Multiparadigm Accounting Research (JMAR)
Vol.4 Issue 1 (2026) Page:42 – 52
ISSN: 3047-3144

JMAR
JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

The Effect of Good Corporate Governance, External Financing, and Leverage on Earnings Management in Infrastructure Sector Companies

Galang Basodara[1], Ida Ayu Purnama[2*]
galangbasodara754@gmail.com[1], ida.ayupurnama@upnyk.ac.id[2*]
[1,2]Universitas Pembangunan Nasional "Veteran" Yogyakarta

Article History
Received : 15 January 2026
Accepted : 21 March 2026
Publish : 27 April 2026

Keywords: Earnings management, good corporate governance, external financing, leverage, infrastructure sector companies.

Abstract
Earnings management remains an important issue because it may reduce the reliability of financial reporting and influence stakeholders' decision-making. This study aims to examine the effect of Good Corporate Governance (GCG), External Financing, and Leverage on earnings management in infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. This research employs a quantitative approach using secondary data obtained from annual reports and financial statements, with a purposive sampling technique resulting in 258 firm-year observations. Earnings management is measured using the Modified Jones Model, while the data are analyzed using multiple linear regression with IBM SPSS Statistics. The findings reveal that Good Corporate Governance does not have a significant effect on earnings management, External Financing has a positive and significant effect on earnings management, and Leverage does not have a significant effect on earnings management. These results show that pressure arising from external financing plays a more prominent role in encouraging earnings management practices than corporate governance mechanisms and capital structure. Therefore, companies should strengthen financial reporting transparency and governance effectiveness, particularly when relying on external sources of financing.

Introduction

High-quality financial reporting plays a fundamental role in supporting efficient capital markets by providing stakeholders with reliable information regarding a company's financial position, operating performance, and future prospects. Financial statements serve as the primary source of information for investors, creditors, regulators, and the public in evaluating corporate performance and making economic decisions (Biehl et al., 2024). Among the information presented in financial statements, reported earnings receive the greatest attention because they are widely regarded as an indicator of managerial effectiveness and corporate performance (Rama Nopiana & Rusmiati Salvi, 2022). However, the increasing reliance on earnings as a benchmark for evaluating management performance may also create incentives for managers to influence reported earnings in order to satisfy stakeholder expectations rather than faithfully represent the firm's actual economic condition (Mlawu et al., 2025). Under such circumstances, earnings management has become one of the most important issues in accounting research. Accrual-based earnings management allows managers to intentionally adjust accounting estimates and policies to present a more favorable financial position without directly affecting underlying cash flows (Khuong et al., 2023). Consequently, this form of earnings management has become one of the most widely examined topics in accounting research. Nevertheless, greater transparency and comparability in financial reporting increase the likelihood that such practices will be detected, thereby reducing managers' incentives to manipulate accrual-based earnings (Thanh Liem, 2021).

According to Healy & Wahlen (1999), earnings management occurs when managers use judgment in financial reporting and transaction structuring to alter financial reports in order to mislead stakeholders or influence contractual outcomes based on reported accounting numbers. Such managerial discretion arises because accounting standards provide flexibility in recognizing, measuring, and presenting financial information, allowing managers to exercise professional

JMAR
JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

judgment when preparing financial statements. Although this flexibility is intended to ensure that financial reports reflect the underlying economic substance of business transactions, it may also create opportunities for opportunistic reporting behavior when managers face incentives to achieve particular financial objectives (Mlawu et al., 2025). Earnings management may therefore be conducted to satisfy contractual arrangements, maintain investor confidence, obtain external financing, or avoid adverse market reactions. Among the various forms of earnings management, accrual-based earnings management remains one of the most widely examined approaches because it relies on managers' discretion over accounting estimates and accrual policies rather than changes in real business activities. Nevertheless, greater accounting comparability and higher financial reporting transparency can reduce managers' ability to manipulate accruals by making financial information easier for investors, auditors, and regulators to evaluate (Thanh Liem, 2021).

