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NAVIGATING EARNINGS MANAGEMENT: THE INTERPLAY OF EARNING POWER, SALES GROWTH, AND CORPORATE GOVERNANCE

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Abstract
This study examined whether earning power and sales growth influenced earnings management and whether corporate governance moderated these relationships among cyclical and non-cyclical companies listed on the Indonesia Stock Exchange. The research used a quantitative explanatory design and relied on secondary data obtained from annual reports and financial statements. Earnings management was proxied by the Beneish M-Score, earning power was measured by return on assets, sales growth was measured by the percentage change in net sales, and corporate governance was represented by a governance index based on board independence and audit committee effectiveness. The data were analyzed using regression models with interaction terms, supported by descriptive statistics and classical assumption testing. The results showed that earning power significantly affected earnings management at lower and median risk levels, while sales growth reduced earnings management at the higher risk level. Corporate governance weakened the effect of earning power on earnings management and strengthened the transparency effect of sales growth. These findings indicated that governance mechanisms functioned as an important monitoring device that constrained opportunistic reporting behavior. The study contributed to agency-based earnings management literature by showing that profitability and growth incentives should be interpreted together with governance quality in emerging market settings. The results implied that regulators and firms should strengthen board oversight, audit committee effectiveness, and disclosure discipline to improve financial reporting integrity.

Keywords: Earnings Management, Earning Power, Sales Growth, Corporate Governance, Beneish M-Score

1. Introduction

Earnings management remains a central concern in financial reporting because it reflects managerial discretion that may be used either to communicate private information or to influence reported performance opportunistically (Healy & Wahlen, 1999; Dechow & Skinner, 2000). In the Indonesian context, where listed companies operate in an emerging capital market environment with heterogeneous governance quality, varied ownership structures, and different levels of external monitoring, the tendency of managers to alter financial reports to satisfy profit targets, debt covenant expectations, investor perceptions, or compensation incentives becomes especially relevant (Siregar & Utama, 2008; Setijaningsih & Merisa, 2022).

The issue becomes more complex when the determinants of earnings management are linked to firm performance indicators. Earning power, which reflects the capacity of a firm to generate profit from its assets, creates incentives for earnings management. Research has shown that earning power, measured through Return on Assets (ROA), positively and significantly affects earnings management because higher profitability increases market expectations and managerial pressure to sustain performance (Setijaningsih & Merisa, 2022). High earning power can increase market expectations and managerial pressure to sustain performance, whereas weak earning power may motivate managers to mask inefficiency (Nurhayati & Rahayu, 2021). Sales growth, indicating the ability to expand revenue over time, has been found to negatively and significantly affect earnings management, as stable growth can reduce information asymmetry and lower the need for manipulation (Setijaningsih & Merisa, 2022; Wulandari & Dewi, 2020).

Agency theory explains this problem through the separation of ownership and control. Jensen and Meckling's (1976) agency framework shows that managers may pursue private benefits when monitoring is incomplete, thereby creating agency costs and opportunistic reporting incentives (Jensen & Meckling, 1976; Watts & Zimmerman, 1986). The earnings management literature has also shown that disclosure quality, accrual choices, governance structures, and monitoring intensity are closely connected to financial reporting reliability (Dechow et al., 2010; Kothari et al., 2005). Prior studies on Indonesian firms found that ownership structure, firm size, and corporate governance practices are related to the type and extent of earnings management, demonstrating the relevance of governance in the local institutional context (Siregar & Utama, 2008; Kusumawati & Rahayu, 2021).

Corporate governance is therefore introduced as a moderating mechanism. Strong governance, including independent commissioners, effective audit committees, transparent reporting, and accountable boards, can reduce managerial discretion and improve the credibility of financial statements (Klein, 2002; Xie et al., 2003). Recent evidence indicates that the proportion of independent commissioners, the presence of female commissioners on the board, and the board's financial and accounting expertise exert a significant negative effect on earnings management (Sulistyowati & Nugroho, 2023; Dewi & Setiawan, 2024). Cross-country and emerging-market evidence also indicates that higher governance quality restrains both accrual-based and real earnings management (Nguyen et al., 2024), while stronger governance mechanisms are associated with lower earnings management and improved reporting transparency (Özer et al., 2024). These findings support the argument that governance should not be treated merely as a control variable, but as a condition that changes the influence of profitability and growth incentives on earnings management (García-Meca & Sánchez-Ballesta, 2009; Lee & Choi, 2021).

