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DAFTAR ISI:

THE EFFECT OF EXPERIENCE QUALITY ON CUSTOMER LOYALTY (EVIDENCE FROM A COFFEE SHOP)

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Abstract: *The study aims to examine the influence of experience quality on customer perceived value and customer satisfaction, and to see its impact on Amstirdam Coffee customer loyalty. Respondents in this study numbered 222 people who are Amstirdam Coffee customers and have visited and purchased Amstirdam Coffee products more than once. Data collection in this study was conducted by distributing online questionnaires. This study used Structural Equation Modeling (SEM) and was tested using SmartPLS software. The results show a positive and significant influence of experience quality on customer perceived value and customer satisfaction. However, this study also found a positive, insignificant relationship between experience quality and customer loyalty.*

Keywords: *Customer Perceived Value, Customer Satisfaction, Customer Loyalty, Experience Quality*

INTRODUCTION

Currently, coffee shops in Indonesia are proliferating. According to the 2023 report by the International Coffee Organization (ICO), the specialty coffee market in Indonesia is expected to grow by 12% annually through 2025. The Specialty Coffee Association of Indonesia (SCAI) projects coffee shop growth in Indonesia at 15%-20% compared to the previous year, up from an estimated 8%-10%. Consistent annual increases in coffee consumption, menu diversification, and the adoption of various digital sales channels and ordering applications drive this growth.

Changes in consumer behavior also drive the rapid growth of coffee shops, as coffee consumption has become a necessity and part of consumers' lifestyles. In addition to these three factors, the growth of coffee shops is also driven by a shift in consumer habits, which have made coffee shops a "third place" to bridge personal life, work, and informal activities. This is because experience is closely related to customers' psychological or personal satisfaction. Chang & Horng (2010) defines experience quality as a customer's emotional assessment of the service provider's overall experience. Meanwhile, in the research Berry et al., (2002) Experience is defined as the impression or perception created when obtaining and using a product or service, where the quality of the experience is personal.

The originality of this study was from C. F. Chen & Chen (2010) and Kusumawati & Rahayu (2020).

A study entitled “The effect of experience quality on customer perceived value and customer satisfaction and its impact on customer loyalty,” was conducted by Kusumawati & Rahayu (2020). The purpose of this study is to examine the influence of experience quality on customer loyalty. In previous research conducted by Chen & Chen (2010) It was found that experience quality has a positive and significant effect on customer perceived value. This finding is supported by research from Kusumawati & Rahayu (2020), who found that meeting customer expectations leads to positive customer ratings of the quality of their experience. If a product or service meets expectations, customers will be satisfied; if it exceeds expectations, they will be highly satisfied (Kotler & Keller, 2016).

Existing research is heavily concentrated in developed-country contexts and in well-established service sectors. There is limited empirical evidence from emerging markets, where customer expectations and experiential evaluations may differ substantially (Klaus, 2014). By empirically testing the proposed model in an emerging-market context, such as coffee shops in Indonesia, this study broadens the external validity of customer experience theories. The findings suggest that experience quality dimensions may operate differently across cultural and economic contexts (Klaus, 2014).

Increasing customer satisfaction can help service providers build loyal customers, a concept that emphasizes purchase sequences. Currently, building customer loyalty is a goal of strategic market planning. Amstirdam Coffee is no exception. Amstirdam Coffee is a coffee shop located in Malang, located at Ruko Soekarno Hatta Indah No. D18. The name Amstirdam is a combination of Ampelgading, Sumbermanjing, Tirtoyudo, and Dampit. Amstirdam Coffee was founded in 2011 and currently has three branches in Malang: Amstirdam Mergan, Amstirdam Joyoagung, and Amstirdam Kepanjen.

Paying attention to the quality of the customer experience and building customer loyalty have become important factors that Amstirdam Coffee needs to address. This is due to the low barriers to entry and the abundance of similar products spread across several locations in Malang, such as Sudimoro, Raya Dermo, and Simpang Gajayana. Furthermore, the quality of the customer experience can also help customers differentiate Amstirdam Coffee from other coffee shops. Based on the above background, this study aims to analyze the influence of experience quality mediated by perceived value and customer satisfaction on customer loyalty to purchase products at Amstirdam Coffee. The practical implications of this research are: can be used as information material for Amstirdam Coffee in designing products and services at Amstirdam Coffee as well as for MSME cafe players with coffee as the main product.

LITERATURE REVIEW

Experience Quality and Customer Perceived Value

Experience quality is the customer's overall assessment of the superiority of a service (Ryu et al., 2012). In a study conducted on heritage tourists in Tainan.

A study conducted by Chen & Chen (2010) found that experience quality has a positive effect on customer perceived value. This finding is in line with research conducted by Hussein (2018) which found a positive and significant relationship between experience quality and the value perceived by customers at tourist attractions and restaurants.

In the research conducted by Roy (2018) It was found that experience quality is an affective and cognitive aspect resulting from service during the customer visit process. Meanwhile, in the research conducted by (Loestefani et al., 2022) found that experience quality is the result of interactions that arise from customer involvement with a product, company, or part of an organization. Woodruff (1997)Customer perceived value is defined as the preferences customers have when evaluating a product or service attribute, or the consequences of the consumption experience, across pre-purchase, transaction, and post-purchase aspects. Based on this explanation, the following is the formulation of the hypothesis in this study:

H1: Experience quality has a significant effect on customer perceived value.

Experience Quality and Customer Satisfaction

Experience quality is the customer's overall assessment of the excellence of a service and the relationship between the three dimensions of quality. (i.e., food, service, physical environment), price, customer satisfaction, and behavioral intentions. Ryu et al., (2012)found that food quality and service quality are significant determinants of customer satisfaction in restaurants. On the other hand, research conducted by Chen & Chen (2010)found that experience quality is a determining factor in the satisfaction of heritage tourists in Tainan. Besides that, . Wu & Liang (2009) found that the quality of experience customers have when visiting a restaurant directly influences customer satisfaction.

Meanwhile, in the research conducted by Hussein (2018) found that experience quality significantly influences customer satisfaction. The study identified four dimensions of experience quality: food aspects, interaction quality, physical environment, and service outcome. Of the four dimensions, food aspects and interaction quality were the most influential on customer satisfaction. Not only that, study by Kusumawati and Rahayu (2020)also found that experience quality has a positive and significant relationship with customer satisfaction. Thus, it can be said that experience quality has become a key factor in increasing customer satisfaction (H.-C. Wu, 2017). Based on this explanation, the following is the formulation of the hypothesis in this study:

H2: Experience quality has a significant effect on customer satisfaction

Experience Quality and Customer Loyalty

Research conducted by H.-C. Wu (2017) found that experience quality has a positive and significant influence on customer loyalty, with customer satisfaction with the experience influencing their likelihood to visit the café and recommend it to others. This finding is also supported by research. Kusumawati & Rahayu (2020) found that the unforgettable experience that customers get when visiting and making purchases will result in customer loyalty and have an impact on positive word of mouth communication.

This research supports previous research, which found that customer attitudes can be used to predict future behavior.(Fishbein & Ajzen, 1977). However, in research conducted by CF Chen & Chen (2010) It was found that experience quality did not significantly influence customer loyalty among heritage tourists in Tainan. Based on this explanation, the following is the hypothesis formulated in this study:

H3: Experience quality has a significant effect on customer loyalty

Customer Perceived Value and Customer Satisfaction

Research conducted(Halimi et al., 2022)found that perceived value has a positive and significant effect on satisfaction, such that the higher the perceived value, the higher the level of satisfaction. The research conducted by Jin et al., (2015) found that customer perceived value has a positive effect on customer loyalty among waterpark customers. In addition, research conducted by H.-C. Wu (2017)who found that perceived value will positively influence customer satisfaction among Starbucks customers in Taiwan.

This is in line with research conducted. (Lestari et al., 2023) also found that customer perceived value has a significant influence on customer satisfaction, where customer satisfaction is formed from the value of the benefits received by customers after consuming products or services provided by nature outdoor cafes. Kusumawati & Rahayu (2020) found that customer satisfaction is determined by the degree of conformity with customer expectations. Based on the explanation above, the following hypothesis is formulated:

H4: Customer perceived value has a significant effect on customer satisfaction

Customer Perceived Value and Customer Loyalty

In the research conducted by (Halimi et al., 2022) found that customer-perceived value has a significant influence on customer loyalty, with loyalty forming when the customer's assessment of the product or service received aligns with their needs and expectations. In addition, Ryu et al., (2012) found that three components of the physical environment (namely decoration, layout, and ambience) greatly influence customer perceived value and customer satisfaction levels, which directly and indirectly influence customer loyalty, such as revisit intentions and positive words, or what is commonly called word of mouth.

Research conducted by (H.-C. Wu, 2017) also found that when customers trust a service provider, they will improve their assessment of customer satisfaction and have an impact on increasing loyalty. The research conducted (Chen & Chen, 2010)found that perceived value is a direct determinant of loyalty and is reflected in customers' intention to revisit and their willingness to recommend a product or service to others. This supports research conducted by ((Fauzi et al., 2024)who found that perceived value only influences behavioral intentions among repeat customers. Based on the explanation above, the following hypothesis is formulated:

H5: Customer perceived value has a significant effect on customer loyalty.

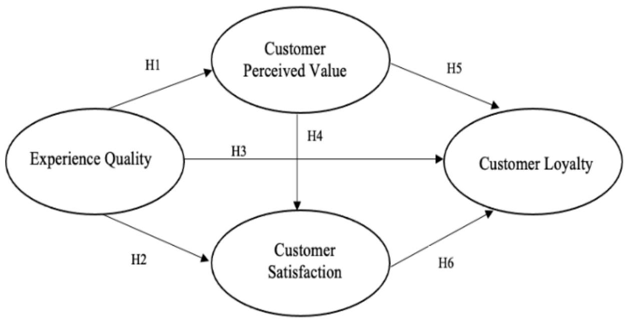
Customer Satisfaction and Customer Loyalty

Customer loyalty is an important factor in service marketing theory, where customer loyalty has an important role in customer involvement.(Hussein, 2018). This is supported by research conductedFlynn (2012) which found that satisfied customers will have longer interactions with the company. In the research conducted. CF Chen & Chen (2010)It was found that satisfaction refers to the match between pre-purchase expectations and post-consumption performance. Dissatisfaction occurs when customer expectations differ.

Research conducted by Kusumawati & Rahayu (2020) found that customer satisfaction significantly influences customer loyalty, as satisfied customers are more likely to recommend the café to others. Customer satisfaction during visits and purchases can build customer loyalty by fostering positive word of mouth, encouraging repeat purchases, and prompting customers to recommend the café to others. The research conducted (Wongkitrungrueng & Assarut, 2020)also found a positive relationship between satisfaction and loyalty, where satisfaction is the main determinant of loyalty based on experience. In addition, Hussein (2018) found that customer satisfaction has a significant effect on customer loyalty. Based on the explanation above, the following hypothesis is formulated:

H6: Customer satisfaction has a significant effect on customer loyalty

Figure 1. Variable model



METHODOLOGY

This study employed a quantitative, random-sampling approach using a Likert-based questionnaire with a 1-5 scale. The population consisted of consumers who had visited and consumed Amstirdam Coffee products. This study employed purposive sampling and accidental sampling. Purposive sampling is a technique for selecting samples based on specific criteria

(Sugiyono, 2019). Not all individuals can participate in this study because the sampling process requires particular conditions to be met. This study requires respondents to be at least 18 years old and to have visited and consumed Amstirdam Coffee products at least once. Additionally, this study employs accidental sampling, which is a technique based on chance. This means that anyone who happens to meet the author and fits the characteristics can serve as a sample.

The sample size used in this study is based on research by Chin (2000), which states that the minimum sample size for PLS-SEM is 30-100. The independent variables in this study are experience quality (X1), customer perceived value (X2), and customer satisfaction (X3). The dependent variable in this study is customer loyalty (Y).

This study analyzed data using partial least squares (PLS) and SmartPLS software. In this software, the data was tested using inner and outer models. Three criteria were used to assess the outer model in this research data analysis technique. The first is Convergent validity, related to the principle that the measuring or manifest variables of a construct should be highly correlated. Convergent validity testing is conducted by examining the factor loading values and comparing them with a rule of thumb of> 0.60, and observing the average variance extracted (AVE) values and comparing them with a rule of thumb of > 0.50. Second, discriminant validity is examined by examining the AVE values and correlations between latent constructs. The AVE values and correlations between latent constructs can be considered valid if they meet the rule of thumb, namely, AVE > correlation between latent constructs.(Hair et al., 2011)Third, the reliability test is conducted by looking at the composite reliability value and Cronbach's alpha value, then comparing it with the rule of thumb of> 0.70 (Yudha et al., 2024).

Meanwhile, two criteria are used to assess the inner model in this study. The first is the R-Square value: 0.75 for the strong category, 0.50 for the moderate category, and 0.25 for the weak category.(Hair et al., 2011). Second, the evaluation of Significance Value (t-value 1.96 and significance level 5%). The assessment of significance was conducted by examining the path coefficients from Partial Least Squares (PLS) results, with bootstrapping calculations to determine the importance of the path coefficients for experience quality, customer perceived value, customer satisfaction, and customer loyalty.

RESULT

In table 3 shows that the indicators in the study meet the requirements for good convergent validity, with outer loading values above 0.70.

Table 3. Factor Loading Test Results

Indicator	Factor Loading Value	Information
EQ2	0.807	Valid
EQ4	0.737	Valid
EQ5	0.742	Valid
EQ7	0.818	Valid
EQ8	0.708	Valid

Indicator	Factor Loading Value	Information
EQ9	0.829	Valid
EQ10	0.700	Valid
CPV1	0.740	Valid
CPV2	0.790	Valid
CPV3	0.836	Valid
CPV4	0.851	Valid
CPV5	0.853	Valid
CPV6	0.825	Valid
CPV7	0.823	Valid
CS7	0.912	Valid
CS8	0.922	Valid
CS9	0.928	Valid
CL1	0.788	Valid
CL2	0.682	Valid
CL3	0.806	Valid
CL4	0.835	Valid
CL5	0.721	Valid
CL6	0.773	Valid
CL7	0.859	Valid
CL8	0.823	Valid

However, the CL2 indicator can still be maintained and is considered valid because it does not affect the AVE and CR values.

In table 4 below, it can be seen that the experience quality variable has an √AVE value of 0.765, higher than the correlation value of the experience quality variable with other variables in the study. The customer perceived value variable has an √AVE of 0.818, higher than its correlation with other variables in the study. The customer satisfaction variable has an √AVE of 0.920, higher than its correlation with other variables in the study. Meanwhile, the customer loyalty variable has an √AVE of 0.788, higher than its correlation with other variables in the study. Therefore, it can be said that all variables in this research model meet the criteria for discriminant validity, and that customer satisfaction has the highest value among the variables.

Table 4. Comparison of √AVE with Correlation Between Variables

	EQ	CPV	CS	CL
EQ	0.765			
CPV	0.699	0.818		
CS	0.764	0.758	0.920	
CL	0.649	0.709	0.739	0.788

In Table 5 below, it can be seen that all variables in the study, namely experience quality, customer perceived value, customer satisfaction, and customer loyalty, affect customer satisfaction. Consumer loyalty has a good reliability value, because all variables in the study have met the composite reliability criteria presented by (Hair, J., Hult, M., Ringle, M., & Sarstedt, 2022) that is, above 0.70. Reliability testing is conducted to assess the measuring instrument's reliability in the study. Reliability testing can be done by examining composite reliability and Cronbach's alpha values, then comparing them with a rule-of-thumb value of > 0.70.(Hair et al., 2011).

Table 5. Composite Reliability Test Results

Variables	Composite Reliability
Experience Quality	0.908
Customer Perceived Value	0.934
Customer Satisfaction	0.943
Customer Loyalty	0.929

In Table 6 below, the R-Square values for the customer perceived value, customer satisfaction, and customer loyalty variables are 0.488, 0.682, and 0.602, respectively. It can be concluded that the customer-perceived-value variable is weak, while the customer-satisfaction and customer-loyalty variables are moderate.

Based on the data above, the customer-perceived-value variable can be explained by the endogenous experience-quality variable (0.488), with the remaining 0.512 explained by exogenous variables (i.e., variables outside the research).

Table 6. R-Square Value

Variables	R-Square
Customer Perceived Value	0.488
Customer Satisfaction	0.682
Customer Loyalty	0.602

Then, the customer satisfaction variable can be explained by the endogenous variable experience quality of 0.682, and the remaining 0.318 is explained by exogenous variables, namely variables outside the study. Meanwhile, the customer loyalty variable can be explained by the endogenous variable experience quality of 0.602, and the remaining 0.398 is explained by exogenous variables, namely variables outside the study. The greater the R-squared value of a variable, the greater the strength of the variable in explaining its relationship with other variables in a model. An R-Square value of 0.75 can be concluded that the model is strong, 0.50 can be concluded that the model is moderate, and 0.25 can be concluded that the model is weak (Hair et al., 2011).

Moreover, based on Tables 7 and 8 below, it can be seen that the path relationships that meet the significance level of p-value < 5% are H1, H2, H4, H5, and H6. The experience quality variable on the customer-perceived value variable (H1), with a T-statistic of 15,384 and a coefficient of 0.699. Furthermore, the experience quality variable on the customer satisfaction variable (H2) has a T-statistic of 7.557 and a coefficient of 0.457. The customer-perceived-value variable on the customer satisfaction variable (H4) has a T-statistic of 6,828 and a coefficient of 0.439. The customer perceived value variable against the customer loyalty variable (H5) has a T-statistic of 4,167 and a coefficient of 0.318, and the customer satisfaction variable against the customer loyalty variable (H6) has a T-statistic of 5,286 and a coefficient of 0.318.

Table 7. Hypothesis Test Results based on Path Coefficient (MEAN, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)
H1	0.699	0.700	0.045	15,384
H2	0.457	0.461	0.061	7,557
H3	0.112	0.111	0.075	1,483
H4	0.439	0.435	0.064	6,828
H5	0.318	0.323	0.076	4,167
H6	0.412	0.410	0.078	5,286

Table 8. Hypothesis Test Results p-value

Hypothesis	P Values	Significant
H1	0.000	Significant
H2	0.000	Significant
H3	0.139	Not Significant
H4	0.000	Significant
H5	0.000	Significant
H6	0.000	Significant

DISCUSSION

The Influence of Experience Quality on Customer Perceived Value

Based on the results of hypothesis 1 (H1) testing, experience quality has a significant influence on customer-perceived value, as evidenced by the t-statistic of 15,384 > 1.96. This finding aligns with research by Kusumawati & Rahayu (2019), which found a positive relationship between experience quality and customer-perceived value, suggesting that when customer expectations are met, customers have a positive, memorable experience. This study also found that friendly employees, good quality experience, and adequate facilities are factors that have a significant influence on the assessment of the experience that customers feel at Amstirdam Coffee.

The Influence of Experience Quality on Customer Satisfaction

Based on the hypothesis 2 (H2) test results, experience quality has a significant influence on customer satisfaction, as evidenced by the t-statistic of 7.557 > 1.96. This finding is consistent with research conducted by (Muflih & Juliana, 2020) found that experience quality is a determining factor in customer satisfaction. In the study, researchers found that customers were satisfied with the quality of the experience they felt when visiting Amstirdam Coffee.

The Influence of Experience Quality on Customer Loyalty

Based on the results of the hypothesis 3 (H3) testing, it can be seen that experience quality has an insignificant influence on customer loyalty, which can be proven by the t-statistic value of 1,483 < 1.96. This finding refutes Kusumawati & Rahayu (2020) found that experience quality has a positive and significant effect on customer loyalty. However, the findings of this study align with those of Chen & Chen (2010), who found that experience quality has no significant influence on customer loyalty. On the other hand, in research conducted by Han et al. (2019) also found that the experience felt by Starbucks coffee shop customers in South Korea did not have a significant effect on repurchase intentions.

Many recent studies find that experience quality influences loyalty through mediating variables, rather than having a direct effect. Experience quality significantly affects customer satisfaction and engagement, which then drive loyalty. Direct effects may disappear when mediators are controlled (Rather & Hollebeek, 2021). Moreover, experience quality does not always show a significant influence on customer loyalty because loyalty is a multidimensional construct and often shaped by factors beyond immediate or perceived experiences. In competitive markets with homogeneous offerings, experience quality may not differentiate providers enough to build loyalty (Verhoef, P. C, et al, 2009).

The Influence of Customer Perceived Value on Customer Satisfaction

Based on the results of hypothesis 4 (H4) testing, it can be seen that customer-perceived value has a significant influence on customer satisfaction, as evidenced by the t-statistic value of 6,828 > 1.96. This finding is following research by CF Chen & Chen (2010), which found that perceived value has a positive effect on satisfaction, where the higher the perceived value, the higher the level of customer satisfaction.

Furthermore, Kusumawati & Rahayu (2020) also found that customer satisfaction is shaped by the value of the benefits customers receive after using a product or service. In their research, researchers found that visitors felt satisfied because the price they paid matched the experience they had when visiting and purchasing Amstirdam Coffee products.

The Influence of Customer Perceived Value on Customer Loyalty

Based on the results of hypothesis 5 (H5) testing, it can be seen that experience quality has a significant influence on customer-perceived value, as evidenced by the t-statistic of 4,167 > 1.96. This finding aligns with research by CF Chen & Chen (2010), which found that perceived value is a direct determinant of loyalty and is reflected in customers' intention to revisit and their willingness to recommend products or services to others. The study found that the appropriateness of the price and quality of the product encouraged Amstirdam Coffee customers to purchase the product frequently.

The Influence of Customer Satisfaction Value on Customer Loyalty

Based on the results of hypothesis 6 (H6) testing, experience quality has a significant influence on customer-perceived value, as evidenced by the t-statistic of 5,286, which is greater than 1.96. This finding aligns with Hussein's (2018) research, which found that customer loyalty plays a crucial role in customer engagement. Flynn's (2012) study revealed that customer satisfaction leads to more prolonged interactions between customers and service providers. Furthermore, Kusumawati & Rahayu's (2020) research also found that customers who are satisfied with their experiences are more likely to recommend products or services to others. The research found that customer satisfaction from visiting and consuming Amstirdam Coffee products resulted in customer loyalty. This was evident in customers' willingness to invite relatives to visit and recommend Amstirdam Coffee to other potential customers.

CONCLUSION

Based on the research results above, it can be concluded that Amstirdam Coffee needs to maintain the quality of the existing experience to provide the best experience to customers, where Amstirdam Coffee can improve the quality of the existing experience by paying attention to the facilities that have been provided, both the availability of chairs and tables as well as supporting facilities such as wifi and power outlets. Not only that, Amstirdam Coffee can also build the physical quality felt by customers by creating an ambiance through playing a special playlist. In addition, increasing the existing interaction between employees and customers is also necessary to create a memorable quality experience for customers. Customer loyalty can be seen through customer actions such as inviting relatives to visit Amstirdam Coffee or recommending Amstirdam Coffee to others. The limitation of this study lies in its research object, which focuses only on coffee shops. Future researchers can use other research objects, such as restaurants or hotels, taking into account the concepts and characteristics of the objects to be studied. This is because each object definitely has different characteristics. Additionally, researchers can develop tailored measurement indicators for the objects under study.

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INFLUENCE OF RETAINED EARNINGS ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING AND ALLIED FIRMS IN KENYA

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Abstract: *This study assessed the influence of retained earnings on financial performance of listed manufacturing and allied firms in Kenya. The study covered a period between 2016 and 2023. The descriptive survey design was utilized in this research. The target population included 10 manufacturing firms listed on the NSE from 2016 to 2022 while respondents comprised all 248-line managers within the target population. Data collection method utilized was both secondary and primary. The study found out that retained earnings has a highly significant influence on financial performance, with a correlation coefficient of 0.885 and an adjusted R squared of 0.653, suggesting that retained earnings decisions are critical for optimizing profitability in listed manufacturing and allied firms in Kenya. The moderating effect of ownership on the relationship between retained earnings and financial performance was also found to be significant, with a correlation coefficient of 0.580 (p value<0.05) and an increase in the model's explanatory power by 5 percent. Retained earnings serve as a valuable internal financing source, supporting growth and innovation while enhancing financial stability. The moderating effect of ownership structures, especially those involving government or institutional stakeholders, is essential for optimizing capital strategies and improving financial outcomes.*

Keywords: *Retained Earnings, Financial Performance, Listed Manufacturing And Allied Firms*

BACKGROUND

Background of The Study

Conceptualization of retained earnings was introduced by Modigliani and Miller in 1958 following their respective seminal theory. Their work, though grounded on assumptions, laid the foundation for subsequent research. It addressed the notion, in efficiently perfect market, a company's worth remains not affected in any way by its capital structure (Natalie, 2023). Modigliani and Miller's contribution was significant as it set the stage for future scholars to advance their studies, acknowledging the imperfections inherent in real-world markets. Subsequent research has built upon their work, refining assumptions and incorporating additional considerations. Various theories have emerged to elucidate firms' choices concerning optimal fuse of equity and debt, including market timing theory, the pecking order and target adjustment theories (Al-Najjar and Taylor, 2018). Such are theories that offer substantial insights towards complex dynamics of capital structure decisions, providing work frame for firms' in order to understand how they navigate trade-offs over debt and equity to maximize value and mitigate risk in an ever-evolving market landscape.

Failure by an entity to fund and meet its financial obligations marks its death bed. A study making use of Kenyan data done by Kiogora (2019) reveals a negativity in correlation over firms' returns Vis-a-viz their levels of financial leverage. Current data indicates the issuance of 68 T-bonds by the Kenyan government, along with ten corporate bonds issued by seven firms, and the listing of stocks of 60 firms stocks in Kenya's N.S.E as of December 2012. Furthermore, these listed entities collectively did float over 5.1 billion worth of shares valued at Kshs. 868 billion, while an estimation value of bonds was Kshs. 92.48 billion towards end of 2012.

While leverage tended to rise among Kenyan companies, the prevalence of debt financing through bonds was low. This highlights the heavy reliance on banks and other costly forms of debt financing, adversely affecting firm profitability. Consequently, a presumed negative correlation exists between debt utilization and profitability among these entities. This observation underscores the importance of evaluating financing strategies carefully to mitigate adverse effects on financial performance and ensure sustainable business growth (Krieler, 2020).

The planned research in Kenya is motivated by the country's standing in global financial markets, with the World Economic Forum ranking its markets as the second deepest after South Africa (Krieler, 2020). Deep markets typically imply lower costs of debt financing, which ideally shouldn't adversely impact an entity's financial performance. However, evidence suggests a critical inquiry into whether debt financing correlates with the subpar performance of Kenyan firms.

This research addressed this fundamental question by investigating the domain relation between profitability of entities over retained earnings among those which are listed and quoted on the Nairobi's Securities market in the manufacturing and Allied Sector. Performance as such, was assessed through scales of profitability and value of a firm, including Tobin's Q, utilizing panel empirical strategies (Changaya and Fatoki, 2020). The results were analyzed using both random and fixed effects specifications, providing comprehensive insights into the dynamics at play within Kenya's financial landscape. By shedding light on these relationships, this specific study is aimed at informing strategic kind of decision-making methods thus make contribution to enhancing financial performance and market efficiency in Kenya's corporate sector.

Kenya's economic growth and overall competitiveness are linked to the performance of its manufacturing and allied sector, which ranks third in terms of GDP contribution. However, like many other sectors, this domain has faced challenges stemming from various financial conditions, resulting in fluctuating performance and growth rates. For instance, during the years 2008-2010, the niche industry contended with its lower GDP contribution rates of growth, at 1.7% while consecutively an improvement of 2.6% respectively (Kenton, 2024). Subsequent years showed signs of recovery, with the 2010 financial year. Nonetheless, the sector's growth was significantly hampered by the financial crisis and subsequent slowdown, leading to decreased demand in the local market and currency depreciation. This highlights the vulnerability of the manufacturing and allied sector to external economic shocks and indicates the importance of implementing robust strategies to bolster resilience and sustain growth in the face of adversity (Lagat, 2020).