The relevance of earnings management is further illustrated by the financial reporting issues involving PT Waskita Karya (Persero) Tbk., one of Indonesia's largest state-owned infrastructure companies. Based on an investigative audit conducted by the Financial and Development Supervisory Agency (BPKP), Waskita Karya was suspected of manipulating its financial statements since 2016, resulting in reported earnings, assets, and losses that did not fully reflect the company's actual financial condition (Bisnis.com, 2023). This concern was reinforced by the Deputy Minister of State-Owned Enterprises, who stated that the company had appeared to generate profits for years despite consistently reporting negative operating cash flows (BPK, 2024). The discrepancy became more evident in the first quarter of 2023, when Waskita Karya recorded a net loss of IDR 374.93 billion alongside negative operating cash flows of IDR 467.62 billion (Kontan.co.id, 2023). Nevertheless, in previous reporting periods the company continued to present positive operating performance, including earnings before interest, taxes, depreciation, and amortization (EBITDA) of IDR 660 billion (New Neraca, 2023). Furthermore, an audit of the State Capital Injection (PMN) program showed that the financial statements used to support the funding proposal were allegedly inconsistent with the company's actual financial condition (DetikFinance, 2023). These findings suggest that reported accounting earnings may not always represent underlying economic performance and highlight the importance of investigating the determinants of accrual-based earnings management, particularly in Indonesia's infrastructure sector.

Good Corporate Governance (GCG) has been widely recognized as an essential mechanism for improving corporate accountability and enhancing the credibility of financial reporting. According to the G20/OECD Principles of Corporate Governance (2023), GCG refers to a system that governs and controls corporations by establishing a balanced relationship among shareholders, boards, management, and other stakeholders, thereby ensuring that corporate decisions are made transparently, fairly, responsibly, and accountably. From the perspective of Agency Theory, effective corporate governance reduces conflicts of interest between managers and shareholders by strengthening monitoring mechanisms and limiting information asymmetry (Urip Wardoyo et al., 2022). Effective governance mechanisms also reduce information asymmetry and establish checks and balances among corporate stakeholders, thereby limiting managerial opportunistic behavior and improving financial reporting quality (Kjærland et al., 2020); Lukviarman, 2016). Furthermore, strengthening governance structures through independent boards and audit committees may reduce managers' opportunities to manipulate reported earnings (Mardianto & Chintia, 2022). Consequently, well-functioning governance mechanisms are expected to restrict managers' opportunities to engage in opportunistic financial reporting, including earnings management. Consistent with this perspective, Hong et al. (2023) argue that stronger corporate governance enhances the integrity of financial reporting by reducing accrual manipulation through more effective monitoring. Accordingly, this study measures governance quality using a Corporate Governance Score (CGS), which integrates multiple governance attributes to provide a more comprehensive representation of corporate governance practices.

Another factor that may influence earnings management is external financing. External financing refers to funds obtained from outside the firm, including debt and equity financing, when internally generated funds are insufficient to finance investment opportunities (Zetlin-Jones & Shourideh, 2017; Bradshaw et al., 2006). Such financing creates contractual relationships between managers and external capital providers, increasing managerial incentives to present favorable financial performance in order to secure future funding and maintain market credibility (Zhang et al., 2020). Consequently, companies relying heavily on external financing are often required to demonstrate favorable financial performance and maintain credibility in the eyes of creditors and investors. This condition may encourage managers to report higher earnings in order to reduce perceived financing risk and improve access to external capital. Accordingly, firms with greater dependence on external financing may face stronger incentives to engage in earnings management as a means of signaling better financial performance and strengthening market confidence (Hong et al., 2023). In this study, external financing is measured using External Financing Activities (XFIN), which reflects a company's financing activities derived from debt and equity transactions.

Leverage is another important determinant that may influence managerial financial reporting behavior. Leverage reflects the extent to which a company utilizes debt to finance its assets and business operations and is commonly used to evaluate a firm's long-term financial risk (Brigham & Houston, 2019). Companies with higher leverage are generally subject to greater scrutiny from creditors and are required to maintain their ability to fulfill contractual obligations. From the perspective of Agency Theory, the existence of debt contracts may create conflicts between managers, shareholders, and creditors, encouraging managers to report favorable financial performance in order to avoid covenant violations and maintain access to external financing. This argument is also consistent with the Debt Covenant Hypothesis of Positive Accounting Theory, which suggests that managers of highly leveraged firms tend to adopt income-increasing accounting policies to avoid violating debt covenant agreements and preserve favorable relationships with creditors (Srivastava & Baag, 2020). As debt covenant violations may result in stricter lending conditions or increased borrowing costs, managers may have stronger incentives to manage reported earnings in order to maintain compliance with contractual obligations. Consequently, managers in highly leveraged firms may have stronger incentives to engage in earnings management to portray a more stable financial condition and reduce concerns regarding the company's repayment capacity. In this study, leverage is measured using the Debt-to-Equity Ratio (DER), which reflects the proportion of debt financing relative to shareholders' equity and show the company's financial risk.

