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The Effect of Macroeconomic Fundamentals, Capital Structure, Good Corporate Governance, and Firm Size on Financial Performance with Earnings Management as an Intervening Variable: Evidence from Primary Consumer Goods Companies Listed on the Indonesia Stock Exchange (2020–2024)

Devi Nadia Agustina[1*], Hwihanus[2]
[1-2] Universitas 17 Agustus 1945 Surabaya, Indonesia
email: devinadiaagustina@surel.untag-sby.ac.id[1]

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Abstract

This study aims to analyze the effect of macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size on financial performance with earnings management as an intervening variable in primary consumer goods companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The research applies a quantitative approach using purposive sampling, resulting in a final sample of four companies. Data analysis was conducted using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) with SmartPLS software. The results indicate that capital structure has a significant negative effect on financial performance, while firm size has a significant positive effect on earnings management. Macroeconomic fundamentals, Good Corporate Governance, and firm size do not have a significant direct effect on financial performance. In addition, earnings management does not mediate the relationship between macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size on financial performance, as all indirect effect p-values exceed 0.05. The R-square values indicate that the model explains 22.8% of the variance in earnings management and 49.1% of the variance in financial performance, while the remaining variation is attributable to factors outside the proposed model.

Keywords: *Capital Structure, Earnings Management, Financial Performance, Good Corporate Governance, Macroeconomic Fundamentals.*

INTRODUCTION

The primary consumer goods sector represents one of the most strategic pillars of Indonesia's economy because the essential nature of its products makes consumer demand relatively inelastic despite fluctuations in the business cycle. The period from 2020 to 2024, however, has transformed this traditionally resilient sector into one operating under unprecedented uncertainty as the COVID-19 pandemic, global supply chain restructuring, commodity price inflation, and tighter monetary policies simultaneously reshaped corporate operating environments and financial decision-making processes (Brigham & Houston, 2022). Indonesia has experienced these global pressures alongside a gradual economic recovery, creating a business environment in which companies are required not only to sustain operational efficiency but also to preserve financial stability while responding to increasingly volatile macroeconomic conditions (Kementerian Investasi/BKPM, 2024). Within this context, financial performance should no longer be interpreted merely as an accounting outcome, but rather as a comprehensive indicator reflecting managerial capability, corporate resilience, and the firm's ability to create sustainable value for investors and other stakeholders (Hery, 2021). Management is consequently confronted with increasingly complex strategic choices because maintaining favorable financial performance frequently requires balancing operational effectiveness, financing decisions, governance quality, and transparent financial reporting under persistent external pressure. These circumstances indicate that financial performance in the primary consumer goods industry is shaped by multidimensional interactions rather than by isolated financial decisions, making a more integrated analytical framework increasingly necessary for understanding corporate performance during periods of economic turbulence.

Although Indonesia demonstrated a relatively strong macroeconomic recovery following the pandemic, the improvement in aggregate economic indicators was not consistently accompanied by equivalent improvements in the financial performance of publicly listed primary consumer goods companies. Indonesia's gross domestic product grew by 5.17% year-on-year in the second quarter of 2023, while household consumption expanded by 5.23%, confirming that domestic demand remained the principal driver of national economic growth during the post-pandemic recovery period (Badan Pusat Statistik, 2023). Despite these encouraging macroeconomic achievements, several firms within the primary consumer goods sector continued to report declining profitability, shrinking margins, and inconsistent financial performance, indicating that favorable macroeconomic conditions were insufficient to guarantee superior firm-level outcomes (Melani et al., 2025). This discrepancy suggests that macroeconomic fundamentals are transmitted to corporate performance through complex internal mechanisms involving financing policies, governance effectiveness, managerial discretion, and organizational capacity rather than through direct economic expansion alone (Budiantoro & Santosa, 2025). Under conditions characterized by inflationary pressure, exchange-rate volatility, and increasing financing costs, managers frequently encounter stronger incentives to preserve market confidence by exercising accounting discretion whenever actual operational performance becomes increasingly difficult to maintain (Scott, 2015). Such conditions reinforce the importance of investigating earnings management as an intervening mechanism because corporate financial performance may ultimately reflect not only firms' economic fundamentals but also managerial responses to external uncertainty and internal governance arrangements.

Existing studies have consistently acknowledged that financial performance is determined by a combination of macroeconomic conditions and firm-specific characteristics, yet the relative importance and interaction of these determinants remain inconclusive across different industrial settings. Empirical evidence indicates that inflation, exchange rates, and other macroeconomic indicators tend to weaken corporate financial performance by increasing production costs, reducing purchasing power, and limiting firms' financial flexibility, particularly in sectors that are highly dependent on domestic consumption (Hendrawan et al., 2022). Similar findings are reported in the consumer goods industry, where macroeconomic fundamentals and company characteristics jointly explain variations in profitability despite differences in corporate operational capacity and market positioning (Sucipto et al., 2022). From the perspective of financing decisions, capital structure has been found to influence financial performance because the proportion of debt determines both the availability of financial resources and the magnitude of financial risk borne by firms, although the direction and magnitude of this relationship vary considerably across empirical studies (Amelia & Wijaya, 2022). More recent evidence further demonstrates that inflation, liquidity, and capital structure collectively shape the financial performance of Indonesian consumer goods companies, suggesting that external economic conditions and internal financial policies should be examined simultaneously rather than independently (Naja & Natsir, 2023). Research has also emphasized that Good Corporate Governance, firm size, and earnings management are closely interconnected because effective governance mechanisms strengthen managerial monitoring, while larger firms experience greater public scrutiny that may either discourage or reshape earnings management practices depending on the prevailing institutional environment (Laeli et al., 2025).