Within Kenya's economic landscape, the manufacturing industry holds a significant position, ranking as the fourth largest in terms of the volumes of contribution towards the country's (GDP). Following agricultural sector, transportation and communications, retail trade and wholesale trade, the manufacturing makes a contribution of 18 per cent to the country's GDP, playing pivotal role in both domestic and regional trade dynamics. Notably, it actively engages in exports to the larger Central and East Africa region, further solidifying its importance in the broader economic framework (Mule & Mukras, 2018)

The sector grapples with a multitude of challenges that significantly impede its growth trajectory. These include persistent security concerns stemming from frequent terror attacks, accompanied by arbitrary charges levied by regulatory bodies. Moreover, the sector contends with insufficient governmental support, particularly in the procurement of local supplies and the establishment of coordinated relationships with agricultural sectors. Weak negotiation strategies within regional trade frameworks exacerbate these challenges, compounded by the high costs associated with accessing credit facilities from financial institutions (Cheng, 2018)

Despite these obstacles, opportunities for growth abound, particularly evident with the recent establishment of market alliances and trade partnerships within the East African region under the newly formed East African Community Common Market (E.A.C.C.U). Kenya's manufacturing sector stands as the largest within this trading bloc, underscoring its pivotal role in regional trade dynamics (Cheng, 2018). Notably, the sector boasts ten firms listed on the Nairobi's Securities market, highlighting its prominence and potential for investment and expansion. However, addressing the prevailing challenges is essential to fully unlock the sector's capacity for sustained growth and competitiveness on both local and regional scales.

Initially identified as Nairobi Stock Exchange, the Nairobi Securities Exchange (NSE) stands as Kenya's primary securities exchange market. Established in 1954 during Kenya's colonial period, it operated as an overseas stock exchange under the auspices of the London Stock Exchange (Nairobi Securities Exchange, 2020). Today, the NSE operates within the framework of the African Securities Exchanges Association, reflecting its integration into broader regional financial systems. The securities exchange market is key to this study as apart from being the source of the secondary data the study consumed, it is a pertinent element from the regulatory perspective of firms to the platform it offers for firms to trade in equities and debt, the variables used in the study.

The NSE's significance transcends national borders, contributing to the vibrancy of Africa's financial landscape. In terms of stock trading volumes, it ranks as the fourth largest stock exchange, proving its pivotal role in facilitating investment and capital flows within the region (Changaya and Fatoki (2020). This rich history and strategic positioning highlight the NSE's stature as a key player in Kenya's financial sector, serving as a conduit for capital mobilization and investment opportunities.

Over recent years, the Nairobi Securities Exchange (NSE) has undergone significant transformations, notably the automation of its operations between 2006 and 2007. This pivotal shift empowered stockbrokers to conduct transactions remotely, no longer tethered to physical presence at the NSE premises. Consequently, trading hours expanded from a mere two to a more dynamic six hours per day, enhancing accessibility and liquidity within the market.

The foundation of these activities is the regulatory oversight of the Capital Markets Authority, ensuring compliance with established standards and safeguarding the integrity of the financial ecosystem (Kariuki, 2018). This regulatory framework serves as a cornerstone of investor confidence, fostering transparency and accountability within the NSE's operations. As the NSE continues to evolve, these initiatives are a testament of its commitment to driving innovation and efficiency in Kenya's financial markets, thereby bolstering its position as a leading hub for investment and capital formation.

Statement of the Problem

According to (Kariuki, 2018)), the manufacturing and allied sectors of the Kenyan economy have exhibited a pattern of recovery in recent years, demonstrating growth rates of 4.9% in 2004, 5.8% in 2005, and 6.9% in 2006. This upward trajectory reflects positively on the sector's overall financial performance during the same period, an indication of the interconnectedness between manufacturing activity and individual company financial outcomes. However, despite these initial gains, the sector still experienced fluctuations. From 6.85% in 2015, it declined to 5.83% in 2016 and further to 2.42% in 2017. Subsequently, there was a notable rebound to 9.65% in 2018, followed by a setback to 4.6% in the last quarter of 2019. The year 2020 brought unprecedented challenges, with Kenya recording a negative growth of 0.42% attributed to adverse impacts of the COVID-19 scourge. Moreover, manufacturing GDP for Kenya has displayed a concerning trend of persistent decline from 2011 to 2021. Starting at 11.16% in 2011, it gradually decreased to 7.24% in 2021, reaching an alarming low of 3.7% in the fourth quarter of 2022 (CBK Economic Outlook-2023). These statistics underscore the need for strategic interventions to revitalize the manufacturing sector and mitigate the challenges that have hampered its growth trajectory in recent years.

The country's GDP surged by 5 percentage in the first quarter of 2023, marking a notable increase from the 4.2 percent growth observed during the same period in 2022. This upturn signals a promising trajectory of economic recovery, attributed to the gradual relaxation of containment measures aimed at combating the spread of COVID-19. Notably, key sectors such as food service, accommodation, and manufacturing have exhibited improved performance, contributing significantly to GDP growth (Natalie, 2023). She continues to explain that a part from the direct contribution to the GDP, the sector offers the greatest employment opportunities to the citizenry hence improvement on social living due to the generated income to households. The collapse of the sector means loss of income thus impacting heavily to income earners. Such may lead to social vices like stealing, prostitution, corruption negative impact on mental health, satisfaction over life, economic resources access and social integration (Kariuki, 2018). He continues to opine that, the said condition as far as declining industries is concerned often affect the economy significantly in forms including job losses, decreased government revenues, and impacts negatively on related industries.

As per the Economic Survey of 2019, a 6.3 economy expansion for the country was registered in 2018, largely propelled by notable growth in the agriculture, manufacturing, and transport sectors. This marked a significant improvement from the 4.7 percent growth registered in 2017, the lowest in five years. Particularly impressive was the manufacturing sector's growth, which surged from 0.5 percent in 2017 to 4.2 percent in 2018, signaling a robust rebound. The diverse financial performance observed among manufacturing and allied firms in Kenya during this period cannot solely be attributed to capital structure decisions for financing operations. Instead, it was largely influenced by government tax waivers and subsequent reductions in production costs (Deloitte Touche, 2019). Moving forward to 2021, the manufacturing sector demonstrated resilience with a real value-added growth of 6.9 percent, a notable recovery from the negative 0.4 percent recorded in 2020. During this period, the manufacturing sector contributed 7.2 percent to GDP, accompanied by a commendable 6.0 percent expansion in output volume (Economic Outlook, 2023). Such trends affected grossly the pivotal role of the sector and the entire industry in an economic growth drive.

In his seminal work on firms' financial performance determinants, Ebaid (2012) performed an assessment analyzing the outcome of retained earnings decisions over Egyptian companies, prominent economic force in Northern region of Africa. The research spanned from 1997 to 2005 and focused on non-financial quoted companies across ten distinct industries, comprising a sample of sixty-four firms. Ebaid's study utilized (ROE) and gross profit margin as metrics to gauge companies' profitability, employing multiple regression analysis as the primary methodology. However, it overlooked the inclusion of ROA, a critical indicator in assessing companies' financial performance. Most research works have been conducted but all have come up with mixed reasons as to why firms may not reach their optimal performance. Many of the researches have not expounded on capital structure as one of the reasons, but instead delved in other parameters such as multiple taxation and cost of production among many others. Building upon such gap, present study is to investigate retained earnings in relation to a firm's financial performance specifically within manufacturing and allied sectors listed on the Kenya's Securities market. By addressing such a gap in literature, the exercise endeavored in offering comprehensive insights on the intricate dynamics shaping firms' financial performance within the Kenyan context.

Purpose of the Study

This research assessed the influence of retained earnings on financial performance of listed manufacturing and allied firms in Kenya.

LITERATURE REVIEW

Theoretical Literature Review

Pecking Order Theory

Underlying premise of this theory centers on prioritizing the primary source of financing to be retained earnings. At its core, the model proposes that entities do not adhere to a predetermined optimal capital structure. Instead, they adhere to a hierarchical approach to financing decisions. This hierarchy places funds which are internally generated as a preferred choice, marched closely by debt issuance, and only resorting to new equity financing once the firm has exhausted its debt capacity. This theoretical framework was initially conceptualized by Myers and Majluf in 1984. In accordance with this theory, companies deliberately favor and prioritize the utilization of internally generated funds over external sources of finance. When external financing is necessitated, firms tend to prefer long-term borrowing over equity issuance, with the latter being viewed as a last resort. This preference stems from the recognition of information asymmetries within the market. Consequently, business entities do not possess fixed equity-to-debt ratio due to these information disparities. Moreover, during dividend payments, firms often resort to borrowing to finance asset acquisition, thereby bolstering their financial position. In essence, the theory posits a dynamic approach to financing decisions, wherein firms adapt their strategies based on prevailing market conditions and internal dynamics. By prioritizing internally generated funds and utilizing debt financing, companies aim to leverage on financial flexibility and optimize their capital structure over time. This pragmatic approach shows the rationale behind firms' financing decisions, aligning them with the overarching goal of enhancing shareholder value and sustaining long-term growth.

The theory explains the strategic considerations that companies undertake when allocating capital resources for financing their operations (Cooper and Holmberg, 2017). It states that in scenarios where companies face information asymmetry with external fund providers, they prioritize reinvesting returns for financing investment opportunities above all other alternatives. This preference hierarchy favors short-term borrowing over issuing new equity, ultimately favoring debt over equity issuance altogether. Cooper and

Holmberg highlight that when companies opt to fund expansion through retained earnings instead of issuing new securities, they mitigate asymmetric information challenges. This explains why equity issuance tends to be costlier as information disparities between internal and external stakeholders widen. Consequently, it is advisable for entities be faced with significant information asymmetry to go for debt issuance as a precaution towards avoid undervaluation of their securities. By adhering to this approach, companies can navigate the complexities of capital structure management more effectively, optimizing their financing decisions to maximize value creation and mitigate potential risks associated with information disparities.

As asserted by Bhaduri (2017), companies, when seeking external funding, exhibit a preference for issuing securities perceived as the most secure, typically beginning with long-term borrowed funds, followed by convertible debt as a less common choice. The originator of this respective theory stated that entities tend and inturn follow a path of a predetermined hierarchy of capita finance sources, with internally generated finance being favored when available. In the event of requiring external funding, debt issuance is favored over stock issuance as a security. Pandey (2019) corroborated the theory's assertions, emphasizing that managers prioritize the utilization of internally generated funds generated internally and only consider issuing stock as a last escape route. This strategic approach is an indication of the significance of maintaining financial stability and minimizing risk exposure when sourcing external funds. By assuring they align their decisions with this hierarchical framework, entities aim mostly at optimizing their capital structure and bolster their financial resilience, ensuring sustainable growth and value creation in the long term.

Tests on this theory have not significantly showed on whether first-order importance is of determining an entity's capital structure. Nevertheless, different authors in their works, have established situations where the same is of good reality approximation. Zeidan, Galil and Shaqir (2018) in his document where he examined and evidently proved firms indeed follow the pecking order theory. Linder and Shyam-Sunder (2019) found that a number of features of data are well explained by both the two theories. On the contrary, Frank and Goyal (2018) amongst many other things implies that that the theory fails to hold, especially to smaller firms which contends with the problems related to information asymmetry. This theory is relevant to the study to be conducted since, in regard to the its hypothesis, external finance acquisition attracts transactional costs which are higher as compared to utilizing internal finance which are funds that attract minimal or no transactional costs. Thus, firm's worth and investment risks remain determined by its capital structure.

Empirical Literature Review

In their respective paper titled "The Effect of Profit Reserves on firms' profitability," Oghenekohwo and Theresa (2017) undertook a study to explore and substantiate a distinctive U-shaped correlation on leverage and retained earnings within the oil sector firms of Nigeria. This pioneering study focused on a sample size comprising six prominent Nigerian Oil and Gas companies, analyzing data spanning from 2002 to 2011. The examination adopted a descriptive methodology to dissect the intricacies of the subject matter by using a secondary research approach. The scholars utilized a suite of simple statistical tools including regression analysis and correlation coefficient models, to process data and to unveil meaningful insights. The findings of the study unequivocally affirmed that retained earnings, are pivotal components of the capital structure, exhibit a robust and positive correlation with borrowing activities. Furthermore, the research drew a noteworthy conclusion regarding the tangible interplay between ploughed back returns and borrowed funds, illuminating the intricate dynamics governing these financial interactions.

Nnenna and Nkeiruka (2020), wrote a paper titled "Impact of Retained Earnings on Financial Progression of the Manufacturing Segment," scrutinized the ramifications of retained earnings on the profitability dynamics within the food and personal care goods industries listed on Pakistan's Karachi Stock Exchange. This exhaustive analysis focused on a cohort of seven prominent companies operating within the food industry, with data spanning from 2009 to 2014. They used a strategic approach that included convenience sampling, the researchers harnessed the power of non-probability methods to distill meaningful insights from the available data pool. The researchers used a robust analytical framework comprising linear regression models and Spearman's correlation analysis, to dissect the difficult relationships underlying the variables under scrutiny. The findings of the study unveiled a complicated landscape, revealing a tenuous and inconsequential relationship between retained earnings and cash dividends per share. However, a moderately positive correlation emerged between retained earnings and the closing price of stock, shedding light on the complex interplay between financial metrics within the studied context.

In an insightful investigation by Kibor (2018), the dividend policies together with performance metrics of SACCOs in the county of Uasin Gishu, were assessed. According to primary data extracted from the audited financial reports of SACCOs, this study focused on 120 registered SACCOs doing business in the county of Uasin Gishu. A purposive sampling technique, representing 10% of dividend-paying SACCOs, yielded a pragmatic sample size of 12 SACCOs, thus ensuring a robust analysis. Employing a quantitative research design, the study methodically synthesized the collected data to extract pertinent insights relevant to the research objectives. Leveraging statistical tools such as the SPSS and STATA Version 12, the research team conducted comprehensive multiple regression analyses to discern meaningful patterns and relationships within the dataset. The results of the assessment underscored discernible positivity in correlation of net income and payout ratio of dividend, indicative of a symbiotic relationship between dividend distribution and SACCO performance. Conversely, an intriguing inverse relationship emerged between the dividends amounts paid, the total value of dividends, and the percentage of dividends paid, underscoring the challenging interplay between dividend policies and SACCO performance metrics at a 5% level of significance. These findings not only provide valuable insights into the operational dynamics of SACCOs but also offer actionable recommendations for stakeholders aiming to optimize performance and dividend distribution strategies within the sector.

Kariuki (2018), examined association of dividend policies and loan performance within the SACCOs regulated by Nairobi County's Sacco Society Regulatory Authority. A descriptive research design was employed. The examination employed use of a census technique by scrutinizing entire population comprising 43 SACCOs operating within the County of Nairobi. Secondary data gleaned from the financial statements of these SACCOs over a five-year period formed the cornerstone of the analysis. Taking into consideration, a robust regression model, the research endeavor sought to elucidate the association over the dependent variable, namely loan performance, and various independent variables including dividends, asset growth rates, and organizational growth. The results of the study unveiled a compelling narrative, highlighting the influential role of dividends, growth rate of asset, and organizational growth in shaping loan performance within regulated SACCOs in Kenya. Similarly, Monogbe (2016) examined the association between dividend payout with financial returns within the manufacturing sector in Malaysia. The researcher used a descriptive survey approach, coupled with regression and correlation analysis techniques, to unravel a noteworthy correlation between increased financial returns and dividends disbursed to shareholders. These findings not only provide valuable insights into financial dynamics of SACCOs together with manufacturing companies but also offer actionable recommendations for stakeholders seeking to optimize their financial strategies and enhance performance outcomes.

Khadija, Maria, and Nabil (2017), researched to elucidate impacts of dividend policy on both firm performance and investors' within the context of Pakistan. The discourse surrounding dividend policy is still one of the most contentious element in the context of corporate finance literature. Despite numerous attempts by scholars to dissect various facets of dividend policy, a definitive explanation regarding its behavioral underpinnings continues to elude us. This study strategically employs dividend policy, investors' wealth, and firm performance as the focal variables of analysis.

Dividend per share and dividend yield serve as the primary metrics for gauging dividend policy, while earnings per share and share price act as proxies for investors' wealth. Firm performance is quantified using return on equity. Through panel analysis, the research discerns a compelling revelation: dividend policy exerts a positively significant impact on both investors' wealth and firm performance. These results does not just contribute to scholarly discourse on dividend policy but also hold profound implications for practitioners and policymakers navigating the intricate terrain of corporate finance. By shedding light on nuanced correlation over dividend policy, investors' wealth, and firm performance, this study provides invaluable insights that can inform strategic decision-making and foster sustainable financial outcomes in Pakistan's corporate landscape.

RESEARCH METODOLOGI

The study employed a mixed methods approach, integrating both positivist and interpretivist philosophical foundations. As noted by Trochim (2016), a research design serves as the blueprint that systematically links various components of a research process. Guided by this understanding, the study adopted a causal research design, which is particularly suited for quantitative studies due to its structured and pre-determined nature. The research focused on a well-defined population comprising the ten manufacturing and allied firms listed on the Nairobi Securities Exchange, which together constituted the primary unit of analysis. Within these firms, the study specifically targeted 248 line managers as respondents, identified as the core units of inquiry. Their distribution is documented in an annexed form to ensure clarity and methodological rigor. To gather data, the study utilized the census method, which involves assessing each individual or element within the entire population. This approach ensures comprehensive coverage and minimizes the risk of sampling bias by including all eligible subjects in the analysis.

Within these firms, the respondents comprised all 198-line managers working in finance, financial management, and related departments. This approach ensures a representative and thorough examination of the targeted population, thus factoring the robustness and reliability of the study's outcomes. In this assessment, comprehensive approach was adopted to gather data from finance line managers of manufacturing and allied firms registered at the Securities Exchange market (NSE). Both open and closed-ended questionnaires were utilized for purposes of ensuring a thorough examination of the pertinent factors. These questionnaires encompassed inquiries into various aspects of firm performance, particularly focusing on the utilization of equity, debt, preference, retained earnings, and the influence of foreign investment. The closed-ended questionnaires were structured using a Likert scale format, providing respondents with a spectrum of options ranging from "Strongly Disagree" to "Strongly Agree." This systematic approach enabled precise measurement and analysis, ensuring robust and reliable deep understanding into the relationships between capital structure decisions and organizational performance within the manufacturing and allied sectors.

In relation to the findings of this research exercise, methodology of data collection involved a combination of primary and secondary approaches. This strategic blend is chosen because it leverages both firsthand and existing information, ensuring a comprehensive analysis. Primary data to be used will be gathered through structured interviews and the completion of predefined questionnaires by selected respondents. Meanwhile, secondary data was acquired using designed data collection schedule tool, facilitating the extraction of insights from various sources such as company profiles, financial statements, and other pertinent published reports between a 7- year periods from 2016 to 2023.

By employing a comprehensive approach, the analysis encompassed statistical methods such as mean calculation, correlation assessment, regression modeling, and ANOVA f-test application. The outcomes of this rigorous analysis were elucidated and exhibited by use of clear and concise figures and tables. Notably, correlation emerges as a vital statistic, delineating the interrelationship among the variables employed. Additionally, measures of central tendency were employed to provide further insight into the data. Regression analysis, a potent tool for probing causal relationships, were employed in the study. In order to ensure the conclusiveness of the analysis, collected data underwent scrutiny through the Shapiro-Wilk test in order to ascertain its normality. Researcher adhered to a significance level of 0.05, ensuring a rigorous and methodical approach throughout the analytical process.

This analysis served to explain the patterns evident in both primary and secondary data sources. Descriptive statistics, fundamental in nature, offer concise summaries of datasets, whether they represent the entire population or merely a sample thereof. These statistics are structured into two categories: Measure of variability and measures of central tendency, depicting both the typical values and the extent of dispersion within the dataset (O'Brien, 2017). The measures of central tendency, including the mode, median mean, provide pivotal deep understanding into the average or most representative values within the data.

Conversely, measures of variability, such as standard deviation, variance, and range, indicates the degree of divergence or spread among the data points. By using a methodological approach enriched with these compelling insights, the researcher aims to synthesize a comprehensive understanding of the gathered data, facilitating the creation of meaningful summaries and actionable metrics (Kothari, 2018).

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics

Retained Earnings Component

Table 1: Retained Earnings Component

Retained Earnings Component	Mean	Std. Dev
The firm has a policy on retained earnings.	3.44	1.521
Firm has to retain part of the earnings every year to finance growth.	4.14	0.966
Shareholders approves retained earnings to finance working capital needs.	4.11	0.824
Retained earnings are not distributed to shareholders in years when firm doesn’t make profits.	4.26	0.750
Preference is given to retained earnings as opposed to dividends.	4.05	0.872
Retained earnings decisions are guided by firm cash flow position.	4.08	0.859
Average Mean score	**4.01**	**0.965**

As per the results above, the first attribute examined was whether the firm has a policy on retained earnings, which received a mean score of 3.44. This score, while positive, suggests that there may be variability in how firms formalize their policies regarding retained earnings. A standard deviation of 1.521 indicates a relatively high level of disagreement among respondents, which could imply that some firms do have a formal policy, while others may not prioritize or have clarity on this aspect. The second attribute focused on the necessity of retaining a portion of earnings each year to finance growth, achieving a mean score of 4.14. This indicates strong agreement among respondents about the importance of retained earnings for fostering growth within the organization. The standard deviation of 0.966 is relatively low, suggesting a consensus among firms on this practice, highlighting that many organizations view retained earnings as a critical source of internal financing for expansion.

The third statement addressed whether shareholders approve retained earnings to finance working capital needs, garnering a mean score of 4.11. This result implies that there is significant support among shareholders for retaining earnings to address the firm's immediate financial needs. With a standard deviation of 0.824, the data suggests a consistent agreement among respondents, indicating that firms generally align their retained earnings policies with shareholder expectations regarding the allocation of earnings for operational requirements. Another important aspect evaluated was whether retained earnings are not distributed to shareholders in years when firms do not make profits. This attribute received a mean score of 4.26, reflecting a strong consensus that firms typically refrain from distributing retained earnings during unprofitable years. The low standard deviation of 0.750 indicates a high level of agreement among respondents, reinforcing the notion that firms prioritize their financial stability and reinvest earnings when they are not performing well.

The preference for retained earnings over dividends scored a mean of 4.05, suggesting that firms prioritize reinvestment strategies over immediate shareholder returns. The standard deviation of 0.872 indicates a moderate level of agreement, which may imply that while many firms favor retaining earnings, some still consider the importance of providing dividends to their shareholders. Finally, the statement regarding whether retained earnings decisions are guided by the firm's cash flow position resulted in a mean score of 4.08. This score reflects the importance of cash flow considerations in the decision-making process related to retained earnings, with a standard deviation of 0.859 indicating a relatively consistent view among firms regarding the influence of cash flow on these decisions.

The relatively high agreement that retained earnings are not distributed during unprofitable years (mean = 4.26, SD = 0.750) mirrors the findings of Otieno and Mwangi (2022), who reported that firms often withhold dividends to conserve financial resources during challenging periods. This practice underscores the importance of retained earnings as a financial cushion that supports stability and operational continuity during downturns.

Similarly, the preference for retained earnings over dividends (mean = 4.05, SD = 0.872) aligns with the insights of Kinyua and Ngugi (2023), who found that many firms in the manufacturing sector prioritize reinvestment strategies to fund expansion and innovation. However, this practice may occasionally conflict with shareholder expectations, particularly among investors who prioritize short-term returns. This could explain the moderate variability observed in the preference for retained earnings over dividends.

The finding that retained earnings decisions are guided by the firm's cash flow position (mean = 4.08, SD = 0.859) resonates with Gitau and Kamau (2023), who emphasized that cash flow management is central to retained earnings policies. Their study noted that firms with healthy cash flow are more likely to allocate retained earnings toward growth initiatives and financial restructuring.

On the other hand, the relatively lower agreement on the existence of formal policies on retained earnings (mean = 3.44, SD = 1.521) points to variability in governance practices across firms. This aligns with the findings of Waweru and Njenga (2022), who observed that while some firms have clear policies to guide retained earnings, others rely on ad hoc decision-making influenced by market conditions and financial performance.

Foreign Ownership

Table 2: Ownership

Ownership Component	Mean	Std. Dev
Firm has a foreign ownership component	4.01	0.959
Firm relies heavily on foreign direct investment	4.20	0.784
Ownership structure between local and foreign ownership influences capital structure.	4.04	0.862
Foreign ownership influences financial performance of the firms.	4.26	0.840
Foreign ownership will limit the amount of debt capital issued.	4.29	0.798
Foreign ownership will limit the number of ordinary shares issued.	3.84	1.137
Average mean score	**4.06**	**0.934**

As shown, the respondents strongly agreed that foreign ownership plays a significant role in their firms, as indicated by the high mean score of 4.01 (Std. Dev = 0.959) for the statement that firms have a foreign ownership component. This shows that a substantial proportion of firms in the sector have some degree of foreign involvement. The reliance on foreign direct investment (FDI) was rated even higher, with a mean score of

4.20 (Std. Dev = 0.784). This suggests that many firms depend heavily on FDI as a source of capital and growth, highlighting the importance of external financial inflows to the sector.

Another critical finding is the belief that the ownership structure, specifically the balance between local and foreign ownership, influences the firm's capital structure. This was supported by a mean score of 4.04 (Std. Dev = 0.862), indicating a strong agreement among respondents that the mix of local and foreign ownership affects decisions regarding debt and equity financing. Similarly, foreign ownership was seen as an influential factor in financial performance, as demonstrated by the highest mean score in the table, 4.26 (Std. Dev = 0.840). This result underscores the perception that firms with foreign ownership tend to perform better financially, likely due to access to additional resources, expertise, and international markets.

Moreover, the findings suggest that foreign ownership affects a firm's debt-related decisions. The statement that foreign ownership limits the amount of debt capital issued received a mean score of 4.29 (Std. Dev = 0.798), the highest in this section. This result implies that firms with foreign ownership may adopt more conservative debt policies, possibly due to the risk aversion or stringent financial oversight imposed by foreign investors. On the other hand, when it comes to issuing ordinary shares, the mean score was somewhat lower at 3.84 (Std. Dev = 1.137), indicating that while foreign ownership does influence the issuance of ordinary shares, the effect is not as strong as it is for debt issuance. This could be due to differences in how foreign investors view equity financing versus debt financing in the firms they invest in.

Overall, the average mean score across all ownership attributes was 4.06 (Std. Dev = 0.934), reflecting a generally strong agreement that foreign ownership significantly affects key aspects of firm behavior, including capital structure, financial performance, and the issuance of both debt and equity. This average suggests that, on the whole, firms in the sector view foreign ownership as a critical factor in shaping their strategic financial decisions.

Studies by Mwangi and Nyang'au (2023) found that foreign ownership significantly influences capital structure decisions, especially in developing economies like Kenya. In the current study, the strong agreement (mean = 4.01, Std. Dev = 0.959) on the presence of foreign ownership within firms supports the notion that foreign participation is prevalent and influential in the manufacturing sector. This aligns with the view that foreign ownership often brings access to additional capital and expertise, both of which are crucial for fostering growth and enhancing financial performance.

The high reliance on foreign direct investment (FDI) (mean = 4.20, Std. Dev = 0.784) in the current study resonates with findings from Kamau and Gitau (2023), who emphasized the critical role of FDI in driving financial performance in Kenya. This result highlights the essential role that foreign capital plays in supplementing local financial resources, enabling firms to invest in expansion and technological advancements. FDI not only supports the capital structure but also acts as a conduit for the infusion of advanced managerial practices and international market access, which are vital for improving financial outcomes.

Additionally, the study's finding that the balance between local and foreign ownership influences capital structure decisions (mean = 4.04, Std. Dev = 0.862) supports the perspective outlined by Otieno and Wanjiku (2022), who argued that a well-structured mix of local and foreign ownership provides a strategic advantage in making optimal financing decisions. This hybrid ownership model allows firms to leverage the financial strength and risk tolerance of foreign investors, while also maintaining some level of local control to safeguard national interests.

The perception that foreign ownership positively influences financial performance (mean = 4.26, Std. Dev = 0.840) echoes the findings of Kinyua and Ngugi (2023), who identified that firms with foreign ownership tend to perform better due to better financial discipline, access to broader markets, and improved governance standards. This could be attributed to the fact that foreign investors often bring a wealth of experience, financial networks, and international market connections that enhance the firm's competitiveness and profitability.

The findings on debt capital are particularly telling, with a strong belief that foreign ownership limits the amount of debt capital issued (mean = 4.29, Std. Dev = 0.798), which is consistent with studies by Waweru and Njenga (2022). They found that foreign investors, often more risk-averse, may encourage firms to adopt conservative debt policies to avoid over-leveraging, thus ensuring long-term financial sustainability. The risk-aversion tendencies of foreign investors likely stem from their desire to protect their investments and avoid high financial distress costs that might arise from excessive debt. This aligns with the current study's observation that foreign ownership can indeed have a moderating effect on firms' approach to debt financing.

On the other hand, the somewhat lower mean score regarding the impact of foreign ownership on the issuance of ordinary shares (mean = 3.84, Std. Dev = 1.137) suggests that foreign ownership does not have as significant an impact on equity financing decisions. This result contrasts with findings from Kariuki and Wanjiku (2023), who suggested that foreign ownership also influences equity financing, albeit in a more nuanced way. It is possible that foreign investors place more emphasis on maintaining control over the firm's capital structure via debt and prefer not to dilute their ownership stakes through the issuance of new shares.