The urgency of this research is driven by several critical factors. First, the inconsistency of previous research findings regarding the influence of earning power and sales growth on earnings management indicates a research gap that needs to be addressed. While Setijaningsih and Merisa (2022) found that earning power positively affects earnings management and sales growth negatively affects earnings management, the moderating role of corporate governance in these relationships remains unclear (Kusumawati & Rahayu, 2021; Siregar & Utama, 2008). Second, the role of corporate governance as a moderating variable in the relationship between financial factors and earnings management has not been extensively studied, particularly in the Indonesian context, where governance quality varies considerably across companies (Wulandari & Dewi, 2020). Third, prior studies have focused primarily on manufacturing or specific sectors, leaving a gap in understanding how governance shapes earnings management behavior across cyclical and non-cyclical companies with different demand patterns and performance pressures (Setijaningsih & Merisa, 2022). Fourth, the distinction between opportunistic and informative earnings management suggests that governance mechanisms may either constrain or enable managerial discretion depending on institutional context (García-Meca & Sánchez-Ballesta, 2009; Lee & Choi, 2021).

Previous research has shown significant but fragmented findings regarding the determinants of earnings management. Studies have demonstrated positive outcomes, where earning power positively and significantly affects earnings management, while sales growth negatively and significantly affects earnings management (Setijaningsih & Merisa, 2022). Research on Indonesian firms found that leverage does not significantly affect earnings management, while earning power and sales growth demonstrate consistent effects across different model specifications (Nurhayati & Rahayu, 2021). Studies on corporate governance mechanisms reveal that the proportion of independent commissioners and audit committee independence are associated with lower earnings management (Sulistyowati & Nugroho, 2023; Dewi & Setiawan, 2024). Ownership concentration and board independence have been found to enhance the likelihood of informative earnings management, suggesting that effective monitoring mechanisms reduce information asymmetry and encourage managers to communicate firm prospects more transparently (Siregar & Utama, 2008). However, recent evidence suggests that institutional ownership functions as a conditional governance mechanism rather than a universal disciplining device, constraining earnings management only under heightened pressure (Kusumawati & Rahayu, 2021).

The research gap in this study lies in the limited understanding of how earning power and sales growth influence earnings management, with corporate governance as a moderating variable. While individual studies have examined the direct effects of financial factors on earnings management or the role of governance in constraining managerial discretion, the integrated framework connecting these elements remains underexplored (García-Meca & Sánchez-Ballesta, 2009; Lee & Choi, 2021). Additionally, most previous studies have focused on manufacturing companies, leaving a significant gap in knowledge regarding the dynamics of earnings management in cyclical and non-cyclical sectors that face different demand patterns and performance pressures (Setijaningsih & Merisa, 2022). Furthermore, empirical evidence on the moderating role of corporate governance in the relationship between financial factors and earnings management in Indonesia remains mixed and inconclusive (Kusumawati & Rahayu, 2021; Wulandari & Dewi, 2020).

The novelty of this research lies in several aspects. First, this study focuses on cyclical and non-cyclical companies listed on the Indonesia Stock Exchange, representing a unique context characterized by different demand patterns and performance pressures that shape managerial reporting incentives (Setijaningsih & Merisa, 2022). Second, this study develops an integrative model that simultaneously examines the influence of earning power and sales growth on earnings management, with corporate governance as a moderating variable, providing a more comprehensive understanding of the determinants of earnings management in an emerging market setting (Siregar & Utama, 2008; García-Meca & Sánchez-Ballesta, 2009). Third, this study positions corporate governance as a moderating mechanism, enabling the examination of whether strong governance constrains or shapes the influence of financial performance incentives on opportunistic reporting (Klein, 2002; Xie et al., 2003). Fourth, this study contributes to the limited empirical evidence on earnings management in the Indonesian context, providing insights into how profitability, revenue growth, and governance quality interact to influence financial reporting behavior (Sulistyowati & Nugroho, 2023; Dewi & Setiawan, 2024).

Fifth, this study extends the application of agency theory and signaling theory to the context of earnings management in emerging markets, validating theoretical predictions in an under-researched institutional context (Jensen & Meckling, 1976; Watts & Zimmerman, 1986).

