. CSR values range from 0.021 to 0.451, with an average of 0.194, signaling low disclosure of CSR indicators. The highest accounting conservatism was achieved by PT Impack Pratama, the lowest by PT MNC Asia Holding, with an average of 1.902, indicating a conservative approach and optimistic market expectations. PT Baramulti Suksessarana Tbk owns the lowest managerial ownership. Moreover, the highest is PT MNC Energy, with an average of 0.142, reflecting that management ownership is still relatively low.

Table 3. Chow Test Results

Effects Test	Probability
Cross-section Chi-square	0.000

Source: Research Data, 2025

The Chow test results reveal a cross-section chi-square probability of 0.000, which falls below the 0.050 significance level (α). Consequently, H_1 is accepted, suggesting that the Fixed Effects Model (FEM) is more suitable for this study.

Table 4. Hausman Test Results

Test Summary	Prob.
Cross-section random	0.039

Source: Research Data, 2025

Furthermore, the Hausman Test yields a cross-sectional random probability of 0.039, less than the 0.050 threshold. This outcome further supports the acceptance of H_1 and corroborates the appropriateness of the Fixed Effect Model (FEM). Given the consistent findings from both tests, it can be concluded that the Fixed Effect Model (FEM) is the optimal approach for analysing this research.

Table 5. Multicollinearity Test Results

	Capital Structure	Profitability	CSR	Accounting Conservatism
Capital Structure	1.000	-0.263	-0.124	-0.066
Profitability	-0.263	1.000	-0.112	0.261
CSR	-0.124	-0.112	1.000	0.091
Accounting Conservatism	-0.006	0.261	0.091	1.000

Source: Research Data, 2025

Table 5 displays the outcomes of the multicollinearity assessment, indicating that no correlations among the independent variables surpass 0.800. A regression model is deemed free of multicollinearity concerns if the correlation coefficient among independent variables stays under this limit. As a result, it can be determined that the data does not show issues with multicollinearity. After the multicollinearity test, the second classic assumption test that must be carried out is the heteroscedasticity test.

Table 6. Heteroscedasticity Test Results

Variable	Prob.
C	0.008
Capital Structure	0.201
Profitability	0.404
CSR	0.089
Accounting Conservatism	0.287

Source: Research Data, 2025

Table 6 displays the findings of the heteroscedasticity test, showing that all probability values are more significant than 0.050. A dataset is regarded as having a heteroscedasticity problem when the p-value falls below 0.050. On the other hand, if the probability value exceeds 0.050, the data show no signs of heteroscedasticity. From these findings, the data in this research are devoid of heteroscedasticity. Moreover, a panel data regression analysis was performed to investigate how the independent variables influence the dependent variable. The findings from the earlier model selection analysis indicate that the Fixed Effect Model (FEM) is the most appropriate model for this research.

Table 7. Panel Data Regression Analysis

Variable	t	Sig.
Capital Structure	0.086	0.857
Profitability	-3.788	0.004
CSR	-14.118	0.009
Accounting Conservatism	0.164	0.698
Managerial Ownership	-0.151	0.891
Constant	8.461	0.001

Source: Research Data, 2025

According to table 7, the significance value of the capital structure variable is 0.857, which is higher than the 0.050 limit. Thus, the initial hypothesis is dismissed, suggesting that capital structure does not affect the quality of corporate earnings. This discovery indicates that the financing methods a company selects for its operational activities do not necessarily affect the quality of its earnings. A company’s capability to obtain funding and financing does not always directly correlate with the quality of its earnings. The main goal of capital structure is to enhance funding sources to maintain operational stability. In other words, having robust access to capital and financing for a company does not automatically ensure high-quality earnings. This outcome opposes agency theory, which suggests that agency costs related to debt emerge from conflicts between management and external stakeholders caused by high levels of debt use. The heavier a company's debt load, the more intricate the financial interactions can be, possibly affecting the quality of reported profits. Capital structure does not affect earnings quality because earnings quality is more determined by transparency and honesty in preparing financial statements, not by the size of the company's debt. Research conducted by Luas et al. (2021), Wulandari et al. (2021), Abidin et al. (2022), Maulia & Handojo (2022), and Ashma' & Rahmawati (2019) found that earnings quality is not influenced by capital structure.