Despite the theoretical arguments supporting the influence of Good Corporate Governance, External Financing, and Leverage on earnings management, empirical findings remain inconclusive. Regarding corporate governance, Nguyen et al. (2024) and Hong et al. (2023) reported that stronger governance mechanisms reduce earnings management, whereas Pham et al. (2022) found no significant relationship between corporate governance and earnings management. Furthermore, Dokas (2023) and Tuan (2022) documented mixed evidence, indicating that the effectiveness of individual governance mechanisms varies depending on the governance attributes examined. Similarly, previous studies investigating external financing have also produced inconsistent results. Hong et al. (2023) and Bui et al. (2022) demonstrated that greater dependence on external financing increases the likelihood of earnings management, while Huang et al. (2023) reported a negative relationship, suggesting that better access to credit markets may reduce managers' incentives to manipulate earnings. Rahman & Mansor (2023) further revealed that the impact of external financing differs according to the type of financing employed. Likewise, empirical evidence concerning leverage remains divided. Muhtaseb et al. (2024) and Hussain et al. (2022) found that highly leveraged firms are more likely to engage in earnings management, whereas Awuye & Aubert (2022) as well as Al-Shattarat (2024) argued that greater creditor monitoring associated with higher leverage discourages earnings manipulation. These inconsistent findings suggest that the relationships between Good Corporate Governance, External Financing, Leverage, and earnings management remain context-dependent, thereby providing a strong rationale for further investigation within Indonesian infrastructure companies.

JMAR
JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

Considering the inconsistent empirical evidence, further investigation is necessary to provide a more comprehensive understanding of the determinants of earnings management, particularly in the Indonesian context. Most previous studies have been conducted in different institutional settings, including Vietnam, Malaysia, Palestine, Jordan, and the United Kingdom, where corporate governance systems, financing environments, and regulatory frameworks differ from those of Indonesia. These institutional differences may explain the variation in previous findings and limit the generalizability of existing evidence to Indonesian listed companies. Furthermore, this study extends the existing literature by focusing on infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period, a sector characterized by high capital intensity, substantial dependence on external financing, and increasing public scrutiny following several financial reporting issues. In addition, this study adopts a comprehensive approach by measuring corporate governance through a Corporate Governance Score (CGS) constructed using Principal Component Analysis (PCA), external financing through External Financing Activities (XFIN), and leverage through the Debt-to-Equity Ratio (DER). These measurements are expected to provide a more comprehensive assessment of governance quality, financing decisions, and financial risk in explaining earnings management practices within Indonesia's infrastructure sector.

Based on the foregoing discussion, this study aims to examine the effects of Good Corporate Governance, External Financing, and Leverage on earnings management in infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period. By investigating these relationships, this study is expected to enrich the literature on earnings management by providing empirical evidence from the Indonesian infrastructure sector, where companies operate under unique financing characteristics and governance challenges. Furthermore, the findings are expected to provide practical implications for investors, creditors, regulators, and corporate management in evaluating corporate governance practices, financing decisions, and financial risk as mechanisms for improving the quality and credibility of financial reporting.
H1: Good corporate governance affects earnings management
H2: External financing affects earnings management
H3: Leverage has an effect on earnings management.