Despite the growing body of literature, several conceptual and empirical limitations remain unresolved because most previous studies examine macroeconomic fundamentals, capital structure, corporate governance, firm size, and earnings management as separate analytical frameworks instead of integrating them into a comprehensive causal model. Some studies position financial performance as an intervening variable linking macroeconomic fundamentals and governance to firm value, whereas others treat earnings management as the primary mediating mechanism, resulting in inconsistent explanations regarding the causal pathways through which external and internal factors influence corporate outcomes (Pertiwi & Pandin, 2025). Recent evidence from Indonesian manufacturing and food and beverage companies likewise suggests that macroeconomic fundamentals, ownership structure, governance quality, and financial performance interact simultaneously through earnings management, yet these relationships have not been comprehensively validated within the primary consumer goods sector following the pandemic recovery period (Fauziyah & Hwihanus, 2025). Other studies continue to report that capital structure, macroeconomic fundamentals, firm characteristics, and profitability exhibit dynamic interrelationships that differ across industrial sectors, indicating that existing empirical findings remain highly context-dependent and cannot be generalized without further investigation (Prisca & Hwihanus, 2025). Governance research also demonstrates that capital structure may mediate the relationship between corporate governance and firm performance, while recent evidence indicates that governance can alternatively function as a moderating mechanism in explaining financial performance, reflecting the absence of consensus regarding the structural role of governance within corporate financial decision-making (Ria, 2023; Putri et al., 2026). These inconsistencies highlight a significant research gap because insufficient attention has been devoted to examining whether earnings management operates as the central mechanism through which macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size collectively influence the financial performance of primary consumer goods companies during the complete economic cycle from pandemic disruption to post-pandemic recovery.

Addressing these unresolved issues requires a more comprehensive analytical framework capable of capturing the simultaneous interaction between external macroeconomic pressures and internal corporate decision-making processes instead of examining each determinant in isolation. From the perspective of Agency Theory, conflicts of interest between shareholders and managers become more pronounced during periods of economic uncertainty because managers possess superior information and may employ earnings management to maintain favorable financial performance when actual operating conditions deteriorate (Scott, 2015). The monitoring function embedded in Good Corporate Governance is therefore expected to mitigate opportunistic managerial behavior by reducing information asymmetry and strengthening accountability throughout the financial reporting process, thereby improving the credibility of reported financial performance (Organisation for Economic Co-operation and Development, 2023). Complementing this perspective, Signaling Theory argues that financing decisions, corporate governance quality, firm size, and reported financial performance collectively serve as signals through which investors assess firms' future prospects and risk profiles under conditions of imperfect information (Brigham & Houston, 2022). Recent evidence from Indonesian primary consumer goods companies further indicates that financial performance is simultaneously influenced by macroeconomic conditions, capital structure, and governance-related characteristics, although the behavioral mechanism explaining these relationships remains insufficiently explored (Melani et al., 2025). Focusing on primary consumer goods companies listed on the Indonesia Stock Exchange during 2020–2024 therefore provides an appropriate empirical setting because the observation period encompasses the complete cycle of crisis, economic adjustment, and post-pandemic recovery, allowing a more comprehensive evaluation of how external shocks and internal governance jointly shape corporate financial outcomes.

This study is designed to address the limitations of previous research by developing an integrated framework that simultaneously examines the effects of macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size on financial performance while positioning earnings management as an intervening variable. Unlike earlier studies that generally investigated these relationships separately or focused on only a limited number of explanatory variables, this research seeks to explain the causal mechanism through which external economic conditions interact with internal corporate policies to influence financial performance. The study also provides a broader understanding of managerial behavior by evaluating whether earnings management functions as an adaptive response to unfavorable macroeconomic conditions or whether effective governance mechanisms are capable of constraining opportunistic financial reporting practices. The selection of primary consumer goods companies listed on the Indonesia Stock Exchange during the 2020–2024 period offers a unique empirical context because it captures corporate responses across the phases of economic disruption, stabilization, and recovery within a strategically important sector of the Indonesian economy. From a theoretical perspective, this research contributes by integrating Agency Theory and Signaling Theory into a unified explanatory model that clarifies the interconnected relationships among macroeconomic conditions, corporate financial policies, governance mechanisms, earnings management, and financial performance. From a methodological perspective, the study enriches the existing literature by proposing a comprehensive empirical model that simultaneously evaluates direct and indirect effects, thereby providing more robust evidence for academics, investors, corporate managers, and policymakers in understanding the determinants of sustainable corporate financial performance.

