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THE EFFECT OF CAPITAL STRUCTURE, LIQUIDITY, COMPANY SIZE AND MANAGERIAL OWNERSHIP ON EARNINGS QUALITY

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ABSTRACT
This study aims to empirically examine the influence of capital structure, liquidity, firm size, and managerial ownership on earnings quality. The approach used is a method utilizing secondary data. The research sample was determined through a purposive sampling technique, resulting in 16 companies as research objects. Data processing was performed using the SPSS 25 program. The results of the study indicate that capital structure and managerial ownership have a significant negative effect on earnings quality. Meanwhile, firm size has a positive effect on earnings quality. Furthermore, the liquidity variable has no effect on earnings quality.

Keywords: Capital structure, Liquidity, Firm size, Managerial ownership, Earnings quality

INTRODUCTION
A company's financial report provides information that illustrates the company's performance. Financial reports are important indicators for stakeholders, both external and internal. A company's success in increasing profits or losses can be seen through financial reports (Magfiroh & Widati, 2023). In financial reports, earnings quality is a crucial factor to consider. If earnings quality is low, it means the reported profit does not reflect the company's actual performance, which can influence decision-making. The following is a breakdown of the net profit of healthcare companies listed on the Indonesia Stock Exchange for 2019-2024. The healthcare sector experiences fluctuations in net profit from year to year. In 2020, the average net profit increased by 16.42%. Then, in 2021, there was a more significant increase to 20.77%. In 2022, net profit growth increased by 2.38% following the pandemic. Subsequently, the pharmaceutical sector's average net profit declined by 9.44% in 2023, and by 4.96% in 2024. The majority of pharmaceutical issuers experienced poor financial performance in 2023 and incurred losses due to declining sales, operational issues, fraudulent acts involving financial statement manipulation that led to losses, and various forms of manipulation and concealment of critical information, such as fictitious revenue recording, inflated asset values, and concealment of financial liabilities.

Capital structure relates to the financial composition of the entity, specifically its debt and internal financial resources (Magfiroh & Widati, 2023). Research by Astute et al. (2020) and Lusiani & Khafid (2022) indicates that capital structure has a significant positive effect on earnings quality. Meanwhile, Magfiroh & Widati (2023) state that capital structure has a negative effect on earnings quality.

Liquidity is used to demonstrate a company's ability to meet its short-term financial obligations using available current funds. Liquidity is a financial ratio and indicator of management performance in managing company finances (Magfiroh & Widati, 2023). Research by Azizah et al. (2022), Telaumbanua & Purwaningsih (2022), and Magfiroh & Widati (2023) indicates that liquidity has a positive effect on earnings quality. Meanwhile, Marlina and Idayati (2021) state that liquidity has a negative effect on earnings quality.

Company size is used as a parameter to indicate the size of an entity, which can be determined based on total assets, total sales, total profit, tax burden, and other factors (Aji et al., 2023). Research by Mulyani et al. (2022), Nainggolan et al. (2021), and Tarigan (2022) indicates a positive effect of company size on earnings quality. Meanwhile, Hanifah et al. (2021) and Indrawan et al. (2020) state that company size has a negative effect on earnings quality.

Managerial ownership is an integral part of corporate governance. When managers own shares, this can motivate them to work more effectively to improve company performance (Nandika & Sunarto, 2022). Research by Setyarini et al. (2020), Hidayatul et al. (2022), and Winda Mulyani et al. (2022) indicates that managerial ownership has a positive and significant effect on earnings quality. Meanwhile, Dewi & Fachrurrozie (2021) state that managerial ownership has a negative effect on earnings quality.

This research expands on the research of Magfiroh & Widati (2023). Previous research suggested adding independent variables, expanding the sample size, and extending the research period. This study aims to empirically demonstrate the influence of capital structure, liquidity, company size, and managerial ownership on earnings quality. The sample for this study will be healthcare companies listed on the Indonesia Stock Exchange.

