

**THE EFFECT OF PROFITABILITY, PROFIT GROWTH, *LEVERAGE*,
AND MANAGERIAL OWNERSHIP ON PROFIT QUALITY WITH
CAPITAL STRUCTURE AS A MODERATING VARIABLE**

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Abstrak

Studi ini bertujuan untuk mengevaluasi dampak profitabilitas, pertumbuhan laba, leverage, dan kepemilikan manajerial terhadap kualitas laba, dengan struktur modal sebagai variabel moderasi, pada perusahaan-perusahaan perbankan yang terdaftar di Bursa Efek Indonesia sepanjang periode 2021 hingga 2024. Pendekatan penelitian ini menggunakan metode kuantitatif. Data yang dianalisis merupakan data sekunder, diperoleh dari laporan keuangan tahunan dengan teknik purposive sampling, sehingga diperoleh 45 perusahaan selama periode penelitian yang berlangsung selama 4 tahun. Dalam analisis data, diterapkan regresi linear berganda dan *Moderated Regression Analysis* (MRA) dengan memanfaatkan perangkat lunak IBM SPSS Statistic 24. Temuan dari studi ini mengindikasikan bahwa profitabilitas, pertumbuhan laba, dan *leverage* berpengaruh positif yang signifikan terhadap kualitas laba, sedangkan kepemilikan manajerial memiliki dampak negatif yang signifikan terhadap kualitas laba. Di samping itu, struktur modal terbukti dapat memoderasi dampak *leverage* terhadap kualitas laba, namun gagal dalam memoderasi dampak kepemilikan manajerial.

Kata Kunci: Profitabilitas, Pertumbuhan Laba, *Leverage*, Kepemilikan Manajerial, Kualitas Laba, Struktur Modal.

Abstract

This study aims to evaluate the impact of profitability, profit growth, leverage, and managerial ownership on earnings quality, with capital structure as a moderating variable, in banking companies listed on the Indonesia Stock Exchange from 2021 to 2024. This research approach uses quantitative methods. The analyzed data is secondary data obtained from annual financial reports using a purposive sampling technique, resulting in a sample of 45 companies over the

four-year study period. Multiple linear regression and Moderated Regression Analysis (MRA) were used with the help of IBM SPSS Statistics 24 software. The findings of this study indicate that profitability, profit growth, and leverage have a significant positive effect on earnings quality, while managerial ownership has a significant negative impact on earnings quality. In addition, capital structure is proven to moderate the impact of leverage on earnings quality, but fails to moderate the impact of managerial ownership.

Keywords: Profitability, Profit Growth, Leverage, Managerial Ownership, Earnings Quality, Capital Structure.

A. INTRODUCTION

The phenomenon that underpins this research is the decline in profits at several major Indonesian banks, such as PT Bank Central Asia Tbk (BCA) and PT Bank Negara Indonesia Tbk (BNI) in the fourth quarter of 2024. This decrease was caused by slowing increase in net interest income, decrease in income other than interest, and increases reserve costs due to the risk of problematic credit, such as the bankruptcy of PT Sri Rejeki Isman Tbk (Sritex). This phenomenon raises questions about the quality of bank earnings and the role of internal factors. Earnings quality is one of the most crucial elements in delivering financial reports because it is often used as a guideline in decision-making by investors, creditors, regulators, and many other interested parties. High-quality earnings not only reflect the actual performance of a company but also demonstrate trust in management's ability to manage its resources.

However, in practice, earnings quality is often influenced by accounting policies and revenue management practices that can reduce the relevance and reliability of financial reports. This situation further emphasizes the importance of research into factors that can influence earnings quality, particularly in the banking sector, which relies heavily on public trust.

Agency Theory

Agency theory explains the conflict that arises between management and stakeholders. In this context, earnings manipulation by management is often viewed as

immoral. Management often attempts to alter earnings figures for their own benefit, which can cast doubt on the reliability of reports. Non-transparent financial reports can harm investors and many others who rely on the information (Abhirama & Ghozali, 2021).

Signaling Theory

Signaling theory explains that signals convey a message; the sender (data owner) attempts to convey important information that can be used by the recipient (Munzir *et al.*, 2023).

Earnings Quality

Profit quality is the quality of publicly available earnings information, which is able to show how much earnings can influence decisions made and can be used by investors to evaluate companies (Salma & Riska, 2020). Earnings quality, from various perspectives, demonstrates that earnings must be able to consistently withstand changes in assets. Furthermore, analysis of earnings quality also indicates that significant profits arise when the earnings value provides the appropriate benefit to the company (Hastuti & Lusiana, 2023).