Regression Analysis

Influence of retained earnings on financial performance in listed manufacturing and allied firms in Kenya.

Table 3: Model Summary on the relationship between retained earnings and financial performance

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.538[a]	.289	.286	.689

a. Predictors: (Constant), retained earnings
b. Dependent Variable: financial performance

From Table 3, the coefficient of determination (Adjusted R2) implied that that the regression could explain up to 28.6 percent of the variation in the financial performance. The remaining percent of the variation could be due to other predictors not in the model. The model test of fitness results is presented in Table 4.42 indicating the reliability of the model in predicting financial performance.

Table 4: ANOVA for the relationship between retained earnings and financial performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	40.553	1	40.553	85.397	.000[b]
	Residual	99.725	210	.475		
	Total	140.278	211			

a. Dependent Variable: financial performance
b. Predictors: (Constant), retained earnings

The model result of fitness indicates an F-statistic of 85.397 and a p-value of 0.000<0.05. This indicates that the model is fit for prediction at 95 percent confidence level. This shows that retained earnings had a significant effect on the financial performance. The study of multiple regression model coefficients obtained which could be used for prediction are presented in table 5

Table 5: Model coefficients for the relationship between retained earnings and financial performance

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.218	.220		10.082	.000
	Retained Earnings	.484	.052	.538	9.241	.000

As shown above, retained earnings was found to positively influence financial performance in the listed manufacturing and allied firms. This implies that an increase in this practice would result in improvement of the financial performance. In addition, the variable has a p-value of .000, which is less than 5% ($P < 0.05$) meaning that the variable is significant in explaining the variations in financial performance in the listed manufacturing and allied firms.

Moderating effect of ownership on the relationship between capital structure and financial performance in listed manufacturing and allied firms in Kenya

Table 6: Model Summary on the moderating effect of foreign ownership on the relationship between retained earnings and financial performance of listed manufacturing and allied firms in Kenya

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.626[a]	0.392	0.365	0.43843	1.276

a. Predictors: (Constant), inter retained share and ownership, debt capital , preference shares, ordinary share , ownership component, retained earnings, inter debt earnings share and ownership, inter preference share and ownership, inter ordinary share and ownership

b. Dependent Variable: profitability

From Table 6, the coefficient of determination (Adjusted R2 Square) brought about by the moderating variable implied that the regression could explain up to 36.5 percent of the variation in the financial performance. The remaining percent of the variation could be due to other predictors not in the model. This implies that incorporating the ownership has a minimal impact on the relationship that exists between capital structure and financial performance as it weakens the influence obtained by 5 percent (Δ Adjusted R2=-0.053). The model test of fitness results is presented in Table 4.48 above indicating the reliability of the model in predicting financial performance.

Table 8: Model coefficients for the moderating effect of ownership on the relationship between capital structure and financial performance of listed manufacturing and allied firms in Kenya

	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T
(Constant)	-5.698	2.157		-2.641
preference shares	0.369	0.457	0.363	0.807
ordinary share	0.632	0.601	0.543	1.051
debt capital	1.083	0.418	1.078	2.593
retained earnings	0.126	0.415	0.132	0.303
ownership component	1.788	0.515	1.757	3.475
inter preference share and ownership	-0.142	0.113	-0.883	-1.258
inter ordinary share and ownership	-0.008	0.145	-0.049	-0.058
inter debt earnings share and ownership	-0.272	0.100	-1.724	-2.718
inter retained share and ownership	0.014	0.099	0.097	0.146

a. Dependent Variable: profitability

The findings obtained showed that the constant term is -5.698 (Std. Error = 2.157, t = -2.641), indicating a baseline negative effect. Preference shares show a positive but insignificant effect on profitability, with a coefficient of 0.369 (Std. Error = 0.457, Beta = 0.363, t = 0.807). Ordinary shares similarly have a positive but insignificant influence, with a coefficient of 0.632 (Std. Error = 0.601, Beta = 0.543, t = 1.051). Debt capital, however, has a significant positive influence on profitability, with a coefficient of 1.083 (Std. Error = 0.418, Beta = 1.078, t = 2.593). Retained earnings show a minor, non-significant effect, with a coefficient of 0.126 (Std. Error = 0.415, Beta = 0.132, t = 0.303). Ownership itself has a strong, significant positive effect, with a coefficient of 1.788 (Std. Error = 0.515, Beta = 1.757, t = 3.475). The interaction between preference shares and ownership is negative but not significant, with a coefficient of -0.142 (Std. Error = 0.113, Beta = -0.883, t = -1.258). Similarly, the interaction between ordinary shares and ownership is minimal and insignificant, with a coefficient of -0.008 (Std. Error = 0.145, Beta = -0.049, t = -0.058). The interaction between debt capital and ownership has a significant negative impact on profitability, with a coefficient of -0.272 (Std. Error = 0.100, Beta = -1.724, t = -2.718), while the interaction between retained earnings and ownership is insignificant, with a coefficient of 0.014 (Std. Error = 0.099, Beta = 0.097, t = 0.146).

DISCUSSION OF FINDINGS

Influence of Retained Earnings on Financial Performance

Retained earnings are the strongest predictor among the variables, explaining up to 28.6% of the variation in financial performance. With a significant positive relationship (p-value <0.05), retained earnings appear to be a critical internal funding source that supports reinvestment and growth. This finding underscores the importance of sound earnings retention policies, allowing firms to build reserves for strategic investments and enhance shareholder value without incurring additional liabilities or diluting equity.

Retained earnings were free from multi-collinearity issues, as shown by a tolerance value of 1.105 and a VIF of 0.484. Normality tests (skewness: 0.185, kurtosis: -1.447) confirmed the data's suitability. Factor analysis indicated that two components accounted for 62.44% of the variance, emphasizing the importance of retained earnings in capital structure decisions. Retained earnings emerged as a preferred source of financing, guided by firms' cash flow positions and shareholder approvals. These findings underscore retained earnings' role in reducing dependency on external financing while supporting operational and growth-related expenditures.

Njoroge and Omondi (2021) in Kenya argued that retained earnings reduce dependence on external financing, thereby improving financial health and profitability. Owusu and Asiedu (2021) in Ghana also found retained earnings to be a critical driver of growth in family-owned businesses, which rely heavily on internal financing. However, Singh and Kaur (2022), studying Indian firms, found that retained earnings only positively affect performance when firms have clear reinvestment strategies, suggesting that idle retained earnings may not contribute to performance. Pham and Nguyen (2022), examining Vietnamese firms, also argue that firms with high retained earnings may become complacent and underinvest, leading to stagnation in financial performance. Kim and Lee (2023) in South Korea observed that retained earnings are less effective in sectors with high capital expenditure needs, where external financing is more advantageous.

Moderating Effect of Ownership on the Relationship between Retained Earnings and Financial Performance

The moderating effect of foreign ownership improves the explanatory power of the model to 36.5%, demonstrating its importance in shaping the capital structure's influence on performance. Ownership has a strong positive effect on financial performance, likely reflecting the managerial expertise, global market access, and financial stability brought by foreign investors. However, the interaction between ownership and individual capital structure components yields mixed results, with significant negative interactions for debt capital and insignificant ones for retained earnings and shares. These findings suggest that while foreign ownership generally enhances firm performance, it may alter the dynamics of specific capital structure elements.

Ownership structure had a tolerance value of 0.624 and a VIF of 0.994, indicating no multi-collinearity. The normality test revealed appropriate distribution, with skewness (0.350) and kurtosis (1.938) values within acceptable ranges. Factor analysis highlighted that ownership explained 54.92% of the variance, with foreign direct investment (FDI) and the mix of local and foreign ownership being significant. The findings suggest that ownership structures play a pivotal role in shaping capital structure decisions, particularly through FDI inflows. This reflects a strategic reliance on diverse ownership forms to enhance financial performance and competitiveness in the Kenyan manufacturing sector.

The finding that ownership moderates the relationship between retained earnings and financial performance resonates with Ali and Rehman (2021), who found that ownership structure, particularly institutional ownership, positively impacts financial performance by enhancing governance and capital allocation in Pakistani firms. Ntimbane and Mukuka (2023), studying South African firms, also found that government ownership introduces strategic control that strengthens financial performance, particularly in regulated sectors. Conversely, Bello and Yusuf (2020), studying Nigerian firms, found that family ownership negatively moderated the capital structure-performance relationship due to conflicts of interest and risk-averse strategies. Khattak and Jamil (2021), in their study of firms in Pakistan, found that concentrated ownership could lead to poor corporate governance, reducing the positive impact of capital structure on financial outcomes. Youssef and El-Sharawy (2023), examining Egyptian firms, found that state ownership tends to introduce inefficiencies due to bureaucratic decision-making, weakening the influence of capital structure on performance.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

Influence of Retained earnings on financial performance

The fourth objective of the study was to determine the influence of retained earnings on financial performance of listed manufacturing and allied firms. Retained earnings were also positively correlated with financial performance, though to a lesser extent than other capital components. The average mean score of 4.01 indicates that retained earnings are widely used by the firms studied. The correlation coefficient (r=0.538, P=0.000) reflects a weak but statistically significant positive relationship between retained earnings and financial performance. This suggests that while retained earnings are a cost-effective and readily available source of internal financing, they may not be as effective in driving performance as external capital sources like shares or debt, possibly because firms may reinvest less aggressively when relying solely on retained earnings. The study's finding of a weak positive relationship between retained earnings and financial performance contrasts with Musoke and Kyeyune (2020), who found that in Ugandan firms, retained earnings significantly enhanced financial performance by providing firms with low-cost capital for reinvestment.

Moderating Influence of Ownership on the relationship between Retained Earnings and financial performance in listed manufacturing and allied firms in Kenya.

The last objective of the study was to determine the moderating effect of ownership on the relationship between capital structure and financial performance in listed manufacturing and allied firms in Kenya. The study also examined the moderating effect of ownership on the relationship between capital structure and financial performance. Ownership was positively and significantly correlated with financial performance (r=0.580, p>0.05), indicating that ownership structure can influence financial outcomes. The moderated regression analysis showed that incorporating ownership strengthened the capital structure's influence on performance by 5 percent (Δ Adjusted R2=-0.053), a minimal yet significant effect ($P<0.05$). This suggests that ownership, particularly government policies or major shareholders, can shape how capital structures impact financial performance by introducing governance and strategic control, although the effect is relatively small.

Conclusion

The study concludes that retained earnings serve as a valuable internal source of financing that positively impacts the financial performance of listed manufacturing and allied firms. Retained earnings offer firms a cost-effective way to reinvest in their operations, allowing them to finance expansion, innovation, and strategic initiatives without relying on external debt or equity markets. The reinvestment of profits into the firm not only sustains growth but also enhances financial stability, positioning the firm for long-term success.

The study also concludes that ownership plays a significant moderating role in the relationship between retained earnings and financial performance in listed manufacturing and allied firms. Specifically, ownership structures, particularly government or institutional ownership, enhance the positive effects of capital structure strategies on financial performance. This finding suggests that ownership configurations can influence decision-making processes, risk tolerance, and the strategic direction of firms, leading to optimized capital utilization and improved financial outcomes. In addition, the study concludes that retained earnings is a key determinant of financial performance in listed manufacturing and allied firms in Kenya.

Recommendations

The study recommends that firms should strategically utilize retained earnings to finance operations and expansion projects. Retained earnings provide a cost-effective alternative to external financing, as they do not involve interest payments or share dilution. Firms should develop policies that balance the distribution of profits with the reinvestment of earnings into the business. This reinvestment can fuel innovation, operational efficiency, and competitive positioning. By prioritizing retained earnings, firms can improve financial performance while maintaining internal control over their growth strategies. The continuous reinvestment of profits will also enhance the firm's long-term financial stability.

The study recommends that firms be encouraged to reinvest their retained earnings through favourable tax policies and reinvestment incentives. Government policies could reduce the tax burden on profits that are retained and reinvested into the business. This would incentivize firms to use retained earnings as a strategic source of capital for expansion and innovation. Policymakers could also offer matching grants or low-interest loans to firms that demonstrate a strong commitment to reinvesting their earnings. Such initiatives would reduce dependence on external financing while promoting sustainable growth. Firms could thus strengthen their financial stability and long-term performance through reinvestment strategies.

The study recommends that ownership structures, especially in listed firms, be factored into policy decisions related to retained earnings. Policies could support diverse ownership models that include both institutional and government shareholders, as these tend to strengthen financial performance. Regulatory frameworks should encourage transparent reporting of ownership stakes to ensure alignment of interests between shareholders and management. Additionally, government ownership could be leveraged as a tool to influence strategic decisions, particularly in key industries like manufacturing. By supporting ownership diversity, firms can better balance risk and reward in their capital structure. Such policies would also help in enhancing corporate governance and accountability in listed firms.

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GENERATION Z IN THE WORKFORCE: HOW MENTAL HEALTH SHAPE JOB SATISFACTION THROUGH WORK ENGAGEMENT IN INDONESIA'S URBAN

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Abstract: *This study aims to analyze the influence of mental health on job satisfaction mediated by work involvement in Generation Z workers in the Greater Jakarta area. The research approach used was quantitative, with the distribution of questionnaires online through Google Forms to respondents who were included in the age of Gen Z and had at least one year of work experience. The sampling technique used purposive sampling with a total of 110 respondents. Data analysis was carried out using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method. The results showed that mental health had a positive and significant effect on job satisfaction but did not have a significant effect on work engagement. Meanwhile, work involvement has a positive and significant effect on job satisfaction but does not act as a mediating variable between mental health and job satisfaction. These findings indicate that mental health has a direct influence on job satisfaction without intermediary work involvement. Theoretically, this study strengthens the theory of Job Demands-Resources (JD-R) by affirming the role of mental health as a personal resource that contributes to work well-being. In practical terms, the results of this study provide implications for organizations to improve the psychological well-being of employees through mental health support programs and create a conducive work environment for Gen Z workers to achieve optimal job satisfaction.*

Keywords: *mental health, work engagement, job satisfaction, generation Z*

INTRODUCTION

Generation Z (Gen Z), who was born between 1997 and 2012, is now one of the largest productive age groups in the Greater Jakarta area. Based on the latest demographic data, Gen Z dominates the working-age population in urban areas of Indonesia, including Greater Jakarta, and is projected to continue to increase in the next few years (Mohammad, 2020; Nguyen, 2020). Gen Z is known as a digital native generation who are highly adaptive to technology, prioritizing flexibility and work-life balance and seeking meaning and satisfaction in work, not just financial

compensation (X. Chen, 2023; Kashdan, 2020; Rahman, 2024).

Theoretically, mental health has a significant influence on job satisfaction (Lee et al., 2023). The positive component of mental health can increase job satisfaction, while the negative component, such as stress and burnout, decreases it (Johnson et al., 2021; Kelloway et al., 2023). Research also shows that work engagement plays an important mediator in the relationship between mental health and job satisfaction, where individuals with good mental health tend to be more engaged and ultimately more satisfied in their work (Montani, 2020; Znidaršič & Marič, 2021). In addition, Gen Z pays close attention to work-life balance, flexibility, and a supportive work environment as the main factors that affect their job satisfaction (Baquero, 2023; Katili et al., 2021).

Practically, the phenomenon of "job hopping," or Gen Z's tendency to change jobs often, is a real challenge for organizations in Greater Jakarta (Cahyadi, 2021). High turnover rates are often triggered by low job satisfaction, stress, overwork, and lack of engagement (Giorgi, 2020). The COVID-19 pandemic has also worsened the mental health conditions of Gen Z, which has had an impact on decreased performance and job satisfaction (Puji Astuti et al., 2020). Organizations in Greater Jakarta are now required to pay more attention to mental health aspects and engagement and create a supportive work environment to retain these young talents (Ngwenya & Pelser, 2020).

Despite the growing body of literature examining mental health, work engagement, and job satisfaction, several critical gaps remain. First, although recent studies highlight the unique work preferences and psychological well-being of Generation Z in Indonesia, much of the existing evidence focuses on general work engagement and quality of work life rather than explicitly investigating the causal mechanisms between mental health and job satisfaction for this cohort (B. Chen et al., 2022; Kelloway et al., 2023). Second, research on Generation Z's job satisfaction often emphasizes work-life balance and quality of work life as predictors, but the mediating role of work engagement in the relationship between mental health and job satisfaction has not been sufficiently tested or consistently established in local contexts Work-Life Balance and Burnout in Gen Z. Third, although Indonesian studies have begun to explore psychological well-being and engagement among Gen Z employees, they rarely integrate these constructs into a comprehensive theoretical model that accounts for unique generational needs and organizational outcomes, especially in metropolitan labor markets such as Greater Jakarta (Huang et al., 2024; Khairani & Fachira, 2021). Therefore, this study aims to address these gaps by proposing and empirically testing an integrated model that examines the effect of mental health on job satisfaction through work engagement among Gen Z employees in Greater Jakarta, offering both theoretical advancement and context-specific insights relevant to contemporary human resource practice.

This study aims to analyze the influence of mental health on job satisfaction of Gen Z in Greater Jakarta with work engagement as a mediating variable. The results of the research are expected to make a theoretical contribution to the development of a job satisfaction model for the younger generation as well as practical recommendations for organizations in designing HR management strategies that are more adaptive and responsive to the needs of Gen Z.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Employee mental health greatly affects job satisfaction. The mood-congruent theory states that individuals with positive mental health tend to have better perception and work experience, thereby increasing job satisfaction. In contrast, negative components of mental health such as stress and depression, decrease job satisfaction 7. In addition, the well-being theory emphasizes the importance of psychological and social balance in supporting performance and job satisfaction (B. Chen et al., 2022; Kelloway et al., 2023).

The Job Demands-Resources (JD-R) model is the main theory that explains work engagement. This model states that work attachment is influenced by two factors: job demands and job resources. Job resources such as organizational support and autonomy increase work engagement, while excessive demands can decrease it. Work engagement also acts as a mediator between mental health and job satisfaction, where employees with good mental health tend to be more engaged and ultimately more satisfied (Bakker, 2021, 2023; Mazzetti, 2023).

Herzberg's two-factor theory divides job satisfaction factors into motivators (intrinsic factors such as achievement, recognition, and the job itself) and hygiene factors (extrinsic factors such as salary, working conditions, and relationships with colleagues). Motivators increase job satisfaction, while hygiene factors prevent dissatisfaction. This theory remains relevant for younger generations, including Gen Z, although some recent research suggests the need for adaptation to the context of the current generation and work environment (Tichaawa, 2020; Wood, 2020).

The JD-R Model is well-suited to explain the relationship between mental health, work engagement, and job satisfaction, as it emphasizes the importance of a balance between work demands and resources in shaping employee well-being and satisfaction. Meanwhile, Herzberg's Two-Factor Theory enriches the understanding of the factors that affect job satisfaction specifically (Jamal, 2021; Radic, 2020).

Mental Health and Job Satisfaction

Mental health plays a very important role in determining job satisfaction, especially among Gen Z workers. A survey by Deloitte (2025) shows that 46% of Gen Z workers feel stressed or anxious most of the time, and 42% are considering leaving their jobs for mental health reasons.

In Indonesia, especially in Greater Jakarta, a similar phenomenon is also seen. Research by (Assaf, 2022; Saura, 2025)revealed that effective mental health programs can improve the psychological well-being and job satisfaction of Gen Z employees. Furthermore, research by (Iddagoda et al., 2021), shows that a good work-life balance can improve mental health and job satisfaction in Gen Z workers. Based on these findings, it can be concluded that good mental health contributes positively to the job satisfaction of Gen Z workers.

H1: Mental health has a positive effect on job satisfaction in Gen Z workers in Greater Jakarta.

Mental Health and Work Engagement

Mental health is an important factor that affects employee work engagement levels. Workers who have good mental health tend to be more energetic, motivated, and focused in carrying out their duties. Generation Z, who are currently starting to dominate the workforce in Greater Jakarta, show a high level of sensitivity to stress and work pressure; poor mental health conditions can lower their motivation and enthusiasm for work (Znidaršič & Marič, 2021).

Research by (Ho, 2020; Park, 2023) shows that psychological well-being has a significant positive influence on work engagement in young employees in Asia, where individuals with good mental health tend to show higher dedication, vitality, and concentration in their work. In addition, a study by (B. Chen et al., 2022), emphasizes that work stress and anxiety that are not managed properly can reduce the level of work engagement of Gen Z employees in Indonesia. Other findings by (Kelloway et al., 2023; Vacchiano, 2023) also support that mental health support increases employee commitment and engagement, particularly in the service and creative sectors.

Based on these empirical findings, it can be concluded that good mental health encourages higher work engagement. Thus, the hypotheses that can be formulated are

H2: Mental health has a positive effect on work engagement for Gen Z workers in Greater Jakarta.

Work Engagement and Job Satisfaction

Work engagement is a positive psychological condition characterized by energy, dedication, and a high focus on work. Workers who have a high level of work engagement tend to feel satisfied with their work because they are able to feel the achievement, meaning, and purpose of the work done (Bakker, 2021).

Recent research shows that work engagement plays a significant role in increasing job satisfaction, especially in the younger generation. A study by (Agrawal, 2022; Rahman, 2024) on Gen Z employees in Greater Jakarta found that the higher the level of work involvement, the higher their level of job satisfaction, both in terms of compensation, interpersonal relationships, and professional achievements. This is in line with the findings of (Znidarsic et al., 2020), who show that work engagement mediates the relationship between psychological well-being and job satisfaction, so work engagement is key to improving employee satisfaction.

In addition, (Rasool et al., 2021) research emphasizes that Gen Z who feel actively involved in work tend to be more loyal, motivated, and satisfied with their work, because they see work not as just an obligation but as a source of learning and self-development. These findings show that work engagement has an important role as a predictor of job satisfaction.

Based on these empirical findings, the hypotheses that can be formulated are

H3: Work engagement has a positive effect on job satisfaction for Gen Z workers in Greater Jakarta.

Mental Health, Work Engagement and Job Satisfaction

Mental health is an important factor that affects employee productivity and job satisfaction. Workers with good mental health tend to be more energetic, motivated, and able to cope with work pressure, making it easier for them to be actively involved in their work (Aggarwal, 2020; Rabuana & Yanuar, 2023). Work engagement itself is a positive psychological condition characterized by vitality, dedication, and high focus on work (Schaufeli, 2021).

Research by (B. Chen et al., 2022; Giorgi, 2020), shows that good mental health encourages higher levels of work engagement, where employees who have psychological well-being tend to be more motivated, dedicated, and focused in carrying out their duties. Furthermore, work engagement has also been shown to increase job satisfaction, as employees who are actively involved in their work feel the achievement, meaning, and satisfaction of the work they do (Setiawan & Widjaja, 2018).

Thus, work engagement acts as a mediator that connects mental health with job satisfaction. This means that good mental health not only has a direct impact on job satisfaction but also an indirect one through increased work engagement. Similar findings are also supported by a study by Fikri et al. (2024), which shows that work engagement mediates the influence of psychological

well-being on job satisfaction among young workers in Indonesia.
H4: Work engagement mediates the influence of mental health on job satisfaction in Gen Z workers in Greater Jakarta.

METHODOLOGY

This study uses a quantitative approach to analyze the influence of mental health on job satisfaction mediated by work engagement in Gen Z workers in Greater Jakarta. Data was collected through an online questionnaire shared using Google Forms (G-Form), with a collection period of June to August 2025.

Non-probability sampling techniques, especially purposive sampling, were used with the criteria of respondents: (1) workers who are included in the Gen Z age (born between 1997 and 2012) and (2) have at least 1 year of work experience. The selection of this criterion aims to ensure that respondents have sufficient experience to assess the variables being studied.

The sample size was determined based on the recommendations of (Hair et al., 2019), i.e., the number of indicators multiplied by 10. In this study, there are 11 indicators, so the minimum sample size required is 110 respondents. This is done to ensure that the data is sufficient so that the SEM-PLS analysis can provide stable and valid results.

The analysis method used is Structural Equation Modeling Partial Least Squares (SEM-PLS). SEM-PLS was chosen because it is able to test the direct and indirect relationship (mediation) between mental health variables, work engagement, and job satisfaction, and it is suitable for a research model with a relatively small to medium sample.

With this methodology, the study is expected to provide valid empirical evidence regarding the influence of mental health on job satisfaction through job engagement in Gen Z workers in Greater Jakarta.

RESULTS AND DISCUSSION

RESULTS

Demographic Aspects of Respondents

To provide an overview of the characteristics of the respondents in this study, an analysis was carried out on several demographic aspects such as gender, age, field of occupation, last level of education, and marital status. These aspects are important to understand the profile of Generation Z workers in the Greater Jakarta area that is the subject of the research so that it can provide a clearer context for the interpretation of the research results. The demographic distribution of respondents is presented in the following table.

Table 1 Demographic Aspects

Variable	Category	Frequency	Percentage
Gender	Man	52	47.30%
	Woman	58	52.70%
Age (years)	21–23	30	27.30%
	24–26	52	47.30%
	27–28	28	25.40%
Field of Work	Information Technology	20	18.20%
	Finance/Banking	16	14.50%
	Creative Design	13	11.80%
	Education	12	10.90%
	Retail	25	22.70%
	Other	24	21.80%
Final Education	D3	18	16.40%
	S1	86	78.20%
	S2	6	5.40%
Marital Status	Unmarried	92	83.60%
	Marry	18	16.40%

Source: Excell processed data, 2025

Based on Table 1 above, the results of the demographic analysis of 110 respondents who are Gen Z workers in the Greater Jakarta area, an overview was obtained that shows population characteristics that are quite representative of the current condition of the young workforce. In terms of gender, female respondents were slightly more dominant than men, with percentages of 52.7% and 47.3%, respectively. This shows that women's participation in the world of work among Gen Z is increasing, in line with the trend of gender equality in various sectors of employment in urban areas.

Judging from the age group, most respondents were in the range of 24–26 years (47.3%), followed by the ages of 21–23 years (27.3%) and 27–28 years (25.4%). This age range illustrates that the majority of respondents are in the early phase of their careers, where they are actively building professional experience and adjusting to the demands of the world of work.

Based on the field of occupation, respondents work in various sectors, with the largest proportion in retail (22.7%), followed by information technology (18.2%), finance and banking (14.5%), and creative design (11.8%). This distribution shows that Gen Z workers have broad engagement in dynamic, technology-oriented sectors and creativity—two aspects that characterize this generation in choosing a career.

In terms of the last education, most of the respondents were S1 graduates (78.2%), followed by D3 (16.4%) and S2 (5.4%) graduates. This data shows that the majority of Gen Z in Greater Jakarta already have an adequate higher education background to compete in the modern labor market.

Meanwhile, in terms of marital status, the majority of respondents were unmarried (83.6%), while only 16.4% were married. This condition is natural because most Gen Z are still focused on career development and the search for economic stability before entering the family life phase.

Overall, the demographic profile of respondents in this study shows that Gen Z workers in Greater Jakarta are dominated by highly educated, mostly unmarried, young individuals working in modern sectors such as technology, retail, and finance. This characteristic describes a generation that is adaptive to change, has an orientation to self-development, and has high potential in creating a balance between mental health, work engagement, and job satisfaction in a professional environment.

Evaluation of Measurement Models (Outer Model)

Evaluation of the measurement model (outer model) was carried out to ensure that the indicators used in the study were really able to represent the latent constructs measured (such as mental health, work engagement, and job satisfaction).

Table 2. Outer Model

Variables/ Indicators	Outer Loading	Crombah Alpha	Composite Reliability	AVE
Mental Health		0.873	0.887	0.724
MH01	0.848			
MH02	0.804			
MH03	0.884			
MH04	0.866			
Work engagement		0.804	0.809	0.717
WE01	0.858			
WE02	0.826			
WE03	0.856			
Employee Satisfaction		0.879	0.893	0.673
ES01	0.797			
ES02	0.769			
ES03	0.830			
ES04	0.855			
ES05	0.849			

Source: SmartPLS 4.0 processed data

Based on Table 2 above, the results of the evaluation of the measurement model (outer model) show that all research constructs, namely Mental Health, Work Engagement, and Employee Satisfaction, have met the criteria of validity and good reliability. The outer loading value of each indicator is above 0.70, which means that all indicators have a significant contribution to the constructed being measured. In addition, Cronbach's Alpha and Composite Reliability values of the three constructs were above 0.80 each, indicating high internal consistency. The AVE value also entirely exceeds 0.50, indicating that each construct is able to adequately explain more than half of the variance of its indicators.

Overall, the results confirm that the measurement instruments used in this study are valid and reliable. Thus, all indicators are considered to be able to consistently represent the constructs studied, both in terms of mental health, work involvement, and employee satisfaction. This shows that the measurement model has met the necessary criteria and can be used for the next stage of analysis, namely the evaluation of the structural model (inner model) to see the relationship between latent variables.

