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EARNINGS QUALITY IN THE RETAIL INDUSTRY: THE ROLE OF PROFIT GROWTH, CAPITAL STRUCTURE, AND LIQUIDITY IN RETAIL COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE (2019–2023)

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ABSTRACT

Earnings quality is a crucial indicator that reflects the reliability of a company's financial information. Retail companies listed on the Indonesia Stock Exchange (IDX) are expected to present financial reports with high-quality earnings to support accurate decision-making by both internal and external users. This study aims to analyze the impact of profit growth, capital structure, and liquidity on earnings quality in Indonesian retail companies during the 2019–2023 period. This research employs a quantitative approach using purposive sampling, resulting in a sample of 27 retail companies analyzed over five years. The data used are secondary data from corporate financial reports, and the analysis is conducted using multiple linear regression with the assistance of the Statistical Package for the Social Sciences (SPSS) software. The findings indicate that profit growth, capital structure, and liquidity have a significant positive effect on earnings quality. These results confirm that these three factors play a crucial role in generating more reliable earnings information. The novelty of this study lies in the simultaneous examination of the impact of profit growth, capital structure, and liquidity on earnings quality in the retail sector over the 2019–2023 period, which has not been extensively explored holistically in the context of Indonesia's capital market. This research contributes to the development of social sciences, particularly in accounting and finance theories, specifically regarding the determinants of earnings quality. Additionally, it provides practical recommendations for company management in preparing more transparent and relevant financial reports. For investors, the findings of this study serve as a valuable reference in assessing a company's financial health, helping to avoid potential investment losses caused by poor earnings quality.

Keywords: *Capital Structure, Earnings Quality, Financial Reporting, Liquidity, Profit Growth*

INTRODUCTION

Earnings quality is a crucial factor in assessing a company's performance, particularly for stakeholders such as corporate management, investors, and capital market regulators. Reliable earnings information enhances market confidence and supports more accurate decision-making (Al-Okaily et al., 2024; Eberhard, 2023). Conversely, low earnings quality can lead to misinformation, potentially steering investors toward misguided investment decisions and creating instability in capital markets (ALShanti et al., 2024; Isebor, 2024; Ramezankhani & Boghosian, 2024).

Indonesia's retail sector has experienced rapid growth but also faces significant challenges in maintaining earnings quality. The dynamics of the retail business are heavily influenced by changes in consumption patterns, intense competition, and fluctuating macroeconomic conditions. For instance, during the 2019–2023 period, many retail companies faced financial pressure due to the COVID-19 pandemic, forcing them to adjust their operational and financial strategies (Rizal S et al., 2024; Setiawan & Hutomo, 2023). Several retail companies listed on the Indonesia Stock Exchange (IDX) even underwent significant revisions in their financial reports, indicating potential declines in earnings quality due to economic uncertainty (Siregar et al., 2021).

One of the primary causes of low earnings quality is earnings management practices employed by companies to maintain the appearance of stable financial performance (Alyaarubi et al., 2021; Chouaibi & Zouari, 2024; Lassoued, 2022). An excessive reliance on debt in capital structure can also drive companies to engage in earnings management to meet the expectations of investors and creditors (Habib et al., 2022; Mamatzakis et al., 2023). On the other hand, low liquidity can restrict a company's flexibility in dealing with financial pressures, ultimately affecting the stability and transparency of reported earnings (Dyreng et al., 2022).

Therefore, this study is essential in understanding how profit growth, capital structure, and liquidity influence earnings quality in Indonesian retail companies. This study aims to provide a more comprehensive insight into the determinants of earnings quality, helping both companies and investors assess financial health more accurately.

Earnings quality has been a central subject of research in accounting and finance, given its role in assessing corporate performance and the reliability of financial information. Luo et al. (2024) emphasize that high-quality earnings should accurately reflect a company's true economic condition and performance. Swai et al. (2022) highlight that earnings quality can be measured using various approaches, including earnings persistence, value relevance, and accounting conservatism. Additionally, Renaldo et al. (2023) show that earnings quality correlates with a company's cost of capital, where firms with more reliable earnings tend to have lower capital costs.