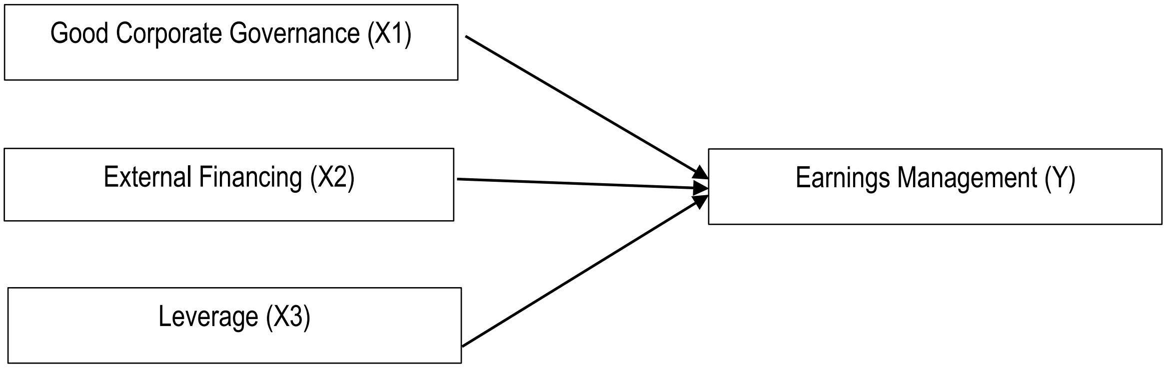

Figure 1. Conceptual model of research

Methodology
This study employs a quantitative research approach with a causal research design to examine the effects of Good Corporate Governance (GCG), External Financing, and Leverage on earnings management. The study utilizes

Multiparadigm Accounting Research (JMAR)
Vol.4 Issue 1 (2026) Page:42 – 52
ISSN: 3047-3144

secondary data obtained from the audited annual reports and financial statements of infrastructure companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. Documentary analysis was employed as the primary data collection technique by identifying, recording, and reviewing information relevant to all research variables from the companies' published reports. The use of secondary data enables objective measurement of corporate governance, financing activities, leverage, and earnings management based on publicly available financial information.

The population of this study consists of all infrastructure companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Samples were selected using a purposive sampling technique to ensure that only companies meeting the research objectives were included in the analysis. The selection criteria required companies to be consistently listed on the IDX throughout the observation period, publish complete audited annual reports and financial statements, and provide sufficient information to measure all research variables. Companies with incomplete financial data or missing governance disclosures were excluded from the sample. After applying these selection criteria and conducting data screening, the final sample comprised 258 firm-year observations. This sample is considered appropriate for examining the relationships between Good Corporate Governance, External Financing, Leverage, and earnings management within Indonesia's infrastructure sector.

Table 1. Variables

Variable	Proxy	Source
Earnings Management	Discretionary Accruals (DA)	(Kothari et al., 2005)
Good Corporate Governance	Corporate Governance Score (CGS	(Hong et al., 2023)
External Financing	External Financing Activities (XFIN)	(Hong et al., 2023)
Leverage	Debt-to-Equity Ratio (DER)	(Awuye & Aubert, 2022)

The dependent variable in this study is earnings management, while the independent variables comprise Good Corporate Governance (GCG), External Financing, and Leverage. Earnings management is measured using discretionary accruals estimated by the Modified Jones Model (Dechow et al., 1995), which has been widely adopted to capture accrual-based earnings management. Good Corporate Governance is measured using a Corporate Governance Score (CGS) constructed through Principal Component Analysis (PCA) based on six governance attributes adapted from Hong et al. (2023), namely institutional ownership, managerial ownership, board meeting frequency, board size, the proportion of independent commissioners, and female directors. External Financing is measured using External Financing Activities (XFIN), which captures financing obtained through debt and equity transactions relative to total assets (Hong et al., 2023). Leverage is measured using the Debt-to-Equity Ratio (DER), reflecting the proportion of debt financing relative to shareholders' equity (Awuye & Aubert, 2022). Table 1 summarizes the operational definitions and measurement proxies adopted in this study.

Data analysis was performed using IBM SPSS Statistics 26. The analysis began with descriptive statistics to summarize the characteristics of the research variables. Prior to hypothesis testing, classical assumption tests comprising normality, multicollinearity, heteroscedasticity, and autocorrelation tests were conducted to ensure that the regression model satisfied the underlying statistical assumptions. The hypotheses were subsequently tested using multiple linear regression analysis to examine the effects of Good Corporate Governance, External Financing, and Leverage on earnings management. Model feasibility was evaluated using the coefficient of determination (Adjusted R^2) and the F-test, while the significance of each independent variable was assessed using the t-test at a 5% significance level.

Result And Discussion

In the present study, earnings management is conceptualized as the dependent variable influenced by Good Corporate Governance, External Financing, and Leverage. The proposed conceptual framework is presented in Figure 1,

Multiparadigm Accounting Research (JMAR)
Vol.4 Issue 1 (2026) Page:42 – 52
ISSN: 3047-3144

JMAR
JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

illustrating the hypothesized relationships between the independent variables and earnings management. Good Corporate Governance is expected to influence earnings management through its monitoring function and ability to reduce agency conflicts. Likewise, External Financing and Leverage are expected to influence earnings management through financing incentives and debt-related pressures, respectively.