Table 3. Fornell Larcker Criterion

Variable	Employee Satisfaction	Mental Health	Work engagement
Employee Satisfaction	0.820		
Mental Health	0.362	0.851	
Work engagement	0.575	0.166	0.847

Source: SmartPLS 4.0 processed data

Based on Table 3 above, the results of the Fornell-Larcker Criterion test show that the square root value of AVE in each construct (shown diagonally) is higher than the correlation between other constructs, which means that the criterion of discriminant validity has been met. The root values of AVE for Employee Satisfaction (0.820), Mental Health (0.851), and Work Engagement (0.847) are all greater than the correlation values between the corresponding variables below. This shows that each construct has a good ability to distinguish itself from other constructs in the model, so it can be concluded that the discriminant validity in this study has been well achieved.

Table 4 Goodness of Fit Model

Criterion	Saturated Model	Estimated Model
SRMR	0.079	0.079
NFI	0.808	0.808

Source: SmartPLS 4 processed data

Based on Table 4 above, the results of the Goodness of Fit (GoF) test show that the SRMR (Standardized Root Mean Square Residual) value is 0.079 for both the Saturated Model and the Estimated Model, which is below the threshold of 0.10. This indicates that the model has a good degree of compatibility between the empirical data and the proposed model. In addition, an NFI (Normed Fit Index) value of 0.808 indicates that the model has achieved an adequate level of fit, close to the ideal criterion of 0.90. Thus, overall, the structural model in this study can be declared to have a good fit, so it is feasible to continue at the structural analysis stage (inner model).

Table 5. Coefficient Determination

Variable	R-Square	R-Square Adjusted
Employee Satisfaction	0.403	0.389
Work engagement	0.027	0.016

Source: SmartPLS processed data

Based on Table 5 above, the results of the determination coefficient test (R-Square) show that the Employee Satisfaction variable has an R-Square value of 0.403 and an R-Square Adjusted of 0.389, which means that 38.9% of the variation in job satisfaction can be explained by the variables of mental health and work engagement, while the remaining 61.1% is influenced by other factors outside the model. The very low R-Square value for work engagement (R^2 = 0.027; Adjusted R^2 = 0.016) indicates that mental health contributes only minimally to explaining the variation in employees' work engagement. From a critical perspective, this finding suggests that work engagement is a multidimensional construct that is more strongly influenced by contextual and organizational factors than by individual psychological conditions alone. In the employee context—particularly among Generation Z—work engagement tends to be shaped by factors such as meaningful work, autonomy, supervisor support, opportunities for personal development, organizational culture, and value congruence between individuals and organizations. Moreover, the adaptive, autonomous, and purpose-driven characteristics of Generation Z may enable individuals to maintain relatively stable levels of engagement despite fluctuations in mental health conditions. Therefore, the low R-Square value for work engagement reflects the limitations of the current model in capturing the primary determinants of engagement and underscores the need to incorporate more relevant organizational and motivational variables in future research.

Work Engagement variable had an R-Square value of 0.027 and an R-squaredof 0.016, indicating that only about 1.6% of the variation in work engagement was explained by mental health. Thus, it can be concluded that the model has moderate explanatory power for job satisfaction but is relatively weak in explaining the variation in work engagement.

Table 6. Hypothesis Testing

Influence Between Variables	Relationship	Original Sample	T Statistics	P Values	Conclusion
Mental Health -> Employee Satisfaction	Immediately	0.275	3.288	0.001	Accepted Hypothesis
Mental Health -> Work Engagement	Immediately	0.177	1.466	0.071	Hypothesis Rejected
Work Engagement -> Employee Satisfaction	Immediately	0.535	7.686	0.000	Accepted Hypothesis
Mental Health -> Work Engagement -> Employee Satisfaction	Indirect	0.095	1.396	0.081	Hypothesis Rejected

Source: SmartPLS 4.0 processed data

Based on Table 6 above, the results of hypothesis testing in Table 5, the relationship between mental health and employee satisfaction showed an original sample value of 0.275 with a t-value of 3.288 and a p-value of 0.001, which means that this relationship is significant at a confidence level of 95%. These findings indicate that the better the mental health conditions of Gen Z workers, the higher their job satisfaction levels will be. These results are in line with previous research that confirms that positive mental health contributes to psychological well-being and increases positive perceptions of work, the work environment, and relationships between colleagues.

Furthermore, the relationship between mental health and work engagement showed an original sample of 0.177 with a t-statistic of 1.466 and a p-value of 0.071, which showed that the effect was not significant. This means that in the context of Gen Z workers in Greater Jakarta, good mental health does not necessarily directly increase work involvement. This can be caused by other external factors such as the work environment, organizational culture, and intrinsic motivation that play a greater role in increasing engagement. Thus, while mental health is important for individual well-being, its impact on work engagement is not always seen directly.

Meanwhile, the relationship between work engagement and employee satisfaction showed significant results with an original sample of 0.535, t-statistics of 7.686, and a p-value of 0.000. This means that the higher a person's work involvement, the greater the satisfaction felt with his work. However, the mediated effect of work engagement on the relationship between mental health and employee satisfaction showed insignificant results (p-value 0.081), which means that work engagement has not been able to be an effective intermediate variable in this relationship. Thus, mental health has a direct effect on job satisfaction, but not through work involvement as a mediator.

DISCUSSION

The results of this study show that mental health has an important role in increasing the job satisfaction of Gen Z workers in the Greater Jakarta area. Workers who have a healthy mental state tend to be better able to manage stress, have a positive outlook on work, and assess their work environment more constructively. These findings are in line with studies conducted by (Bulińska-Stangrecka, 2021; Lu et al., 2022)Hu et al. (2023), which affirm that individuals with good levels of mental health will have higher job satisfaction because they are able to adapt to job challenges emotionally and cognitively. Theoretically, these results reinforce the concept of Job Demands-Resources (JD-R) Theory, where mental health plays a role as a personal resource that helps individuals maintain well-being and job satisfaction, despite being faced with various job demands.

However, the results of this study also found that mental health had no significant effect on work engagement. This shows that even though Gen Z workers are in a good mental state, it doesn't necessarily make them feel fully engaged at work. Work engagement in this generation may be more influenced by external factors such as job meaning, self-development opportunities, or organizational values that align with their personal identity. These findings are supported by (Montani, 2020; Znidarsic et al., 2020), who explain that engagement in the younger generation is more determined by job fit and opportunities for self-actualization than by internal psychological conditions alone. Thus, organizations need to provide a wider space for Gen Z to participate so that they feel they have a contribution and connection to the company's goals.

Additionally, work engagement has been shown to have a significant effect on job satisfaction, suggesting that workers who feel emotionally and cognitively engaged in their work tend to be more satisfied with what they do. These findings support the research findings of (Bakker, 2020, 2024), which stated that work engagement functions as a motivational mechanism that increases job satisfaction and commitment. However, the mediation of work engagement in the relationship between mental health and job satisfaction has not been shown to be significant, suggesting that mental health has a direct influence on job satisfaction without having to go through engagement as an intermediary.

Theoretically, this study enriches the literature on the relationship between psychological factors and work behavior in the context of young people in the modern workforce by confirming the role of mental health as a key personal resource in the JD-R framework. Practically, the results of this study provide implications for organizational management to pay more attention to mental health aspects through work policies that support life balance, employee well-being programs, and an inclusive and supportive work environment. On the other hand, increasing work engagement needs to be focused through managerial strategies such as active involvement in decision-making, career development opportunities, and meaningful job creation for the younger generation so that job satisfaction can be achieved optimally.

This study has important theoretical and practical implications. Theoretically, the findings extend the application of the Job Demands–Resources (JD-R) Theory by demonstrating that mental health functions as a personal resource that directly influences job satisfaction, but does not necessarily serve as a key predictor of work engagement among Generation Z. This suggests limitations in the explanatory power of individual psychological resources when accounting for engagement among younger workers. Accordingly, future research is encouraged to integrate organizational and generational value factors—such as meaningful work, autonomy, and person–organization value fit—into the JD-R framework to achieve stronger explanatory power.

Practically, the results provide guidance for organizational management in designing human resource policies that are more responsive to the characteristics of Generation Z employees. Mental health enhancement initiatives—such as work–life balance policies, psychological well-being support programs, and inclusive and supportive work environments—are essential for improving job satisfaction. However, to foster work engagement, organizations should prioritize strategies that emphasize meaningful job design, active employee involvement in decision-making, clear career development pathways, and opportunities for self-actualization. Thus, an integrated approach that combines psychological well-being initiatives with meaningful and engaging work design is critical to optimizing job satisfaction and sustaining the performance of Generation Z employees.

CONCLUSION

Based on the results of the analysis and discussion, it can be concluded that the purpose of the study to determine the effect of mental health on job satisfaction mediated by work involvement in Gen Z workers in the Greater Jakarta area has been achieved. The results show that mental health has a direct and significant effect on job satisfaction, which means that the better the mental state of workers, the higher their level of job satisfaction. However, mental health has no significant effect on job engagement, and job involvement is unable to mediate the relationship between mental health and job satisfaction. Nonetheless, work engagement has been shown to have a positive and significant influence on job satisfaction, suggesting that emotional and cognitive engagement in work remains an important factor in creating job satisfaction among Gen Z workers.

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GREEN ACCOUNTING READINESS AMONG SMEs IN PONTIANAK: CHALLENGES AND IMPLICATIONS FOR SUSTAINABLE FINANCING

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Abstract: *This exploratory study investigates green accounting reporting practices among small and medium enterprises (SMEs) in Pontianak, Indonesia, focusing on readiness, implementation barriers, and implications for access to sustainable financing. Using a qualitative-dominant design with a structured questionnaire (closed-ended readiness items and open-ended questions), data were collected from 12 SMEs across food and beverage, services, and agriculture sectors. Descriptive results indicate limited readiness: 42% of respondents reported low understanding of green accounting, 33% moderate, and 25% high. The main barriers involve financial constraints (higher costs of eco-friendly inputs), knowledge and capacity gaps, supply-chain limitations for sustainable materials, unclear or non-sector-specific guidance, and the perceived complexity of environmental recording systems. Despite these challenges, all respondents expressed high interest in training and practical tools, motivated by environmental responsibility, business reputation, and financing opportunities. The study contributes a context-specific "readiness–adoption–financing" explanation grounded in legitimacy, stakeholder, institutional, and resource-based views, highlighting how local regulation and urban environmental pressures shape SME incentives and constraints. Policy implications include phased guidance, targeted incentives, sectoral templates, and an SME support hub to bridge readiness into financeable sustainability practices.*

Keywords*: green accounting, SMEs, readiness, barriers, sustainable financing, Pontianak*

INTRODUCTION

The global paradigm shift towards environmental sustainability has fundamentally transformed the landscape of business operations and financial reporting practices, positioning environmental accounting as a critical component of contemporary corporate governance. In an era marked by escalating climate concerns and intensifying regulatory pressures, organizations worldwide are increasingly compelled to integrate environmental considerations into their strategic decision-making processes and financial disclosures. This transformation is particularly pronounced among small and medium enterprises (SMEs), which constitute approximately 99% of all businesses globally and contribute significantly to economic development while simultaneously representing a substantial source of environmental impact (Wildnerova et al., 2024). The adoption of green accounting practices among SMEs has emerged as a pivotal mechanism for achieving sustainable development goals, enhancing corporate reputation, and securing access to sustainable financing opportunities.

Green accounting, conceptualized as the systematic identification, measurement, and reporting of environmental costs and benefits within traditional accounting frameworks, has gained prominence as organizations seek to demonstrate their commitment to environmental stewardship and social responsibility. Research has consistently shown that the implementation of green accounting among SMEs can lead to improved sustainable performance and enhanced access to financing opportunities (Indriastuti & Mutamimah, 2023), although significant challenges persist in terms of understanding and application. The integration of environmental considerations into accounting practices enables organizations to capture the actual cost of their operations, including externalities that were previously unmeasured and unreported, thereby facilitating more informed decision-making and stakeholder communication. Studies have demonstrated that environmental management accounting has a positive influence on green innovation, which in turn positively affects environmental performance (Hasan et al., 2024).

Internationally, the momentum towards adopting green accounting has been accelerated by various regulatory frameworks, sustainability reporting standards, and market pressures. Financial institutions are increasingly integrating climate considerations into their operations and supporting small and medium enterprises (SMEs) in their transition to a sustainable, low-carbon economy (Jiang et al., 2025). This global direction implies that SMEs will increasingly face both explicit and indirect requirements to demonstrate environmental responsibility, including through supplier relationships, lender expectations, and market-based scrutiny, thereby strengthening the relevance of green accounting implementation.

The significance of SMEs in environmental sustainability cannot be overstated, particularly considering their collective environmental footprint and their role as key drivers of innovation and economic growth. Despite their individual smaller scale, SMEs collectively exert a substantial environmental footprint; OECD evidence indicates that their aggregate contribution to greenhouse gas emissions is significant—estimated at around 50–70% of business-sector GHG emissions—highlighting that economy-wide decarbonization is not feasible without SME participation (OECD, 2021). However, these enterprises also possess unique characteristics that position them advantageously for the rapid adoption of sustainable practices, including organizational flexibility, shorter decision-making chains, and closer relationships with local communities and stakeholders. Studies have shown that green initiatives and carbon reduction strategies not only contribute to environmental protection but also offer long-term financial benefits, making environmental sustainability practices crucial for the competitiveness of small and medium-sized enterprises (SMEs) (Din et al., 2025). Research indicates that the most significant perceived benefit for firms adopting environmental sustainability reporting is improvement in company image (O'Reilly et al., 2024).

In the Indonesian context, the imperative for green accounting adoption among SMEs has been amplified by the country's vulnerability to climate change impacts, increased government emphasis on sustainable development, and the growing recognition of environmental sustainability as a competitive advantage in global markets. Indonesian SMEs represent a significant portion of the national economy, contributing substantially to employment and economic growth while also presenting opportunities and obligations for environmental reporting. Research suggests that Indonesian SMEs have significant potential to enhance business sustainability, yet they have not fully implemented sustainable accounting practices (Fahmie et al., 2025). The development of human capital and environmental awareness are critical factors that influence the successful implementation of environmentally responsible business practices, as green human capital has been found to affect organizational performance through employee environmental awareness and sustainable innovation (Pratiwi et al., 2025).

Despite these developments, empirical evidence suggests that the adoption of green accounting among Indonesian SMEs remains limited, with many enterprises still lacking understanding and practical capability to implement comprehensive environmental accounting systems. Studies have identified various barriers to implementation, including limited human resources, insufficient socialization and training, and inadequate understanding of implementation strategies and contextual factors (Agustin & Trisnawati, 2025). Research conducted on SMEs in different Indonesian regions has revealed varying levels of understanding and application, with tempe SMEs in Sikka Regency demonstrating insufficient understanding to implement green accounting comprehensively (Lolan et al., 2024), and tofu and tempe SMEs in Bandar Lampung showing low understanding due to a focus on short-term operating profits rather than environmental considerations (Pentiana, 2019). Conversely, some studies have found stronger awareness among certain SME groups, such as batik SMEs in Madura, which demonstrated concerns and awareness of the importance of environmental accounting practices (Chamalinda et al., 2024). These mixed findings indicate the need for more contextualized investigations to better understand readiness patterns and the mechanisms through which green accounting can become relevant to business decision-making and sustainable financing.

The city of Pontianak, the capital of West Kalimantan Province, presents a fascinating case study for examining green accounting practices among small and medium-sized enterprises (SMEs) due to its unique environmental context and progressive regulatory framework. Located strategically along the Kapuas River and serving as a central commercial hub for the region, Pontianak faces distinctive environmental challenges, including river pollution, waste management issues, and the environmental impacts of rapid economic development. The local government has demonstrated commitment to environmental sustainability through the implementation of comprehensive regulatory frameworks, including Regional Regulation No. 12 of 2021 on Waste Management and Mayor Regulation No. 6 of 2019 on Reducing Plastic Bag Usage. These regulations explicitly support sustainability practices and provide a foundation for SMEs to implement green accounting by requiring waste reduction planning, environmental cost allocation, and transparent reporting of sustainability initiatives.

The regulatory environment in Pontianak presents both opportunities and challenges for the adoption of green accounting among small and medium-sized enterprises (SMEs). Regional Regulation No. 12 of 2021 comprehensively supports green accounting practices among SMEs through provisions that emphasize the importance of sustainability, social responsibility, and efficient natural resource management, all with an emphasis on environmental awareness. The regulation encourages business actors, including SMEs, to develop waste reduction plans and use environmentally friendly materials, which can serve as sustainability performance indicators reported transparently. Additionally, incentives for producers using environmentally friendly materials and disincentive mechanisms for non-compliance support motivation and acceleration of sustainable practice adoption in business operations. The infrastructure requirements for waste management and waste sorting facilities strengthen the environmental management database that can be reported within green finance frameworks.

Mayor Regulation No. 6 of 2019 on Reducing Plastic Bag Usage further reinforces the foundation for sustainable practices by requiring an inventory of plastic bag usage, active participation of communities and business actors, and annual action plan development involving various government and private elements, including SMEs, as part of pollution and environmental damage reduction efforts. This regulatory framework demonstrates the local government's awareness of the importance of environmental preservation through structured strategies and supervision, indicating the local ecosystem's readiness to promote the adoption of sustainability reporting practices, including the measurement and reporting of environmentally friendly material usage. The recent Circular Letter No. 43 of 2024, which prohibits the provision of plastic bags by business actors, further strengthens this regulatory momentum. It establishes specific targets for waste management, with 70% of waste to be handled by the government and 30% to be reduced through community-based efforts by 2025.

However, despite these supportive regulatory frameworks and growing awareness of environmental sustainability, there remains a significant gap in understanding the readiness and capability of SMEs in Pontianak to implement green accounting practices effectively. While regulations provide a foundation for sustainable practices, the actual implementation of green accounting requires sufficient knowledge, resources, and organizational commitment that may not be readily available among SMEs. Additionally, there is limited empirical evidence on how green accounting implementation among Pontianak SMEs could contribute to accessing sustainable financing opportunities, despite growing global and national trends toward green finance and environmentally responsible lending practices (O'Reilly et al., 2024; Indriastuti & Riansyah, 2024). Understanding the barriers and challenges faced by SMEs in implementing green accounting is crucial for developing targeted interventions and support mechanisms that can enhance SME readiness for integrating sustainable finance.

The convergence of regulatory pressure, market demands, and financial opportunities creates a compelling context for investigating green accounting readiness among SMEs in Pontianak. The adoption of green accounting practices could potentially provide SMEs with strategic advantages, including improved reputation, enhanced stakeholder trust, and access to green finance products offered by banks and fintech institutions. Evidence suggests that financial performance remains a primary investor concern in evaluating SME equity financing (Yuan et al., 2025), while government support can create synergistic benefits when combined with fintech solutions to enhance access to finance (Abu et al., 2024). In this sense, green accounting can be positioned not only as a compliance-oriented practice but also as a strategic accounting innovation that may strengthen both sustainability outcomes and financial performance through improved accounting practices.

Understanding these dynamics is crucial not only for the local context of Pontianak but also for broader implications for SME sustainability practices across Indonesia. By examining the readiness, challenges, and barriers to implementing green accounting reporting practices among SMEs in Pontianak, this research contributes valuable insights into the development of effective strategies for promoting sustainable business practices and supporting SME access to sustainable financing. The findings of this study can inform policymakers, financial institutions, and SME support organizations in designing interventions that address specific barriers and enhance SME capability to implement green accounting practices effectively. This is particularly relevant considering the broader context of sustainable accounting development strategies for small and medium-sized companies across Indonesia (Rasyid et al., 2024).

To strengthen explanatory power beyond a descriptive account of "readiness and barriers," this study frames SME adoption of green accounting through complementary lenses frequently used in sustainability accounting research: legitimacy theory, stakeholder theory, institutional theory, and the resource-based view (RBV). These perspectives help explain why SMEs may pursue green accounting as a legitimacy signal under local community and regulatory scrutiny, why stakeholder expectations (customers, communities, suppliers, and government) may intensify reporting incentives, why local rules can create coercive and normative institutional pressures, and why limited internal resources (capability, time, and tools) may hinder implementation even when motivation exists.

Accordingly, the study addresses four operational questions: (RQ1) What is the level of SME readiness for implementing green accounting in Pontianak? (RQ2) What barriers do SMEs face in implementing green accounting reporting practices? (RQ3) How do SMEs perceive the implications of green accounting adoption for access to sustainable financing? (RQ4) What support mechanisms are most needed to enhance readiness and adoption? By articulating these questions explicitly, the introduction aligns the problem context, the local regulatory environment, and the financing relevance into a coherent research focus.

LITERATURE REVIEW

Introduction to Green Accounting and SME Sustainability

The concept of green accounting has emerged as a critical framework for integrating environmental considerations into traditional accounting practices, particularly within the context of small and medium-sized enterprises (SMEs). Green accounting encompasses the identification, measurement, and reporting of environmental costs and benefits, enabling organizations to understand their environmental impact better and make informed decisions regarding sustainable business practices (Agustin & Trisnawati, 2025). As global attention increasingly focuses on sustainable development and environmental responsibility, the role of SMEs in implementing green accounting practices has become paramount, given their significant collective impact on economic development and environmental sustainability.

Current State of Green Accounting Adoption

Research consistently indicates that the majority of SMEs across various regions demonstrate limited understanding and application of green accounting principles. Lolan et al. (2024) found that tempe MSMEs in the Sikka Regency lack a sufficient understanding of how to apply green accounting concepts comprehensively in their financial reporting. This finding is corroborated by Agustin and Trisnawati (2025), who determined that the majority of MSMEs in Indonesia lack understanding and fail to apply green accounting to their financial reports, with primary obstacles being low levels of human resources and insufficient socialization.

The geographical scope of this challenge extends beyond Indonesia, as evidenced by various international studies. However, some regional variations exist in the level of awareness and implementation. Chamalinda et al. (2024) presented a contrasting perspective, noting that batik business actors in the Madura region demonstrate a good understanding and concern for environmental protection as a form of green accounting implementation, evidenced by their ability to understand and allocate business and environmental costs while maintaining separation between personal and business funds.

Knowledge Gaps and Capacity Constraints

The persistent knowledge gap in green accounting among SMEs stems from multiple interconnected factors. Pentiana (2019) identified that SME operators in the tofu and tempe industry in Bandar Lampung City maintain low understanding levels because their primary focus remains on operational profits rather than product quality and environmental considerations. This profit-centric approach reflects a fundamental misunderstanding of the long-term value proposition that green accounting offers to business sustainability and competitiveness.

The human resource constraint represents another significant barrier to the adoption of green accounting. Agustin and Trisnawati (2025) emphasized that low human resource capacity and inadequate socialization programs contribute substantially to the limited implementation of green accounting practices among Indonesian MSMEs. This finding suggests that addressing the knowledge gap requires systematic capacity-building initiatives and comprehensive educational programs tailored to the specific needs of SMEs.

Resource and Knowledge Constraints

The literature consistently identifies resource limitations and knowledge constraints as primary barriers to the implementation of green accounting among SMEs. O'Reilly et al. (2024) found that a lack of knowledge, resources, and data-capturing tools impede the implementation of environmental sustainability reporting for both SMEs and accounting practitioners. While the most significant perceived benefit of adopting environmental sustainability reporting is improvement in company image, the practical barriers remain substantial.

These constraints are particularly pronounced in developing economy contexts, where SMEs often operate with limited financial resources and basic accounting systems. Fahmie et al. (2025) noted that SMEs in Indonesia have not yet fully implemented sustainable accounting but possess great potential to improve business sustainability, suggesting that appropriate support mechanisms could facilitate more widespread adoption.

Regulatory and Policy Environment

The regulatory environment has a significant impact on the adoption of green accounting practices by SMEs. While SMEs are not yet required to implement environmental sustainability reporting in many jurisdictions, the anticipation of future regulatory requirements creates both opportunities and challenges for proactive adoption. The absence of mandatory requirements may reduce immediate incentives for implementation, while the potential for future regulations creates uncertainty regarding appropriate preparation strategies.

Government support mechanisms play crucial roles in facilitating SME adoption of sustainable practices. Abu et al. (2024) emphasized the synergistic relationship between government initiatives and fintech solutions in enhancing SME access to finance, survival, and performance. This research highlights the importance of policy frameworks that support both technological innovation and sustainable business practices among small and medium-sized enterprises (SMEs).

Human Capital and Environmental Awareness

The role of human capital in facilitating the implementation of green accounting cannot be overstated. Pratiwi et al. (2025) highlighted the importance of Green Human Capital (GHC) in influencing organizational performance, demonstrating that GHC has a significant impact on employee environmental awareness, sustainable innovation, and overall organizational performance. Their research emphasized that organizations investing in GHC and focusing on environmental skills and ethics within their workforce can strengthen sustainability efforts and contribute to global sustainable development goals.

The development of environmental awareness among employees serves as a mediating factor between green human capital and organizational sustainability, suggesting that successful green accounting implementation requires comprehensive human resource development strategies that extend beyond technical accounting skills to encompass broader environmental consciousness and sustainability orientation.

Regional Context and Cultural Factors

Research conducted within Southeast Asian contexts provides valuable insights into regional factors that influence the adoption of green accounting among SMEs. The studies from Indonesia (Lolan et al., 2024; Agustin & Trisnawati, 2025; Pentiana, 2019; Chamalinda et al., 2024) reveal both challenges and opportunities specific to the regional context. The manifestation of environmental concern among Indonesian SMEs often focuses on maintaining business continuity, managing business raw materials and waste, utilizing environmentally friendly equipment, and understanding environmental costs.

The regional approach to green accounting implementation often involves collaboration with government agencies, as evidenced by the assistance provided by Health Services and Environmental Services in various Indonesian regions. This collaborative approach suggests that successful implementation of green accounting among SMEs may require integrated support systems involving multiple stakeholders and government agencies.

Research Questions and Analytical Mapping

Building on the literature on SME adoption of green accounting and recurring empirical evidence on implementation constraints, this study formulates explicit and operational research questions to strengthen coherence across research objectives, methods, and reported findings. An explicit RQ formulation is necessary to ensure that the instrument design and analytical procedures are aligned from the outset with the intended outputs. Accordingly, this study is guided by the following research questions:

RQ1: What is the level of SME readiness in Pontianak to implement green accounting (including understanding, recording-system preparedness, and resource readiness)?

RQ2: What are the key barriers faced by SMEs in Pontianak in implementing and reporting green accounting (e.g., costs, knowledge capacity, availability of eco-friendly materials, recording complexity, and policy support)?

RQ3: How do SMEs in Pontianak perceive the implications of green accounting adoption for access to sustainable financing (e.g., credibility, reputation, stakeholder trust, and compliance with green-finance requirements)?

To ensure alignment between objectives–methods–results, this study specifies an analytical mapping from the beginning as a bridge between the research questions, the instrument structure, the analysis strategy, and the expected reporting format. This mapping reduces interpretive inconsistency and clarifies how each empirical output directly answers its respective RQ.

Table 1. Research Questions and Analytical Focus

Research Question (RQ)	Analytical Focus (Defined Upfront)
RQ1: What is the level of SME readiness in Pontianak to implement green accounting (including understanding, recording-system preparedness, and resource readiness)?	Readiness dimensions: understanding of green accounting; preparedness of environmental cost recording; HR/capability readiness; procedural and system readiness.
RQ2: What are the key barriers faced by SMEs in Pontianak in implementing and reporting green accounting (e.g., costs, knowledge capacity, availability of eco-friendly materials, recording complexity, and policy support)?	Barrier categories: implementation and transition costs; knowledge and capability gaps; supply constraints for eco-friendly inputs; complexity of measurement and recording; time and workload constraints; limited or unclear guidance and support.
RQ3: How do SMEs in Pontianak perceive the implications of green accounting adoption for access to *sustainable financing* (e.g., credibility, reputation, *stakeholder* trust, and compliance with green-finance requirements)?	Financing-related implications: perceived credibility and reputational effects; legitimacy and *stakeholder* trust; feasibility of documentation and reporting; perceived fit with financing requirements and eligibility for *sustainable financing* products.

METHODOLOGY

Research Design

This study adopts an exploratory, mixed-methods design with a qualitative-dominant orientation. The quantitative component is descriptive, intended to map SME readiness for implementing green accounting using closed-ended questionnaire items. The qualitative component is interpretive, intended to capture the underlying barriers, contextual constraints, and perceived financing implications through open-ended responses. This design is appropriate because the research aims to (i) profile readiness levels and (ii) explain why readiness and adoption remain limited in practice.

Population, Sampling Frame, and Random Sampling Procedure

The target population comprises SMEs operating in Pontianak, Indonesia. The final sample includes 12 SMEs (n = 12).