Profit growth is frequently associated with earnings quality in various studies. Subhani et al. (2022) and Zhang & Lucey (2022) found that companies with consistent profit growth tend to exhibit better earnings quality due to more stable and transparent financial reports. However, this study was limited to the manufacturing sector and did not examine the retail sector, which has distinct business cycles and consumption patterns. Another study by Dang et al. (2021) and Duarte et al. (2024) suggests that high profit growth can indicate the sustainability of a company's performance but may also encourage earnings management if growth is not supported by strong fundamentals.

From a capital structure perspective, Anh & Da Hanh (2023) and Ma et al. (2025) found that highly leveraged companies are more susceptible to earnings manipulation due to creditor pressure and the need to meet financial obligations. A study by Bansal (2023) and Dai et al. (2024) indicates that a healthy capital structure, with a balanced proportion of debt and equity, can

enhance financial reporting transparency and earnings quality. Research in Indonesia by Herawati & Wahyudi (2018) also reveals that companies with more stable capital structures tend to have higher earnings quality, particularly in the retail sector, which faces demand volatility.

Liquidity is also a crucial variable in determining earnings quality. Research by Tarighi et al. (2022) indicates that retail companies with strong liquidity are better able to withstand financial pressures without resorting to accounting manipulation. Meanwhile, a study by Beck (2023) emphasizes that low liquidity can drive companies to adopt aggressive financial reporting practices to mask cash flow issues. Another study by Al Janabi (2024) and Chen et al. (2024) found that companies with higher liquidity levels tend to have more persistent earnings and are less prone to manipulation.

Based on this review, a research gap is evident regarding the simultaneous influence of profit growth, capital structure, and liquidity on earnings quality, particularly in Indonesia's retail sector. Most prior studies have focused on one or two of these variables, failing to provide a comprehensive picture. However, these three factors are interconnected in shaping a company's earnings quality. This study conducts a comprehensive analysis integrating all three variables, aiming to offer a new perspective. The 2019–2023 research period was selected to capture the latest dynamics in the retail sector, especially in the context of post-pandemic recovery. This study not only contributes theoretically to the development of earnings quality concepts but also provides practical guidelines for companies and investors to assess financial health more accurately.

This research aims to empirically analyze the influence of profit growth, capital structure, and liquidity on the earnings quality of retail companies listed on the Indonesia Stock Exchange. The findings of this study are expected to enrich the literature on the determinants of earnings quality, provide valuable insights for corporate management in improving financial reporting quality, and assist investors in making better investment decisions.

RESEARCH METHOD

This study employs a quantitative approach aimed at analyzing phenomena related to the research object and making decisions based on statistical analysis results. Data in this research are collected and measured in numerical form using statistical methods and procedures (Henglin et al., 2022; Y. Wang et al., 2023). The study is causal in nature, meaning it examines whether one variable can cause changes in another variable (Buch et al., 2023). The data used are secondary data in the form of financial reports obtained from the Indonesia Stock Exchange (IDX) website or official company websites.

Research variables are defined as measurable or observable characteristics (Roffia et al., 2025; Skare et al., 2023). In this study, there is one dependent variable—earnings quality—and three independent variables: earnings growth, capital structure, and liquidity. These variables are measured using a ratio scale that allows for absolute value comparisons (Harari & Lee, 2021; B.

Wang et al., 2021). Earnings growth represents a company's ability to increase net profit compared to the previous year, calculated using a specific formula (Desyana et al., 2023). Capital structure is measured using the Debt to Equity Ratio (DER), which indicates the proportion of long-term debt to equity (X. Zhang et al., 2021). Liquidity is measured using the Current Ratio (CR), reflecting a company's ability to meet short-term obligations (Henglin et al., 2022). Meanwhile, earnings quality as the dependent variable is calculated based on a specific formula (Buch et al., 2023).