The proposed relationships are established based on Agency Theory, Signal Theory, and the Debt Covenant Hypothesis. Agency Theory explains that effective governance mechanisms reduce information asymmetry and managerial opportunism, thereby limiting earnings management practices. Signal Theory suggests that firms relying heavily on external financing have incentives to report stronger financial performance to attract investors and creditors. Meanwhile, the Debt Covenant Hypothesis argues that highly leveraged firms may manipulate reported earnings to avoid violations of debt agreements and maintain favorable relationships with lenders.

Accordingly, the conceptual framework proposes that Good Corporate Governance, External Financing, and Leverage jointly influence earnings management in infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period. These relationships are empirically examined using multiple linear regression analysis based on firm-year observations collected from publicly available annual reports and financial statements.

Tabel 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
EM	258	-0.4609	0.4533	0.009169	0.1651949
GCG	258	0.1491	0.5929	0.380665	0.0908234
EF	258	-0.5329	0.5516	-0.003357	0.1218996
LEV	258	-34.9300	149.8694	1.579209	9.9931995
Valid N (listwise)	258				

Table 1 presents the descriptive statistics of the variables employed in this study based on the final sample of 258 firm-year observations. The descriptive statistics provide an overview of the distribution and variation of earnings management, Good Corporate Governance, External Financing, and Leverage among infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The results show considerable variation across the variables, suggesting differences in corporate governance quality, financing decisions, capital structure, and earnings management practices among the sampled firms. Such variation supports the suitability of the dataset for subsequent regression analysis aimed at examining the relationships among the research variables.

Prior to hypothesis testing, data screening was conducted to identify observations that could potentially bias the regression estimates. Outliers were detected and removed to improve the normality of the residuals and ensure that the regression model satisfied the underlying statistical assumptions. Following the screening process, the final sample consisted of 258 firm-year observations, which were subsequently used in all statistical analyses. Furthermore, the regression model was evaluated through classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The results show that the model satisfies all classical regression assumptions, confirming that the data are appropriate for multiple linear regression analysis and hypothesis testing.

Table 3. Multiple Regression Results

Variables	Coefficient (β)	t-value	p-value
(Constant)	-0.057	-1.281	0.201
GCG	0.176	1.541	0.124

Multiparadigm Accounting Research (JMAR)
Vol.4 Issue 1 (2026) Page:42 – 52
ISSN: 3047-3144

EF	0.305	3.584	< 0.001
LEV	0.000	0.107	0.915

a. Dependent Variable: EM

Model Statistics	Value
F-statistic	4.477
Prob. (F-statistic)	0.004
Adjusted R^2	0.039
Observations	258

Table 2 presents the results of the multiple linear regression analysis. The regression model is statistically significant, with an F-statistic of 4.477 and a significance level of 0.004, indicating that Good Corporate Governance, External Financing, and Leverage jointly explain variations in earnings management. Furthermore, the adjusted R^2 of 0.039 suggests that approximately 3.9% of the variation in earnings management is explained by the independent variables included in the model, while the remaining 96.1% is attributable to other factors outside the model.

Regarding the individual hypotheses, External Financing has a positive and statistically significant effect on earnings management ($\beta = 0.305$, $t = 3.584$, $p < 0.001$), supporting Hypothesis 2. In contrast, Good Corporate Governance ($\beta = 0.176$, $t = 1.541$, $p = 0.124$) and Leverage ($\beta = 0.000$, $t = 0.107$, $p = 0.915$) do not significantly affect earnings management. Therefore, Hypotheses 1 and 3 are not supported.

Discussion

Effect of Good Corporate Governance on Earnings Management

The regression results show that Good Corporate Governance does not significantly affect earnings management, leading to the rejection of Hypothesis 1. This finding suggests that the Corporate Governance Score (CGS) is not sufficiently effective in constraining managers' discretionary reporting behavior among infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Although Agency Theory argues that effective governance mechanisms reduce information asymmetry and agency conflicts, the implementation of governance practices may not necessarily prevent managers from engaging in accrual-based earnings management.