The purpose of this study is to analyze the influence of earning power and sales growth on earnings management among cyclical and non-cyclical companies listed on the Indonesia Stock Exchange. In addition, this study aims to evaluate the moderating role of corporate governance in the relationship between earning power, sales growth, and earnings management. The choice of this goal was driven by the limited understanding of how financial performance incentives translate into earnings management behavior and the mixed findings on governance effectiveness in constraining opportunistic reporting in emerging markets (Kusumawati & Rahayu, 2021; Wulandari & Dewi, 2020). With a comprehensive examination of the moderating mechanisms, this study aims to provide a deeper understanding of how corporate governance can serve as a counterbalance to financial performance pressures, thereby enhancing financial reporting quality and investor confidence (García-Meca & Sánchez-Ballesta, 2009; Lee & Choi, 2021).

The contribution of this research is multifaceted. From a theoretical perspective, this research contributes to the enrichment of literature on earnings management by proposing and testing an integrative model that links earning power and sales growth with earnings management, incorporating corporate governance as a moderating variable, extending the application of agency theory and signaling theory to the context of financial reporting in emerging markets (Jensen & Meckling, 1976; Watts & Zimmerman, 1986; Healy & Wahlen, 1999). The findings contribute to the understanding of how specific financial performance indicators influence opportunistic reporting behavior and how governance quality moderates these relationships, providing a more nuanced theoretical framework for analyzing earnings management in different sector contexts (García-Meca & Sánchez-Ballesta, 2009; Lee & Choi, 2021). From a practical perspective, this study provides actionable insights for regulators, investors, auditors, and corporate boards in assessing and managing earnings management practices. For regulators, the findings provide empirical evidence to support the development of corporate governance codes that enhance monitoring effectiveness and financial reporting quality (Siregar & Utama, 2008). For investors, the results offer insights into the importance of evaluating governance quality when assessing the credibility of financial reports (Sulistyowati & Nugroho, 2023). For auditors, this study provides evidence on the relationship between financial performance incentives and reporting behavior, supporting risk assessment and audit planning (Dechow et al., 2010). For corporate boards, the findings highlight the importance of strengthening governance mechanisms to mitigate opportunistic reporting and enhance the credibility of financial statements (Klein, 2002; Xie et al., 2003).

2. Theoretical Background

2.1 Agency Theory

Agency Theory explains that conflicts of interest between management and shareholders may arise due to information asymmetry and differences in corporate objectives (Jensen & Meckling, 1976). In the context of earnings management, agency theory explains that managers may use accounting discretion to maximize private benefits, protect compensation, avoid covenant violations, or maintain market reputation when shareholders cannot perfectly observe managerial actions (Watts & Zimmerman, 1986). The separation of ownership and control creates agency costs, including the cost of monitoring, bonding, and residual loss arising from opportunistic managerial behavior (Jensen & Meckling, 1976). In this study, corporate governance functions as a monitoring mechanism to reduce opportunistic managerial behavior through greater transparency and accountability. Strong governance can increase investor confidence and improve financial reporting quality because firms are perceived to have more effective control systems. Conversely, weak governance is often associated with opportunistic financial behavior that may increase earnings management practices (Klein, 2002; Xie et al., 2003). When weak governance is accompanied by strong financial performance pressures, managers may engage in earnings management to meet market expectations and performance targets (Healy & Wahlen, 1999).

2.2 Signaling Theory

Signaling Theory explains that companies convey information to investors through disclosure to reduce information asymmetry between management and external parties (Spence, 1973). In this study, earning power and sales growth are seen as signals regarding company quality, operational efficiency, and company growth prospects (Gillan et al., 2021; Narula et al., 2024). These positive signals can increase investor confidence and improve the company's market performance (Yan et al., 2025; Pasupuleti et al., 2024). However, when financial performance signals are not supported by substantive earnings quality, investors may view the reported performance as earnings management, thereby lowering the company's credibility (Huang et al., 2025; Tian et al., 2025). Under signaling theory, sales growth is viewed as a favorable signal of future performance, but growth can also increase scrutiny from investors and creditors, especially when growth is not accompanied by sustainable earnings quality (Burgstahler & Dichev, 1997). Managers may use earnings management to align reported earnings with market expectations when signals from financial performance are inconsistent with investor perceptions (Dechow et al., 1995).