To ensure that the claim of random sampling is defensible, the study established a clearly defined sampling frame. Specifically, a consolidated list of SMEs was compiled from available administrative and organizational records of SMEs in Pontianak (e.g., a municipal/agency SME registry and local business listings/associations). The consolidated list was cleaned to remove duplicates and ineligible entries, resulting in the final sampling frame of SMEs that could be contacted for participation.

1. The enterprise operates within the administrative area of Pontianak.
2. The respondent is the owner/manager (or a designated person) who understands operational and bookkeeping practices.
3. The enterprise maintains at least minimal bookkeeping (manual or digital) to enable discussion on recording practices (including environmental-related costs).
4. The enterprise is willing to participate voluntarily and provide responses to both closed- and open-ended questions.

Research Instrument

Data were collected using a structured questionnaire consisting of two parts:

1. **Closed-ended section (Readiness items)**: Items measuring readiness for green accounting (e.g., understanding of the concept, perceived feasibility, readiness to record environmental-related costs, and perceived resource readiness). Responses were captured using ordinal scales (readiness levels).
2. **Open-ended section (Explanatory questions**): Questions exploring (i) perceived barriers (costs, knowledge gaps, supply constraints, recording complexity, time constraints, and policy support), (ii) current environmental-related practices, (iii) support needs (training, templates, incentives), and (iv) perceived implications for access to sustainable financing.

The instrument was designed to align directly with the study's research questions (readiness, barriers, and financing implications), ensuring objective–method–results coherence.

Data Collection Procedure

Data collection followed these steps:

1. The questionnaire was drafted and reviewed internally to ensure clarity and contextual suitability for SMEs.
2. A limited pilot review (or expert review when piloting was not feasible) was conducted to evaluate readability, ambiguity, and the interpretability of key terms related to green accounting.
3. Selected SMEs were contacted based on the random sampling output. Participants were provided with a short study explanation and an informed consent statement.
4. The questionnaire was administered in Indonesian for participant clarity; responses were subsequently organized for analysis. Where English reporting was required, translations were produced and checked for meaning consistency.

Data Analysis Techniques

The analysis combined descriptive and qualitative procedures:

1. **Quantitative descriptive analysis:**
   Closed-ended responses were summarized using frequency distributions and percentages to describe readiness patterns across SMEs.
2. **Qualitative analysis using thematic analysis:**
   Open-ended responses were analyzed using thematic analysis with an explicit interpretive workflow:
   a. *Familiarization*: repeated reading of all responses to understand context.
   b. *Initial coding*: assigning codes to meaningful units (e.g., "eco-friendly materials are expensive," "lack of guidance," "recording is complicated").
   c. *Category development*: grouping codes into higher-order categories (e.g., cost barriers, capability barriers, supply constraints, system complexity, time constraints, unclear standards/policy support).
   d. *Theme refinement*: consolidating categories into final themes and checking for internal coherence and distinctiveness across themes.
   e. *Interpretive mapping to RQs*: mapping themes explicitly to RQ2 (barriers) and RQ3 (financing implications), and integrating the descriptive readiness profile (RQ1) to support a coherent narrative.

Validity, Reliability, and Trustworthiness

Several steps were applied to improve rigor:

1. **Instrument clarity checks**: through a limited pilot review or expert review to reduce ambiguity and improve content relevance.
2. **Method triangulation**: combining closed-ended readiness profiling with open-ended explanatory responses to cross-check patterns.
3. **Analyst cross-check (peer debriefing)**: the coding scheme and final themes were reviewed among co-authors to reduce single-researcher interpretive bias.
4. **Basic audit trail**: key decisions in coding, category merging/splitting, and theme naming were documented to enhance transparency and replicability.

Research Ethics

Ethical safeguards included:

1. Voluntary participation with informed consent.
2. Confidentiality and anonymization (e.g., SME codes R01–R12), with reporting in aggregated form or paraphrased themes to avoid identification.
3. The right to skip any question or withdraw at any time without consequences.

RESULTS AND DISCUSSION

Overview of Survey Findings

This study conducted a comprehensive survey of 12 small and medium enterprises (SMEs) in Pontianak to assess their readiness for green accounting implementation, identify key challenges, and understand their support needs. The survey offers valuable insights into the current state of environmental accounting awareness and adoption among local small and medium-sized enterprises (SMEs).

Respondent Profile and Business Characteristics: Business Demographics and Sectoral Distribution

The survey captured a diverse representation of SMEs across various sectors in Pontianak, reflecting the city's economic landscape and providing insights into different industry perspectives on the implementation of green accounting.

Table 2. Business Demographics

Respondent	Business Sector	Green Accounting Understanding
R01	Food & Beverage (Bakery)	Moderate
R02	Food Service (Canteen)	Low
R03	Food & Beverage	High
R04	Computer Repair Services	Moderate
R05	Laundry Services	High
R06	Coffee Shop & Beverage	High
R07	Snack Food Production	Moderate
R08	Food & Beverage	Low
R09	Educational Services	Low
R10	Nail Salon Services	Low
R11	Palm Oil Plantation	Moderate
R12	Decoration Services	Low

The respondent profile reveals several characteristics that are not only consistent with broader SME patterns but also help explain why environmental reporting practices are difficult to institutionalize at the micro level. The dominance of food and beverage businesses (58%) implies daily reliance on packaging and waste-generating operational routines, meaning environmental impacts are frequent, visible, and recurring—yet often treated as "operational necessities" rather than reportable cost objects. Service-oriented businesses (33%) show different exposure: their environmental footprint is often less "material-heavy" but can be high in utilities, consumables, or e-waste (e.g., computer repair), which shapes what is perceived as worth recording. The inclusion of a palm oil plantation respondent (8%) adds an important local contrast: while the sector is typically subject to higher external scrutiny, a moderate understanding level may indicate that "awareness" does not automatically translate into green accounting routines without simplified instruments and incentives. These patterns are consistent with evidence that sustainability constraints in SMEs are multi-dimensional—often rooted in limited managerial bandwidth, scale disadvantages, and uneven external pressures rather than purely "lack of willingness" (O'Reilly et al., 2024; Martins et al., 2022; Madrid-Guijarro et al., 2024).

Business Maturity and Organizational Structure

The analysis of business duration indicates that 67% of surveyed SMEs are relatively young enterprises, operating for 1-3 years, which suggests a dynamic entrepreneurial environment in Pontianak. This finding is significant as it indicates that most businesses are still in their formative stages, potentially making them more adaptable to incorporating sustainable practices from the early stages of development. The remaining businesses exhibit more established operations, with

25% operating for 4-10 years and 8% operating for over 10 years.

Regarding ownership structure, 92% of businesses are individually owned, with only one family-owned enterprise (the palm oil plantation). This ownership pattern reflects typical SME characteristics and suggests that decision-making processes for green accounting adoption would primarily depend on individual entrepreneur attitudes and capabilities rather than complex organizational hierarchies.

Employment Patterns and Scale

The employment analysis reveals that 83% of surveyed SMEs employ 1-5 people, indicating micro-enterprise characteristics that align with global patterns of SMEs. Only 17% employ 6-20 employees, representing slightly larger small enterprises. This employment distribution has significant implications for the implementation of green accounting, as smaller enterprises typically face greater resource constraints and may require different support mechanisms compared to larger SMEs.

Green Accounting Understanding and Awareness Levels: Current Knowledge Distribution

The distribution of understanding levels (42% low, 33% moderate, 25% high) indicates a readiness bottleneck that is best interpreted as a "capability gap" rather than a motivation gap. In SMEs, environmental accounting knowledge is rarely embedded as formal expertise; instead, it competes with survival priorities such as cash flow, production continuity, and customer acquisition. This helps explain why respondents can simultaneously express high interest in training while still reporting low comprehension: interest signals perceived relevance, but low understanding signals the absence of routinized tools, sector-specific examples, and practical templates that reduce complexity at the point of implementation (Agustin & Trisnawati, 2025; O'Reilly et al., 2024).

The observed sectoral variation also suggests that "market visibility" may shape learning incentives. Service businesses with more direct consumer contact (e.g., laundry, coffee shops) may experience stronger reputational pressure and more immediate feedback loops (complaints, reviews, customer preferences), encouraging earlier exposure to sustainability concepts. By contrast, traditional food service actors facing intense price competition may view environmental recording as an added burden unless it is tied to clear cost savings, compliance signals, or financing access. This mechanism is consistent with cross-study evidence that SMEs engage more readily when sustainability practices are framed as operationally feasible and reputationally valuable, not merely normative ideals (Martins et al., 2022; O'Reilly et al., 2024).

Sector-Specific Knowledge Patterns

The analysis reveals distinct patterns in green accounting awareness across different sectors. Food and beverage businesses exhibit a mixed understanding level, ranging from low to high, suggesting that sector affiliation alone does not determine environmental accounting awareness. This variation may reflect differences in customer base, competitive pressures, or individual entrepreneur characteristics rather than systematic sector-wide factors.

Service sector businesses demonstrate diverse levels of understanding, with technology-related services (such as computer repair) showing a moderate level of understanding, possibly due to awareness of electronic waste management issues. Despite their potential role in promoting environmental awareness, educational services demonstrate low understanding, indicating a gap between educational mission and internal sustainability practices. This finding contrasts with research highlighting higher education's role as a driver of green innovation and entrepreneurship (Nguyen et al., 2025).

The palm oil plantation business demonstrates a moderate understanding, which is noteworthy given the significant environmental impact of agricultural operations and the increasing regulatory scrutiny of palm oil production. This moderate level suggests potential for improvement through targeted interventions.

Implementation Challenges and Barriers: Financial and Economic Constraints

The survey identifies financial constraints as the most significant barrier to implementing green accounting among SMEs in Pontianak. These constraints manifest in multiple dimensions that collectively create substantial barriers to implementation.

Table 3. Challenges and Barriers

Challenge Category	Detailed Description
Financial Constraints	High transition costs for switching to environmentally-friendly materials (e.g., replacing plastic packaging with biodegradable alternatives). Premium pricing of sustainable materials like bamboo cutlery and custom paper bags compared to conventional options creates significant cost barriers for small businesses.
Knowledge & Capacity Gaps	Limited understanding of green accounting concepts, lack of practical implementation guides, and insufficient human resources with competency in environmental reporting. Many respondents expressed a need for sector-specific training programs.
Supply Chain & Technology Limitations	Limited availability of affordable eco-friendly material suppliers with adequate variety in local areas. Technology gaps in accessing modern sustainable production methods and equipment.
Regulatory & Standards Issues	Absence of clear, accessible regulations and standardized frameworks, particularly for service sectors that differ significantly from manufacturing industries. Need for sector-specific guidelines and compliance frameworks.
Reporting System Difficulties	Challenges in recording and evaluating environmental impact due to lack of standardized, accessible systems for micro-enterprises. Complexity of existing environmental reporting frameworks not suited for small business operations.
Time & Resource Management	Limited time and personnel capacity to focus on environmental recording while prioritizing daily operations and production. Small business owners often wear multiple hats, making additional reporting burdensome.
Data Access & Infrastructure	Insufficient facilities and data access that would enable effective green accounting implementation. Limited access to environmental monitoring tools and measurement systems.

Financial constraints emerge as the dominant barrier because many Pontianak SMEs operate under thin margins and high price sensitivity, so even small unit-cost increases from biodegradable packaging or sustainable inputs can materially reduce competitiveness. In practical terms, sustainable substitutes are not only more expensive per unit, but also introduce higher transaction costs: searching for suppliers, adjusting procurement routines, experimenting with product fit, and managing customer acceptance. For micro-enterprises, these "hidden" adoption costs are amplified by low economies of scale-bulk discounts are limited, and the ability to pass costs to customers is constrained. This interpretation aligns with evidence that sustainability barriers in SMEs are often driven by resource constraints and scale-related disadvantages rather than a lack of intent (Agustin & Trisnawati, 2025; Madrid-Guijarro et al., 2024).

Pontianak adds a contextual layer: the city's waste and plastic-related policies create a clearer normative direction, but without parallel market infrastructure (affordable suppliers, standardized templates, and accessible financing), regulation can be experienced as "pressure without tools." This is precisely where sustainable finance can act as an enabling mechanism by converting environmental compliance and reporting efforts into tangible benefits (lower-cost credit, preferential products, or supplier support), rather than purely an added burden (Jiang et al., 2025; Appiah-Kubi et al., 2024).

Knowledge and Capacity Limitations

The knowledge gap reported by respondents mirrors broader Indonesian findings (Lolan et al., 2024; Pentiana, 2019) and can be explained by the absence of translation mechanisms from concept to practice. Many SMEs are familiar with "environmental responsibility" at the value level, but lack operational guidance on how to identify environmental cost objects, how to record them in simplified formats, and how to turn records into finance-relevant disclosures. This is consistent with accounting practitioners' perspectives that the practical constraints are rooted in limited tools, weak data capture routines, and insufficient implementation guidance rather than a purely attitudinal barrier (O'Reilly et al., 2024).

Human resource limitations intensify this gap because micro-enterprises rarely have dedicated finance staff; owners often act as operator, marketer, and bookkeeper simultaneously. Under such conditions, any reporting framework perceived as complex will be deferred unless it is simplified into short routines, checklists, and templates that can be executed with minimal time cost. This logic supports the argument that effective interventions must focus on "low-friction adoption": sector-specific templates, short training cycles, and coaching support embedded in existing SME ecosystems (O'Reilly et al., 2024; Martins et al., 2022).

Regulatory and Standardization Issues

The reported regulatory and standardization issues reflect a common mismatch between "macro-level sustainability agendas" and "micro-level implementation capacity." Respondents' call for sector-specific guidelines indicates that generic environmental frameworks may not translate well into the operational realities of service-based and micro-scale enterprises. Pontianak's context is a key contribution here: local regulations can strengthen environmental expectations, but SMEs still need standardization that is proportionate—simple indicators, phased compliance, and a minimal dataset that is feasible to produce. International developments point in the same direction: multiple policy and standard-setting initiatives emphasize reducing complexity and administrative burden for SMEs by creating simplified reporting and finance-assessment approaches (UNCTAD, 2025; EU Platform on Sustainable Finance, 2024/2025; IFRS Foundation, 2025).

This implies that local governments and financial institutions should coordinate around a "common minimum disclosure package" for SMEs—a short, standardized set of indicators that support both policy monitoring and financing assessments, instead of fragmented reporting requests that increase compliance cost without improving decision usefulness.

Support Requirements and Intervention Strategies: Comprehensive Support Framework

The survey results indicate that successful implementation of green accounting among Pontianak SMEs requires a comprehensive support framework that addresses multiple intervention areas simultaneously.

Table 4. Support Framework

Support Type	Comprehensive Description
Financial Incentives	Subsidy programs or zero/low-interest credit facilities specifically for SMEs implementing sustainable practices. Tax relief or performance-based environmental incentives. Government-backed financing for green transitions.
Training & Education Programs	Practical training on recording, managing, and reporting green accounting tailored to specific business sector characteristics. Ongoing educational support with real-world case studies and implementation examples.
Tools & Templates	Provision of standardized report templates, simple digital systems, and easily accessible practical guides for SME operators. User-friendly software solutions designed for small business environmental reporting needs.
Access to Eco-friendly Materials	Government cooperation with suppliers to provide affordable packaging materials and environmentally-friendly alternatives. Bulk purchasing programs to reduce costs for sustainable materials.
Gradual Regulatory Framework	Clear but realistic regulations adapted to small business capacities and implemented in phases. Flexible compliance timelines that consider business size and sector differences.
Recycling Programs	Access to recycling programs, especially for electronic waste and specialized materials. Community-based waste management solutions for small businesses.
Technical Assistance	Regular mentoring to help with practical green accounting implementation without burdening business operations. On-site consultation and ongoing technical support services.

Financial Support Mechanisms

The request for government-backed financing for green transitions indicates that respondents perceive sustainability adoption as an investment decision with uncertain short-term returns—precisely the type of situation where blended mechanisms (public support + private finance + fintech distribution) can reduce risk and improve uptake. Practically, banks and fintech providers can convert green accounting efforts into a lending advantage by offering (1) step-up credit lines tied to incremental adoption milestones, (2) preferential pricing for verified sustainable procurement, and (3) simplified reporting templates embedded in digital onboarding. This aligns with evidence that green financing can strengthen sustainability reporting behaviors and that complementary mechanisms can help transform sustainability efforts into measurable financing signals (Abu et al., 2024; Appiah-Kubi et al., 2024).

For local governments, the implication is equally concrete: subsidies and incentives are most effective when designed to reduce the "first-mover cost" (e.g., packaging transition grants, supplier development programs, bulk purchasing facilitation) and when paired with coaching support so that funds translate into durable accounting routines rather than one-off compliance actions.

Capacity Building and Education

The demand for practical training programs tailored to specific business sector characteristics reflects the diversity of SME operations and the inadequacy of generic environmental training approaches. Respondents emphasized the need for ongoing educational support with real-world case studies and implementation examples, suggesting that effective capacity building requires sustained engagement rather than one-time training interventions.

Higher education institutions can play a crucial role in this capacity building, as research demonstrates their positive impact on green innovation and entrepreneurship through university-industry collaboration and comprehensive support systems (Nguyen et al., 2025).

Technology and Infrastructure Support

The request for standardized report templates, simple digital systems, and easily accessible practical guides suggests that SMEs require user-friendly technological solutions specifically designed for their environmental reporting needs. This finding suggests that existing environmental reporting frameworks may be too complex for typical SME operations and capabilities. Indonesian research confirms that companies can develop awareness of social and environmental responsibility through appropriate frameworks and support systems (Afni et al., 2019).

Training Interest and Motivation Analysis: High Engagement Levels

The analysis of training interest reveals exceptionally high engagement levels among surveyed SMEs, with all respondents expressing either high or very high interest in green accounting training. This universal interest contrasts sharply with the current low to moderate understanding levels, indicating significant unmet demand for appropriate training opportunities.

Table 5. Training Interest and Motivation

Respondent	Interest Level	Motivation and Reasoning
R01	Very High	Enhance environmental responsibility, build customer trust, access financing opportunities, and discover innovative ways to reduce operational environmental impact through systematic approach.
R02	High	Develop structured understanding of environmental impact recording, improve competitive positioning, and access green financing opportunities while building sustainable business practices.
R03	High	Learn systematic methods for recording, reporting, and evaluating environmental impact in accordance with sustainability policies and best practices for long-term business viability.
R04	Very High	Understand business sustainability optimization, build customer confidence through environmental responsibility, and leverage technology to reduce environmental footprint while

Respondent	Interest Level	Motivation and Reasoning
		maintaining service quality.
R05	High	Recognizes importance for business development and practical implementation of sustainable practices that can reduce operational costs and improve environmental performance.
R06	High	Believes green accounting can influence sustainable behavior patterns and support responsible business practices while potentially attracting environmentally-conscious customers.
R07	High	Expand knowledge base, enhance business image and reputation, access financing opportunities, and support long-term business sustainability through environmental stewardship.
R08	High	Reduce negative environmental impact of waste disposal and create a business model that is not only profitable but also environmentally responsible and socially conscious.
R09	High	Ensure business continuity and gain a deeper understanding of the urgency behind sustainable business practices, particularly in the educational sector where environmental awareness is crucial.
R10	High	Learn proper bookkeeping methods and understand the applicability and relevance of green accounting principles specifically for salon and beauty industry operations.
R11	High	Gain deeper understanding of green accounting concepts and implement them effectively within plantation operations, considering the unique environmental challenges of agricultural businesses.
R12	High	Develop comprehensive understanding of green accounting concepts for decoration business expansion while incorporating sustainable materials and practices in service delivery.

Diverse Motivational Drivers

The motivational findings are important because they indicate that the adoption barrier is not primarily psychological resistance, but implementation feasibility. Respondents' motivations converge on three adoption levers: (1) values-based stewardship (environmental responsibility), (2) market-based incentives (reputation and customer trust), and (3) finance-based incentives (access to funding). This triangulation suggests a defensible pathway for accelerating adoption: pair simplified green accounting routines with reputational rewards (certification, supplier recognition, public procurement preference) and finance rewards (preferential credit). Such a mechanism is consistent with broader SME sustainability evidence showing that firms engage more actively when sustainability practices generate recognizable market or financial benefits and when barriers are reduced through practical tools and external support (O'Reilly et al., 2024; Martins et al., 2022; EU Platform on Sustainable Finance, 2024/2025).

Financing Access Motivations

Multiple respondents specifically mentioned access to financing opportunities as a key motivation for green accounting training, indicating awareness of the relationship between environmental reporting and sustainable financing access. This finding supports research demonstrating positive correlations between corporate green innovation and digital inclusive finance (Jiang et al., 2025) and suggests that SMEs recognize the strategic value of environmental reporting for financial sustainability.

CONCLUSION

1. SMEs in Pontianak show uneven readiness to implement green accounting: interest and willingness are relatively strong, yet practical capability (knowledge, tools, and routines) remains limited, resulting in low-to-moderate readiness levels across many respondents.
2. The most dominant implementation barriers are financial constraints (higher costs of eco-friendly inputs and transition costs) and knowledge/capacity gaps, which jointly increase perceived complexity and reduce feasibility for day-to-day adoption.
3. Pontianak's local sustainability direction—supported by municipal waste and plastic reduction policies—creates a supportive normative context, but the study indicates a persistent implementation gap where regulations and aspirations are not yet matched by affordable inputs, simple reporting templates, and scalable support mechanisms.
4. SMEs generally perceive that adopting green accounting can strengthen credibility, reputation, and stakeholder trust, and may therefore improve the perceived likelihood of accessing sustainable financing; however, this perceived benefit is conditional on the availability of simplified documentation standards and supportive financial products.
5. Overall, the evidence suggests that accelerating green accounting adoption among SMEs requires an enabling ecosystem that lowers adoption costs, reduces reporting burden, and translates sustainability practices into finance-relevant signals.

Practical Recommendations

1. Local government and regulators
   a. Develop phased, SME-friendly guidance for green accounting implementation, including sector-specific templates (e.g., food and beverage vs. services).
   b. Provide targeted incentives to reduce first-mover costs, such as subsidies for eco-friendly packaging, procurement facilitation, and support for waste-sorting infrastructure.
   c. Establish an SME support hub (or city-level program) that offers coaching, standardized templates, and monitoring assistance to reduce adoption friction.
2. **Banks and fintech providers**
   a. Design tiered sustainable finance products that match SME capacity, using scaled documentation requirements (light requirements for micro-enterprises, progressively

stronger requirements for larger SMEs).

b. Embed simplified green accounting templates in digital onboarding and bookkeeping tools so SMEs can generate auditable records with minimal additional effort.

c. Partner with local government and SME support institutions for blended programs (training + financing + verification) to reduce risk and increase adoption.

3. **SME support institutions (universities, business associations, consultants)**

   a. Deliver short, sector-specific training modules focused on "how to record" environmental costs and "how to use" the resulting records for decision-making and financing applications.

   b. Provide hands-on clinics and mentoring to help SMEs establish simple routines and documentation practices, especially for cost allocation and waste-related records.

   c. Support the development of a standardized local toolkit for micro-SMEs to reduce complexity and enhance comparability.

Limitations

This study has several limitations that should be considered when interpreting the findings:

1. Small sample size (n = 12) limits generalizability and may not represent the broader population of SMEs in Pontianak or other Indonesian cities.
2. Sector coverage is limited and uneven (dominated by food and beverage and services, with minimal representation of other sectors), which may influence the observed barrier patterns.
3. Findings rely on self-reported perceptions, creating potential perception bias and social desirability bias, and the study does not independently verify environmental practices or accounting records.

Directions for Future Research

Future studies may strengthen and extend these findings by:

1. Expanding the sample size and sector representation across Pontianak and comparative cities to improve external validity.
2. Applying a more explicit mixed-methods design with quantitative modeling to test determinants of adoption and readiness.
3. Testing the readiness–financing access relationship empirically (e.g., whether SMEs with higher green accounting readiness are more likely to obtain sustainable financing products), including potential mediators such as documentation quality, reputation, and lender trust.
4. Incorporating objective indicators (e.g., verified waste reduction actions, documented eco-procurement, or lender evaluation outcomes) to reduce reliance on perception-based measures.

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THE INFLUENCE OF CEO CHARACTERISTICS ON TAX AGGRESSIVENESS: AN EMPIRICAL STUDY IN INDONESIA

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Abstract: *This study investigates the impact of CEO characteristics – specifically gender, age, and tenure – on corporate tax aggressiveness. The analysis utilizes a sample of 628 observations from manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2023, employing OLS regression analysis with fixed effects. The results indicate that female and older CEOs are associated with significantly lower levels of tax aggressiveness, whereas CEO tenure demonstrates no statistically significant effect. Consequently, these findings offer valuable insights for policymakers and corporate boards, suggesting that promoting gender diversity in top executive positions and considering age criteria can be effective strategies for mitigating the risks associated with aggressive tax practices.*

Keywords*: CEO characteristics, gender, age, tenure, tax aggressiveness*

INTRODUCTION

Tax aggressiveness is a deliberate action taken by companies to reduce taxes through tax planning activities (Arora & Gill, 2022; Boussaidi & Hamed, 2015; Chen et al., 2010; Dunbar et al., 2010; Halioui et al., 2016; Lanis & Richardson, 2011; Oktaviani et al., 2024; Wahab et al., 2017). Tax aggressiveness presents a dual agency conflict. While it creates a principal-agent problem between managers and shareholders (Arora & Gill, 2022; Wahab et al., 2017), it can also serve as a mechanism to reduce government control, effectively aligning management actions with shareholder interests in minimizing external oversight (Amri et.al., 2023; Fatkur et al., 2018).

The presence of a Chief Executive Officer (CEO) significantly influences corporate decisions, including tax aggressiveness (Khuluqy et al., 2024). Conflict between CEOs and shareholders is an example of a principal-agent problem, where shareholders lack sufficient information about company activities. In contrast, CEOs possess information and exploit it to increase their own prosperity (Jensen & Murphy, 1990). Tax aggressiveness within a company is primarily determined by the characteristics of top executives or CEOs (Dyreng et al., 2010; Lanis et al., 2017). Previous research on tax aggressiveness related to top executives or CEOs has been extensively conducted but has yielded mixed results.

Research by Zirgulis et al. (2022) shows that a CEO change from a male to a female CEO results in lower taxes paid, meaning the company's tax aggressiveness increases. A negative trend by Lanis et al. (2017) and Richardson et al. (2016) shows that the presence of a female CEO reduces tax aggressiveness. However, Makokha et al. (2024) show no effect because the number of female CEOs is minimal, only 9.9%, so it does not influence the decision to engage in tax aggressiveness.

Older executives are more conservative and even risk-averse. Older executives seek more information and, after gathering sufficient information, are more confident in making decisions compared to younger executives (Hambrick & Mason, 1984). Chowdhury & Fink (2017) supported this view that CEO age is associated with reduced corporate risk. (Makokha et al., 2024; Minnick

& Noga, 2010) found that the age of the CEO has a significant negative impact on tax aggressiveness, as measured by the cash effective tax rate (Cash ETR). The negative relationship between CEO age and tax aggressiveness is further corroborated by Lanis et al. (2017) and Richardson et al. (2016) who used both effective tax rates and the book-tax gap as their metrics. An interesting finding by James (2020) is that CEO age has a positive effect on tax avoidance, as measured using cash and GAAP effective tax rates. However, it is negatively related to the permanent book tax difference, indicating that younger CEOs are more likely to take action to reduce their tax burden than older CEOs. Younger CEOs incur higher costs than older CEOs (Neifar & Huesing, 2023). However, Halioui et al. (2016) found that CEO age did not affect tax aggressiveness.

Alongside gender and age, CEO tenure has also been shown in previous studies to impact firm performance and policymaking. According to Hermalin & Weisbach (1988), newly appointed CEOs often incur higher organizational costs due to their need for greater oversight and their initial lack of experience in strategic decision-making and policy formulation. Short-tenured CEOs tend to lack sufficient knowledge of the company's business and operations, making it challenging to implement tax avoidance (Aaron et al., 2023). Some studies found that tenure negatively impacts tax aggressiveness (Makokha et al., 2024), but others found CEO tenure has no effect on tax aggressiveness (Halioui et al., 2016; Jbir et al., 2021; Lanis & Richardson, 2011; Richardson et al., 2016). Meanwhile, James (2020) shows that CEO tenure negatively impacts tax avoidance, measured using cash and GAAP effective tax rates, but positively impacts permanent book tax differences. This explanation highlights the inconsistency in the research findings, creating an opportunity for further investigation into the impact of CEO characteristics on tax aggressiveness.