RESEARCH METHODS

The study employed a quantitative associative research approach using Partial Least Squares Structural Equation Modeling (SEM-PLS) as the primary analytical technique, with data processed using SmartPLS software. SEM-PLS was selected because it enables the simultaneous estimation of complex structural relationships, including the examination of intervening (mediating) effects, while imposing fewer assumptions regarding multivariate normality and remaining appropriate for predictive research models with relatively limited sample sizes (Ghozali, 2021). The method is also considered suitable for analyzing multidimensional latent constructs and assessing both direct and indirect relationships among variables within a comprehensive structural framework (Ghozali, 2021). In addition, SEM-PLS is widely applied in accounting and financial research due to its robustness in handling complex predictive models.

The population comprised all primary consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 observation period. The sample was determined using a purposive sampling technique, whereby firms were selected according to predefined criteria to ensure data consistency, completeness, and the relevance of the observed variables. The selection criteria included the continuous listing of companies on the IDX throughout the observation period, the availability of audited annual financial statements, and the completeness of data required to measure all research variables. Based on these criteria, four companies were identified as the final research sample and subsequently included in the empirical analysis. This sampling procedure was intended to ensure the reliability of the dataset and to improve the robustness of the estimated structural relationships among macroeconomic fundamentals, capital structure, Good Corporate Governance, firm size, earnings management, and financial performance (Ghozali, 2021).

Variables and Indicators

Table 1 presents the operational definitions and measurement indicators of all variables used in this study.

Table 1. Variables and Indicators Used in the Study

Variable	Indicators
Macroeconomic Fundamentals (X_1)	Gross Domestic Product (GDP), Exchange Rate, Inflation
Capital Structure (X_2)	Debt to Asset Ratio (DAR), Debt to Equity Ratio (DER), and Loan Debt to Asset Ratio (LDAR)
Good Corporate Governance (X_3)	Public Ownership and Managerial Ownership
Firm Size (X_4)	Total Accruals (TA)
Earnings Management (Z)	Short-Term Discretionary Accruals (STDA) and Long-Term Discretionary Accruals (LTDA)
Financial Performance (Y)	Current Ratio (CR), Return on Assets (ROA), Return on Equity (ROE)

Source: Processed Data

The variables were constructed based on prior empirical studies in financial accounting and corporate governance literature, ensuring consistency with established measurement proxies used in SEM-PLS analysis.

Conceptual Framework

The relationships among the research variables can be explained through a conceptual framework that positions macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size as exogenous variables, earnings management as an intervening variable, and financial performance as the endogenous variable, as illustrated in Figure 1. This framework is constructed to capture both direct and indirect effects among variables in a unified structural model (Fauziyah & Hwihanus, 2025). Macroeconomic fundamentals represent external economic conditions that influence corporate operating environments and financial decision-making processes (Hendrawan et al., 2022). Capital structure, Good Corporate Governance, and firm size reflect internal firm-specific characteristics that shape managerial incentives and financial strategies (Laeli et al., 2025). Earnings management is positioned as a behavioral mechanism that may mediate the relationship between these determinants and financial performance (Utami, 2020). Financial performance serves as the ultimate outcome variable that reflects the effectiveness of managerial decisions and corporate efficiency in generating value (Hery, 2021). The conceptual structure is designed to provide a comprehensive explanation of how external and internal factors jointly determine corporate financial outcomes under conditions of economic uncertainty (Budiantoro & Santosa, 2025).