LIBRARY REVIEW

Theoretical basis

Theory Agency

Theory agency According to Jensen & Meckling (1976), the relationship between principals and managers is explained. Both require information about the company, even though they have different interests. The purpose of providing information is to prevent differences in information that can give rise to agency problems. Agencyis often viewed as an attempt by the parties involved to maximize their respective interests. However, this theory still emphasizes commitment to the contract. A contract can be considered efficient if it is able to encourage all parties involved to implement the agreement as agreed without causing disputes. Information is a crucial element for investors and business actors. Essentially, information provides information, notes, or a picture of past, present, and future conditions that influence the company's survival. Therefore, the availability of complete, relevant, accurate, and timely information is crucial for investors in the capital market so they can conduct in-depth analysis and make informed investment decisions.

Profit quality

Earnings quality is a primary concern for stakeholders, especially those who expect high-quality earnings. A high-quality profit reflects a company's true financial condition (Luas et al., 2021). A high-quality profit is achieved when a company meets or exceeds its predetermined profit targets, while a low profit occurs when an entity fails to achieve its set profit targets (Desyana et al., 2023). Earnings quality reflects the extent to which a company implements conservatism, compared to companies with low-quality earnings. Profit is necessary for companies to survive in the economy and ensure business continuity. Accounting profit is the difference between realized revenue arising from transactions during a given period and costs incurred during that period. Therefore, profit is the income earned when the total net assets at the end of the period, excluding distributions and owner contributions, are greater than the net assets at the beginning of the period (Abidin et al., 2022).

Capital structure

Capital structure is the use of assets and funding sources by a company that has fixed costs (fixed expenses) with the aim of increasing potential shareholder profits. Capital structure is measured by*leverage*Capital structure is a variable used to determine the extent of a company's assets financed by debt (Nengsih & Mardini, 2024). Capital structure is important for a company because it is part of the management that determines the financing structure, which consists of equity and long-term debt (Yuda, 2023). Capital structure plays a crucial role for a company because it manages and can determine the company's financing structure. Corporate financing consists of equity and long-term debt, which are used by companies to attract investors (Yuda, 2023). According to agency theory, excessive use of debt can lead to conflicts between management and external parties due to the risk of default and agency costs, increasing debt, which can lead to a decline in earnings quality.

This is consistent with research conducted by Astute et al. (2020), Lusiani & Khafid (2022), and Hasna & Aris (2022), which states that capital structure has a positive effect on earnings quality. The more effectively a company manages its capital structure, the better the resulting earnings quality. An optimal capital structure indicates a company's sound management and ability to effectively manage risk. By understanding and managing its capital structure effectively, companies can improve earnings quality and reduce earnings manipulation. Based on the above statement, the first hypothesis is:

H_1: Capital structure has a positive effect on earnings quality.

Liquidity

Liquidity is a ratio that measures a company's ability to meet current liabilities. High liquidity indicates a company's financial health and ability to pay off all current liabilities in a timely manner (Magfiroh & Widati, 2023). A company's liquidity is a crucial factor to consider in decision-making. Liquidity refers to a company's ability to meet short-term obligations using its assets and is one aspect that impacts the quality of a company's profits (Yuda, 2023). In the context of agency theory, a high level of liquidity can reduce the tendency between managers and shareholders, preventing managers from manipulating earnings. Thus, company profits increase because financial statements become clearer and more accurate.

Research conducted by Azizah et al. (2022), Telaumbanua & Purwaningsih (2022), and Magfiroh & Widati (2023) found that liquidity has a positive effect on earnings quality. The higher a company's liquidity, the better its earnings quality. High liquidity reflects a company's ability to meet its short-term obligations, indicating good financial performance. If a company can meet its short-term debt, it is considered sound in terms of debt repayment, as they do not need to manipulate the financial statements they obtain.

H_2: Liquidity has a positive effect on earnings quality.