Profitability

Profitability reflects a company's effectiveness in generating profits by utilizing all available capital and resources. Therefore, this ratio is essential in assessing a company's value (Herikusnanto & Sudjiman, 2022). Profitability itself aims to determine the net profit generated by a company during its operations. Companies with efficient and optimal operational results will reflect high profitability (Lusiani & Khafid, 2022). Therefore, the company is considered to have positive financial prospects, and the available financial information is of high quality, ensuring the company's future sustainability (Desyana *et al.*, 2023).

Profit Growth

Companies that have the initiative and opportunity to grow can profit from their operational activities, reflecting superior financial performance and producing high-quality profit data. Profit growth also reflects a company's ability to maintain economic stability and management's success in achieving predetermined profit targets (Desyana *et al.*, 2023).

Leverage

Leverage is a ratio that shows the company's ability to pay off its long-term debt obligations (Kusoy & Priyadi, 2023) *Leverage* is used to determine the amount of debt required to support company operations. Increasing debt-funded assets weakens investors' positions. This situation encourages management to manipulate profits to attract investors, thus understating the company's true financial condition, which negatively impacts the company's profitability (Lestari & Khafid, 2021).

Managerial Ownership

Managerial ownership refers to the proportion of shares owned by the company executives, with the aim of increasing managerial efficiency and maximizing profits. In this context, management acts as owners and actively participates during the decision-making process related to the company (Agustin and Rahayu, 2022). Management ownership refers to share ownership held by individuals involved in company management that is actively involved in decision-making steps, including managers, members of the supervisory board, and the board of directors (Sari *et al.*, 2021).

Capital structure

Capital structure is one of the factors that can attract investors' interest in investing their funds in a company. Capital structure is the ratio of a the amount of a company's debt compared to its total equity (Maryunda *et al.*, 2023). Capital structure refers to the proportion or compare between total long-term debt and equity (Muliana & Ahmad, 2021). Capital structure describes the ratio of debt used to support investments. Therefore, by

understanding capital structure, investors can understand the balance between risk and return on their investments (Nabila & Rahmawati, 2022).

B. METHOD

This study applies quantitative methods to examine the causal relationships between variables. The study subjects included 47 banks listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The sample selected in this study was determined using a purposive sampling technique, resulting in 45 banks that met the predetermined criteria:

1. Banking institutions listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period.
2. Banking companies that do not present comprehensive annual financial reports during the 2021–2024 period.

C. RESULTS AND DISCUSSIONS

Descriptive Statistical Analysis Test

Tabel 1. Descriptive Statistical Analysis Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	136	-1.24	2.12	.2125	.83070
Profit Growth	136	-2.59	2.12	.0385	.68302
Leverage	136	-2.60	1.41	.2258	.63931
Managerial Ownership	136	-1.75	1.68	.1316	.58050
Earnings Quality	136	-1.32	4.14	.1035	.84011

Capital Structure	136	-1.85	1.95	.0295	.88706
Valid N (listwise)	136				

Source: Data processed by IBM SPSS Statistics 24

Table 1 shows that:

- a. The profitability variable (X1) shows a relatively low minimum value of -1.24, indicating that some companies are experiencing losses. Conversely, the relatively high maximum value of 2.12 indicates that some companies are experiencing relatively good profitability. Furthermore, the mean value of 0.2125 indicates that companies are generally earning positive profits, and the standard deviation value of 0.83070 indicates significant variation between companies in terms of profitability.
- b. The profit growth variable (X2) showed the lowest value of -2.59, indicating that some companies experienced a decline in profits. Meanwhile, the highest value of 2.12 reflects high profit growth in several companies. The average value of 0.0385 indicates stability in company profit growth with the possibility of a decline. On the other hand, the standard deviation value of 0.68302 indicates variation in the instability of profit growth among these companies.
- c. The *leverage* variable (X3) recorded the lowest value of -2.60, indicating that the company has a minimal level of *leverage*. Meanwhile, the highest value of 1.41 indicates that the company uses a significant proportion of debt. On the other hand, the average value of 0.2258 suggests that the majority of companies have a financing structure dominated by equity rather than debt. Furthermore, the standard deviation value of 0.63931 indicates a quite striking difference among companies in their use of *leverage*.