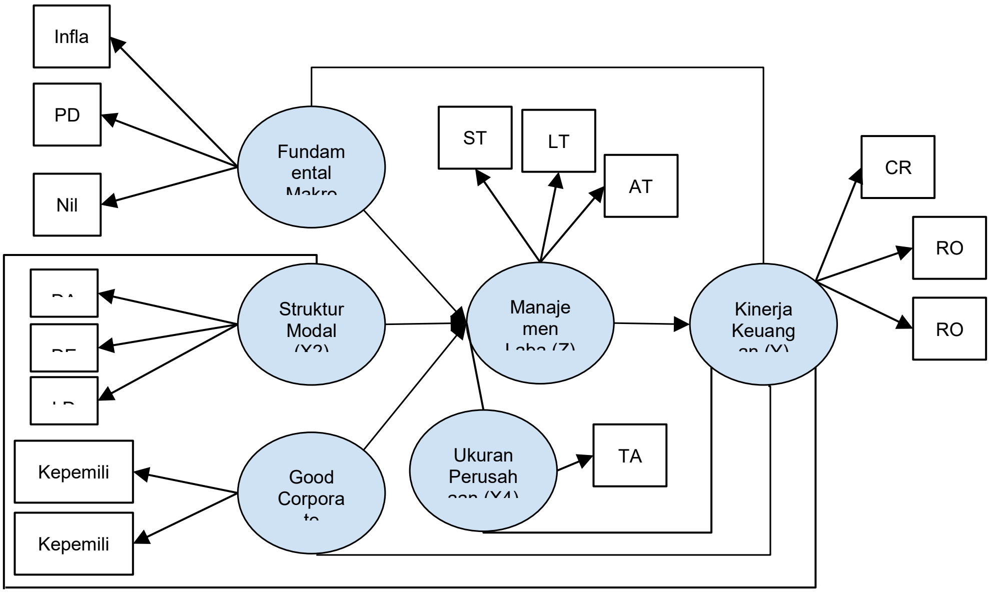

Figure 1: Conceptual Framework

Data Analysis Technique

Data analysis was conducted through a two-stage model evaluation in the Partial Least Squares Structural Equation Modeling (PLS-SEM) framework. The first stage involves the evaluation of the outer model (measurement model), which includes convergent validity testing through outer loadings and outer weights to ensure the reliability and validity of the constructs (Ghozali, 2021). The second stage focuses on the inner model (structural model), which assesses the relationships among latent variables using path coefficients to determine the direction and strength of effects. The explanatory power of the model is evaluated through the coefficient of determination (R-square) to measure the extent to which exogenous variables explain endogenous variables (Ghozali, 2021). Mediation effects are examined using specific indirect effects to determine the role of earnings management as an intervening variable. The significance level for hypothesis testing is determined using a p-value threshold of less than 0.05 to ensure statistical reliability of the estimated relationships (Ghozali, 2021). This analytical approach is widely adopted in financial and accounting research due to its robustness in handling complex structural models with latent variables and mediation effects (Putri et al., 2026).

Hypothesis Development

H1: Macroeconomic fundamentals have an effect on financial performance.
H2: Capital structure has an effect on financial performance.
H3: Good Corporate Governance has an effect on financial performance.
H4: Firm size has an effect on financial performance.
H5: Macroeconomic fundamentals have an effect on earnings management.
H6: Capital structure has an effect on earnings management.
H7: Good Corporate Governance has an effect on earnings management
H8: Firm size has an effect on earnings management.
H9: Earnings management has an effect on financial performance.
H10: Earnings management mediates the effect of macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size on financial performance.

RESULTS AND DISCUSSION

Outer Model Evaluation

The results of the outer loading test show that all indicators in this study have loading factor values above 0.7, except for the GDP indicator (0.717), which is still within an acceptable threshold. The highest loading values are shown by Long-Term Discretionary Accruals at 0.988 and Short-Term Discretionary Accruals at 0.974 for the Earnings Management (Z) variable, as well as ROA (0.959) and ROE (0.960) for the Financial Performance (Y) variable. These results indicate that the indicators validly represent their respective constructs, confirming that convergent validity has been achieved.

Table 2. Outer Model (Measurement Model) Results

Indicator	Original Sample	T Statistics	P Values
Current Ratio ← Financial Performance (Y)	0.856	9.899	0.000
DAR ← Capital Structure (X2)	0.876	23.209	0.000
DER ← Capital Structure (X2)	0.747	11.177	0.000
Inflation ← Macroeconomic Fundamentals	0.834	2.026	0.043
Institutional Ownership ← Good Corporate Governance (X3)	0.729	2.866	0.004
Public Ownership ← Good Corporate Governance (X3)	0.863	3.209	0.001
LDAR ← Capital Structure (X2)	0.880	15.562	0.000
Long-Term Discretionary Accruals ← Earnings Management (Z)	0.988	36.402	0.000
Exchange Rate ← Macroeconomic Fundamentals	0.842	3.362	0.001
GDP ← Macroeconomic Fundamentals	0.717	2.406	0.016
ROA ← Financial Performance (Y)	0.959	28.233	0.000
ROE ← Financial Performance (Y)	0.960	17.418	0.000
Short-Term Discretionary Accruals ← Earnings Management (Z)	0.974	45.575	0.000

Source: Processed data (SmartPLS output)

The indicators with the highest loading values in each construct are Long-Term Discretionary Accruals (0.988) in the Earnings Management construct and ROE (0.960) in the Financial Performance construct, indicating that these indicators are the most representative measures of their respective latent variables. Meanwhile, in the outer weight test (appendix), Inflation ($p = 0.190$), GDP ($p = 0.457$), and Institutional Ownership ($p = 0.091$) show relatively weak weight contributions compared to other indicators within their constructs, although their loading values remain significant, suggesting that interpretation at the level of Macroeconomic Fundamentals and Good Corporate Governance should be conducted with caution. These findings indicate that reflective measurement validity remains acceptable at the indicator level while highlighting potential variations in indicator relevance within higher-order constructs (Ghozali, 2021).

Inner Model Evaluation (R-Square)

Table 3. Outer Model (Measurement Model) Results

Endogenous Variable	R Square	Interpretation
Earnings Management (Z)	0.228	Weak
Financial Performance (Y)	0.491	Moderate

Source: Processed data (SmartPLS output)

The results of the inner model evaluation show that the R-Square value for the Earnings Management (Z) variable is 0.228, indicating that 22.8% of the variation in earnings management can

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be explained by macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size, while the remaining 77.2% is explained by other factors outside the model. The R-Square value for the Financial Performance (Y) variable is 0.491, indicating that the model is able to explain 49.1% of the variation in financial performance, which is classified as a moderate level of explanatory power. These results suggest that although the model has moderate predictive relevance for financial performance, there are still substantial external determinants that are not captured within the current structural framework (Ghozali, 2021).