2.3 Earning Power and Earnings Management

Earning power represents the ability of a company to generate profit from assets and is commonly proxied by return on assets (ROA). A firm with strong earning power may have less need to manipulate earnings because its operating performance already supports favorable financial outcomes. However, high earning power can also create pressure to maintain performance trends and satisfy investor expectations. Ghazali et al. (2015) found evidence that financially healthy and profitable firms may still engage in earnings management, indicating that profitability can generate both reputational pressure and opportunistic incentives. The relationship between profitability and earnings management is therefore not mechanically negative. Liu (2021) showed that the relationship between earnings management and investment behavior changes across levels of return on equity, suggesting that profitability conditions shape managerial choices.

Research has shown that earning power, measured through Return on Assets (ROA), positively and significantly affects earnings management because higher profitability increases market expectations and managerial pressure to sustain performance (Setijaningsih & Merisa, 2022). Weak earning power may motivate managers to mask inefficiency (Nurhayati & Rahayu, 2021). In this study, earning power was expected to influence earnings management because profitability affects both the opportunity and pressure to manage reported performance. Strong governance was expected to reduce this

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effect by limiting managerial discretion and increasing monitoring intensity (Klein, 2002; Xie et al., 2003). Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H1: Earning power affects earnings management.

2.4 Sales Growth and Earnings Management

Sales growth reflects a firm's capacity to expand revenue and compete in the market. Under signaling theory, sales growth is viewed as a favorable signal of future performance (Spence, 1973). However, growth can also increase scrutiny from investors and creditors, especially when growth is not accompanied by sustainable earnings quality. Prior studies have shown that managers may use earnings management to avoid earnings decreases and losses (Burgstahler & Dichev, 1997) or to align reported earnings with market expectations (Dechow et al., 1995). The Beneish framework also treats sales growth as one of the relevant indicators for manipulation risk (Beneish, 1997). Ramírez-Orellana et al. (2017) showed that the sales growth index and leverage index can be associated with aggressive accounting practices in a fraud case setting.

Sales growth has been found to negatively and significantly affect earnings management, as stable growth can reduce information asymmetry and lower the need for manipulation (Setijaningsih & Merisa, 2022; Wulandari & Dewi, 2020). In the Indonesian context, sales growth may reduce earnings management when it reflects genuine operating strength, but it may increase manipulation incentives when managers use growth narratives to sustain investor optimism (Siregar & Utama, 2008). Therefore, the effect of sales growth depends on the risk level of manipulation and the strength of governance oversight. Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H2: Sales growth affects earnings management.

2.5 Corporate Governance as a Moderating Mechanism

Corporate governance refers to the mechanisms that ensure accountability, transparency, and proper alignment between managers, shareholders, and other stakeholders (OECD, 2015). Board independence, audit committee effectiveness, ownership structure, and internal control quality are central governance mechanisms that can reduce earnings management (Klein, 2002; Xie et al., 2003). John and Senbet (1998) argued that boards are important internal governance mechanisms for mitigating agency conflicts. Cornett et al. (2008) further showed that performance and governance evaluations can be distorted when reported performance is not adjusted for earnings management.

Empirical evidence generally supports the monitoring role of governance. Siregar and Utama (2008) found that corporate governance practices in Indonesia affect earnings management behavior. Busirin et al. (2015) found that board independence is negatively associated with earnings manipulation measured using the Beneish model. Jaggi et al. (2009) documented that independent boards constrain earnings management, although effectiveness can be moderated by family control. Hazarika et al. (2012) also demonstrated that internal corporate governance is related to CEO turnover in firms engaging in earnings management, indicating that governance can discipline managerial behavior.

Recent evidence indicates that the proportion of independent commissioners, the presence of female commissioners on the board, and the board's financial and accounting expertise exert a significant negative effect on earnings management (Sulistyowati & Nugroho, 2023; Dewi & Setiawan, 2024). Cross-country and emerging-market evidence also indicates that higher governance quality restrains both accrual-based and real earnings management (Nguyen et al., 2024), while stronger governance mechanisms are associated with lower earnings management and improved reporting transparency (Özer et al., 2024). This study therefore treated corporate governance as a moderator because governance can alter the direction and magnitude of the relationships between earning power, sales growth, and earnings management (García-Meca & Sánchez-Ballesta, 2009; Lee & Choi, 2021).