The study population includes all retail sector companies listed on the IDX during the 2019–2023 period (Roffia et al., 2025; Skare et al., 2023). The sample is selected using purposive sampling based on specific criteria, such as companies that were listed during the study period and had accessible financial reports on the IDX or official company websites. Out of a total of 44 companies, 17 did not meet the criteria, leaving a final sample of 27 companies with a total of 135 observations over five years.

The research sample consists of all retail companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, obtained from annual reports. A total of 44 retail companies were listed on the IDX during this period. From these, the researcher selected a sample based on predetermined criteria using the purposive sampling method. Based on these criteria, 27 companies were chosen as the research sample. Observations were conducted over five years, initially resulting in 135 observations. However, after removing outliers, the final dataset used in this study consisted of 101 observations. All statistical tests in this study were performed using the Statistical Package for the Social Sciences (SPSS) (Rahman & Muktadir, 2021).

Data collection was carried out through literature review, involving references from journals, books, and online sources, as well as documentation studies by downloading financial reports from the IDX website or company websites. Data analysis was conducted using multiple linear regression with the assistance of SPSS. The analytical process included descriptive statistical tests to describe data through mean values, standard deviations, and ranges (Rahman & Muktadir, 2021). Classical assumption tests were also performed, including normality tests (One Sample Kolmogorov-Smirnov Test), multicollinearity tests (Tolerance and VIF values), heteroscedasticity tests (Glejser method), and autocorrelation tests (Durbin-Watson method).

Model suitability was evaluated using the coefficient of determination (Adjusted R^2) to measure how well the model explains the variance in the dependent variable, along with the F-test to assess the joint effect of independent variables on the dependent variable. Hypothesis testing was conducted through individual significance tests (t-tests) at a 5% significance level, as well as multiple linear regression analysis to explore causal relationships between variables.

RESULTS AND DISCUSSION

Variability and Trends: Descriptive Statistics of Profit Growth, Capital Structure, Liquidity, and Earnings Quality

In this study, descriptive statistics are used to provide an overview of the data distribution for the research variables, including profit growth, capital structure, liquidity, and earnings quality. Descriptive statistics present the mean, standard deviation, maximum value, and minimum value, serving as an initial understanding of data characteristics before further analysis. The minimum value represents the lowest figure in the dataset, while the maximum value represents the highest. Meanwhile, the mean indicates the average value of the sample used, and the standard deviation describes the extent of variation or deviation from the mean. The results of the descriptive statistical analysis in this study are presented in the following table:

Table 1 Descriptive Statistical Test Results

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Profit Growth	101	-3,334	4,369	0,27809	1,207319
Capital Sructure	101	-1,053	4,413	1,03742	1,283988
Liquidity	101	0,009	4,358	1,64860	1,085449
Earnings Quality	101	-3,345	4,392	0,76557	1,662019
Valid N (listwise)	101				

Source: Processed secondary data using SPSS, 2024

Based on the table above, each variable demonstrates different data characteristics. Profit growth is measured by the year-on-year profit growth ratio, reflecting a company's ability to increase its net profit. The descriptive test results indicate that the minimum profit growth value of -3,334 was recorded by PT Multipolar Tbk in 2022, while the maximum value of 4,369 was recorded by PT Mitra Adiperkasa Tbk in the same year. The average profit growth is 0,27809 with a standard deviation of 1,207319, which is larger than the mean, indicating a high variation in profit growth among companies and an uneven data distribution.

Capital structure in this study is proxied by the Debt to Equity Ratio (DER), which illustrates the extent to which a company utilizes debt in its financing structure. The statistical test results show that the minimum DER value of -1,053 was found in PT Omni Inovasi Indonesia Tbk in 2021, indicating that the company had very low or even negative equity compared to its total debt. Conversely, the maximum value of 4,413 was recorded by PT Millennium Pharmacon International Tbk in 2022, indicating a very high reliance on debt in financing its assets. With an average value of 1,03742 and a standard deviation of 1,283988, it can be concluded that the capital structure of retail companies exhibits significant variation, with many firms tending to rely on debt for their operations.