LITERATURE REVIEW

Upper-echelons theory

The theoretical foundation for this research is provided by Upper Echelons Theory. According to Hambrick (2007) and Hambrick & Mason (1984), the theory posits that a CEO's individual characteristics fundamentally shape corporate decisions and outcomes. This relationship has been further elaborated by Hoseini et al. (2019), who explain that Upper Echelons Theory is related to CEO characteristics such as age and gender. These characteristics influence work performance in line with company goals and policies, including tax avoidance (Harymawan et al., 2023) and tax aggressiveness (Makokha et al., 2024).

Tax Aggressiveness

Tax aggressiveness is a scheme or arrangement designed to avoid or reduce taxes (Halioui et al., 2016; Jbir et al., 2021; Lanis & Richardson, 2011, 2012; Wahab et al., 2017). Tax aggressiveness is reducing taxes paid by a company to increase management's interests (Garbarino, 2011; Lanis et al., 2017). Based on this definition, tax aggressiveness is an action taken by management to reduce the company's taxes.

Hypothesis Development

This study is grounded in Upper Echelons Theory which posits that CEO characteristics shape organizational outcomes (Christensen et al., 2015; Hambrick, 2007; Hambrick & Mason, 1984). Accordingly, we examine how specific traits—gender, tenure, and age—influence tax aggressiveness.

Dyreng et al. (2010) found that individual executive characteristics significantly determine a company's tax payment levels. Female CEOs play a significant role in corporate decision-making and policy-making (Elouaer et al., 2022). Female CEOs tend to be risk-averse and possess higher morals and ethics when it comes to the use of money, accounting, and financial matters, compared to men (Lanis et al., 2017). Research by Francis et al. (2014), Lanis et al. (2017), and Richardson et al. (2016) supports this finding that the presence of female CEOs negatively impacts tax aggressiveness.

Executive age is closely related to the policies adopted. Hambrick & Mason (1984) concluded three things related to executive (CEO) age: (1) older executives have weaker mental and physical abilities, making it difficult to learn and absorb new ideas and behaviors; (2) difficulty integrating information, resulting in longer decision-making times; and (3) older CEOs are more concerned about financial and career security, thus being more cautious in making risky decisions (Hambrick & Mason, 1984). Previous research supports the finding that CEO age has a significant negative impact on tax aggressiveness (Makokha et al., 2024; Minnick & Noga, 2010). Lanis et al. (2017), and Richardson et al. (2016), and James (2020) also found that CEO age negatively impacts permanent book tax differences.

Long-serving CEOs possess specific knowledge and expertise related to the company's business and are more cautious about risk (Qin et al., 2024). Based on Upper Echelonss Theory, long CEO tenure fosters confidence in making complex and high-risk financial decisions, such as tax planning strategies, because they can result in criminal prosecution (Makokha et al., 2024). Research shows that tenure negatively impacts tax aggressiveness (James, 2020; Makokha et al., 2024). Accordingly, the hypotheses for this research are as follows:

H1: Female CEOs negatively influence tax aggressiveness

H2: CEO tenure negatively influences tax aggressiveness

H3: CEO age negatively influences tax aggressiveness

METHODOLOGY

This quantitative study employs an associative method to empirically investigate the causal influence of CEO characteristics—namely gender, age, and tenure—on tax aggressiveness. The study's population comprised all publicly listed non-banking companies and financial institutions for the period 2020-2023. The final dataset, consisting of 628 observations, was constructed using secondary data extracted from company annual reports.

An Ordinary Least Squares (OLS) regression model, employing both period and industry fixed effects, was utilized to test the study's hypotheses regarding the relationships between the independent, control, and dependent variables.

The regression model for this study is specified as follows:

$$TA_{it} = \beta_0 + \beta_1 GEN_{it} + \beta_2 TEN_{it} + \beta_3 AGE_{it} + \beta_4 FSize_{it} + \beta_5 LEV_{it} +$$

$$\beta_6 SALTA_{it} + \beta_7 SALGRO_{it} + \beta_8 Fixed - Industry_{it} + \beta_9 Fixed - Year_{it} + e$$

Where: TA = Tax aggressiveness, GEN = CEO gender; TEN = CEO tenure; AGE = CEO age; FSIZE = Firm size; LEV = Leverage; SALTA = Sales to total assets; SALGROW = sales growth; industry and year effects are controls for industry and year effects. α dan β = regression Coefficients; e= error term

Variable Measurement

Tax aggressiveness is the act of reducing income to lower taxes. Tax aggressiveness is measured using the BTD, calculated by dividing the difference between book income and estimated taxable income by the book value of total assets (Arora & Gill, 2022).

Chief Executive Officer (CEO) characteristics include gender, age, and tenure. Gender is measured using a dummy variable, 1 for male and 0 for all others. Age is measured using the natural logarithm of age at the time of becoming CEO, and tenure is measured using the natural logarithm of tenure (years) as CEO.

Firm size is measured using the natural logarithm of total assets (Arora & Gill, 2022). Leverage is measured using total debt divided by total assets (Arora & Gill, 2022).

Sales to total assets is measured using the ratio of sales divided by total assets, and sales growth is measured using the ratio of current period sales minus previous period sales divided by previous period sales (Huang & Zhang, 2020; James, 2020).

RESULT AND DISCUSSION

Tables 1 and 2 summarize the descriptive statistics of the variables used. Table 1 provides descriptive statistics for continuous variables. Age and tenure are stated in years, while firm size in thousands of dollars. The average BTD 0.02 indicates that the average observed company engages in tax aggressiveness of 0.02. The minimum value is 0.0000238 and the maximum is 0.18. CEO age (AGE) shows an average of 55.13 or 55 years, with a minimum of 28 years and a maximum of 84 years. CEO tenure (TEN) shows an average of 5.59 or 6 years, with a minimum of 1 year and a maximum of 40 years. Leverage (LEV) shows an average 0.592, with a minimum value is 0.019 and a maximum is 98.634. Sales to total Asset (SALTA) shows an average 0.912, with a minimum value is 0.027 and a maximum is 8.88. Sales growth (SALGRO) shows an average 0.611, with a minimum value is -0.859 and a maximum is 237.742.

Table 1. Descriptive statistics

Variable	Obs	Mean	Min	Max
BTD	628	.02	.0000238	.18
AGE	628	55.13854	28	84
TEN	628	5.593949	1	40
FSIZE	628	1.012.785	2.310	26.271.625
LEV	628	.592	.019	98.634
SALTA	628	.912	.027	8.88
SALGRO	628	.611	-.859	237.742

Note(s): This table presents the summary statistics of tax aggressiveness, CEO characteristics (age, and tenure), and control variables for the sample of manufacturing firms in the Indonesia Stock Exchange (IDX). The final study sample consists of an unbalanced panel of 628 firm-year observations for the period of 2020 to 2023.

Table 2 provides descriptive statistics for gender. Table 2 shows that 33 companies have female CEOs, or 5.25%; in other words, 595 CEOs are men, or 94.75%.

Table 2. Descriptive statistics of gender

Gender	Freq.	Percent	Cum.
0	595	94.75	94.75
1	33	5.25	100.00
Total	628	100.00	

Note(s): This table presents the summary statistics of CEO gender.

Correlation Coefficient

The correlation coefficient measures the strength of the association or relationship (positive/negative) between two or more variables. A low coefficient is if the coefficient value is <0.40, a moderate coefficient is if the coefficient value is between 0.40 and 0.60, and a high coefficient is considered if the coefficient value is >0.60 (Obilor & Amadi, 2018). Furthermore, the correlation coefficient can detect multicollinearity between variables. If the Pearson correlation coefficient value approaches 0.8, multicollinearity is considered present (Shrestha, 2020). Table 3 shows that only company size and sales-to-total-assets are correlated positively with tax aggressiveness. The correlation coefficient is weak because it is <0.4. Gender, tenure, debt maturity, and sales growth have not correlated with tax aggressiveness. Table 3 shows that no variables exhibit multicollinearity because the coefficient value is <0.8.

Table 3. Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) BTD	1.000					
(2) GEN	-0.056	1.000				
(3) LNAGE	-0.004	-0.166*	1.000			
(4) LNTEN	0.011	-0.037	0.207*	1.000		
(5) LNTA	0.113*	-0.092	0.286*	0.042	1.000	
(6) LEV	-0.033	-0.014	-0.010	0.003	-0.068	1.000
(7) SALTA	0.141*	-0.047	0.010	-0.008	-0.089	0.018
(8) SALGRO	-0.023	-0.009	0.008	-0.057	-0.003	0.013

** shows significance at p<.01*

Hypothesis Testing

The regression results:

Table 4. Regression Result

	BTD
Intercept	0.028
	(1.582)
1. GEN	-0.005*
	(-1.771)
LNAGE	-0.008*
	(-1.677)
LNTEN	0.001
	(1.380)
LNTA	0.001**
	(2.385)
LEV	-0.000**
	(-2.473)
SALTA	0.004***
	(2.661)
SALGRO	-0.000***
	(-2.962)
Industry dummies	Include
Year dummies	Include
Adj.R2	0.12
N	628
F-stat	5.190

t statistics in parentheses

* p<0.10, ** p<0.05, *** p<0.01

Based on the test results in Table 4, the F-statistic value is 5.190, indicating that the proposed model meets goodness of fit and is worthy of further testing. Table 4 also shows that CEO gender (GEN) and age (AGE) negatively influence tax aggressiveness, with β = 0.005 and -0.008*, respectively (significant at the 10% level). Hypotheses 1 and 2 are accepted. Meanwhile, CEO tenure does not significantly impact tax aggressiveness. These results indicate that Hypothesis 3 is not supported.

The presence of female CEOs reduces tax aggressiveness because women tend to be cautious and risk-averse, thus avoiding actions that are detrimental to the company, such as tax aggressiveness. This result is surprising, considering that the percentage of female CEOs is only 5.25% (descriptive data in Table 2). These results indicate that the presence of female CEOs is crucial in making company policies. These results support the research of Lanis et al. (2017). Richardson et al. (2016) who found that the presence of a female CEO reduces tax aggressiveness, but this does not support the research of Zirgulis et al. (2022) that CEO changes from a male to a female CEO lead to higher tax aggressiveness, nor the research of Makokha et al. (2024) that found the presence of a female CEO did not affect tax aggressiveness, with the percentage only being 9.9%.

The age of CEOs is associated with reduced tax aggressiveness. The older a CEO is, the more cautious and prudent they are in making decisions and policies, which is associated with tax aggressiveness. This finding is supported by descriptive data (Table 1), which shows that the average CEO age is 55, indicating that CEOs are older and at this age, they are more likely to avoid risks in their policies (Chowdhury & Fink, 2017; Serfling, 2014). These results support research (Chowdhury & Fink, 2017; Hambrick & Mason, 1984; Lanis et al., 2017; Makokha et al., 2024; Minnick & Noga, 2010; Richardson et al., 2016) but do not support the research by Halioui et al. (2016) that CEO age does not affect tax aggressiveness.

CEO tenure does not influence tax aggressiveness, meaning tenure is not a factor influencing CEOs to engage in tax aggressiveness. Descriptive data (Table 1) shows that the average CEO tenure is 5.59 years, with some CEOs having only one year of experience, indicating relatively recent tenure. Supported by Hermalin & Weisbach (1988), who stated that a tenure of 0-3 years is short, meaning they lack experience in making important decisions and therefore do not influence tax aggressiveness (Aaron et al., 2023; Jbir et al., 2021). These results support research (Halioui et al., 2016; Jbir et al., 2021; Lanis & Richardson, 2011; Richardson et al., 2016) that found CEO tenure does not affect tax aggressiveness.

These findings offer mixed evidence for Upper Echelons Theory. The significant influence of CEO gender and age on tax aggressiveness aligns with the theory's premise that executive characteristics shape corporate strategy. However, the lack of a significant relationship with CEO tenure does not extend to this theoretical framework.

CONCLUSION

The findings confirm that CEO gender and age are negatively correlated with tax aggressiveness, supporting the conclusion that female CEOs and older CEOs will reduce tax aggressiveness due to caution regarding the risks posed by their tax-aggressive policies. In contrast, the length of a CEO's tenure was found to have no significant effect on such decisions.

These results support the upper-echelons theory that CEO characteristics, such as gender and age, influence tax aggressiveness. Therefore, a key implication of this study for both policymakers and firms is to actively promote the appointment of female executives and consider age criteria for CEO positions, as these factors are proven to mitigate tax aggressiveness and its associated corporate risks.

This study is limited by its narrow focus on three demographic traits of CEOs: gender, age, and tenure. While these variables provide valuable insights, these characteristics provide an incomplete picture, as they fail to account for other factors that may shape strategic decisions like tax planning. Future studies could consider other factors, such as educational background, the presence of foreign CEOs, risk tolerance or ethical priorities.

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FACTOR INFLUENCING SOCIAL ENTREPRENEURIAL INTENTIONS

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Abstract: *Within Ajzen's Planned Behavior Theory framework, this article tests a model to estimate the predictors of entrepreneurial intention. We tested the entrepreneurship intention model on a sample of 100 student at University in Indonesia. The result show Experience significantly influences Social Entrepreneurial Intention through Moral Obligation. Individuals with more experience feel a stronger moral obligation, which positively impacts their intention to engage in social entrepreneurship. Fostering a sense of moral obligation can effectively leverage the experience of potential social entrepreneurs. The indirect effect of Experience on Social Entrepreneurial Intention through Perceived Social Support is not supported. Although experience influences perceived social support, it does not significantly impact social entrepreneurial intention. This highlights the need to better understand the role of social support in social entrepreneurship. Experience significantly influences Social Entrepreneurial Intention through Social Entrepreneurial Self Efficacy. Experience enhances individuals' belief in their capabilities for social entrepreneurship, influencing their intention to engage in it. Boosting self-efficacy can be a key strategy for harnessing the experience of potential social entrepreneurs.*

Keywords: *Experience; Moral Obligation; Perceived Social Support; Social Entrepreneurial Self Efficacy; Social Entrepreneurial Intention.*

INTRODUCTION

Social entrepreneurship involves individuals, groups, or start-up companies that develop, fund, and implement solutions to social, cultural, or environmental issues Margiono, A., Feranita, F. (2021). These initiatives aim to create positive changes in society while addressing specific needs. Unlike traditional entrepreneurship, where profit is the primary goal, social entrepreneurs prioritize social impact. Social entrepreneurship refers to business ventures that seek to achieve social change or impact a social cause. These entrepreneurs are willing to take risks and put effort into creating positive outcomes for their communities. Social entrepreneurs may work on various fronts, such as producing environmentally-friendly products, serving underserved communities, or engaging in philanthropic activities. Social entrepreneurship is on the rise worldwide, alongside socially responsible investing (SRI) and environmental, social, and governance (ESG) investing.

Indonesia has witnessed exponential growth in social entrepreneurship over the past decade. While historical roots date back to the 1930s, significant progress has occurred more recently. According to the British Council, there were over 300,000 social enterprises in Indonesia in 2018, constituting about 2% of all small businesses. Research and education on social entrepreneurship have also expanded during this period.

However, challenges persist due to uncertainties surrounding this emerging sector. Political and legal uncertainties, in particular, pose obstacles for social enterprises in Indonesia. Despite these challenges, efforts by the government, academia, and the private sector can help foster a favorable ecosystem for social entrepreneurship to thrive.

In summary, social entrepreneurship plays a crucial role in addressing societal needs, and Indonesia's growing interest in this field holds promise for positive impact. Researchers, policymakers, and educators continue to explore ways to motivate more people to engage in social entrepreneurship and contribute to sustainable development.

Social Entrepreneurship Research (S-ENT) began to develop from qualitative research (Das et al., 2012; Ip et al., 2021) and Empirical (Bloom & Smith, 2010; Corner & Ho, 2010; Desa, 2012; Liu et al., 2015; Teasdale et al., 2011, Krueger et al., 2000).

Although this study adopts the Theory of Planned Behavior (TPB) as its theoretical foundation, it does not merely replicate prior TPB-based models. This study advances TPB-based social entrepreneurship research by explicitly positioning moral obligation as a distinct normative mechanism, rather than treating subjective norms as a homogeneous construct. In addition, the model integrates prior experience as an antecedent that operates indirectly through moral obligation, self-efficacy, and perceived social support, allowing a more nuanced explanation of how social entrepreneurial intentions are formed.

This study examines the antecedents of social entrepreneurial intentions. This is important as policy makers and educators are increasingly involved in efforts to motivate more people to become involved in S-ENT.

LITERATURE REVIEW

While moral obligation, social entrepreneurial self-efficacy, and perceived social support have been widely examined in prior studies, existing research predominantly investigates these variables in isolation or as direct predictors of social entrepreneurial intentions. Limited attention has been given to their joint and mediating roles, particularly within a single integrated TPB-based framework.

Moral Obligation and Social Entrepreneurial Intentions

Social entrepreneurial intentions refer to an individual's inclination or motivation to engage in social entrepreneurship, which combines social goals with economic means. Researchers have identified several factors that influence these intentions. One such factor is moral obligation.

Subjective norms, as proposed by Ajzen in the Theory of Planned Behavior (TPB), involve normative beliefs about expected behavior based on social influences. These norms can either strengthen or reduce an individual's intentions (Hartati, A. S., Warsiki, A. Y. N., & Diantoro, A. K., 2022). People often feel social pressure to conform to these norms, affecting their decisions regarding social entrepreneurship.

Moral beliefs play a significant role in shaping behavior. When individuals perceive a moral obligation to act in a certain way, they are more likely to follow through with their intentions. Researchers have found that adherence to moral standards is crucial for social entrepreneurs. Personal moral values guide their actions and decisions (Hartati, A. S., Warsiki, A. Y. N., & Diantoro, A. K., 2022).

In this study, moral obligation is conceptualized as an internalized sense of responsibility toward addressing social problems, rather than as externally driven social pressure. This distinction allows moral obligation to function as a complementary normative construct within the TPB framework. Unlike subjective norms, which reflect perceived expectations from others, moral obligation captures personal ethical commitment, which may be particularly salient in the context of social entrepreneurship.

Hypothesis 1 suggests that there is a positive relationship between moral obligation and an individual's intentions to engage in social entrepreneurship.

Social Entrepreneurial Self-Efficacy and Social Entrepreneurial Intentions

Social entrepreneurial self-efficacy (SESE) refers to an individual's belief in their own abilities and skills to successfully carry out the roles and tasks associated with social entrepreneurship (Broccia, Sarah, Álvaro Dias, and Leandro Pereira, 2022). In other words, it reflects an entrepreneur's confidence in their capacity to create positive social impact through their initiatives.

SESE is specific to social entrepreneurship and focuses on an individual's self-perceived competence in addressing social issues, implementing innovative solutions, and navigating the challenges of creating positive change. High SESE is associated with greater motivation, persistence, and proactivity in pursuing social entrepreneurial goals. Research suggests that SESE significantly influences an entrepreneur's performance and success in the social entrepreneurship domain (Broccia, Sarah, Álvaro Dias, and Leandro Pereira, 2022). Factors such as education, experience, role models, and personal beliefs contribute to an individual's SESE.

Social entrepreneurial intentions refer to an individual's inclination or motivation to engage in social entrepreneurship. These intentions drive the decision to pursue social impact through entrepreneurial activities.

Hypothesis 2 posits that there is a positive relationship between social entrepreneurial self-efficacy and an individual's intentions to engage in social entrepreneurship.

Perceived Social Support and Social Entrepreneurial Intentions

In the context of social entrepreneurship, perceived social support refers to an individual's perception of the availability and adequacy of support from their social network—family, friends, colleagues, and mentors. This support significantly influences an individual's intentions to engage in entrepreneurial activities that create positive social impact. Mair and Noboa's (2006) hypothesized that this is determined by the support that individuals expect to receive from their environment. In this context, support systems and networks can play an important role (Meyskens et al., 2010; Ruttmann et al., 2012). In summary, understanding perceived social support is crucial for shaping intentions toward social entrepreneurship. Strengthening support networks enhances the likelihood of positive social impact through entrepreneurial initiatives (Acuña-Duran, E., Pradenas-Wilson, D., Oyanedel, J. C., & Jalon-Gardella, R., 2021).

Rather than treating these constructs as independent predictors, this study focuses on how they operate as interconnected mechanisms that translate experience into intention. This approach moves beyond empirical replication by addressing not only whether these factors influence social entrepreneurial intentions, but also how and through which pathways such influence occurs.

Hypothesis 3 suggests that there is a positive relationship between perceived social support and an individual's intentions to become a social entrepreneur.

Experience and Social Entrepreneurial Intentions

Social entrepreneurial intentions refer to an individual's inclination or motivation to engage in social entrepreneurship. Prior experience plays a crucial role in shaping these intentions. Prior experience refers to an individual's practical exposure to working with social sector organizations, understanding the challenges they face and the problems they aim to solve.

Prior knowledge of social issues has also been found by Ernst (2012) to predict attitudes towards social entrepreneurial intentions as well as PBC. In addition, Yiu et al. (2014) have found that private entrepreneurs are more likely to be motivated to engage in charitable poverty reduction programs if they have previous personal experiences (such as limited educational opportunities, unemployment, and rural poverty). For the purposes of this study, prior experience was measured as a person's practical experience working with social sector organizations. It is assumed that such experiences produce familiarity with the types of problems social enterprises seek to solve in turn making the formation of intentions to solve these problems more likely. Prior experience serves as a foundation for social entrepreneurial intentions, and these mediating factors further shape and strengthen the link Simmou, W., Sameer, I., Hussainey, K., & Simmou, S. (2023).

Accordingly, prior experience is not treated as a direct determinant of social entrepreneurial intention, but as a foundational antecedent whose influence is channeled through moral obligation, social entrepreneurial self-efficacy, and perceived social support. This perspective enables a deeper understanding of the mechanisms through which experiential exposure to social issues fosters intention formation.

For this reason, the model tested in this study is extended by the following set of hypotheses.

Hypothesis 4 suggests that there is a positive relationship between prior experience and an individual's intentions to engage in social entrepreneurship.

Hypothesis 5

The link between prior experience and social entrepreneurial intent is mediated by perceived moral obligation

Hypothesis 6

The link between prior experience and social entrepreneurial intent is mediated by social entrepreneurial self-efficacy

Hypothesis 7

The link between prior experience and social entrepreneurial intent is mediated by perceived external social support

Prior experience plays a central role in shaping social entrepreneurial intention by activating several internal psychological mechanisms. Direct exposure to social problems allows individuals to internalize a sense of ethical responsibility, transforming experiential understanding into a personal moral obligation to address social issues (Kaiser, 2006; Ernst, 2012; Yiu et al., 2014). This moral obligation, as an internalized normative commitment, becomes a meaningful driver of social entrepreneurial intention, consistent with prior findings that personal values and ethical responsibility strongly motivate socially oriented entrepreneurial behavior (Hemingway, 2005; Hartati et al., 2022).

In parallel, experience enhances individuals' perceptions of available social support by increasing their engagement with social networks and institutions (Mair & Noboa, 2006; Meyskens et al., 2010). However, perceived social support represents an external enabling condition rather than an internal motivational force, and therefore does not necessarily translate experiential exposure into entrepreneurial intention, as intention formation is more strongly driven by internal beliefs and values than by external encouragement alone (Forster & Grichnik, 2013; Acuña-Duran et al., 2021). Furthermore, prior experience substantially strengthens social entrepreneurial self-efficacy by providing mastery experiences and practical understanding of how social ventures operate (Bandura, 1977). Individuals who feel capable of addressing social problems through entrepreneurial action are more likely to form a strong intention to engage in social entrepreneurship, highlighting self-efficacy as a key mechanism that converts experience into intentional behavior (Zhao et al., 2005; Broccia et al., 2022; Simmou et al., 2023).

Hypothesis 8 The relationship between prior experience and social entrepreneurial intention is mediated by perceived moral obligation.

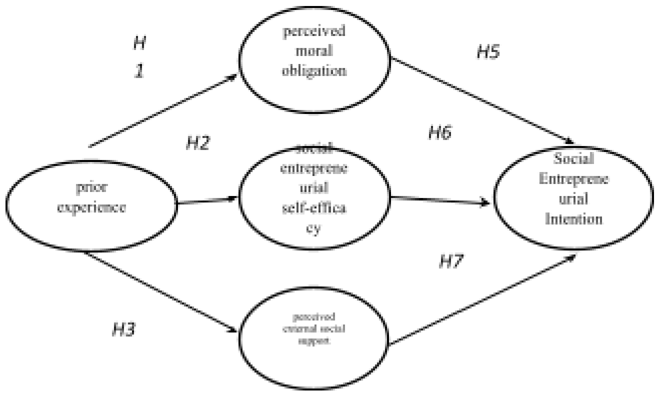
Hypothesis 9 The relationship between prior experience and social entrepreneurial intention is mediated by perceived social support.

Hypothesis 10 The relationship between prior experience and social entrepreneurial intention is mediated by social entrepreneurial self-efficacy.

Theoretical Contribution of the Study

This study offers three main theoretical contributions. First, it extends the Theory of Planned Behavior by incorporating moral obligation as an internalized normative mechanism that complements subjective norms in explaining social entrepreneurial intentions. Second, the study advances intention research by modeling prior experience as an indirect antecedent that operates through moral obligation, social entrepreneurial self-efficacy, and perceived social support, thereby clarifying the psychological mechanisms underlying intention formation. Third, by situating the model within the Indonesian context, this study provides new boundary conditions for TPB-based social entrepreneurship research in emerging economies characterized by strong collectivist and moral-social orientations.

Figure 1. Research Framework



METHODS

This study employed a cross-sectional quantitative approach, collecting data through questionnaires. A total of 16 items were used to examine the relationship between Experience, Moral Obligation, Social Entrepreneurial Self-Efficacy, Perceived Social Support, and Social Entrepreneurial Intent.

All survey items were translated from English to Indonesian using a forward-backward translation method (Brislin, 1970). The process included forward translation, expert panel back-translation, pre-testing, and cognitive interviews to arrive at the final version.

Instead of covariance-based structural equation modeling (CB-SEM), this study employed Partial Least Squares (PLS) analysis using SmartPLS 3.0. PLS was selected primarily due to its suitability for estimating complex mediation models that emphasize prediction and variance explanation rather than model fit optimization. The proposed research model involves multiple mediating variables and indirect effects, for which PLS provides robust and efficient estimation, particularly in exploratory and theory-extension contexts.

Furthermore, PLS does not impose strict assumptions regarding data distribution and performs well with ordinal-scale data, making it appropriate for the characteristics of the dataset used in this study.

DATA ANALYSIS AND RESULTS

Measurement Model Evaluation Result

The study assessed the reliability of measurement scales using loading factors. These factors indicate how well each item (indicator) reflects the underlying latent variable.

All items in the study had loading factors above 0.70, which is a positive si gn. Higher loading factors suggest better indicator reliability (Cheung, G. W., Cooper-Thomas, H. D., Lau, R. S., & Wang, L. C., 2023). In other words, the items used in the study were good indicators of the latent variables.

Convergent validity assesses whether different indicators of the same construct are related to each other. The study found that all extracted mean values (AVE) exceeded the threshold of 0.50, supporting convergent validity. This means that the indicators consistently measure the same construct (Cheung, G. W., Cooper-Thomas, H. D., Lau, R. S., & Wang, L. C., 2023).

Table 2 likely contains results related to testing hypotheses and exploring the direct relationships between exogenous (independent) and endogenous (dependent) variables.

Table 1. Structural Model Assessment

Construc/ Variable	Original Sample (O)	T Statistics (|O/ STDEV|)	P Values	Conclusion
Experience -> Moral Obligation	0,198	2,482	0,013	H1: Supported
Experience -> Perceived Social Support	0,351	4,048	0,000	H2: Supported
Experience -> Social Entrepreneurial Self Efficacy	0,387	4,828	0,000	H3: Supported
Moral Obligation -> Social Entrepreneurial Intention	0,258	2,995	0,003	H4: Supported
Perceived Social Support -> Social Entrepreneurial Intention	0,190	1,908	0,057	H5: Not Supported
Social Entrepreneurial Self Efficacy -> Social Entrepreneurial Intention	0,362	4,278	0,000	H6: Supported
Experience -> Social Entrepreneurial Intention	0,258	4,074	0,000	H7: Supported

The data provided presents a comprehensive analysis of the relationships between Experience, Moral Obligation, Perceived Social Support, Social Entrepreneurial Self Efficacy, and Social Entrepreneurial Intention.

Experience is found to have a significant positive impact on Moral Obligation, Perceived Social Support, and Social Entrepreneurial Self Efficacy. This suggests that as individuals gain more experience, they feel a stronger moral obligation and perceive more social support, which in turn enhances their self-efficacy in social entrepreneurship. Moral Obligation significantly contributes to Social Entrepreneurial Intention, indicating that individuals who feel a strong moral obligation are more likely to have the intention to engage in social entrepreneurship.