2.5.1 Corporate Governance Moderates the Relationship between Earning Power and Earnings Management

Corporate governance mechanisms, including independent commissioners, audit committees, and board independence, can reduce managerial discretion and improve the credibility of financial statements (Klein, 2002; Xie et al., 2003). Recent evidence indicates that the proportion of independent commissioners and audit committee independence are associated with lower earnings management (Sulistyowati & Nugroho, 2023; Dewi & Setiawan, 2024). Strong governance was expected to reduce the effect of earning power on earnings management by limiting managerial discretion and increasing monitoring intensity (García-Meca & Sánchez-Ballesta, 2009). When firms have strong governance mechanisms, the pressure to manage earnings arising from high profitability may be constrained by effective monitoring and oversight. Conversely, weak governance may allow managers to engage in opportunistic reporting behavior to maintain performance trends and satisfy investor expectations. Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H3: Corporate governance moderates the relationship between earning power and earnings management.

2.5.2 Corporate Governance Moderates the Relationship between Sales Growth and Earnings Management

Strong governance, including independent commissioners, effective audit committees, transparent reporting, and accountable boards, can reduce managerial discretion and improve the credibility of financial statements (Klein, 2002; Xie et al., 2003). Cross-country and emerging-market evidence indicates that higher governance quality restrains both accrual-based and real earnings management (Nguyen et al., 2024), while stronger governance mechanisms are associated with lower earnings management and improved reporting transparency (Özer et al., 2024). Strong governance was expected to reduce the effect of sales growth on earnings management by limiting managerial discretion and increasing monitoring intensity (García-Meca & Sánchez-Ballesta, 2009). When firms have strong governance mechanisms, the pressure to manage earnings arising from growth narratives may be constrained by effective monitoring and oversight. Conversely, weak governance may allow managers to use earnings management to align reported earnings with market expectations and sustain investor optimism. Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H4: Corporate governance moderates the relationship between sales growth and earnings management.

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3. Methods

This study used a quantitative explanatory research design to examine the effect of earning power and sales growth on earnings management, with corporate governance as a moderating variable. The object of the study was cyclical and non-cyclical companies listed on the Indonesia Stock Exchange. The population consisted of all companies in those sectors, while the sample was selected using purposive sampling based on the availability of annual reports, complete financial statement data, and governance information required to calculate the research variables.

The study used secondary data obtained from annual reports and financial statements. Earnings management was measured using the Beneish M-Score because the model is designed to detect potential financial statement manipulation and has been applied in fraud and earnings management research. Earning power was measured by return on assets, sales growth was measured by the percentage change in net sales, and corporate governance was measured using a governance index that reflected board independence and audit committee effectiveness. Firm size and leverage were used as control variables to isolate the effect of the main independent variables.

The data analysis consisted of descriptive statistics, classical assumption testing, and regression analysis with interaction terms. The moderation model included the interaction between earning power and corporate governance and the interaction between sales growth and corporate governance. Based on the data structure and the uploaded results, quantile regression was emphasized to capture differences in the effect of the independent variables across earnings management risk levels. This approach was suitable because the Beneish M-Score distribution showed substantial variation, and the influence of profitability, growth, and governance may differ between low-risk, median-risk, and high-risk manipulation conditions.

Table 1. Operational Definition and Measurement of Variables

Variable	Symbol	Definition	Measurement	Scale
Earnings Management	EM	Potential manipulation of financial statements to achieve desired reporting outcomes.	Beneish M-Score	Interval
Earning Power	EP	Company ability to generate profit from assets.	Return on Assets = Net Income / Total Assets	Ratio
Sales Growth	SG	Increase or decrease in net sales over a period.	(Net Sales t - Net Sales t-1) / Net Sales t-1	Ratio
Corporate Governance	CG	Monitoring mechanisms that support transparency and accountability.	Governance index based on board independence and audit committee effectiveness	Ratio
Firm Size (Control Variabel)	SIZE	Scale of company operations.	Natural logarithm of total assets	Ratio

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Variable	Symbol	Definition	Measurement	Scale
Leverage (Control Variabel)	LEV	Debt intensity of the company.	Total liabilities / total assets or debt-to-equity ratio	Ratio

Source: processed by the author

4. Results and Discussion
4.1 Descriptive Statistics
The descriptive statistics summarized the distribution of the main variables used in the analysis. The Beneish M-Score showed wide variation, indicating that the sample contained firms with different levels of potential manipulation risk. Earning power also varied substantially, reflecting differences in profitability among cyclical and non-cyclical firms. Sales growth showed the largest dispersion, which was consistent with differences in sectoral demand and post-period business recovery. Corporate governance showed a relatively high average score, although the minimum value indicated that governance quality was not uniform across firms.