Company size

Company size reflects the ability to manage its assets, reflecting the company's size. Company size is an important factor for investors. The larger the company, the more trust and confidence investors have in investing in that company (Magfiroh & Widati, 2023). Company size reflects the size of the company relative to its total assets. Companies with high total assets are relatively more stable and capable of generating good profits. According to agency theory, company size has a complex relationship with earnings quality. Large company size is usually accompanied by strict supervision, reducing the opportunity for management to manipulate data. Investors generally place more trust in large companies. This is because large companies are considered more capable of improving their performance by improving earnings quality.

Research conducted by Mulyani et al. (2022), Nainggolan et al. (2021), and Tarigan (2022) found that company size has a positive effect on earnings quality. Company size is related to earnings quality because larger companies are more likely to sustain their business and improve financial performance, enabling them to generate quality earnings. Based on the statement above, the third hypothesis in this study is:

H_3: Company size has a positive effect on earnings quality.

Managerial ownership

Managerial ownership refers to shares in a public company owned by individuals or elite groups within the company (Mulyani et al., 2022). This ownership reflects a form of transparency in good corporate governance, requiring management to be transparent to avoid conflicts of interest with shareholders as capital owners (Safira et al., 2022). Furthermore, managerial ownership also reflects the proportion of shares held by management who are actively involved in key company decision-making, thus influencing the company's overall policy direction and performance (Hidayatul et al., 2022). According to agency theory, when the interests of owners and agents are aligned through managerial ownership, the incentive to engage in earnings management will be reduced, resulting in higher quality earnings reports.

Research conducted by Setyarini et al. (2020), Hidayatul et al. (2022), and Mulyani et al. (2022) states that managerial ownership has a positive effect on earnings quality. The greater the proportion of managerial ownership, the greater the manager's sense of responsibility for increasing company value. This makes managers more cautious in decision-making and reduces opportunistic practices, thus resulting in earnings reports that better reflect the actual conditions and improve their quality (Hidayatul et al., 2022). This provides evidence that managerial ownership reduces the incentive for managers to prioritize individual self-interest. Based on the statement above, the fourth hypothesis of this study is:

H_4: Managerial ownership has a positive effect on earnings quality

Based on the previous explanation, the conceptual framework for this study can be drawn as follows:

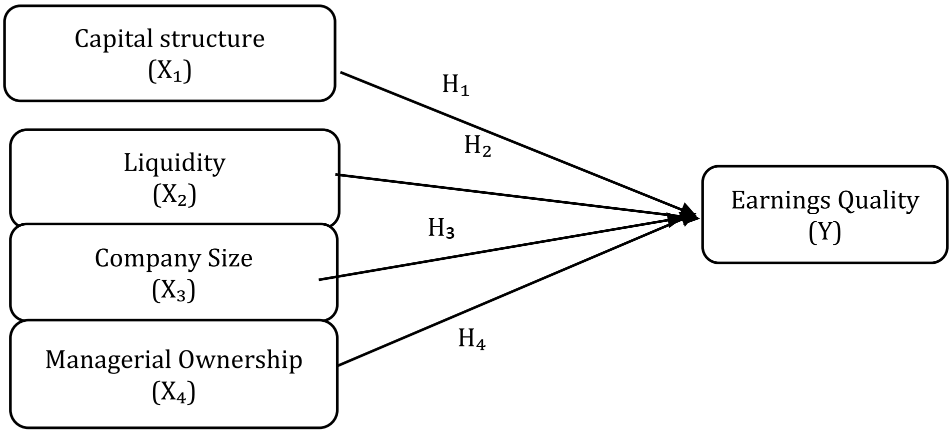

Figure 1. Conceptual framework

RESEARCH METHODOLOGY

This study uses quantitative methods to test the influence of capital structure, liquidity,*size,* and managerial ownership on earnings quality. The study population included healthcare sector companies listed on the Indonesia Stock Exchange during the 2019-2024 period. The sampling method used was non-probability sampling with a purposive sampling technique, which allowed researchers to select a representative sample based on the criteria of healthcare sector companies listed on the IDX, which have complete financial reports.