Liquidity in this study is measured using the Current Ratio, which reflects a company's ability to meet its short-term obligations. Based on the descriptive statistical test results, the

minimum liquidity value of 0,009 (0,9%) was recorded by PT Globe Kita Terang Tbk in 2023, indicating that the company had current liabilities far exceeding its current assets, making it financially vulnerable. Meanwhile, the maximum value of 4,358 (4,36%) was recorded by PT Diamond Food Indonesia Tbk in 2020, signifying a very strong liquidity position. The average liquidity value of 1,64860 with a standard deviation of 1,085449 suggests that the data distribution is relatively even, with no significant deviations in this variable.

Earnings quality in this study is proxied by the estimation error in the accrual process, which provides insights into a company's future cash flows. Based on the descriptive statistical test results, the minimum earnings quality value of -3,345 was recorded by PT Prima Cakrawala Abadi Tbk in 2021, while the maximum value of 4,392 was found in PT Mega Perintis Tbk in 2023. The mean earnings quality was 0,76557 with a standard deviation of 1,662019, which is larger than the mean, indicating a high data deviation and an uneven distribution of earnings quality among retail companies. A higher ratio value suggests lower earnings quality, and the large fluctuations in data indicate inconsistencies in earnings quality among the observed companies.

From the results of this descriptive statistical analysis, it can be inferred that there is considerable variability in profit growth, capital structure, liquidity, and earnings quality among retail companies listed on the Indonesia Stock Exchange during the 2019-2023 period. Significant differences in the minimum and maximum values of each variable suggest that companies in this industry adopt diverse financial strategies in terms of profitability, debt management, and liquidity. This serves as an initial indication that these financial factors may play a role in determining the quality of earnings produced by each company.

Classical Assumption Tests: Examining the Reliability, Consistency, and Feasibility of the Regression Model

Classical assumption tests are statistical requirements that must be met in multiple linear regression analysis to ensure that the research findings are valid, unbiased, and consistent. Satisfying these assumptions is crucial to ensuring that the regression model used can produce optimal and reliable parameter estimates. In this study, a series of classical assumption tests were conducted, including normality, multicollinearity, heteroscedasticity, autocorrelation, coefficient of determination (Adjusted R^2), and F-test.

The normality test is the initial step to ensure that residuals in the regression model are normally distributed. Residual normality significantly affects the validity of statistical tests, particularly in guaranteeing unbiased parameter estimates. In this study, normality was tested using the One-Sample Kolmogorov-Smirnov Test, which provides a more objective quantitative approach. The Asymp. Sig. (2-tailed) value from this test was 0,337, which is greater than the significance threshold of 0,05, indicating that the data in this study are normally distributed.

Table 2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test		Standardized Residual
N		101
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	0,98488578
Most Extreme Differences	Absolute	0,094
	Positive	0,094
	Negative	-0,067
Kolmogorov-Smirnov Z		0,942
Asymp. Sig. (2-tailed)		0,337

a. Test distribution is Normal.

b. Calculated from data.

Source: Processed secondary data using SPSS, 2024

After ensuring data normality, the next step is testing for multicollinearity to determine whether there is a high correlation between independent variables in the model. Multi-collinearity can cause instability in regression parameter estimates. The test results indicate that the tolerance values for all independent variables are greater than 0,10, and the VIF values are less than 10, confirming that there is no multicollinearity issue in this study.

Table 3 Hasil Uji Multikolinearitas

Coefficients[a]

Model		Collinearity Statistics		Description
		Tolerance	VIF	
1	Profit Growth	0,996	1,004	No indication of multicollinearity
	Capital Sructure	0,979	1,022	No indication of multicollinearity
	Liquidity	0,982	1,019	No indication of multicollinearity

a. Dependent Variable: Earnings Quality

Source: Processed secondary data using SPSS, 2024

Apart from multicollinearity, heteroscedasticity should also be tested to ensure that the residual variance of the regression model is homogeneous. Non-homogeneous variance can lead to inefficient parameter estimates. The heteroscedasticity test in this study uses the Glejser test, where the results show that all independent variables have a significance value (Sig.) greater than 0,05, indicating that there is no heteroscedasticity in the regression model.