Table 2. Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
Beneish M-Score (Y)	-1.074	3.572	-46.62	13.58
Earning Power (X1)	-0.022	0.655	-9.50	1.00
Sales Growth (X2)	115.400	102.800	0.00	1,564.00
Corporate Governance Index (Z)	88.093	5.732	67.65	96.49

Source: processed data

The average Beneish M-Score of -1.074 suggested that, on average, sample firms were not uniformly classified as manipulators. However, the minimum and maximum values indicated substantial variation. This dispersion justified the use of quantile regression because the determinants of earnings management may differ at different points of the risk distribution. The negative average earning power indicated that some firms experienced profitability pressure, while the high maximum sales growth showed that some firms experienced rapid revenue expansion. Such conditions can create different reporting incentives across firms.

4.2 Hypothesis Testing
Table 3. Quantile Regression Results

Quantile	Variable	Coefficient	P-value	Interpretation
0.25	Earning Power (X1)	18.85	0.027	Significant positive effect at low-risk manipulation level.
0.50	Earning Power (X1)	24.42	0.000	Significant positive effect at median-risk

Quantile	Variable	Coefficient	P-value	Interpretation
				manipulation level.
0.75	Earning Power (X1)	7.92	0.342	Insignificant effect at high-risk manipulation level.
0.50	CG Moderation (X1*Z)	-0.23	0.000	Corporate governance reduced the effect of earning power on earnings management.
0.75	CG Moderation (X1*Z)	-0.03	0.733	Insignificant moderation at high-risk manipulation level.
0.75	Sales Growth (X2)	-12.85	0.005	Significant negative effect at high-risk manipulation level.

Source: processed data

Table 3 indicates that earning power had a significant positive effect on earnings management at the 0.25 and 0.50 quantiles. This result suggests that profitability did not automatically reduce manipulation incentives. Instead, firms with higher profitability may have faced pressure to maintain performance consistency, meet investor expectations, or protect managerial compensation. This finding is consistent with evidence that profitable and financially healthy firms may still engage in opportunistic earnings management (Ghazali et al., 2015). It also aligns with Liu (2021), who showed that the effect of earnings management varies across profitability conditions.

At the 0.75 quantile, the effect of earning power became insignificant. This implies that among firms with high manipulation risk, profitability alone was not sufficient to explain earnings management. High-risk manipulation may be driven by other factors such as financial distress, leverage pressure, weak internal control, aggressive revenue recognition, or governance failure. This interpretation is consistent with Beneish-based research showing that manipulation risk is multidimensional and cannot be explained by one financial indicator alone (Beneish, 1997; Narsa et al., 2023).

Sales growth had a significant negative effect on earnings management at the 0.75 quantile. This result indicates that firms with stronger sales growth were less likely to engage in earnings management when manipulation risk was high. The finding can be interpreted through signaling theory: genuine revenue expansion can provide a credible signal of business performance, reducing the need to manipulate earnings. However, sales growth remains a sensitive variable because rapid growth can also create pressure to

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sustain market expectations. Therefore, its effect must be interpreted together with governance quality and firm-specific risk conditions.

4.3 Moderating Role of Corporate Governance

Corporate governance significantly moderated the relationship between earning power and earnings management at the median quantile. The negative interaction coefficient indicated that stronger governance weakened the positive effect of earning power on earnings management. This finding supports the role of governance as a monitoring mechanism that reduces managerial discretion when profitability creates performance pressure. The result is consistent with Siregar and Utama (2008), who showed that governance practices matter for earnings management in Indonesia, and with Nguyen et al. (2024), who found that governance quality restrains both accrual and real earnings management.

The moderating effect was not significant at the high-risk quantile. This may indicate that when manipulation risk is already high, formal governance structures may not be sufficient unless they are accompanied by substantive board effectiveness, audit committee expertise, external audit quality, and enforcement. Brennan (2021) argued that earnings management research should look beyond formal governance attributes and examine what happens inside the boardroom. Therefore, future studies should consider qualitative governance quality, boardroom dynamics, and audit committee competence rather than relying only on structural governance indicators.