This finding is consistent with Pham et al. (2022), who reported no significant relationship between corporate governance and earnings management. It also supports the arguments of Dokas (2023) and Tuan (2022) that the effectiveness of corporate governance depends on the specific governance mechanisms implemented and the institutional environment. Therefore, the results suggest that the presence of governance structures alone may not be sufficient to improve the quality of financial reporting without effective monitoring and enforcement.

Effect of External Financing on Earnings Management

The regression results show that External Financing has a positive and significant effect on earnings management, supporting Hypothesis 2. This finding suggests that firms with greater dependence on external financing are more likely to engage in earnings management. From the perspective of Signaling Theory, managers have incentives to present favorable financial performance in order to attract investors and creditors and to maintain access to external sources of funding. Consequently, managers may exercise greater discretion over accounting estimates to portray stronger financial performance.

JMAR
JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

This finding is consistent with Hong et al. (2023) and Bui et al. (2022), who reported that firms relying more heavily on external financing tend to exhibit higher levels of earnings management. The result implies that infrastructure companies, which generally require substantial external capital to finance long-term investments and capital-intensive projects, may face stronger incentives to report favorable earnings in order to reduce financing costs and strengthen market confidence.

Effect of Leverage on Earnings Management

The regression results show that Leverage does not have a significant effect on earnings management, leading to the rejection of Hypothesis 3. This finding suggests that the level of debt financing does not significantly influence managers' decisions to engage in earnings management among infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Although the Debt Covenant Hypothesis argues that firms with higher leverage tend to manipulate earnings to avoid debt covenant violations, the results imply that debt obligations may not necessarily encourage opportunistic financial reporting in the observed firms. This result may also reflect the characteristics of infrastructure companies, which generally rely on long-term financing and are subject to closer supervision from creditors, thereby reducing managers' incentives to manipulate reported earnings.

This finding is consistent with Awuye and Aubert (2022) and Al-Shattarat (2024), who found that leverage discourages earnings management because greater reliance on debt is accompanied by stricter monitoring from creditors. However, it differs from the findings of Muhtaseb et al. (2024) and Hussain et al. (2022), who reported that highly leveraged firms are more likely to engage in earnings management due to pressures arising from debt obligations. Overall, the results suggest that creditor monitoring may be more influential than debt pressure in shaping financial reporting behavior within Indonesian infrastructure companies.

Conclusions and Recommendation

This study investigates the effects of good corporate governance, external financing, and leverage on earnings management in infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The findings show that external financing is the only variable that significantly influences earnings management, whereas good corporate governance and leverage do not exhibit significant effects. These results highlight that dependence on external financing is a more important driver of earnings management than governance quality or capital structure in the observed firms.

The significance of External Financing can be understood in light of the characteristics of the infrastructure sector. Infrastructure companies generally operate in a capital-intensive environment, requiring substantial financial resources to develop, maintain, and expand long-term projects. As internal funds are often insufficient to finance these investments, firms rely heavily on external sources of capital, including debt and equity financing. This reliance increases pressure on managers to maintain favorable financial performance in order to attract investors, satisfy creditors, and preserve access to future financing. Consequently, managers may have stronger incentives to engage in earnings management when external funding becomes an essential component of business operations.

These findings provide empirical evidence that external financing plays a central role in explaining earnings management within Indonesia's infrastructure sector. From a practical perspective, investors, creditors, and regulators should pay closer attention to companies experiencing substantial external financing activities, as these firms may face greater incentives to manipulate reported earnings. Strengthening corporate governance remains important; however, governance mechanisms should be accompanied by more effective oversight of financing decisions and financial reporting practices to mitigate opportunistic managerial behavior.

JMAR JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH http://jurnal.upnyk.ac.id/index.php/jmar

This study also show that earnings management cannot be explained solely by corporate governance, external financing, and leverage, as reflected by the relatively low explanatory power of the regression model. Future research is therefore encouraged to incorporate additional firm-specific and institutional variables, such as profitability, firm size, audit quality, ownership structure, or ESG performance, and to employ alternative measures of earnings management, including real earnings management, to provide a more comprehensive understanding of managerial reporting behavior.