Interestingly, while Perceived Social Support is influenced by Experience, it does not significantly affect Social Entrepreneurial Intention. This could imply that while social support is important, it may not directly translate into an intention to engage in social entrepreneurship. Social Entrepreneurial Self Efficacy significantly impacts Social Entrepreneurial Intention, suggesting that individuals who believe in their capabilities in social entrepreneurship are more likely to have the intention to engage in it.

Lastly, Experience also directly influences Social Entrepreneurial Intention, indicating that individuals with more experience are more likely to intend to engage in social entrepreneurship.

Table 2. Result of Mediation Analysis

Construc/ Variable	Original Sample (O)	T Statistics (|O/ STDEV|)	P Values	Conclusion
Experience -> Moral Obligation -> Social Entreprene urial Intention	0,054	1,931	0,054	H8: Supported
Experience -> Perceived Social Support -> Social Entreprene urial Intention	0,052	1,256	0,210	H9: Not Supported
Experience -> Social Entreprene urial Self Efficacy -> Social Entreprene urial Intention	0,114	2,692	0,007	H10: Supported
Experience -> Moral Obligation -> Social Entreprene urial Intention	0,054	1,931	0,054	H8: Supported

The data provided further explores the indirect effects of Experience on Social Entrepreneurial Intention through Moral Obligation, Perceived Social Support, and Social Entrepreneurial Self Efficacy.

Experience significantly influences Social Entrepreneurial Intention through Moral Obligation. This suggests that individuals with more experience feel a stronger moral obligation, which in turn, positively influences their intention to engage in social entrepreneurship. Therefore, fostering a sense of moral obligation could be an effective way to leverage the experience of potential social entrepreneurs.

However, the indirect effect of Experience on Social Entrepreneurial Intention through Perceived Social Support is not supported. This indicates that while experience does influence perceived social support, this does not translate into a significant impact on social entrepreneurial intention. This finding further underscores the need to understand the role of social support in social entrepreneurship better.

Lastly, Experience significantly influences Social Entrepreneurial Intention through Social Entrepreneurial Self Efficacy. This implies that experience enhances individuals' belief in their capabilities in social entrepreneurship, which subsequently influences their intention to engage in it. Thus, boosting self-efficacy could be a key strategy in harnessing the experience of potential social entrepreneurs.

CONCLUSION

The findings indicate that perceived social support does not significantly influence social entrepreneurial intention among Indonesian students, which contrasts with several prior studies that identify social support as an important predictor of entrepreneurial intention (Mair & Noboa, 2006; Meyskens et al., 2010). This divergence can be explained through a contextual and theory-based interpretation. In a collectivist culture such as Indonesia, social support is often embedded in everyday social relations and may be perceived as a normative condition rather than a motivating factor. Within such contexts, individuals may assume the presence of social support as given, reducing its salience in intentional decision-making. As a result, social support does not function as a differentiating or activating mechanism in shaping social entrepreneurial intention.

From a Theory of Planned Behavior perspective, this suggests that social support may operate as a background condition rather than an explicit subjective norm influencing intention. When support is culturally normalized, individuals may rely more heavily on internal drivers, such as moral obligation and self-efficacy, to justify and initiate socially oriented entrepreneurial behavior. This interpretation aligns with prior research indicating that internalized values and capability beliefs play a stronger role in intention formation than external encouragement in social entrepreneurship contexts (Hemingway, 2005; Forster & Grichnik, 2013). Therefore, the insignificance of perceived social support does not imply irrelevance, but rather reflects its role as a baseline condition in collectivist settings, where motivation to engage in social entrepreneurship is driven primarily by ethical commitment and confidence in one's own ability.

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PENALARAN MORAL TERHADAP WHISTLEBLOWING: EFEK RELIGIUSITAS SEBAGAI PEMODERASI

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Abstract: *Penelitian ini bertujuan untuk menguji pengaruh penalaran moral dengan moderasi religiusitas yang dapat memperkuat proses pengambilan keputusan whistleblowing berdasar model pengambilan keputusan etis terintegrasi (I-EDM Model) yang diusulkan oleh Schwartz (2016). Penelitian ini juga mengintegrasikan teori pertukaran sosial (Social Exchange Theory/SET) yang dikembangkan oleh George C. Homans dan Peter Blau (1961). Sampel penelitian ini adalah 40 orang pegawai keuangan unit usaha di bawah Yayasan RS. Islam Surabaya. Teknik analisis data menggunakan partial least square. Penelitian ini membuktikan bahwa penalaran moral berpengaruh positif terhadap whistleblowing. Penelitian ini juga membuktikan bahwa efek religiusitas dapat memperkuat pengaruh penalaran moral terhadap pengambilan keputusan untuk melakukan whistleblowing.*

Keywords*: Penalaran Moral, Whistleblowing, Religiusitas, I-EDM, Pertukaran Sosial.*

PENDAHULUAN

Whistleblowing telah menjadi subyek yang semakin diminati dalam penelitian beberapa tahun terakhir karena memberikan dampak positif dalam perusahaan terutama untuk mencegah kecurangan. Namun, penting untuk memahami bahwa penalaran moral individu juga memainkan peran dalam proses pengambilan keputusan *whistleblowing.* Penalaran moral tentang nilai-nilai keadilan, kebenaran, dan tanggungjawab sosial memberikan dampak yang kuat bagi individu dalam menghadapi dilema etis *whistleblowing*. Menjadi pelapor atau *whistleblower* bukanlah suatu hal yang mudah. Menjadi sesorang *whistleblower* selalu disertai dengan risiko dan tantangan, misalnya dikucilkan, intimidasi, atau bahkan pemecatan (Ningrum & Munari, 2024).

Keefektifan *whistleblowing* sebenarnya tertuju pada sumber daya manusia yang secara subyektif berperan sebagai *whistleblower* (pelapor). Tindakan fraud dapat teratasi jika terdapat individu atau kelompok yang memiliki keberanian untuk mengungkap dan menentang tindakan yang terindikasi pada kerugian bagi stakeholder terutama masyarakat (Dewi et al., 2021). Jika *whistleblowing* dipandang sebagai sebuah proses, maka dalam *whistleblowing* setidaknya terdapat unsur pihak yang menyampaikan pengaduan, kepada siapa pengaduan dibuat, dan terhadap organisasi apa pengaduan diajukan (Near & Miceli, 1985).

Namun seringkali posisi *whisteblower* menjadi tidak diuntungkan. Tindakan pelaporan tidak selalu dapat dilihat secara positif oleh organisasi (Amrullah & Kaluge, 2019) karena pelaporan atas kejadian kecurangan terlebih yang dilakukan oleh bawahan terhadap atasan dianggap melangkahi hierarki jabatan yang mana akan lebih mudah untuk menyingkirkan salah satu karyawan daripada mengungkap kasus kecurangan yang akan menjadikan aib bagi perusahaan. Risiko dan tantangan tersebut bisa saja membuat calon whistleblower menunda melaporkan atau sepenuhnya membatalkan pelaporan penyimpangan yang diketahui. (Ningrum & Munari, 2024). Hal ini menyebabkan karyawan menjadi ragu-ragu untuk bersuara karena ini dapat menyebabkan semacam pembalasan dari organisasi (Premeaux & Bedean dalam Amrullah dan Kaluge 2019). Maka *whistleblowing* bukanlah keputusan atau inisiatif bebas risiko tidak diinginkan bagi setiap yang ingin bersuara (Amrullah & Kaluge, 2019). Semua bahaya ini lebih mungkin terjadi pada *whistleblower* internal daripada eksternal yang dapat menyebabkan keengganan karyawan untuk melaporkan penipuan (Read & Rama, 2003 dalam Antoh, 2024).

Penalaran moral berkaitan dengan proses kognitif yang digunakan individu untuk menentukan tindakan yang benar atau salah berdasarkan prinsip etika dan nilai-nilai moral. Penalaran moral melibatkan evaluasi situasi, identifikasi prinsip moral atau sikap yang relevan, dan penerapan prinsip tersebut untuk membuat keputusan yang sesuai. Penelitian Kurniawati & Aris (2022), Ainun et al. (2021) membuktikan bahwa sikap memiliki pengaruh terhadap *whistleblowing*. Faktor-faktor seperti pengalaman, informasi, kebutuhan, dan situasi dapat memengaruhi pembentukan sikap seseorang terhadap suatu objek (Cheisviyanny & Arza, 2019). Namun penelitian Alwi & Hermayunita (2020), dan Pratiwi & Minarso (2021) menyatakan hal yang sebaliknya yaitu niat *whistleblowing* tidak dipengaruhi oleh sikap. Keyakinan seorang individu terhadap tindakan *whistleblowing* akan menghasilkan sikap terhadap tindakan *whistleblowing* tersebut, baik berupa sikap positif maupun sikap negatif.

Faktor lain yang dapat mempengaruhi seseorang dalam melakukan tindakan *whistleblowing* adalah religiusitas. Penelitian tetang religiusitas yang dapat memperkuat tindakan sesorang untuk melakukan *whistleblowing* masih belum banyak dilakukan. Hal ini dikarenakan religiusitas dianggap memiliki hubungan dengan perbaikan moral etis seseorang. Nilai religiusitas akan membantu seseorang untuk bersikap sesuai etika, di mana ajaran agama telah menjelaskan bagaimana cara beretika yang baik (Satrya et al., 2019). Penelitian selanjutnya dilakukan oleh Fitri et al. (2019) mengatakan bahwa religius memberikan pengaruh terhadap niat whistleblowing. Religiusitas dianggap berkaitan dengan peningkatan moral etis seseorang. Religiusitas dapat diartikan sebagai suatu dasar pemahaman seseorang terkait agama, yang dapat dipergunakan sebagai pertimbangan dalam pengambilan keputusan (Ayem & Rumdoni, 2021). Fernando & Jackson (2006) dalam Yudira & Helmy (2024) menyatakan bahwa individu yang religius tidak akan melakukan perilaku menyimpang. Penelitian Mansor et al. (2022) yang mengkaji tentang religiusitas dan niat *whistleblowing* eksternal yang melibatkan 185 auditor muslim di Malaysia menyampaikan bahwa religiusitas memberikan pengaruh terhadap *whistleblowing* eksternal.

Pada dasarnya setiap agama memiliki aturan dan larangan yang harus ditaati oleh pemeluknya. Seseorng pasti tidak nyaman melihat tindakan kecurangan yang terjadi di sekitanrnya apabila memiliki religiusitas yang tinggi. Hal ini akan memunculkan niat untuk melaporkan pelanggaran (Ningrum & Munari, 2024). Religiusitas merujuk pada tingkat sejauh mana individu menghayati dan menerapkan nilai-nilai agama dalam kehidupan sehari-hari. Glock & Stark (1965) membagi religiusitas ke dalam beberapa dimensi, seperti keyakinan, praktik keagamaan, pengalaman spiritual, dan pengetahuan agama. Dalam konteks perilaku etis di tempat kerja, religiusitas dapat menjadi faktor yang memperkuat integritas dan penalaran moral.

Dalam konteks Islam, peran penalaran moral menjadi fundamental dalam menentukan kebolehan dan konsekuensi dari tindakan pelaporan pelanggaran, prinsip-prinsip ini berfungsi sebagai pedoman bagi individu untuk membuat keputusan yang sejalan dengan ajaran Islam dan nilai-nilai moral (Husna, 2024). Etika bisnis Islam didasari oleh prinsip-prinsip seperti kejujuran, ketulusan, dan kepatuhan terhadap norma-norma sosial (Kazmi, 2020). Maka, peran religiusitas diharapkan dapat memperkuat niat sesorang untuk melakukan whistleblowing dalam mengungkapkan pelanggaran karena tidak sesuai etika dan norma.

Penelitian tentang *Whistleblowing* telah banyak dilakukan. Dari beberapa penelitian dengan variabel penalaran moral, kebanyakan menggunakan teori TPB (Teori Perilaku Terencana) dan Pro Social Organizational Behaviour Theory sebagai landasan teori (Febiunca & Yulianti, 2024). Teori TPB telah banyak dikembangkan di antaranya oleh Rest 1986. Dalam Teori Rest, terdapat Teori EDM (Ethical Decision Making) yang menjelaskan proses pengambilan keputusan etis melalui empat tahap yaitu kepekaan moral, penilaian moral, niat moral, dan perilaku moral. EDM menekankan bahwa niat moral merupakan tahap penting sebelum seseorang benar-benar melakukan tindakan *whistleblowing*.

Penelitian ini akan menguji proses whistleblowing bagi pegawai keuangan unit usaha di bawah Yayasan RS. Islam Surabaya yaitu RSI Jemursari, RSI A. Yani, dan UNUSA. Yayasan Rumah Sakit Islam Surabaya merupakan lembaga yang berbasis keislaman, berkomitmen untuk memberikan layanan terbaik kepada masyarakat yang mengutamakan kepedulian, integritas, dan profesionalisme dalam aspek pelayanan. Dengan basis keislaman, tentunya peran religiusitas sangat mempengaruhi kegiatan pelayanan. Secara khusus tujuan penelitian ini adalah untuk meneliti hubungan antara penalaran moral dan proses pengambilan keputusan melakukan whistleblowing dengan menggunakan teori I-EDM (*Integrated Ethical Decision Making*) (Schwartz, 2016) yang dikombinasikan dengan Teori Pertukaran Sosial atau SET (*Social Exchange Theory*). Dengan memadukan faktor rasional (seperti pertimbangan konsekuensi) dan non-rasional (seperti emosi), model I-EDM menawarkan lensa holistik untuk memahami kompleksitas niat *whistleblowing* dalam konteks organisasi dan budaya yang beragam. Hal tersebut yang mendasari penelitian ini, bahwa keputusan melakukan whistleblowing tidak hanya dari faktor individu yaitu penalaran moral, namun juga bagaimana individu yang mengetahui adanya kecurangan dapat membuat keputusan untuk melaporkan dengan pertimbangan situasi dan faktor non rasional seperti emosi, intuisi, dan pengaruh sosial yang fokus pada konsekuensi terbaik bagi semua pihak yang terkait.

TINJAUAN PUSTAKA

Penelitian Terdahulu

Penelitian terkait teori I-EDM di antaranya penelitian Antoh et al. (2024) menunjukkan bahwa kesadaran etika berpengaruh positif, baik secara langsung maupun tidak langsung, terhadap intensi *whistleblowing*. Sedangkan penelitian terkait teori pertukaran sosial adalah penelitian Indra (2018) yang menyatakan ketika seseorang ingin melaporkan kecurangan dan meyakini bahwa tidak akan mendapat ancaman atau sanksi baik secara ekonomi maupun social dari organisasi, maka akan menimbulkan dampak positif terhadap niat untuk melakukan *whistleblowing* yang merupakan suatu tindakan yang bermanfaat bagi organisasi

Variabel religiusitas penelitian ini merupakan pengembangan dari penelitian yang dilakukan oleh Husna (2024) yang awalnya hanya fokus pada peran penalaran moral dalam perspektif Islam, dalam penelitian ini dikembangkan nilai-nilai religiusitas atau lingkungan berbasis keislaman yang diharapkan dapat memperkuat seseorang untuk melakukan tindakan *whistleblowing*. Penelitian Zullaekha & Nustini (2024) menunjukkan bahwa faktor keseriusan kecurangan, komitmen professional, dan *personal cost* memiliki pengaruh positif yang signifikan terhadap niat untuk memberikan informasi sebagai whistleblower. Namun intensitas moral dan reward tidak memiliki pengaruh signifikan terhadap niat untuk menjadi *whistleblower.* Selanjutnya, diketahui bahwa variabel religiusitas tidak mampu memoderasi hubungan antara komitmen profesional dan *personal cost* dengan niat menjadi *whistleblower.*

Penelitian Widhyatmika et al., (2023) dan Ayem & Rumdoni (2021) menunjukkan bahwa religiusitas memiliki pengaruh terhadap niat *whistleblowing*. Tetapi berbanding terbalik dengan hasil penelitian Harahap et al. (2020) dan Farida et al. (2022), yaitu religiusitas tidak memiliki pengaruh terhadap niat *whistleblowing*. Perilaku etis pada seseorang bisa terwujud dengan memiliki nilai religius, sama dengan ajaran agama yang menjelaskan terkait bagaimana cara berperilaku etis (Satrya et.al, 2019).

Hasil penelitian Fitrianingrum et al. (2023) disimpulkan bahwa responden yang bekerja di sektor keuangan cenderung memilih untuk melakukan pelaporan dengan melalui saluran eksternal perusahaan. Beberapa faktor yang mendorong terjadinya pelaporan eksternal ini adalah pengaruh insentif keuangan, adanya peluang, serta adanya kemampuan untuk melakukan pelaporan. Keinginan untuk melaporkan *whistleblowing* pada saluran internal akan terjadi, jika responden mendapatkan tekanan seperti manajemen atau lingkungan perusahaan.

Berdasar pembahasan tersebut, tindakan sukarela untuk melakukan *whistleblowing* pada karyawan akan muncul ketika karyawan berkesempatan untuk memperoleh keuntungan dan adanya peluang untuk melakukannya melalui saluran internal maupun eksternal perusahaan. Penelitian ini berkontribusi kepada lingkup akuntansi dan pengawasan untuk memperbaiki sistem pelaporan atau *whistleblowing*, sehingga karyawan memiliki kesadaran untuk menyampaikan pelaporan secara terbuka dan nyaman.

Penelitian Amrullah & Kaluge (2019) menyimpulkan bahwa niat melakukan *whistleblowing* dipengaruhi oleh variable sikap, norma subyektif, dan kontrol keperilakuan yang dipersepsikan. Variabel yang paling besar pengaruhnya terhadap niat dalam memprediksi whistleblowing intentions adalah norma subyektif. Hal ini disebabkan karena pegawai pada pemerintah Kota Probolinggo dalam berperilaku cenderung melihat kondisi lingkungan kerja sekitar serta dorongan yang diberikan dari rekan kerja maupun atasan.

Hasil penelitian Satriya et al. (2019) menyimpulkan bahwa komitmen profesional berpengaruh terhadap niat *whistleblowing*. Hal ini menunjukkan bahwa komitmen professional yang dimiliki seseorang memengaruhi mereka untuk melaporkan tindak kecurangan. Selain itu, semakin tinggi sosialisasi antisipasif seseorang maka akan semakin rendah keinginan mereka untuk melaporkan tindak kecurangan (niat *whistleblowing*). Sedangkan variabel religiusitas memperlemah hubungan komitmen professional terhadap niat whistleblowing. Hasil penelitian juga menemukan bahwa interaksi sosialisasi antisipasif yang dimoderasi oleh religiusitas memperkuat pengaruhnya terhadap niat *whistleblowing*. Hal ini menujukkan bahwa semakin tinggi religiusitas seseorang akan mampu meningkatkan keinginan seseorang untuk melaporkan tindak kecurangan (niat *whistleblowing*).

Penalaran Moral

Penalaran diartikan sebagai pemikiran atau cara berfikir logis dengan mengembangkan sesuai dengan nalar dan bukan dengan perasaan atau pengalaman (KBBI, 2020). Sedangkan moral berasal dari kata moralia yang berarti adat istiadat dan mores yang berarti perilaku. Dengan demikian penalaran moral dapat didefinisikan sebahai proses di mana individu mencoba menentukan perbedaan antara yang benar dan yang salah dengan menggunakan logika.

Penalaran moral berkaitan dengan proses kognitif yang digunakan individu untuk menentukan tindakan yang benar atau salah berdasarkan prinsip etika dan nilai-nilai moral. Penalaran moral melibatkan evaluasi situasi, identifikasi prinsip moral yang relevan, dan penerapan prinsip tersebut digunakan untuk membuat keputusan yang sesuai. Lawrence Kohlberg (1969) menjelaskan bahwa moral berkembang melalui tiga tahapan, yaitu tahapan *pre-conventional,* tahapan *conventional* dan tahapan *post-conventional.* Mengetahui level penalaran moral seseorang akan menjadi dasar untuk mengetahui kecenderungan individu untuk mengambil suatu tindakan tertentu, terutama yang berkaitan dengan dilema etika, berdasar level penalaran moralnya.

Whistleblowing

Istilah *whistleblowing* diterjemahkan ke dalam Bahasa Indonesia menjadi "peniup peluit" atau bisa dikatakan "pengungkap fakta". Fledderman (2012) mendefinisikan *whistleblowing* sebagai tindakan karyawan yang menginformasikan kepada publik atau manajemen yang lebih tinggi mengenai perilaku tidak etis atau ilegal yang dilakukan oleh pemberi kerja atau penyelia. Definisi lain menurut Near & Miceli (1985) *whistleblowing* adalah suatu pengungkapan yang dilakukan anggota organisasi atau suatu praktik-praktik ilegal atau tanpa legimitasi hukum di bawah kendali pimpinan mereka kepada individu atau organisasi yang dapat menimbulkan efek tindakan perbaikan.

Teori I-EDM

Teori I-EDM (*Integrated Ethical Decision Making*) merupakan pengembangan dari teori EDM yang diusulkan oleh Schwartz (2016). I-EDM mengintegrasikan berbagai faktor individu seperti kapasitas moral, faktor situasional seperti iklim etika organisasi dan faktor-faktor non-rasional seperti emosi dan intuisi dalam proses pengambilan keputusan etis, termasuk dalam membentuk niat whistleblowing.

Terdapat 2 komponen utama dalam Model I-EDM yaitu faktor individual dan faktor situasional. Faktor Individual meliputi : (1). Moral Capacity (kapasitas moral) yaitu kemampuan individu untuk mengenali tindakan yang mengarah pada kecenderungan pelanggaran dan akan bertindak sesuai nilai etika, (2) Emosi yaitu respon afektif yang mempengaruhi penilaian etis. Sedangkan Faktor Situasioal meliputi :

(1) Ethical Climate (iklim etika) yaitu persepsi kolektif tentang norma etika organisasi, (2) Moral intensity yaitu tingkat urgensi atau dampak moral dari suatu pelanggaran.

Teori Pertukaran Sosial

Teori Pertukaran Sosial yang dikembangkan oleh George C. Homans dan Peter Blau (1961), menekankan bahwa interaksi sosial melibatkan pertukaran yang saling menguntungkan antara dua pihak. Dalam konteks organisasi, karyawan akan mengevaluasi bagaimana mereka diperlakukan oleh organisasi dan sebaliknya, bagaimana mereka berkomitmen kepada organisasi tersebut

Teori ini berfokus pada hubungan timbal balik antara individu dan organisasi. Dalam konteks whistleblowing, karyawan yang merasa mendapatkan dukungan dan manfaat dari organisasi cenderung merasa terdorong untuk membalas dengan melaporkan pelanggaran. Jika mereka percaya bahwa organisasi memberikan lingkungan yang positif dan mendukung, mereka lebih mungkin untuk melakukan whistleblowing. Teori Pertukaran Sosial (Social Exchange Theory) dapat menjelaskan niat whistleblowing dengan mengedepankan konsep hubungan timbal balik antara individu dan organisasi.

Religiusitas

Religiusitas merujuk pada tingkat sejauh mana individu menghayati dan menerapkan nilai-nilai agama dalam kehidupan sehari-hari. Glock dan Stark (1965) membagi religiusitas ke dalam beberapa dimensi, seperti keyakinan, praktik keagamaan, pengalaman spiritual, dan pengetahuan agama. Dalam konteks perilaku etis di tempat kerja, religiusitas dapat menjadi faktor yang memperkuat integritas dan penalaran moral.

Penelitian oleh Vitell et al. (2005) menunjukkan bahwa individu yang memiliki tingkat religiusitas tinggi cenderung memiliki standar moral yang lebih kuat dan cenderung menjauhi perilaku tidak etis. Oleh karena itu, religiusitas berpotensi memoderasi hubungan antara penalaran moral dan keputusan untuk melakukan whistleblowing.

METODOLOGI

Penelitian ini merupakan jenis penelitian kuantitatif dengan jenis penelitian yang bersifat eksplanasi (explanatory research), yaitu penelitian yang menguji suatu teori atau hipotesis untuk memperkuat atau bahkan menolak teori atau hipotesis hasil penelitian sebelumnya.

Populasi penelitian ini adalah 40 orang pegawai keuangan unit usaha di bawah Yayasan RS. Islam Surabaya yaitu pegawai keuangan RSI A. Yani, RSI Jemursari, dan UNUSA. Sampel penelitian ini diperoleh secara purposive sampling. Data dalam penelitian ini merupakan data primer yang diperoleh dengan menyebarkan kuesioner kepada responden. Teknik pengumpulan data dalam penelitian ini menggunakan kuesioner yang didesain menggunakan google formulir kemudian linknya disebarkan kepada responden melalui whatsapp Kepala Bagian Keuangan. Responden dalam penelitian ini mempunyai kriteria minimal memiliki pengalaman kerja ≥ 1 tahun, terpapar pada regulasi atau kode etik internal organisasi, dan memiliki latar belakang pendidikan atau posisi yang memungkinkan memahami dilema etika.

Teknik analisis data dalam penelitian ini menggunakan metode partial least square (PLS). Instrumen variabel penelitian dimodifikasi sesuai kebutuhan penelitian yang diukur menggunakan skala likert yaitu skala untuk mengukur sikap dengan menyatakan pendapat tidak setuju atau setuju terhadap pernyataan yang diajukan dengan skor 1 (STS=Sangat Tidak Setuju), skor 2 (TS=Tidak Setuju), skor 3 (N=Netral), skor 4 (S=Setuju), dan skor 5 (SS=Sangat Setuju) untuk pernyataan favorable dan skor 1 (SS=Sangat Setuju), skor 2 (S=Setuju), skor 3 (N=Netral), skor 4 (TS=Tidak Setuju), dan skor 5 (STS=Sangat Tidak Setuju) untuk pernyataan *unfavorable.*

HASIL DAN PEMBAHASAN

Evaluasi Model Pengukuran

Evaluasi outer model dilakukan melalui uji validitas dan uji reliabilitas.

a. Uji Validitas

Uji validitas dalam model pengukuran terdiri dari dua parameter, yaitu validitas konvergen dan validitas diskriminan. Validitas konvergen berhubungan dengan prinsip bahwa pengukur-pengukur dari suatu konstruk seharusnya berkorelasi tinggi (Hartono dan Abdillah, 2014). Ukuran reflektif individual dikatakan tinggi jika berkorelasi lebih dari 0,7 dengan konstruk yang diukur. Sedangkan AVE harus lebih dari 0,5 agar dianggap valid.

Tabel 1. Hasil Uji Validitas

Variabel	Kode	Korelasi	**P-Value**
Penalaran Moral (PM)	PM1	0,875	<0,001
	PM2	0,527	<0,001
	PM3	0,880	<0,001
	PM5	0,894	<0,001
Whistleblowing (W)	W1	0,777	<0,001
	W2	0,857	<0,001
	W3	0,575	<0,001
	W4	0,828	<0,001
	W6	0,807	<0,001
Religiusitas (R)	R1	0,827	<0,001
	R2	0,700	<0,001
	R3	0,812	<0,001
	R4	0,815	<0,001
	R5	0,801	<0,001
	R6	0,732	<0,001

Sumber: Hasil pengolahan data (2025)

Berdasarkan hasil uji validitas pada tabel 1 menunjukkan bahwa ada indikator dalam kuesioner penelitian yang dikeluarkan karena nilai faktor pemuatan kurang dari <0,50.

b. Uji Reliabilitas

Uji reliabilitas digunakan untuk mengukur konsistensi alat ukur dalam mengukur suatu konsep. Reliabilitas akan menunjukkan akurasi, konsistensi responden dalam menjawab item pertanyaan. Uji reliabilitas dalam penelitian ini menggunakan rule of thumb nilai alpha atau composite reliability harus lebih besar dari 0,7 meskipun 0,6 masih bisa diterima (Hair et al, 2008 dalam Abdillah dan Hartono, 2014).

Tabel 2. Hasil Uji Reliabilitas

	PM	W	R
Composite Reliability	0,879	0,881	0,579
Cronbach's alpha	0,811	0,828	0,503
AVE	0,654	0,601	0,613

Sumber: Hasil pengolahan data (2025)

Hasil uji reliabilitas pada tabel 2 menunjukkan bahwa semua nilai composite reliability dan cronbach's alpha masing-masing lebih besar dari 0,6 yang berarti data kuesioner penelitian ini dikatakan reliabel.

Evaluasi Model Struktural

Inner model penelitian ini dievaluasi menggunakan R-square dan Q-square. Nilai R-square untuk konstruk dependen, nilai koefisien jalur untuk uji signifikansi antar konstruk dalam model struktural (Hartono dan Abdillah, 2014). Nilai R-square yang semakin mendekati 1 menunjukkan model memiliki predictive relevance, sebaliknya jika nilai R-square menjauhi 1 menunjukkan model kurang memiliki predictive relevance.