The data used is secondary data in the form of annual financial data obtained from the IDX and the company's official website. Data analysis was conducted using*software* SPSS. The tests conducted included descriptive analysis, classical assumption testing, multiple linear regression testing, and hypothesis testing. The population in this study consisted of 38 healthcare sector companies listed on the Indonesia Stock Exchange. From this population, 16 companies were selected as the research sample. Based on the criteria of data completeness and relevance to the research focus, this research sample represents the healthcare sector listed on the Indonesia Stock Exchange, so the research results are expected to describe a representative condition.

RESULTS AND DISCUSSION

Research result

This research was conducted on healthcare companies listed on the Indonesia Stock Exchange. It used secondary data obtained from www.id.co.id. The sampling method used was non-probability sampling with a purposive sampling technique, which allowed researchers to select a representative sample based on specific criteria.

Table 1. Descriptive Statistics

Variables	**N**	**Minimum**	**Maximum**	***Mean***	***Std. Deviation***
Capital Structure	96	0,051	0,993	0,462	0,245
Liquidity	96	0,059	0,999	0,526	0,250
Company Size	96	14,514	31,013	24,202	5,441
Managerial Ownership	96	0,007	0,994	0,512	0,351
Earnings Quality	96	0,023	0,991	0,549	0,253

1. Capital structure in this study was measured using the Debt-to-Equity Ratio (DER). The analysis revealed an average capital structure of 0.462 and a standard deviation of 0.245. Most companies fall into the medium category, indicating moderate debt usage.

2. Company liquidity is measured using the current ratio. The current ratio analysis results show an average of 0.526 and a standard deviation of 0.250. Most companies fall into the moderate category, meaning they are relatively well able to meet short-term obligations. However, some companies have very low or very high liquidity.
3. Company size, measured by size, had a mean value of 24.202 and a standard deviation of 5.441. These results indicate that the majority of companies fall into the medium category, although there is considerable variation from small to very large companies. This demonstrates the diversity of the research sample.
4. Managerial ownership, measured by KM, yielded an average value of 0.512. This indicates that managers generally hold approximately 51.2% of their shareholding. The standard deviation is 0.253. This indicates that managerial ownership is categorized as moderately dominant, meaning it is at a significant level. This condition has the potential to improve the alignment of interests between managers and shareholders.
5. Earnings quality was measured using the KL coefficient. The descriptive statistical analysis yielded an average value of 0.549 and a standard deviation of 0.253. This indicates that the average earnings quality is in the moderate category, indicating that companies are capable of generating profits of fairly good quality, although there are still companies with low and very high earnings quality.

Hypothesis Testing

Coefficient of Determination

Table 2. coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,545	0,297	0,266	0,119

Based on the test results, the R value was 0.545, indicating a fairly strong relationship between the variables and the dependent variable, namely earnings quality. A value of 0.297 means that approximately 29.7% of the variation in earnings quality can be explained by the independent variables in the model.Adjusted R Square of 0.266 indicates a more accurate adjustment to the number of variables in the model, so it can be concluded that this regression model is quite strong in explaining the relationship between variables. Meanwhile, the value Standard Error of the Estimateof 0.119 indicates a relatively small level of prediction error, so the regression model can be considered quite good and suitable for use for further analysis.

Partial Test (t-Test)

Table 3. Partial Test Results

Model		Unstandardized coefficients		Standardized coefficients	t	Say.
		B	Std.Error	Beta		
1	Constant	0,480	0,079		6,074	0,000
	Capital structure	-0,180	0,052	-0,327	-3,475	0,001
	Liquidity	0,090	0,050	0,161	1,798	0,075
	Company size	0,006	0,002	0,237	2,525	0,013
	Managerial ownership	-0,083	0,034	-0,220	-2,456	0,016

DISCUSSION

The influence of capital structure on earnings quality

The test results show that capital structure has a regression coefficient of -0.180 with a significance level of 0.001, which is less than 0.05. This indicates that capital structure has a significant negative effect on earnings quality. Therefore, the greater the use of debt in corporate financing, the lower the resulting earnings quality. This situation increases the likelihood of debt contract violations. To avoid this, management is encouraged to engage in earnings management practices, resulting in lower earnings quality (Rohmansyah et al., 2022).