Limitation

This study has several limitations that should be considered when interpreting its findings. First, the measurement of Good Corporate Governance is based on a Corporate Governance Score (CGS) constructed from selected governance attributes, which may not fully capture the overall quality of corporate governance practices. Although the composite score provides a comprehensive governance measure, it may not adequately reflect the effectiveness of governance implementation in monitoring managerial behavior. Second, this study focuses exclusively on accrual-based earnings management as measured by the Modified Jones Model. Consequently, it does not capture real earnings management practices, such as those arising from operational or investment decisions, which may also be used by managers to influence reported financial performance. Future research is therefore encouraged to complement accrual-based measures with real earnings management proxies to provide a more comprehensive assessment of managerial reporting behavior. In this research, leverage should be changed to another proxy to obtain better results.

Research Contribution

This study contributes to the earnings management literature in several ways. First, it provides empirical evidence on the relationship between Good Corporate Governance, External Financing, Leverage, and earnings management within Indonesia's infrastructure sector, which remains relatively underexplored despite its strategic role and capital-intensive characteristics. Second, unlike many previous studies that examine individual corporate governance mechanisms separately, this study employs a Corporate Governance Score (CGS) constructed using Principal Component Analysis (PCA) to capture corporate governance quality more comprehensively. Third, the findings offer practical insights for investors, creditors, regulators, and corporate management by highlighting the significant role of external financing in influencing earnings management, while demonstrating that corporate governance quality and leverage alone may not be sufficient to constrain managerial discretion in financial reporting.

References

Al-Shattarat, B. (2024). The influence of leverage on accrual-based and real earnings management: Evidence from the UK. *Spanish Accounting Review*, 1–10.

Awuye, I., & Aubert, F. (2022). *The impact of leverage on earnings management and the trade-off between discretionary accruals and real earnings management*. *14*(1), 89–101. https://doi.org/10.5897/JAT2022.0519

Biehl, H., Bleibtreu, C., & Stefani, U. (2024). The real effects of financial reporting: Evidence and suggestions for future research. *Journal of International Accounting, Auditing and Taxation*, *54*. https://doi.org/10.1016/j.intaccaudtax.2023.100594

Bradshaw, M. T., Richardson, S. A., & Sloan, R. G. (2006). The relation between corporate financing activities, analysts' forecasts and stock returns. *Journal of Accounting and Economics*, *42*(1–2), 53–85. https://doi.org/10.1016/j.jacceco.2006.03.004

Brigham, E. F. ., & Houston, J. F. . (2019). *Fundamentals of financial management*. Cengage.

Bui, P., Ngo, H., Nguyen, K., & Liem, N. (2022). External financing and earnings management: Evidence in Vietnam. *Cogent Economics and Finance*, *10*(1). https://doi.org/10.1080/23322039.2022.2147703

Dechow, P., Sloan, R. G., & Sweeney, amy. (1995). Detecting Earnings Management. *The Accounting Review*, *70*.

Dokas, I. (2023). Earnings Management and Status of Corporate Governance under Different Levels of Corruption—

Multiparadigm Accounting Research (JMAR)
Vol.4 Issue 1 (2026) Page:42 – 52
ISSN: 3047-3144

An Empirical Analysis in European Countries. *Journal of Risk and Financial Management*, *16*(10). https://doi.org/10.3390/jrfm16100458

G20/OECD Principles of Corporate Governance 2023. (2023). https://doi.org/10.1787/ed750b30-en

Healy, P. M., & Wahlen, J. M. (1999). A Review of the Earnings Management Literature and Its Implications for Standard Setting. *Accounting Horizons*, *13*(4), 365–383. https://doi.org/https://doi.org/10.2308/acch.1999.13.4.365

Hong, N. T. H., Anh, N. T., Hoang, N. T. V., & Minh, D. N. (2023). Corporate governance, external financing, and earnings management: new evidence from an emerging market. *Future Business Journal*, *9*(1). https://doi.org/10.1186/s43093-023-00206-3

Huang, Y., Liu, F. H., & Qiu, B. (2023). Credit market development and corporate earnings management: Evidence from banking and branching deregulations. *Journal of Financial Stability*, *67*. https://doi.org/10.1016/j.jfs.2023.101142

Hussain, A., Akbar, M., Khan, M. K., Sokolová, M., & Akbar, A. (2022). The Interplay of Leverage, Financing Constraints and Real Earnings Management: A Panel Data Approach. *Risks*, *10*(6). https://doi.org/10.3390/risks10060110