Path Coefficient (Direct Effect)

Table 4. Path Coefficient (Direct Effect) Results

Hypothesis	Path	Coefficient	T-Statistic	P-Value	Result
H1	Macroeconomic Fundamentals → Financial Performance	-0.096	0.606	0.545	Rejected
H2	Capital Structure → Financial Performance	-0.272	2.797	0.005	Accepted
H3	Good Corporate Governance → Financial Performance	-0.084	0.877	0.380	Rejected
H4	Firm Size → Financial Performance	0.268	1.174	0.241	Rejected
H5	Macroeconomic Fundamentals → Earnings Management	0.286	1.216	0.224	Rejected
H6	Capital Structure → Earnings Management	-0.052	0.488	0.626	Rejected
H7	Good Corporate Governance → Earnings Management	-0.019	0.182	0.855	Rejected
H8	Firm Size → Earnings Management	0.357	2.531	0.011	Accepted
H9	Earnings Management → Financial Performance	0.367	1.337	0.181	Rejected

Source: Processed data (SmartPLS output)

The hypothesis testing was conducted using a bootstrapping procedure with the criteria of T-statistics > 1.96 and P-values < 0.05. The results of the direct path analysis indicate that only two out of nine hypothesized relationships are statistically significant. Specifically, Capital Structure has a significant negative effect on Financial Performance (H2) with a coefficient of -0.272 and p = 0.005, while Firm Size has a significant positive effect on Earnings Management (H8) with a coefficient of 0.357 and p = 0.011. The remaining seven relationships, including the effect of Earnings Management on Financial Performance (H9, p = 0.181), are statistically insignificant. These findings suggest that financial performance in primary consumer goods companies is more strongly influenced by capital structure decisions and firm size dynamics than by macroeconomic conditions or governance mechanisms.

Specific Indirect Effect (Mediation Test)

Table 5. Specific Indirect Effect (Mediation Test Results)

Hypothesis	Mediation Path	Coefficient	T-Statistic	P-Value	Result
H10	Macroeconomic Fundamentals → Earnings Management → Financial Performance	0.105	0.635	0.525	Not Supported

H11	Capital Structure → Earnings Management → Financial Performance	-0.019	0.247	0.805	Not Supported
H12	Good Corporate Governance → Earnings Management → Financial Performance	-0.007	0.097	0.922	Not Supported
H13	Firm Size → Earnings Management → Financial Performance	0.131	0.870	0.384	Not Supported

Source: Processed data (SmartPLS output)

The results of the mediation test show that all indirect effects have p-values above 0.05, ranging from 0.384 to 0.922, indicating that none of the mediation hypotheses are statistically significant. This implies that Earnings Management does not function as an intervening variable in explaining the relationship between Macroeconomic Fundamentals, Capital Structure, Good Corporate Governance, and Firm Size on Financial Performance. Consequently, the structural relationships in this model are primarily driven by direct effects rather than indirect mediation mechanisms, suggesting limited behavioral transmission through earnings management within the observed firms during the study period.

Structural Model of the Research

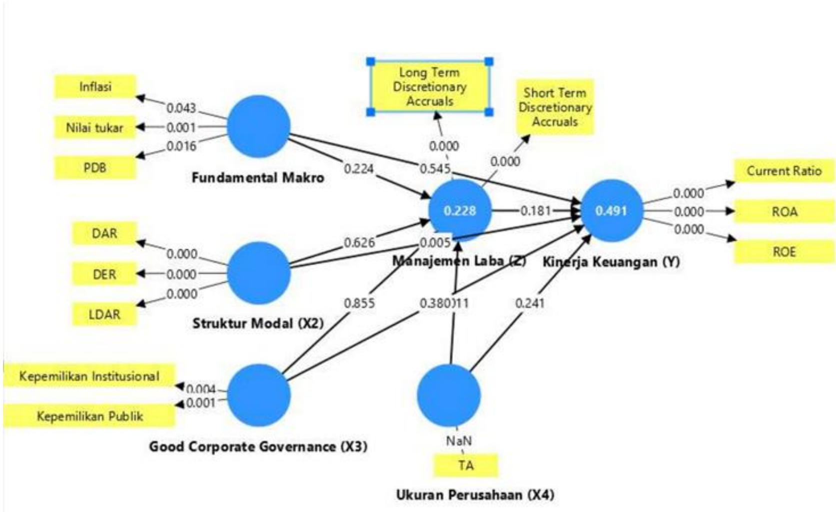

Figure 2. Structural Model of the Research

The structural model of this study illustrates the relationships among macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size as exogenous variables, earnings management as the intervening variable, and financial performance as the endogenous variable within a unified PLS-SEM framework. The model is developed to examine both direct and indirect effects among variables in explaining corporate financial performance (Fauziyah & Hwihanus, 2025). Macroeconomic fundamentals and firm-specific characteristics are assumed to jointly influence managerial behavior and financial outcomes under dynamic economic conditions (Hendrawan et al., 2022). The inclusion of earnings management as a mediating variable reflects its role in transmitting the effects of external and internal determinants toward financial performance (Utami, 2020).

Macroeconomic Fundamentals and Financial Performance

The relationship between macroeconomic fundamentals and financial performance in primary consumer goods companies reflects how external economic conditions are transmitted into firm-level financial outcomes under dynamic and uncertain market environments. Macroeconomic indicators such as GDP growth, inflation, and exchange rates are theoretically expected to influence corporate profitability through changes in aggregate demand, purchasing power, and production cost structures (Brigham & Houston, 2022). However, the empirical results of this study indicate that macroeconomic fundamentals do not have a statistically significant effect on financial performance, as shown by a path coefficient of -0.096 with a p-value of 0.545. This finding suggests that macroeconomic fluctuations during the 2020–2024 period were not strong enough to directly affect financial performance in the sampled firms. It also implies that the consumer staples sector demonstrates a degree of resilience against short-term macroeconomic volatility. In this context, macroeconomic conditions function more as background economic signals rather than direct determinants of firm profitability.