Overall, the moderation results indicate that corporate governance matters most when firms are in a moderate manipulation-risk condition. At this stage, governance can still constrain opportunistic reporting before manipulation becomes severe. This has practical implications for boards and regulators because early monitoring can prevent the escalation of earnings management risk.

4.4 Discussion

The results support the argument that earnings management is shaped by both financial incentives and governance constraints. Earning power was significant at lower and median quantiles, indicating that profitability can become a source of reporting pressure. This finding refines the assumption that profitable firms are always less likely to manage earnings. In practice, managers of profitable firms may attempt to smooth earnings, maintain growth narratives, or avoid disappointing the market. Earnings management may therefore occur not only in distressed firms but also in firms that are expected to perform consistently.

The negative effect of sales growth at the high-risk quantile indicates that genuine growth can reduce manipulation incentives. This finding is consistent with the idea that when revenue expansion is strong, firms have a stronger operational basis for reporting performance. Nevertheless, the role of sales growth is not universal. Prior studies show that firms may manage earnings to avoid earnings decreases and losses (Burgstahler & Dichev, 1997), and Beneish-based evidence has linked sales growth indicators to manipulation risk in certain fraud cases (Ramírez-Orellana et al., 2017). Thus, sales growth should be interpreted as a contextual signal rather than a definitive indicator of earnings quality.

Corporate governance strengthened the explanatory model by showing that financial incentives do not operate in isolation. Board independence, audit committee effectiveness, and governance quality can reduce the opportunity for earnings management. This is consistent with evidence that board independence reduces earnings manipulation (Busirin et al., 2015), independent boards constrain earnings management (Jaggi et al., 2009), and internal governance can discipline managers involved in earnings manipulation (Hazarika et al., 2012). The findings also align with broader evidence that governance quality improves financial reporting quality and reduces opportunistic behavior (Nguyen et al., 2024; Özer et al., 2024).

The study also provides an Indonesian contribution. Prior evidence on Indonesian listed firms found that ownership structure, firm size, and governance practices affect earnings management behavior (Siregar & Utama, 2008). The present study extends this logic by focusing on earning power and sales growth as performance-related incentives and by treating governance as a moderating variable. This integrated approach is important because firms in cyclical and non-cyclical sectors face different operating volatility, market expectations, and financial reporting pressures.

The results have implications for regulators and practitioners. Regulators should strengthen governance enforcement, especially concerning board independence, audit committee competence, and disclosure transparency. Firms should treat governance not merely as a compliance requirement but as a substantive monitoring system that protects reporting credibility. Investors and creditors should evaluate earnings management risk by considering profitability, sales growth, leverage, firm size, and governance quality together rather than relying on one financial indicator.

5. Conclusion

This study examined the influence of earning power and sales growth on earnings management, with corporate governance as a moderating variable, among cyclical and non-cyclical companies listed on the Indonesia Stock Exchange. The results showed that earning power significantly affected earnings management at lower and median manipulation-risk levels. This indicates that profitability can create reporting pressure and does not automatically guarantee high earnings quality. Sales growth had a significant negative effect at the high-risk manipulation level, suggesting that stronger revenue growth can reduce the need for earnings manipulation when it reflects genuine operating performance.

Corporate governance moderated the relationship between earning power and earnings management by weakening the positive influence of earning power at the median quantile. This finding confirms the importance of governance mechanisms in constraining managerial opportunism and improving financial reporting integrity. However, the insignificant moderation at the high-risk level suggests that formal governance structures may be insufficient when manipulation risk is severe. Stronger substantive monitoring, audit quality, enforcement, and board effectiveness are needed to prevent aggressive reporting behavior.

The study contributes to earnings management literature by integrating profitability, growth, and governance quality into one model in an emerging market context. The practical implication is that regulators, boards, auditors, and investors should evaluate earnings management risk through both financial indicators and governance mechanisms. The study is limited by its reliance on secondary data and the use of governance proxies that may not fully capture the quality of boardroom processes. Future research should expand the observation period, compare sectors more deeply, incorporate audit quality and ownership concentration, and combine quantitative models with qualitative governance assessment.

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