Table 4 Heteroscedasticity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,203	0,212		5,679	0,000
	Profit Growth	-0,069	0,084	-0,082	-0,826	0,411
	Capital Sructure	0,150	0,080	0,188	1,875	0,064
	Liquidity	-0,051	0,094	-0,054	-0,539	0,591

a. Dependent Variable: ABS_RESID

Source: Processed secondary data using SPSS, 2024

The next test is the autocorrelation test, which aims to determine whether there is a correlation between residuals in the regression model from one period to another. The test results show that the Durbin-Watson value is 0,657, which is lower than the dL value (1,214), indicating the presence of autocorrelation. Therefore, autocorrelation was treated using the Cochrane-Orcutt method, resulting in a Durbin-Watson value of 1,996, which falls within the range of dU = 1,650 to 4 - dU = 2,350, indicating that there is no autocorrelation after treatment.

Table 5 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,214[a]	0,046	0,016	1,648473	0,657

a. Predictors: (Constant), Liquidity, Earnings Growth, Capital Structure

b. Dependent Variable: Earnings Quality

Source: Processed secondary data using SPSS, 2024

Table 6 Autocorrelation Test Results After Cochrane Orcutt Treatment

Model Summary[c,d]

Model	R	R Square[b]	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,105[a]	0,011	-0,020	1,09662	1,996

a. Predictors: Lag_X3, Lag_X1, Lag_X2

b. Dependent Variable: Lag_Y

Source: Processed secondary data using SPSS, 2024

After ensuring no issues with residuals and relationships between variables, the coefficient of determination (Adjusted R^2) test was conducted to assess the extent to which independent variables explain the variation in the dependent variable. The test results show that the Adjusted R^2 value is 0,531, meaning that 53,1% of the variation in Earnings Quality can be explained by Profit Growth, Capital Structure, and Liquidity, while the remaining portion is influenced by other variables not included in this study.

Table 7 Coefficient of Determination (Adjusted R^2) Test Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,738[a]	0,545	0,531	0,32969

a. Predictors: (Constant), Liquidity, Earnings Growth, Capital Structure

b. Dependent Variable: Earnings Quality

Source: Processed secondary data using SPSS, 2024

Finally, the F-test was conducted to determine whether the independent variables simultaneously influence the dependent variable. The analysis results show that the F significance value is 0,000, which is smaller than the 0,05 significance threshold. This indicates that the regression model is appropriate for explaining the relationship between Profit Growth, Capital Structure, and Liquidity with Earnings Quality.

Table 8 F-Test Results

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12,637	3	4,212	38,752	0,000[a]
	Residual	10,544	97	0,109		
	Total	23,180	100			

a. Predictors: (Constant), Liquidity, Earnings Growth, Capital Structure

b. Dependent Variable: Earnings Quality

Source: Processed secondary data using SPSS, 2024

Based on all classical assumption tests, it can be concluded that the data in this study meets the assumptions of normality and does not experience multicollinearity, heteroscedasticity, or autocorrelation after treatment. Furthermore, the regression model used has a good coefficient of determination and is statistically significant in explaining the dependent variable. Therefore, the regression model used in this study can be considered valid and reliable for drawing accurate conclusions regarding the relationships among the studied variables.

Hypothesis Testing Results: Individual Parameter Significance Test and Multiple Linear Regression Analysis

The individual parameter significance test (t-test) was conducted to determine the effect of each independent variable on the dependent variable in this study. The t-test was calculated with a significance level of 5% (α = 0,05). If the t significance value is less than 0,05, the null hypothesis (H_o) is rejected, and the alternative hypothesis (H_a) is accepted, meaning the independent variable has a significant effect on the dependent variable (Ghozali, 2021).

The following table presents the individual parameter significance test results using the t-test.