The insignificance of macroeconomic fundamentals can be explained through the structural characteristics of the primary consumer goods industry, where demand for essential products tends to remain stable regardless of economic cycles. Consumers prioritize basic necessities even during periods of income contraction or inflationary pressure, which reduces the sensitivity of revenue streams to macroeconomic shocks. Firms in this sector also tend to implement adaptive strategies such as price adjustments, cost efficiency improvements, and supply chain optimization to maintain financial stability. These strategic responses reduce the direct impact of macroeconomic volatility on profitability outcomes. As a result, macroeconomic pressure is absorbed at the operational level rather than being fully reflected in financial performance indicators. This condition strengthens the interpretation that sectoral characteristics moderate macroeconomic effects.

From a theoretical standpoint, the findings challenge traditional financial management assumptions that posit a strong direct linkage between macroeconomic conditions and firm performance. The absence of a significant relationship indicates that internal corporate mechanisms may function as buffers against external economic fluctuations. These mechanisms include operational efficiency, managerial decision-making, and pricing strategies that stabilize earnings despite macroeconomic uncertainty. Such findings are consistent with the argument that essential goods industries are less sensitive to economic cycles due to inelastic demand structures (Naja & Natsir, 2023). Therefore, macroeconomic fundamentals in this context do not operate as dominant explanatory variables for financial performance variations. Instead, their influence is likely indirect and conditional.

Although macroeconomic indicators such as GDP, inflation, and exchange rates are statistically valid constructs at the measurement level, their structural relationship with financial performance remains weak in this study. This indicates that while the indicators effectively capture macroeconomic conditions, they are insufficient in explaining firm-level financial outcomes directly. The gap between measurement validity and structural insignificance suggests the existence of intervening mechanisms that are not fully captured within the model. Prior studies have emphasized that macroeconomic influences often operate indirectly through internal corporate policies, capital structure decisions, or earnings management practices (Hendrawan et al., 2022). This reinforces the importance of considering behavioral and financial mediators in explaining macro-financial linkages. Without such mechanisms, the direct explanatory power of macroeconomic variables remains limited.

The findings indicate that macroeconomic fundamentals do not serve as primary determinants of financial performance in primary consumer goods companies during the 2020–2024 period. The sector’s defensive nature and relatively inelastic demand structure contribute to its ability to withstand macroeconomic fluctuations. Consequently, firm-level financial outcomes appear to be more strongly influenced by internal financial decisions and managerial strategies than by external economic conditions. This suggests that internal determinants play a more dominant role in shaping financial performance within this industry context. The results also highlight the need for more comprehensive models that incorporate additional moderating or mediating variables. Future research may further explore how macroeconomic conditions indirectly affect performance through complex internal corporate mechanisms.

Capital Structure, Good Corporate Governance, and Firm Size Effects on Financial Performance

Capital structure, good corporate governance, and firm size collectively represent internal firm-specific determinants that are theoretically expected to influence financial performance through financial decision-making efficiency and resource allocation mechanisms. Capital structure reflects the proportion of debt and equity financing used by firms, which directly affects financial risk, cost of capital, and profitability stability (Brigham & Houston, 2022). Good Corporate Governance represents the institutional mechanism designed to reduce agency conflicts and improve managerial accountability, while firm size reflects the scale of operations and resource availability. The empirical results of this study indicate that capital structure has a significant negative effect on financial performance, while Good Corporate Governance and firm size do not show significant effects. This suggests that financial leverage plays a more dominant role in shaping financial outcomes compared to governance mechanisms and scale effects. The result highlights the sensitivity of financial performance to financing decisions in primary consumer goods companies.

The significant negative effect of capital structure on financial performance indicates that higher leverage levels tend to reduce firm profitability. This condition can be explained through the trade-off theory, which states that excessive debt increases financial risk and interest burden, thereby reducing net income and return indicators. In the context of the sampled firms, higher Debt to Asset Ratio and Debt to Equity Ratio likely increased fixed financial obligations that constrained operational flexibility. Such conditions are particularly relevant during periods of economic uncertainty, where revenue stability may not fully offset rising financing costs. Consequently, firms with higher leverage experience reduced financial performance due to increased exposure to financial distress risk. This finding emphasizes the importance of maintaining an optimal capital structure balance.

In contrast, Good Corporate Governance does not exhibit a significant effect on financial performance, suggesting that ownership structure variables such as institutional and public ownership are not sufficient to directly improve financial outcomes. This may indicate that governance mechanisms in the observed firms function more as formal compliance structures rather than effective monitoring systems. Agency theory suggests that governance mechanisms should reduce conflicts between managers and shareholders, yet the empirical evidence in this study does not strongly support this relationship (Scott, 2015). One possible explanation is that governance effectiveness may depend more on implementation quality rather than ownership composition alone. Additionally, the limited variability in governance structures across the sampled firms may reduce its statistical explanatory power. Therefore, governance may influence performance indirectly rather than through direct pathways.