Further testing was conducted to test the second hypothesis regarding the effect of profitability on earnings quality. The test results show that the significance value of 0.004 is smaller than 0.050, and the coefficient value is -3.788. This result validates that the profitability factor negatively impacts earnings quality, reinforcing the endorsement of the second hypothesis. Highly profitable firms frequently feel motivated to participate in earnings management to uphold a positive image of financial performance. Nonetheless, these practices may ultimately reduce the quality of earnings. This result is consistent with agency theory, which suggests that principals typically expect companies to secure substantial profits as a return on their investments, thus impacting the quality of reported earnings. However, although significant profitability shows a firm's capacity to produce profits, it does not automatically suggest that the disclosed earnings are of superior quality, because high profitability may have been manipulated by management to attract the attention of investors. The results of this study are in line with the findings obtained by Magdalena & Trisnawati (2022), Silaban & Harefa (2021), Yuliana & Fauziah (2022), Kepramareni et al. (2021), and Laoli & Herawaty (2019), who stated that there is an influence and significance between profitability and earnings quality.

Furthermore, testing was conducted to test the third hypothesis regarding the effect of CSR on earnings quality. The analysis results indicate that the CSR variable has a coefficient of -14.118 and a significance value of 0.009, less than 0.050. This suggests that CSR negatively impacts earnings quality, leading to the acceptance of the third hypothesis. CSR can be utilized by company management to cover up earnings management practices, which can reduce the quality of the company's earnings. Management can use CSR programs to divert stakeholders' attention from accounting practices that do not accurately reflect the company's financial condition. Highlighting social activities, environmental responsibility, and other sustainability aspects carried out by the company can build a positive image to cover up manipulations in financial reporting. Signaling theory also explains the same thing: CSR can function as a signal sent by the company to stakeholders who feel dissatisfied or experience a decrease in trust due to earnings management practices. The findings that CSR affects earnings quality are supported by the research of Witjaksono & Djaddang (2018), Witjaksono & Darmansyah (2016), Siswantaya (2022), Puteri & Titaningsih (2022), and Abhirama & Ghozali (2021), which are in line with the results of this study.

Further testing was conducted to examine the fourth hypothesis regarding the effect of accounting conservatism on earnings quality. The test outcomes show that the fourth hypothesis is dismissed since the accounting conservatism variable possesses a coefficient of 0.164 and a significance level of 0.698, which exceeds 0.050. It implies that accounting conservatism does not significantly influence the quality of earnings. Accounting conservatism reflects a cautious attitude in the face of uncertainty in profit or loss by slowing down revenue recognition, accelerating cost recording, lowering asset valuations, and increasing debt valuations. Accounting conservatism focuses on prudence in financial reporting without transactions. Therefore, while reported earnings may appear lower or more stable, this does not directly increase or decrease earnings quality because the information presented is based on consistently applied accounting policies. However, unlike agency theory, accounting conservatism reduces agency conflicts by suppressing information asymmetry. It is done through a mechanism that limits the manipulation or inflation of accrual income information that management can do (Nizar & Kiswanto, 2022). Research conducted by Anggraeni & Widati (2022), Ritonga et al. (2023), Halim (2022), Yusmaniarti et al. (2023), and Nizar & Kiswanto (2022) is not in line with this study's results, which state that there is a positive influence between conservatism and earnings quality. In this study, moderating variables were tested using moderation regression analysis.

Table 8. Moderated Regression Analysis

Variable	T	Sig.
Capital Structure*Managerial Ownership	16.854	0.012
Profitability*Managerial Ownership	6.723	0.001
CSR*Managerial Ownership	-44.601	0.027
Accounting Conservatism*Managerial Ownership	0.036	0.980
Constant	7.414	0.001

Source: Research Data, 2025

As shown in table 8, the fifth hypothesis examines whether managerial ownership moderates the relationship between capital structure and earnings quality. The results indicate a coefficient of 16.854 with a significance level of 0.012, confirming that the hypothesis is supported since the significance value is below 0.050. In other words, managerial ownership strengthens the impact of capital structure on earnings quality. When managers own shares in the company, they tend to make more careful financial decisions, reducing risks that could negatively affect earnings quality. Additionally, managerial ownership helps align the interests of management and shareholders, fostering greater transparency and accountability in financial management. As a result, companies with higher managerial ownership are more likely to maintain a stronger link between capital structure and earnings quality. In agency theory, management and shareholders often have different interests, which can encourage management to manipulate the financial statements. However, when managers share ownership in the company, the level of supervision over them increases, and the resulting earnings tend to be of higher quality. In addition, managers' sharing ownership also makes them more careful in making decisions because their interests are now more aligned with the company's success. This research aligns with that conducted by Lusiani & Khafid (2022), which found that the effect of capital structure on earnings quality can be moderated by managerial ownership. Similar results were also reported by Safira et al. (2022), Putri & Imron (2022), Mardiana et al. (2022), and Sijabat & Nursyirwan (2023), who found that a higher proportion of managerial ownership in a company incentivizes management to work more diligently in the interests of shareholders who are also themselves, thereby enhancing earnings quality.