Table 9 Individual Parameter Significance Test (t-test) Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0,396	0,069		5,753	0,000
	Profit Growth	0,223	0,027	0,558	8,135	0,000
	Capital Sructure	0,164	0,026	0,436	6,303	0,000
	Liquidity	0,084	0,031	0,188	2,724	0,008

a. Dependent Variable: Earnings Quality

Source: Processed secondary data using SPSS, 2024

Based on the table, the first hypothesis (H_1) in this study states that Profit Growth affects Earnings Quality. The t-test results show that the t-value for the Profit Growth variable is 8,135 with a significance value of 0,000, which is less than 0,05. The positive regression coefficient indicates that Profit Growth has a significant positive effect on Earnings Quality. Therefore, H_1 is accepted, and H_o is rejected.

The second hypothesis (H_2) states that Capital Structure affects Earnings Quality. The test results show that the t-value for the Capital Structure variable is 6,303 with a significance value of 0,000, which is less than 0,05. With a positive regression coefficient, it can be concluded that Capital Structure has a significant positive effect on Earnings Quality. Thus, H_2 is accepted, and H_o is rejected.

The third hypothesis (H_3) in this study states that Liquidity affects Earnings Quality. Based on the test results, the t-value for the Liquidity variable is 2,724 with a significance value of 0,008, which is still less than 0,05. With a positive regression coefficient, it can be concluded that Liquidity also has a significant positive effect on Earnings Quality. Therefore, H_3 is accepted, and H_o is rejected.

To gain a more comprehensive understanding of the relationship between the independent and dependent variables, multiple linear regression analysis was used in this study. This analysis aims to measure the extent to which the independent variables—Profit Growth,

Capital Structure, and Liquidity—affect the dependent variable, Earnings Quality (Rahman & Muktadir, 2021). The regression model used in this study is as follows:

Table 10 Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,396	0,069		5,753	0,000
	Profit Growth	0,223	0,027	0,558	8,135	0,000
	Capital Sructure	0,164	0,026	0,436	6,303	0,000
	Liquidity	0,084	0,031	0,188	2,724	0,008

a. Dependent Variable: Earnings Quality

Source: Processed secondary data using SPSS, 2024

Based on the table above, the multiple linear regression model derived in this study can be written as follows:

$$Y = 0{,}396 + 0{,}223X_1 + 0{,}164\,X_2 + 0{,}084\,X_3 + \varepsilon$$

In this study, the dependent variable is Earnings Quality (Y), which serves as a key indicator of the reliability and sustainability of a company's financial performance. The model includes three independent variables: Profit Growth (X_1), which reflects the company's ability to generate increased profits over time; Capital Structure (X_2), representing the composition of debt and equity used to finance the company's operations; and Liquidity (X_3), indicating the firm's capacity to meet its short-term financial obligations. The equation incorporates α as the constant term and β_1 to β_3 as the regression coefficients that measure the effect of each respective independent variable on earnings quality. Lastly, ε denotes the standard error term, accounting for the variation in earnings quality not explained by the model. This framework is designed to provide a comprehensive understanding of the financial determinants influencing earnings quality.

From the regression equation, it can be explained that the constant value of 0,396 indicates that if all independent variables are zero, the Earnings Quality value will remain at 0,396. The variable Profit Growth has a regression coefficient of 0,223, which means that every 1% increase in Profit Growth will increase Earnings Quality by 22,3%, assuming other variables remain constant.

Meanwhile, Capital Structure has a regression coefficient of 0,164, meaning that a 1% increase in Capital Structure will increase Earnings Quality by 16,4%. Similarly, the Liquidity variable has a regression coefficient of 0,084, indicating that if Liquidity increases by 1%, Earnings Quality will increase by 8,4%. Thus, the findings of this study show that the three independent variables—Profit Growth, Capital Structure, and Liquidity—significantly influence Earnings

Quality. All variables have a positive relationship, meaning that the higher the Profit Growth, Capital Structure, and Liquidity of a company, the higher the Earnings Quality produced.