Firm size also does not significantly affect financial performance, indicating that larger operational scale does not necessarily translate into higher profitability in this sector. Although larger firms are generally assumed to benefit from economies of scale, increased total accruals may also reflect higher operational complexity and cost structures. This complexity can offset the advantages of scale, resulting in insignificant net effects on financial performance. Furthermore, firm size may not be a strong predictor when firms operate in a relatively stable demand environment such as the consumer staples sector. The findings suggest that scale advantages are not fully realized in improving financial performance within the observed sample. As a result, firm size functions more as a structural characteristic rather than a performance driver.

The results indicate that among the three internal determinants, capital structure is the only variable that significantly influences financial performance in primary consumer goods companies. The dominance of capital structure suggests that financing decisions play a crucial role in determining profitability outcomes compared to governance mechanisms and firm size. Good Corporate Governance and firm size, although theoretically important, do not exhibit direct statistical influence on financial performance in this model. This implies that their effects may be indirect or conditional on other variables not captured in the current framework. The findings highlight the importance of financial risk management in maintaining corporate performance stability. Future research may need to explore interaction effects or alternative governance proxies to better capture their influence on financial outcomes.

Determinants of Earnings Management

Earnings management in primary consumer goods companies is conceptualized as a managerial behavior that reflects discretionary financial reporting decisions under conditions of information asymmetry and performance pressure. In this study, earnings management is measured through short-term and long-term discretionary accruals, which capture managerial flexibility in shaping reported earnings (Utami, 2020). The empirical results indicate that among macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size, only firm size has a significant positive effect on earnings management. This suggests that larger firms tend to engage more intensively in earnings management practices compared to smaller firms. The remaining variables do not show significant effects, indicating limited influence of external macroeconomic conditions and governance mechanisms on managerial reporting behavior. These findings highlight that earnings management behavior is primarily driven by firm-specific structural characteristics rather than external economic pressures.

The insignificant effect of macroeconomic fundamentals on earnings management suggests that inflation, GDP, and exchange rate fluctuations do not directly motivate managerial manipulation of financial reports in the sampled firms. This may occur because macroeconomic shocks are generally absorbed through operational adjustments rather than accounting manipulation strategies. Firms in the consumer staples sector tend to prioritize maintaining stable market confidence rather than engaging in aggressive earnings manipulation in response to macroeconomic volatility. Additionally, macroeconomic conditions may influence financial performance more through real economic adjustments rather than accounting-based responses. As a result, macroeconomic fundamentals do not function as strong behavioral triggers for earnings management practices in this context. This weak relationship also reflects the relatively stable consumption patterns of essential goods.

Capital structure also does not significantly affect earnings management, indicating that leverage levels do not systematically encourage or discourage managerial discretion in financial reporting. Although highly leveraged firms are theoretically more likely to engage in earnings manipulation to avoid violating debt covenants, this relationship is not evident in the empirical findings. One possible explanation is that firms may rely more on operational adjustments or renegotiation strategies rather than accrual-based manipulation when facing financial pressure. Another explanation is that creditors may already incorporate strict monitoring mechanisms that reduce the incentive for earnings manipulation. Consequently, debt levels alone are insufficient to explain variations in earnings management behavior. This finding suggests that financial structure does not directly translate into reporting manipulation incentives in the observed sample.

Good Corporate Governance also does not significantly influence earnings management, indicating that institutional and public ownership structures are not strong enough to constrain or detect managerial discretion in financial reporting. Although governance mechanisms are expected to reduce agency conflicts and limit opportunistic behavior, their effectiveness may depend on enforcement quality rather than ownership proportions alone (Scott, 2015). The absence of significance may reflect limited active monitoring by institutional investors or passive ownership structures in the sampled firms. Additionally, governance mechanisms may operate more indirectly through board effectiveness or audit quality rather than ownership composition. Therefore, the role of governance in controlling earnings management may not be fully captured by the proxies used in this study. This highlights the complexity of measuring governance effectiveness in empirical research.

Firm size is the only variable that significantly affects earnings management, indicating that larger firms are more likely to engage in discretionary accrual practices. This may be explained by the higher complexity of operations and reporting structures in large firms, which creates greater opportunities for managerial discretion. Larger firms also face higher market expectations, which may encourage managers to smooth earnings to maintain stable performance perceptions. In addition, increased visibility in capital markets may pressure managers to meet analyst forecasts or investor expectations. These conditions collectively increase the likelihood of earnings management practices in larger firms. Therefore, firm size acts as a structural driver of managerial reporting behavior within the observed industry context.

Earnings Management and Its Mediation Effect on Financial Performance

Earnings management in this study is positioned as a behavioral mechanism that potentially transmits the influence of macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size toward financial performance. Theoretically, discretionary accruals are expected to shape reported financial outcomes by smoothing income or adjusting earnings perceptions, which may ultimately influence investor assessments and firm valuation (Utami, 2020). However, the empirical results indicate that earnings management does not have a significant effect on financial performance, as shown by a p-value of 0.181. This finding implies that managerial discretion in financial reporting does not translate into measurable improvements in financial performance indicators in the sampled firms. It also suggests that users of financial statements may not fully rely on accounting-based earnings adjustments in evaluating firm performance. Therefore, the role of earnings management as a performance-shaping mechanism appears limited in this context.