- d. The managerial ownership variable (X4) has a low (minimum) value of -1.75, indicating that the company has a low level of managerial ownership. The highest (maximum) value of 1.68 indicates that the company has quite substantial managerial ownership. The average (mean) value of 0.1316 indicates that managers own a small portion of the company's shares, and the standard deviation value of 0.58050 indicates that there are differences in the level of managerial ownership between companies.
- e. The earnings quality variable (Y) has a low (minimum) value of -1.32, indicating a company with low earnings quality. The highest (maximum) value of 4.14 indicates high earnings quality. The average (mean) value of 0.1035 indicates that companies generally tend to have good earnings quality, and the standard deviation value of 0.84011 indicates differences in earnings quality among banking companies.
- f. The capital structure variable (Z) has a low (minimum) value of -1.85, indicating that the company's capital structure has a very low level of debt compared to equity. The highest (maximum) value of 1.95 indicates a high capital structure, or the use of large debt compared to equity. The average (mean) value of 0.0295 indicates that the company's capital structure is around the standard mean, and the standard deviation value of 0.88706 indicates that some companies have a non-progressive capital structure.

Hypothesis Testing

Tabel 2. Partial Test Results (t-Test)

Coefficientsa

Model		T	Sig.
1	(Constant)	4.770	.000
	Profitability	3.750	.000
	Profit Growth	5.217	.000

	Leverage	3.497	.001
	Managerial Ownership	-1.982	.050

a. Dependent Variable: Earnings Quality

Source: Data processed by IBM SPSS Statistics 24

Based on the partial test results in table 2, it can be seen that:

- a. The significance value for the profitability variable is $0.00 < 0.05$, and the calculated t value is $3.750 > 1.65613$. It can be concluded that there is a significant positive effect between profitability and earnings quality. This means that the greater the company's profits, the better the quality of its earnings. Profits derived from efficient and productive operating activities will better reflect the company's true financial condition, making profit information more reliable and relevant for financial statement users.
- b. The significance value for the profit growth variable is $0.00 < 0.05$, and the calculated t value is $5.217 > 1.65613$. It can be concluded that there is a significant positive effect between profit growth and earnings quality. This indicates that companies with stable profit growth tend to have better earnings quality. Good profit growth indicates that the profits earned are not temporary or manipulative, but are the result of consistent and sustainable operational performance. Continuous improvement also sends a good signal to investors and other stakeholders that the company is managed effectively and has strong long-term growth potential.
- c. The significance value for the *leverage* variable is $0.01 < 0.05$, and the calculated t-test is $3.497 > 1.65613$. Thus, it can be concluded that there is a significant positive relationship between leverage and earnings quality. In other words, the greater a company's debt, the better its earnings quality. This positive impact indicates that companies with higher debt tend to be more cautious in preparing their financial statements, as they are under the scrutiny of creditors to maintain trust and transparency of financial information. In this case, debt can act as an

instrument to control manager behavior, encouraging them to act more efficiently and responsibly.

- d. The significant value for the managerial ownership variable is 0.050 and the calculated t value > t table is obtained - 1.982 > 1.65613 Thus, it can be concluded that there is a significant negative relationship between managerial ownership and earnings quality, indicating that increasing managerial ownership will result in a decrease in earnings quality. However, because the significance value is at the right threshold, the strength of the evidence for the relationship between the variables is considered weak and should be further investigated through additional analysis or by using more data.

Tabel 3. Simultaneous Test Results (F Test)

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37.821	5	7.564	7.114	.000b
	Residual	57.459	130	.442		
	Total	95.280	135			

a. Dependent Variable: Earnings Quality

b. Predictors: (Constant), Capital Structure, Profit Growth, Managerial Ownership, Profitability, Leverage

Source: Data processed by IBM SPSS Statistics 24

Referring to table 3, the ANOVA significance value obtained was $0.00 < 0.05$, so it is concluded that the independent variable of profitability, profit growth, leverage, and managerial ownership have a significant effect simultaneously on the dependent variable.