Khuong, N. V., Ly, H. T. N., & Anh, L. H. T. (2023). Accrual-based, real activities earnings management and corporate social responsibility: A virtuous circle? emerging market evidence. *Cogent Economics and Finance*, *11*(1). https://doi.org/10.1080/23322039.2023.2209955

Kjærland, F., Haugdal, A. T., Søndergaard, A., & Vågslid, A. (2020). Corporate Governance and Earnings Management in a Nordic Perspective: Evidence from the Oslo Stock Exchange. *Journal of Risk and Financial Management*, *13*(11). https://doi.org/10.3390/jrfm13110256

Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics*, *39*(1), 163–197. https://doi.org/10.1016/j.jacceco.2004.11.002

Lukviarman, N. (2016). *Corporate Governance Towards Strengthening Conceptual and Implementation in Indonesia*. PT Era Adicitra Intermedia.

Mardianto, M., & Chintia, C. (2022). Analisis Karakteristik Dewan Direksi dan Struktur Kepemilikan terhadap Manajemen Laba Perusahaan di BEI 2016-2020. *Owner*, *6*(1), 269–281. https://doi.org/10.33395/owner.v6i1.556

Mlawu, L., Matenda, F. R., & Sibanda, M. (2025). Incentives for Accrual-Based Earnings Management in Emerging Economies—A Systematic Literature Review with Bibliometric Analysis. In *Administrative Sciences* (Vol. 15, Number 6). Multidisciplinary Digital Publishing Institute (MDPI). https://doi.org/10.3390/admsci15060209

Muhtaseb, H., Paz, V., Tickell, G., & Chaudhry, M. (2024). Leverage, earnings management and audit industry specialization: the case of Palestinian-listed companies. *Asian Journal of Accounting Research*, *9*(1), 78–93. https://doi.org/10.1108/AJAR-07-2023-0220

Nguyen, Q., Kim, M. H., & Ali, S. (2024). Corporate governance and earnings management: Evidence from Vietnamese listed firms. *International Review of Economics and Finance*, *89*, 775–801. https://doi.org/10.1016/j.iref.2023.07.084

Pham, T. B. C., Nguyen, H. L., Vu, T. M. T., & Truong, V. T. (2022). Corporate governance and earnings management struggles: responses to adapt a modern capital mobilisation in the transitional economy. *Cogent Business and Management*, *9*(1). https://doi.org/10.1080/23311975.2022.2108216

Rahman, W., & Mansor, N. (2023). EXTERNAL DEBT FINANCING AND REAL EARNINGS MANAGEMENT: EVIDENCE FROM MALAYSIAN FAMILY GROUP AFFILIATION. In *International Journal of Economics, Management and Accounting* (Vol. 31, Number 2).

Rama Nopiana, P., & Rusmiati Salvi. (2022). Analysis of Governance, Leverage and Financial Distress Conditions on Earnings Management in the Banking Services Sector in Indonesia. *Asean International Journal of Business*, *1*(1), 34–42. https://doi.org/10.54099/aijb.v1i1.69

Srivastava, J., & Baag, P. K. (2020). Positive Accounting Theory and Agency Costs: A Critical Perspective. *AIMS International Journal of Management*, *14*(2), 101–113. https://doi.org/10.26573/2020.14.2.3

Thanh Liem, N. (2021). Accounting comparability and accruals-based earnings management: Evidence on listed firms in an emerging market. *Cogent Business and Management*, *8*(1). https://doi.org/10.1080/23311975.2021.1923356

Tuan, D. A. (2022). Impact of corporate governance on earnings management – Experimental evidence on listed commercial banks in Vietnam. *Banks and Bank Systems*, *17*(4), 189–197. https://doi.org/10.21511/bbs.17(4).2022.16

Urip Wardoyo, D., Rahmadani, R., & Tri Hanggoro, P. (2022). Good Corporate Governance Dalam Perspektif Teori Keagenan. In *EKOMA : Jurnal Ekonomi* (Vol. 1, Number 1).

Zetlin-Jones, A., & Shourideh, A. (2017). External financing and the role of financial frictions over the business cycle: Measurement and theory. *Journal of Monetary Economics*, *92*, 1–15. https://doi.org/10.1016/j.jmoneco.2017.08.001

Zhang, Uchida, K., & Dong. (2020). *External Financing and Earnings Management: Evidence from International Data*. https://hdl.handle.net/2324/4123953