The absence of a significant effect from earnings management may reflect increasing scrutiny from external stakeholders such as auditors, regulators, and institutional investors. Stronger monitoring mechanisms may reduce the effectiveness of accrual-based manipulation in influencing perceived or actual financial performance. In addition, the adoption of stricter accounting standards and enhanced disclosure requirements may limit managerial flexibility in shaping reported earnings. These conditions reduce the likelihood that earnings management can meaningfully alter financial performance outcomes. Consequently, earnings management may function more as a short-term reporting adjustment rather than a determinant of sustained financial performance. This interpretation aligns with the view that transparency pressures weaken the effectiveness of discretionary reporting practices.

The mediation analysis further confirms that earnings management does not act as an intervening variable in the relationship between macroeconomic fundamentals, capital structure, Good Corporate Governance, and firm size on financial performance. All indirect effects in the model are statistically insignificant, indicating that the transmission of effects occurs primarily through direct pathways rather than behavioral mediation. This suggests that changes in macroeconomic conditions and firm-specific characteristics do not operate through earnings manipulation in influencing financial outcomes. Instead, financial performance is more directly shaped by structural and operational factors such as capital structure decisions. The absence of mediation also indicates that earnings management is not a strategic channel through which firms adjust external and internal pressures. Therefore, the structural model is dominated by direct effects rather than indirect behavioral mechanisms.

The insignificance of mediation effects also implies that earnings management does not function as a stabilizing or amplifying mechanism within the observed firms. Even though firm size significantly influences earnings management, this behavior does not translate into improved or deteriorated financial performance. This disconnect suggests that discretionary reporting adjustments are either neutralized by market corrections or fail to materially affect financial outcomes. It may also indicate that financial performance measures such as ROA, ROE, and liquidity ratios are less sensitive to accrual-based adjustments in this sector. As a result, earnings management lacks the transmission capacity required to mediate broader structural relationships in the model. This reinforces the robustness of financial performance indicators against accounting manipulation effects.

Overall, the findings position earnings management as a statistically observable but economically limited mechanism in explaining financial performance within primary consumer goods companies during the 2020–2024 period. The absence of both direct and indirect effects indicates that financial outcomes are primarily driven by structural financial decisions rather than managerial reporting discretion. This reinforces the dominance of capital structure effects in the overall model and highlights the limited role of behavioral accounting practices in shaping firm performance. It also suggests that investors and stakeholders may rely more on fundamental financial indicators rather than adjusted earnings in decision-making processes. Future research may need to explore alternative mediators such as operational efficiency or corporate strategy to better explain the transmission mechanism between firm characteristics and financial performance.

CONCLUSION

The findings of this study demonstrate that the relationships among macroeconomic fundamentals, capital structure, Good Corporate Governance, firm size, earnings management, and financial performance are not uniformly supported within the primary consumer goods sector listed on the Indonesia Stock Exchange during the 2020–2024 period. Based on the SEM-PLS analysis, only two of the tested hypotheses are statistically supported, namely the negative effect of capital structure on financial performance and the positive effect of firm size on earnings management. The remaining hypotheses, including the effects of macroeconomic fundamentals, Good Corporate Governance, and firm size on financial performance, are not statistically significant. Likewise, earnings management does not significantly influence financial performance and fails to mediate the relationships between the exogenous variables and financial performance. These findings indicate that financing decisions play a more decisive role in determining corporate financial outcomes than macroeconomic conditions, governance mechanisms, or managerial earnings reporting behavior. The coefficient of determination further shows that the proposed model explains 22.8% of the variation in earnings management and 49.1% of the variation in financial performance, indicating moderate explanatory power while suggesting that substantial variation remains attributable to other determinants not incorporated into the model. Overall, the study contributes empirical evidence that the financial performance of primary consumer goods companies is driven more strongly by internal financial structure than by external macroeconomic conditions or earnings management practices.

The practical implications of these findings emphasize the importance of maintaining an optimal capital structure to preserve financial performance, particularly during periods of economic uncertainty characterized by fluctuating macroeconomic conditions. Companies with larger operational scales should also strengthen internal monitoring and governance mechanisms to reduce the potential for discretionary earnings management, even though such practices are not found to significantly affect financial performance in this study. From an academic perspective, the results suggest that future research should consider incorporating additional explanatory variables, such as audit quality, corporate risk management, ownership concentration, or board effectiveness, to improve the explanatory power of structural models examining corporate financial performance. Expanding the observation period and including a larger number of firms from various industrial sectors would also enhance the generalizability of future findings. This study is subject to several limitations, most notably the relatively small sample consisting of only four companies, which restricts the representativeness of the empirical evidence. The observation period, limited to 2020–2024, may also constrain the variability of macroeconomic and firm-level conditions captured in the analysis. Despite these limitations, the study provides a useful reference for understanding the interaction between financial structure, governance, earnings management, and corporate performance in the context of Indonesia's primary consumer goods industry and offers a foundation for more comprehensive future investigations.

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