Profit Growth Influences Earnings Quality

The results of this study indicate that Profit Growth has a positive and significant effect on Earnings Quality, suggesting that retail companies in this study can maintain consistent Profit Growth. Consistency in Profit Growth is one of the key factors that attract investors, as it demonstrates financial performance stability and a more secure business outlook.

In the context of the capital market, companies with stable Profit Growth tend to gain greater investor trust, as high-quality earnings reflect transparency and accuracy in financial reporting. This also reduces the risk of information asymmetry, which can lead to uncertainty in investment decision-making.

From the perspective of signal theory, companies strive to provide positive signals to potential investors through clear and detailed financial information. The better the quality of information presented in financial reports, the greater the company's chances of attracting investor interest. This theory explains that positive Profit Growth serves as a fundamental indicator for investors in assessing a company's future prospects. Strong signals from high-quality financial reports can enhance a company's credibility in the eyes of investors and other stakeholders.

From the standpoint of agency theory, good Profit Growth is also correlated with increased transparency and honesty in management's presentation of the company's financial condition. In the relationship between agents (management) and principals (shareholders), accurate and reliable financial information reduces potential conflicts of interest and prevents earnings management practices that could harm investors. Conversely, companies with unstable or declining Profit Growth tend to have incentives to manipulate financial reports to maintain a positive market image, which ultimately lowers Earnings Quality.

The phenomenon observed in PT Indofarma Tbk (INAF) and WorldCom serves as a real example of the importance of accurate financial information disclosure. The discrepancy between published financial statements and actual conditions led to a decline in Earnings Quality and loss of investor trust. In the case of WorldCom, for example, the accounting scandal resulted in the company's downfall due to earnings manipulation practices aimed at presenting a more favorable financial picture than reality. Similarly, PT Indofarma Tbk faced similar challenges, where financial information mismatches impacted the company's reputation and investor confidence.

The findings of this study align with research conducted by Asyifa et al. (2024), which shows that Earnings Growth has a positive effect on Earnings Quality. This research confirms that the higher the Profit Growth ratio, the higher the Earnings Quality produced by the company. These findings strengthen empirical evidence that stable and transparent Profit Growth plays a crucial role in enhancing the credibility of financial reports and supporting more rational and well-

informed investment decisions.

Capital Structure Influences Earnings Quality

The results of this study indicate that capital structure has a positive and significant influence on earnings quality, meaning that the retail companies in this study can optimally utilize their sources of capital. With effective, efficient, and centralized capital management, companies can enhance their operational capacity and generate more stable profits. A balanced capital structure between equity and debt enables companies to manage financial risks more effectively, thereby improving transparency and accountability in financial reporting. This factor is crucial for investors and stakeholders in assessing a company's credibility.

This study is based on agency theory, which explains the contractual relationship between company owners (principals) and managers (agents). In this theory, owners delegate decision-making authority to managers with the expectation that their decisions will lead to an increase in company value. However, there is a potential conflict of interest where managers may have incentives to manipulate financial reports for personal or short-term gain. Therefore, good capital structure management can serve as an effective control mechanism to ensure that managers act in the owners' best interests and produce high-quality earnings.

In this context, if management can optimize capital use to generate profits, the risk of financial report distortion due to earnings management practices can be minimized. A stable and healthy capital structure promotes financial transparency, reduces incentives for manipulation, and increases investor confidence in financial reports. Conversely, an imbalance in capital structure—such as an excessively high proportion of debt without proper management—can increase financial pressure and encourage managers to engage in practices that may harm shareholders.

The cases of PT Indofarma Tbk (INAF) and WorldCom serve as real examples of the negative impact of financial statement manipulation on earnings quality. In these cases, company management attempted to present a better financial condition than reality by falsifying profit data, even though the companies were actually experiencing losses. When these practices were exposed to the public, investor confidence plummeted, leading to a decline in stock prices and the loss of corporate credibility in the market. This case illustrates that low earnings quality resulting from distortions in capital structure can have negative consequences for a company's sustainability.