Further tests were conducted to test the sixth hypothesis related to managerial ownership variables' effect in moderating the profitability's impact on earnings quality. The interaction of organizational ownership and profitability on earnings quality has a coefficient value of 6.723 and a significant value of 0.001. These results indicate that the sixth hypothesis is supported. This shows that the effect of profitability on earnings quality is strengthened by managerial ownership. Every company's primary goal is to achieve optimal performance, operate effectively, and generate maximum profit. Maximum profit can indicate whether the company is considered good (Lusiani & Khafid, 2022). It shows that managerial ownership encourages management to be more responsible in preparing quality financial reports without earnings management, so the earnings presented are more accurate and reflect the company's financial condition. In agency theory, differences in interests between agents and principals arise due to the granting of authority to manage the company from the owner to the management. Therefore, with shared ownership by management, the difference in interests can be reduced. Research conducted by Lusiani & Khafid (2022) is in line with the results of this study, which states that managerial ownership can moderate the effect of profitability on earnings quality. The study explains that companies with many assets will maximize operational activities to produce quality earnings. This research is also supported by Rumapea et al. (2024), Niwat & Erawati (2022), Magdalena & Trisnawati (2022), and Silaban & Harefa (2021), who state that the quality of corporate earnings improves with the presence of executives who are also stakeholders.

Additional tests were conducted to examine the seventh hypothesis, which examines whether managerial ownership influences the relationship between earnings quality and CSR. The results showed a coefficient of 44.601 with a significance level of 0.027, confirming the validity of the hypothesis. Companies tend to disclose more about their CSR activities as managerial ownership increases. Due to the high involvement of management in the company, they are encouraged to be more committed to transparent and sustainable practices. Greater CSR disclosure can increase investor and stakeholder confidence. Ultimately, transparency in CSR reporting improves the quality of earnings generated. According to agency theory, there are differences in interests between agents and principals; however, managerial ownership can reduce this conflict (Lusiani & Khafid, 2022). When managers own shares in the company, they are more likely to make decisions that align with the interests of shareholders, including CSR disclosure. Therefore, managerial ownership can act as a mechanism to align the interests of both parties. Aldoseri & Hussein (2024) assert that managerial ownership influences earnings quality, indicating that managerial share ownership can impact the quality of reported earnings. This research is also supported by Putri & Imron (2022), Siswantaya (2022) Witjaksono & Djaddang (2018), and Witjaksono & Darmansyah (2016) study, which yielded similar results.

The next test was conducted to test the last hypothesis related to the effect of managerial ownership variables on moderating accounting conservatism on earnings quality. The coefficient value of 0.036 and the significance value of 0.980 state that the last hypothesis is rejected because the significance level obtained is greater than 0.050. In other words, managerial ownership does not significantly change its impact on earnings quality. It is because applicable accounting standards have a greater influence on decisions related to accounting conservatism. In addition, management's share ownership does not always encourage the application of conservatism in financial reporting because their focus tends to be more on increasing company value or achieving the company's primary targets. It differs from the theory proposed by Jensen and Meckling, which states that managers ' share ownership can affect the level of accounting conservatism (Halim, 2022). Managers holding a significant share of ownership tend to be more conservative in recognizing profits. Research conducted by Putri & Imron (2022), Niwat & Erawati (2022), Aldoseri & Hussein (2024), Yusmaniarti et al, (2023), and Sari & Widodo (2022). states that an increase in managerial ownership improves the quality of earnings generated.

CONCLUSION

This study explores how capital structure, profitability, corporate social responsibility (CSR), and accounting conservatism influence earnings quality, with managerial ownership as a moderating factor. The findings show that capital structure does not significantly impact earnings quality, while profitability and CSR lower it. Meanwhile, accounting conservatism does not make much of a difference. Managerial ownership does affect how capital structure, profitability, and CSR relate to earnings quality, but does not change the impact of accounting conservatism. The existence of managerial ownership can harmonize the decisions made by management and shareholders, improving the quality of earnings generated.

Based on the findings of this study, researchers suggest that companies implement CSR practices and accounting conservatism well. It can help companies attract more investors and ultimately affect earnings quality. These insights offer helpful guidance for companies in the industrial and energy sectors, helping them improve the quality of their earnings reports. This, in turn, can support better decision-making for both internal management and external stakeholders. Future research is recommended to expand the sample to other sectors such as finance, agriculture, or technology so that the research results become more generalized. Future researchers are also expected to add other rarely studied variables, such as blockchain, green accounting, etc. Further research is recommended to extend the observation period to obtain a deeper and more comprehensive understanding.

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