Based on agency theory, which explains that excessive use of debt can create a conflict of interest between management (agent) and shareholders (principals), when a company has a large proportion of debt, the risk of default increases and the interest burden becomes heavier. The research findings align with Rohmansyah et al. (2022) and Magfiroh & Widati (2023) who stated that capital structure negatively impacts earnings quality. This suggests that the higher the proportion of debt in the capital structure, the greater the cost burden the company must bear. This can reduce profits and ultimately reduce earnings quality.

The effect of liquidity on earnings quality

The test results show that the liquidity variable, measured by the Current Ratio (CR), has a significance value of 0.075, greater than 0.05, with a regression coefficient of 0.090. These results indicate that liquidity does not significantly impact earnings quality. Therefore, even if a company has a high level of liquidity, this does not automatically improve the quality of its earnings (Zahrah et al., 2024).

Based on agency theory, this can occur because managers may not optimally utilize liquidity to improve earnings performance. High current assets do not guarantee reliable earnings reports, as managers may remain focused on short-term operations or specific interests, rather than on earnings quality. The results of this study align with those of Rohmansyah et al. (2022) and Zahrah et al. (2024), who argued that liquidity has no effect on earnings quality. These results indicate that a company's liquidity level is not a primary factor in determining earnings quality. A more crucial factor is how management effectively utilizes and manages current assets to achieve reliable and transparent earnings reports.

The effect of company size on earnings quality

The test results show that company size has a significance value of 0.013, less than 0.05, with a regression coefficient of 0.006. This indicates that company size has a positive and significant effect on earnings quality, suggesting that larger companies tend to generate more reliable and quality earnings. Larger companies typically have more adequate resources, a robust internal control system, and strong managerial and operational capacity, resulting in more transparent and reliable financial reports (Magfiroh & Widati, 2023).

Based on agency theory, although conflicts of interest between managers and shareholders are still possible, larger companies have more effective oversight mechanisms, such as a strong board of commissioners, internal auditors, and strict accounting procedures. This can limit opportunistic behavior by managers and encourage the preparation of higher-quality earnings reports (Desyana et al., 2023). Study This is in line with research by Desyana et al. (2023), Rohmansyah et al. (2022), and Magfiroh & Widati (2023), which states that company size has a positive effect on earnings quality. This is because larger companies generally have better managerial and operational capacity, thus producing more accurate and high-quality earnings reports.

The influence of managerial ownership on earnings quality

The test results show that managerial ownership has a significance value of 0.016, smaller than 0.05, with a t-value of -2.456. This indicates that managerial ownership has a significant negative effect on earnings quality. The greater the share ownership by managers, the resulting earnings quality tends to decline due to potential conflicts of interest between managers and shareholders. Managers who own large amounts of shares are sometimes encouraged to make decisions that benefit personal or short-term interests, thereby increasing the risk of earnings management practices and reducing the reliability of financial reports (Riyan & Rakhmawati, 2024).

Based on agency theory, high managerial ownership does not always align the interests of managers and shareholders. In some cases, managers may focus more on personal gain or job security, resulting in lower reported earnings quality. This research aligns with research by Riyan & Rakhmawati (2024), who stated that managerial ownership negatively impacts earnings quality. The greater the manager's share ownership, the more focused they are on maintaining control and personal gain rather than improving earnings quality. This condition can trigger manipulation of financial statements or earnings management, resulting in less accurate earnings information and declining quality.

CONCLUSION

Research results show that company size The results showed that earnings quality had a positive effect on the earnings quality of healthcare companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2024 period, while capital structure and managerial ownership had a negative effect, and liquidity had no effect on earnings quality. This study has several limitations. First, the study was limited to healthcare companies, so the results cannot be generalized to other sectors. Second, the independent variables used were limited, thus not reflecting all factors influencing earnings quality.

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