The findings of this study are consistent with research conducted by Fauzi et al. (2025), which found that companies with an optimal capital structure tend to generate higher profits, thereby improving overall earnings quality. These results confirm that good capital management not only contributes to short-term profitability but also ensures that reported profits truly reflect the company's actual financial performance. Thus, a healthy capital structure is a key factor in creating transparency and accountability in financial reporting and maintaining stability in the capital market.

Liquidity Influences Earnings Quality

The results of this study indicate that liquidity has a positive and significant influence on earnings quality. Liquidity reflects a company's ability to meet its short-term obligations within a period of less than one year, making it an important indicator of financial health. In the context of signaling theory, high liquidity can serve as a positive signal to the market, where a company that can effectively meet its obligations demonstrates operational stability and effective financial management. If the market responds positively to this signal, investor confidence in the company increases, ultimately contributing to improved earnings quality. Additionally, based on agency theory, companies with high liquidity tend to have better financial performance, reducing the risk of financial statement manipulation. When management has sufficient financial resources to run operations effectively, the pressure to engage in earnings management or financial report distortion also decreases, leading to greater transparency and corporate accountability.

The financial statement manipulation cases involving PT Indofarma Tbk (INAF) and WorldCom provide concrete evidence that financial information distortion can negatively impact earnings quality. In these cases, management attempted to conceal the actual financial condition by presenting manipulated financial reports to create a positive impression for shareholders and the market. However, when these practices were uncovered, investor confidence declined sharply, leading to a drop in stock value and a deterioration of the company's reputation. Therefore, companies that maintain good liquidity management have a greater chance of sustaining healthy and reliable earnings quality.

This study aligns with the findings of Mehzabin et al. (2023), which state that the higher a company's liquidity level, the better its earnings quality. Well-maintained liquidity indicates that a company is not only capable of meeting its financial obligations but also has cash management stability that consistently supports profit growth.

CONCLUSION

Based on the analysis and discussion, this study concludes that profit growth, capital structure, and liquidity have a positive and significant impact on earnings quality in retail companies listed on the Indonesia Stock Exchange during the 2019–2023 period. These findings confirm that companies with high profit growth tend to produce better earnings quality, indicating that the profits generated are more stable and sustainable. Consistent profit growth sends a positive signal to investors and other stakeholders regarding the company's financial prospects, thereby increasing confidence in the financial information presented. Additionally, an optimal capital structure contributes to improved earnings quality through more efficient management of funding sources, whether from debt or equity. Companies that can balance their capital structure can reduce financial risks while maximizing capital use to support sustainable profit growth. Liquidity also plays a crucial role in maintaining earnings quality, as companies with high liquidity levels demonstrate a better ability to meet short-term obligations without

compromising operational stability. A healthy liquidity level reflects a company's ability to manage cash flow effectively, thereby reducing the incentive for management to manipulate earnings to cover financial pressures. Thus, companies that maintain optimal profit growth, capital structure, and liquidity can enhance the transparency and credibility of their financial reports. The results of this study not only enrich the literature on earnings quality determinants in Indonesia's retail sector but also provide practical implications for corporate management in developing more effective financial strategies. Moreover, for investors and other stakeholders, these findings can serve as a reference for assessing corporate financial health and reducing investment risks caused by unreliable earnings information.

ETHICAL STATEMENT AND DISCLOSURE

This study was conducted in accordance with established ethical principles, including informed consent, protection of informants' confidentiality, and respect for local cultural values. Special consideration was given to participants from vulnerable groups to ensure their safety, comfort, and equal rights to participate. No external funding was received, and the authors declare no conflict of interest. All data and information presented were collected through valid research methods and have been verified to ensure their accuracy and reliability. The use of artificial intelligence (AI) was limited to technical assistance for writing and language editing, without influencing the scientific substance of the work. The authors express their gratitude to the informants for their valuable insights, and to the anonymous reviewers for their constructive feedback on an earlier version of this manuscript. The authors take full responsibility for the content and conclusions of this article.

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