Tabel 4. Results of Moderation Interaction Test
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.045	.084		-.537	.592
	P*SM	-.220	.110	-.175	1.993	.004
	PL*SM	-.012	.122	-.009	-.099	.921
	L*SM	.375	.126	.282	2.965	.004
	KM*SM	-.273	.164	-.151	-1.667	.098

a. Dependent Variable: Earning Quality

Based on Table 4, the results of the moderation interaction test are as follows:

1. The significance value for the profitability variable with capital structure is $0.004 < 0.05$, and the calculated t value is $1.993 > 1.65613$. It can be concluded that capital structure has a significant influence on earnings quality as a quasi-moderation.
2. The significance value for the earnings growth variable with capital structure is $0.921 > 0.05$, and the calculated t value is $-0.099 < 1.65613$. In conclusion, there is no significant influence of capital structure on earnings quality in the context of pure moderation.
3. The significance value for the leverage variable with capital structure is $0.004 < 0.05$, and the calculated t value is $2.965 > 1.65613$. It can be concluded that there is

a significant impact that means of capital structure on earnings quality as a quasi-moderation. (moderation)

4. The significance value for the managerial ownership variable with capital structure is $0.098 > 0.05$, and the calculated t value is $-1.667 > 1.65613$. Therefore, it can be concluded that capital structure does not have a significant influence on earnings quality as a pure moderation.

D. CONCLUSIONS

The findings of this study indicate that:

1. Profitability has a positive impact on profit quality in the banking sector listed on the Indonesia Stock Exchange between 2021 and 2024. In other words, the greater a company's profit, the better its profit quality will be.
2. Profit growth has a positive impact on profit quality in the banking sector listed on the Indonesia Stock Exchange from 2021 to 2024. This means that companies with a consistent profit growth pattern generally have less motivation to engage in earnings management. Conversely, companies experiencing fluctuating or declining profit growth may be encouraged to manipulate earnings to maintain stakeholder trust.
3. *Leverage* has a positive impact on the quality of profits in the banking sector listed on the Indonesia Stock Exchange. from 2021 to 2024. This means that as *leverage* increases, the fixed burden that companies must bear from interest and principal payments will also increase.
4. Managerial ownership negatively impacts earnings quality in the banking sector listed on the Indonesia Stock Exchange from 2021 to 2024. This means that as the proportion of managers owning shares increases, earnings standards tend to decline. However, because the significance value lies at the sweet spot, the strength of the

evidence for a relationship between the variables is considered low, and further research with more in-depth analysis or larger data sets is necessary.

5. Capital structure can moderate the impact of profitability on earnings quality. This means that when earnings quality improves, a company's profitability tends to increase as well, supported by an appropriate capital structure combination. In this context, companies with high profitability and a sound capital structure demonstrate balanced debt and equity management and have a greater incentive to present financial reports in a transparent and reliable manner.
6. Capital structure does not affect the relationship between profit growth and profit quality in the banking sector listed on the Indonesia Stock Exchange from 2021 to 2024. In other words, variations in capital composition, in this case the debt to equity ratio, do not affect the extent to which profit growth influences profit quality.
7. Capital structure moderated the relationship between debt utilization and earnings quality in the banking sector listed on the Indonesia Stock Exchange between 2021 and 2024. This indicates that capital structure plays a crucial role in managing the risks arising from debt use, thereby maintaining reported earnings quality. Therefore, capital structure is a strategic factor in banking financial management that impacts the credibility of profit information.
8. Capital structure cannot moderate the effect of managerial ownership on earnings quality in the banking sectors listed on the Indonesia Stock Exchange from 2021 to 2024. This means that the company's capital structure does not affect or change the relationship between managerial management and profit quality. In the highly regulated banking sector, capital structure's role as a balancing tool becomes less important, and the influence of managerial ownership on earnings quality does not seem to be related to the company's debt and equity ratio.

E. SUGGESTIONS

Banking companies are advised to create long-term plans to increase profitability and earnings, for example through product innovation, the use of digital services, and more effective asset management. Furthermore, companies must maintain a debt ratio at a level appropriate to their cash flow capacity to maintain earnings quality and prevent the integrity of financial statements from deteriorating. Furthermore, management must strategically design its capital structure, considering its impact on financial statement transparency, and strengthen internal governance systems through internal audits, audit committees, and oversight by an independent board of commissioners, especially when managerial ownership has not been effective in improving earnings quality.

Further studies are advised to expand research attention to sectors outside banking to allow for comparisons between industries. Research should use a longer timeframe to ensure more stable results, and include other variables such as liquidity, company size, institutional ownership, or corporate governance. Furthermore, the application of more complex analytical methods such as Structural Equation Modeling (SEM) could be an option to provide a deeper understanding of the elements influencing earnings quality.

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