Selanjutnya dilakukan proses evaluasi model struktural yaitu melihat relevansi prediktif dengan menggunakan nilai Q-Squared. Nilai dari masing-masing konstruk endogen harus lebih besar dari nol sehingga dapat mengindikasikan bahwa konstruk eksogen mempunyai relevansi prediktif pada variabel laten endogen yang dipengaruhi (Sholihin dan Ratmono, 2013).

Selain menggunakan R^2 dan Q-Squared, evaluasi model struktural juga menggunakan effect size. Effect size dihitung sebagai nilai absolut kontribusi individual setiap variabel laten prediktor pada nilai R^2 variabel kriterion (Sholihin dan Ratmono, 2013). Effect size dapat dikelompokkan menjadi tiga kategori yaitu lemah (0,02), medium (0,15) dan besar (0,35).

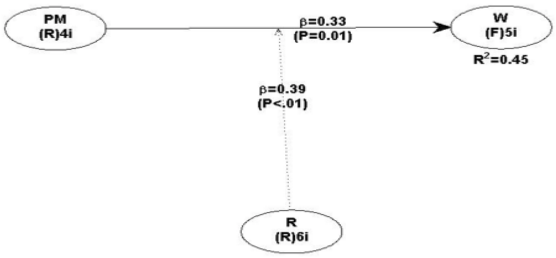
Table 3. Koefisien Determinan Variabel Laten

	PM	W	R
R^2		0,450	
Q-Squared		0,453	

Sumber: Hasil pengolahan data (2025)

Pengujian Hipotesis

Gambar 1 merupakan hasil pengujian penalaran moral terhadap whistleblowing setelah dimasukkan variabel moderasi.



Sumber: Data primer diolah dengan WarpPLS 7.0, 2024
Gambar 1. Hasil pengujian hipotesis

Hasil pengujian hipotesis

Tabel 4 dan tabel 5 menyajikan path coefficient hubungan variabel dalam penelitian ini. Penelitian ini memiliki 2 hipotesis.

Tabel 4. Hasil pengujian hipotesis langsung

Path	Path coefficient	P-Value	Hipotesis	Keterangan
PM to W	0,326	0,011	H1	Terdukung

Sumber: Hasil pengolahan data (2025)

Tabel 5. Hasil pengujian hipotesis moderasi

	Path coefficient		Hipo-tesis	Kete-rangan
Path	Hubungan Langsung (sebelum dimasukkan variabel moderasi)	Hubungan Langsung (sesudah dimasukkan variabel moderasi)	H2	Full Moderasi
PM*R □ W	0,326	0,385		

Sumber: Hasil pengolahan data (2025)

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Berdasarkan hasil pengujian pada tabel 4 menunjukkan bahwa penalaran moral memiliki pengaruh positif dan signifikan terhadap whistleblowing dengan nilai koefisien jalur 0,326 dan tingkat p-value <0,001. Temuan ini juga menunjukkan bahwa faktor individu berpengaruh positif terhadap whistleblowing, membuktikan dukungan terhadap model I-EDM (Schwartz 2016).

Hasil penelitian ini sejalan dengan penelitian yang dilakukan oleh Dozier dan Miceli (1986) yang menyatakan bahwa kemampuan individu untuk menyelesaikan atau menginterpretasi dilema etis dipengaruh oleh penalaran moral mereka. Near dan Micheli (2005) mengisyaratkan bahwa faktor utama yang mempengaruhi keputusan individu pada whistleblowing adalah perilaku moral mereka. Uddin dan Gillett (2002) mengindikasikan level penalaran moral atau pertimbangan etis individu berpengaruh terhadap perilaku etis mereka. Individu dengan penalaran moral tinggi akan lebih peka dalam mempertimbangkan intensitas moral dari suatu isu dan bertindak sesuai norma moral untuk membuat keputusan etis. Dalam teori penalaran moral Kohlberg (1969), ini menandakan posisi pada tingkat moralitas yang lebih tinggi (post-konvensional), yaitu ketika tindakan tidak lagi hanya mengikuti aturan eksternal atau kepentingan pribadi, melainkan prinsip universal seperti keadilan, kejujuran, dan tanggung jawab.

Penelitian pada hubungan antara whistleblowing dan penalaran moral auditor menunjukkan auditor dengan level penalaran moral tinggi lebih cenderung untuk melakukan whistleblowing (Liyanarachchi & Newdick, 2009), dan Manafe (2015). Individu dengan penalaran moral yang tinggi cenderung lebih mungkin melaporkan pelanggaran, bahkan dalam ketiadaan insentif eksternal (Husna, 2024). Yoga et al. (2017) menyatakan bahwa penalaran moral berpengaruh positif terhadap niat melakukan whistleblowing. Demikian juga dengan penelitian Mahwiyah et al. (2025) yang menyimpulkan bahwa individu yang mempunyai moral reasoning yang tinggi cenderung berpotensi untuk melakukan whistleblowing.

Adanya kombinasi kesadaran internal dan eksternal akan membuat individu memiliki kapasitas untuk menilai benar dan salah berdasar prinsip moral serta mempertanggungjawabkan keputusan etisnya dan menyadari bahwa keputusan yang diambil mempunyai dampak nyata secara moral terhadap orang lain maupun organisasi. Ini menunjukkan dukungan untuk model teori I-EDM yang menekankan dimensi etis dari suatu isu yang membuat individu mempunyai kesadaran untuk melakukan whistleblowing karena pelanggaran mempunyai konsekuensi moral yang serius. Dengan melakukan whistleblowing, individu membuat keputusan etis dengan pertimbangan akan dampak positif untuk keberlanjutan dan perbaikan organisasi.

Hasil menarik lainnya dari penelitian ini adalah individu percaya bahwa whistleblowing dapat membawa dampak positif untuk organisasi. Hal ini memiliki implikasi positif bagi keberlangsungan organisasi, membuktikan dukungan terhadap teori pertukaran sosial yang menekankan dimensi timbal balik sebagai dasar individu untuk bersedia berkorban atau tetap melaporkan pelanggaran walaupun merugikan dirinya karena percaya akan ada imbalan sosial atau moral yang lebih besar di masa depan yang akan diterima baik dalam bentuk penghargaan, kepercayaan, maupun integritas diri. Melaporkan kesalahan dianggap sebagai tanggung jawab moral dan investasi sosial di kemudian hari. Ini sejalan dengan penelitian Hooks et al. (1994) dalam Indra (2018) yang menunjukkan adanya hubungan antar tingkat dukungan organisasi dengan untuk mengungkapkan kecurangan.

Efek Religiusitas memoderasi pengaruh Penalaran Moral terhadap Whistleblowing.

Berdasarkan hasil pengujian pada tabel 5 menunjukkan bahwa hubungan langsung antara penalaran moral terhadap whistleblowing sebelum dimasukkan variabel moderasi memiliki nilai path coefficient sebesar 0,326 p-value sebesar <0,011 dan setelah dimasukkan variabel moderasi religiusitas mengalami kenaikan dari 0,326 menjadi 0,385 dengan p-value sebesar <0,003 sehingga dapat disimpulkan bahwa religiusitas mempunyai efek menguatkan penalaran moral individu untuk melakukan whistleblowing. Individu dengan tingkat religiusitas tinggi akan cenderung untuk melakukan whistleblowing. Penelitian ini sejalan dengan Ayem & Rumdoni (2021) yang menyatakan religiusitas berpengaruh positif terhadap niat mahasiswa melakukan whistleblowing.

Dalam kaitannya dengan teori I-EDM, pengambilan keputusan etis seringkali bersifat intuitif dan emosional. Sumber intuitif tersebut bisa dari keyakinan agama yang berfungsi sebagai sumber intuisi moral, ini berarti bahwa ketika individu menganalisis secara logis apakah keputusan whistleblowing dipandang tepat atau tidak, dorongan intuitif dari nilai agama sudah lebih dulu mengarahkan persepsi tentang benar-salah, sehingga keputusan moral dapat dipengaruhi oleh religiusitas yang secara otomatis berperan sebagai kompas moral. Religiusitas yaitu tingkat keyakinan dan penerapan seseorang pada nilai-nilai agama yang dipeluk sebagai pedoman berperilaku (Rahmawati & Susilawati, 2019).

Kaitannya dengan teori pertukaran sosial bahwa individu yang melakukan whistleblowing tidak hanya berdasar imbalan duniawi baik reward ataupun risiko sanksi, tetapi juga imbalan spiritual berupa pahala dan biaya spiritual seperti rasa bersalah dan berdosa. Nilai agama memperkuat proses penalaran moral sehingga whistleblowing dipandang sebagai tindakan benar secara etis. Nilai agama juga menambah dimensi imbalan spiritual dalam pertimbangan timbal balik (cost-benefit) yang diterima sehingga keputusan etis tidak semata dipandang sebagai rasional ekonomis namun juga moral religius.

KESIMPULAN

Berdasarkan hasil penelitian ini dapat diambil kesimpulan bahwa penalaran moral sebagai alat internal yang merupakan kapasitas individu sebagai panduan untuk berpikir secara etis dalam pekerjaannya dan I-EDM yang merupakan situasi eksternal yang dapat menjelaskan bagaimana nilai moral dapat membuat individu lebih peka terhadap intensitas moral suatu isu, akan saling berinteraksi untuk menghasilkan keputusan etis. Tindakan whistleblowing merupakan bentuk tanggung jawab moral yang berbuah pada kepercayaan dan perbaikan bersama.

Individu dengan tingkat religiusitas tinggi akan menginternalisasi ajaran agama sebagai salah satu acuan moral pribadi dalam mengambil keputusan whistleblowing sebagai kewajiban moral. Maka efek religiusitas individu maupun lingkungan pekerjaan dengan budaya religius akan berfungsi sebagai pemoderasi positif yang akan memperkuat penalaran moral untuk bertindak etis.

Dalam kaitannya dengan teori pertukaran sosial, individu akan lebih bertanggungjawab karena keimanannya, sehingga tidak hanya menimbang imbalan duniawi (reputasi atau keamanan kerja), tapi juga imbalan spiritual (ketenangan batin dan pahala). Hal ini membuat keputusan individu lebih kuat meskipun secara rasional dan sosial berisiko (kehilangan posisi, dimusuhi rekan kerja,) karena ia percaya akan ada imbalan moral spiritual yang lebih tinggi.

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THE EFFECT OF FREE CASH FLOW AND CORPORATE GOVERNANCE ON EARNINGS MANAGEMENT: THE MODERATING ROLE OF STOCK LIQUIDITY

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Abstract: *This study examines the influence of free cash flow and corporate governance index (CGI) on both accrual and real earnings management practices, with a focus on the moderating role of stock liquidity, with standard firm-level controls, including ROA, dividend yield, and firm size. Using a quantitative approach, this research analyzes data listed on the Indonesia Stock Exchange (IDX) during the period from 2019 to 2023. A sample of 90 companies with 450 company-year observations was used, which were then analyzed using balanced panel regression. The results show that free cash flow has a significant positive effect on accrual earnings management and a negative effect on real earnings management. CGI, stock liquidity, as well as the moderating role of stock liquidity on the relationship between CGI, were found to have no significant effect on earnings management.*

Keywords: *Earnings management, corporate governance index, free cash flow.*

INTRODUCTION

Earnings management remains a critical concern in financial accounting, with firms sometimes altering reported earnings to meet certain objectives or to achieve desired outcome (Habib et al., 2022). Companies often engage in two forms: accrual earnings management, which involves adjusting accounting entries, and real earnings management, characterized by actual changes in operational activities (Alex Johanes Simamora et al., 2022; Nguyen et al., 2023). These practices can distort financial information, affecting perceptions and market efficiency. Understanding the factors that influence earnings management is crucial to maintain fair financial reporting (Tulcanaza-Prieto & Lee, 2022).

One such factor that influences earnings management is corporate governance. Effective corporate governance is designed to limit opportunistic behaviors like earnings management by improving oversight and accountability (Black et al., 2017; Claessens & Yurtoglu, 2012). Another factor is free cash flow (FCF), which may lead to conflicts where managers use excess cash to pursue personal goals, potentially through earnings manipulation if left unmanaged (Fatmala & Riharjo, 2021; Islam et al., 2021; Toumeh et al., 2023).

While there is extensive literature on earnings management, research often focuses separately on real earnings management and accrual earnings management or examines individual effects of corporate governance and free cash flow. As a result, little is known about whether excess cash affects managers’ choice between REM and AEM. However, the combination of corporate governance and free cash flow on both real and accrual earnings management has received less attention, especially when examining the moderate role of stock liquidity. Stock liquidity may impact the extent to which earnings management occurs, as more liquid stock could attract more scrutiny, thereby reducing likelihood of manipulative behaviors (Ezzine

& Olivero, 2016; H.-Y. Huang & Ho, 2020; Hunjra et al., 2020; Sayari & Omri, 2017).

This study aims to fill these gaps by investigating and examining the influence of corporate governance index and free cash flow on real earnings management and accrual earnings management practices, with stock liquidity as a moderating factor. Specifically, this study investigates whether corporate governance influences the likelihood of earnings manipulation in the form of accrual adjustments and operational changes. It also examines the role of free cash flow in driving earnings management, particularly in companies with abundant cash, which can create incentives for managers to manipulate earnings to meet financial targets or justify excess cash retention as firms with higher free cash flow possess greater discretion over operational decisions, which may allow real earnings management to be implemented easily compared to accrual earnings management (García Osma et al., 2022).

In addition, the study explores the moderating role of stock liquidity in the context of earnings management. Liquidity in the stock market can influence the extent to which corporate governance mechanisms are effective in reducing earnings manipulation, as more liquid stocks attract greater investor scrutiny (H.-Y. Huang & Ho, 2020; Hunjra et al., 2020). This study will analyze how stock liquidity may enhance or diminish the effectiveness of corporate governance in curbing both accrual and real earnings management, providing new insights into the interactions between corporate governance, liquidity, and earnings quality.

This study also aims to offer a comprehensive understanding of the factors that drive earnings management in firms listed on the Indonesia Stock Exchange (IDX). The findings are expected to contribute to the broader literature on corporate governance and earnings management by providing empirical evidence on the combined effects of governance practices, free cash flow, and liquidity on financial reporting behavior.

LITERATURE REVIEW

Agency Theory

Agency theory emerged due to the separation between company owners (shareholders) and those who run day-to-day operations, namely managers or agents (BOSSE & PHILLIPS, 2016). The main problem with this theory is the potential for conflicts of interest, as agents do not always act in accordance with the owner's wishes (Ramadana et al., 2023). Agents have direct access to company information, while owners can only rely on reports and oversight (Wood, 2025). This theory is also based on three basic assumptions about human nature, which assume that humans are selfish, have limitations in seeing the future, and tend to avoid risks (Eisenhardt, 1989). Therefore, agency theory explains the importance of oversight and incentive systems to align the interests of both parties.

Free Cash Flow and Earnings Management

Free cash flow (FCF) has a significant impact on earnings management behavior. High levels of FCF can lead to problems, where managers may engage in earnings manipulation to justify excess cash distributions (Dewasiri et al., 2019; Islam et al., 2021; Rahmatillah et al., 2024). Studies have shown that firms with abundant free cash flow are more prone to real earnings management, as managers exploit operational decisions to manipulate reported earnings (H. L. Huang et al., 2021; Rezki Zurriah et al., 2025). Consistent with this view, several studies find a positive association between free cash flow and earnings management (Irawan & Apriwenni, 2021; Rezki Zurriah et al., 2025). In contrast, other studies find a weak or insignificant relationship, arguing that monitoring mechanism and accounting standards can limit opportunistic behavior (Hu & Lin, 2011). These mixed findings imply that excess free cash flow may not uniformly affect all forms of earnings management, leaving open the question of whether managers rely more heavily on real or accrual-based methods due to differing constraints

H1: Free Cash Flow has positive effect on Accrual Earnings Management.

H2: Free Cash Flow has positive effect on Real Earnings Management.

Corporate Governance Index and Earnings Management

Menurut Kotler dan Amstrong (Mahardika, 2020:82). Strategi pemasaran adalah logika pemasaran dimana kelompok bisnis berharap untuk menciptakan nilai dan mendapatkan profit dari hubungannya dengan konsumen. Menurut Philip Kotler dalam (Mahardika, 2020:82) mendefinisikan bahwa strategi pemasaran adalah suatu pemikiran pemasaran yang akan digunakan untuk meraih tujuan pemasaran, dimana di dalamnya terdapat strategi rinci mengenai pasar sasaran, penetapan posisi, bauran pemasaran, dan budget untuk pemasaran.

Bauran Pemasaran

Corporate governance plays a pivotal role in constraining earnings management practices (Al-Haddad & Whittington, 2019; Wati & Malik, 2021). A well-structured governance framework enhances oversight and accountability, thereby reducing the likelihood of both real and accrual earnings management (T. T. H. Nguyen et al., 2023; Sayari & Omri, 2017).

Corporate governance can be measured through the Corporate Governance Index (CGI), which evaluates various aspects (Itan et al., 2024). However, the effectiveness of the CGI varies depending on contextual factors (Mardianto & Simdy, 2024). Research indicates that firms with stronger corporate governance tends to report lower levels of earnings manipulation (Mahrani & Soewarno, 2018). For instance, the independence of board members has been linked to a reduction in aggressive accounting practices, as independent directors can more effectively monitor managerial actions (Chen et al., 2015).

H3: CG Index has a negative effect on Accrual Earnings Management.

H4: CG Index has a negative effect on Real Earnings Management.

The Moderating Role of Stock Liquidity

Stock liquidity may play a moderating role in the relationship between corporate governance and earnings management. More liquid stocks tend to attract greater investor scrutiny, which can deter earnings manipulation (H.-Y. Huang & Ho, 2020; Sayari & Omri, 2017). High liquidity can enhance the effectiveness of corporate governance by increasing market discipline on managerial actions (Ezzine & Olivero, 2016; Prommin et al., 2014). Studies suggest that firms with liquid stocks are less likely to engage in real earnings management (REM) and accrual earnings management (AEM), as the potential for negative market reactions serves as a check on managerial discretion (Sayari & Omri, 2017). Thus, stock liquidity may reinforce the positive effects of corporate governance on financial reporting quality.

H5: Stock Liquidity negatively moderates the effect of CGI on Accrual Earnings Management
H6: Stock Liquidity negatively moderates the effect of CGI on Real Earnings Management

RESEARCH METHOD

The Indonesia Stock Exchange (IDX) in 2019 had 943 listed companies under it, that were categorized further into two main sectors, which is financial sector and non-financial sector that comprises two categories of industries. This study did not use financial sector for various reasons as financial institutions have a different working capital structure and contain different financial statements components from those in the non-financial structure.

The sample of this study incorporated all non-financial companies listed on the IDX from 2019 to 2023, and the financial reports of the selected companies must be available on the website and cover all of periods. Companies that went bankrupt in 2019 - 2023 and did not meet the category or requirements for collecting variables, were not used in this study. Therefore, this study used 90 companies as sample data with 450 firm-year observations.

This quantitative study used balanced panel data with all the needed data came from secondary data sources. Except for the data required for the moderating variables which must be obtained using the IDX website and other financial websites, data related to earnings management, free cash flow, corporate governance index, and control variables are collected from the annual reports of non-financial companies on the IDX.

Operational Definition of Variables and Measurements

The variables that will be used as the dependent variables in this study are accrual earnings management and real earnings management. The measurement for calculating accrual earnings management in this study used the Modified Jones formula (Dechow et al., 1995) as follows.

Total Accruals (TAC_{it}) = NI_{it} – CFO_{it}

$$\frac{TAC_{\square}}{TA_{\square-1}} = \alpha_0 + \alpha_1\left(\frac{1}{TA_{\square-1}}\right) + \alpha_2\left(\frac{(\Delta REV_{\square} - \Delta REC_{\square})}{TA_{\square-1}}\right) + \alpha_3\left(\frac{PP\&E_{\square}}{TA_{\square-1}}\right.$$

$$\frac{NDAC_{\square}}{A_{\square-1}} = \hat{a}_1\left(\frac{1}{A_{\square-1}}\right) + \hat{a}_2\left(\frac{(\Delta REV_{\square} - \Delta REC_{\square})}{A_{\square-1}}\right) + \hat{a}_3\left(\frac{PP\&E_{\square}}{A_{\square-1}}\right)$$

Discretionary Accruals (DA) DAC_t = TAC_t – NDAC

Where:	
TAit	Total company accruals in that year
At-1	Total assets in the year before the research
ΔREVit	Difference between income from year t and year t-1
PPEit	Total tangible assets of the company in that year
NDAit	Nondiscretionary accruals of the company in that year
Nit	The company's net profit in that year
CFOit	The company's operational cash flow in that year
ΔREC	Difference between the year t's accounting and year t-1
DAit	The company's discretionary accruals in that year

The measurement to calculate real earnings management is based on Roychowdhury Model (Dechow et al., 1995) as follows.

$$\frac{CFO_{i\square}}{TA_{i\square-1}} = \alpha_0 + \beta_1\left(\frac{1}{TA_{\square-1}}\right) + \beta_2\left(\frac{S_{i\square}}{TA_{i\square-1}}\right) + \beta_3\left(\frac{\Delta S_{i\square}}{TA_{i\square-1}}\right)$$

$$\frac{PROD_{i\square}}{TA_{i\square-1}} = \alpha_0 + \beta_1\left(\frac{1}{TA_{i\square-1}}\right) + \beta_2\left(\frac{S_{i\square}}{TA_{i\square-1}}\right) + \beta_3\left(\frac{\Delta S_{i\square}}{TA_{i\square-1}}\right) + \beta_4\left(\right.$$

$$\frac{DISXP_{i\square}}{TA_{i\square-1}} = \alpha_0 + \beta_1\left(\frac{1}{TA_{i\square-1}}\right) + \beta_2\left(\frac{S_{i\square}}{TA_{i\square-1}}\right) + \varepsilon_{i\square}$$

$$REM_t = APROD_t - ACFO_t - ADISX_t$$

Where:	
REM_t	Real earnings management in year t
CFO_t	Cash flow from operations in year t
$DISEXP_t$	Total selling, general and administrative expenses in year t
$PROD_t$	Cost of goods sold in year t + ΔINVt
ΔINV_t	Change in inventory from year t-1 to t
TA_{t-1}	Total asset in year t-1
S_t	Sales in year t
ΔS_t	Change in sales from year t-1 to t
ΔS_{t-1}	Change in sales from year t-2 to t-1
ε	Error in tear t

The following are the measurement formulas of the independent, control, and moderating variables used in the study. Free Cash Flow (FCF) reflects the availability of internal funds, as firms with higher FCF may have more discretion over investments and earnings management decisions (Toumeh et al., 2023). Corporate Governance Index (CGI) controls for governance quality, since stronger governance mechanisms are expected to limit managerial opportunism and earnings manipulation (Elmagrhi et al., 2020; Mardianto & Simdy, 2024).

Dividend Yield (DYID) controls for firms' dividend policy, as high dividend payouts can reduce free cash flow available for managerial discretion, thereby influencing both accrual and real earnings management (Kim, 2020). Return on Assets (ROA) captures firm profitability, since more profitable firms may have different incentives to manage earnings compared to less profitable firms. Firm Size (FSIZE), measured as the natural logarithm of total assets, accounts for the fact that larger firms are typically subject to greater monitoring by regulators and auditors, which may constrain managerial opportunism (Okoro & Ihenyen, 2020).

Table 1. Independent Variable Formulas

Variables	Formula
Free Cash Flow (FCF)	(Operating Income Before Depreciation - Tax Expense - Interest Expense - Dividends on Ordinary Shares - Dividends on Preferred Shares) / Total Assets t-1
CG Index (CGI)	
	Where:

Code	CGI	Operational Defination of CGI	Scoring
CGI-1	Board of Directors Independence	$\frac{BOD\ Independence}{Total\ BOD} \times 100\%$	<60% = 0, >60% = 1
CGI-2	Institusional Ownership	Average institutional shares per total outstanding shares multiplied by 100%	If > average = 1, if < average = 0
CGI-3	Ownership Concentration	Average individual share ownership per total outstanding shares multiplied by 100%	If > average = 1, if < average = 0
CGI-4	Stability of BOD	There is a change of directors within two years = 0, otherwise 1.	<2 years = 0, >2 years = 1
CGI-5	Related Parties	Sales transactions to related parties per total sales multiplied by 100%	If the % of sales to related parties is greater = 1, otherwise 0

Table 2. Control and Moderating Variable Formulas

Control Variables	
Dividend Yield (DIYD)	Dividend per Share / Market Value per Share
Return on Assets (ROA)	Net income / Total Assets
Firm Size (FSIZE)	Natural logarithm (Ln) of Total Assets
Moderating Variable	
Stock Liquidity (SL)	$CSA = \frac{2(e^{\alpha_t} - 1)}{1 + e^{\alpha_t}}$ $\alpha_t = \frac{\sqrt{2\beta_t} - \sqrt{\beta_t}}{3 - 2\sqrt{2}} - \sqrt{\frac{\gamma_t}{3 - 2\sqrt{2}}}$ $\beta_t = \left(\log\left(\frac{H_t}{L_t}\right)\right)^2 + \left(\log\left(\frac{H_{t+1}}{L_{t+1}}\right)\right)^2$ $\gamma_t = \left(\log\frac{\max(H_t, H_{t+1})}{\min(L_t, L_{t+1})}\right)^2$ Where each parameter (α_t, β_t, γ_t) uses the ratio of H_t, the highest stock value on day t, H_{t+1}, the highest stock value on day t+1, and the ratio of L_t, the lowest stock value on day t, and L_{t+1}, the lowest stock value on day t+1.

This research uses SPSS and EViews software to process the data. Data analysis methods used in this research include descriptive statistics, panel regression, Chow test, Hausman test, Lagrange multiplier test, F test, t-test, and coefficient determination test. Data processing carried out using panel regression aims to evaluate the research hypotheses. Before conducting regression, this study needs to select the most suitable model in the panel regression technique. Chow test and Hausman test are used to determine whether Pooled Least Square (PLS), Fixed Effect Model (FEM), or Random Effect Model (REM) is the most suitable model to be used. Descriptive statistics include mean, median, minimum, and maximum values to provide an initial summary of the general distribution of the data studied. To analyze the collected data and interpret the results, a panel regression test is conducted to decide the most appropriate model for use during the testing phase. There are three types of panel regression models: the Pooled Least Squares (PLS) model, which utilizes both time series and cross-sectional data; the Fixed Effect Model (FEM), which allows for comparison across different entities; and the Random Effect Model (REM), which incorporates residuals associated with individual units over time. The choice of model depends on the characteristics of the available dataset. To identify the most suitable model, several tests are required, namely the Chow test, the Hausman test, and the Lagrange Multiplier test.

The Chow test is used to decide whether the Pooled Least Squares (PLS) or Fixed Effect Model (FEM) is more appropriate for estimating panel data. If the probability value is greater than 0.05, the PLS model is preferred; however, if the probability is less than 0.05, the Random Effect Model (REM) is chosen. This differs from the Hausman test, which helps whether to use the REM or FEM. The Hausman test results are based on the chi-square statistic: if the probability exceeds 0.05, the REM is selected, but if it is below 0.05, the FEM is recommended. Meanwhile, the Lagrange Multiplier test compares the common effects model with the Random Effects Model. A probability value below 0.05 suggests that the REM is more suitable, whereas a value above 0.05 indicates that the common effects model should be used.

The F test is applied to assess whether there is a significant relationship between independent and dependent variables. If the probability value is greater than 0.05, it indicates no significant effect; otherwise, if it is less than 0.05, the effect is significant. Additionally, the t-test is performed to examine the impact of each independent variable on the dependent variable within the research model. A significance level below 0.05 means the independent variable significantly influences the dependent variable, while a value above 0.05 suggests no significant effect.

RESULT AND DISCUSSION

Descriptive Analysis

Table 3. Descriptive statistics

	Mean	Std. Deviation	Minimum	Maximum
AEM	0.0209106	0.1374612	-0.6299324	0.5511605
REM	-0.0000712	0.387472	-1.621.638	1.125.896
CGI	1.277.778	0.8312893	0	3
FCF	0.1168454	0.1069287	-0.1541393	0.9121124
SL	-0.0648924	0.500917	-1.830.383	1.983.243
DIYD	0.0475887	0.0667535	0.000000147	0.4910324
ROA	0.0935871	0.0915244	-0.2032107	0.5925829
FSIZE	29.405	1.427.551	2.549.553	3.349.453

Source: Processed secondary data (2025)

Based on Table 3, the average value for accrual earnings management (AEM) and real earnings management (REM) are 0.0209106 and -0.0000712, respectively. This suggests that earnings management measures are incredibly low. In addition, the maximum and minimum values of both variables indicate that the observation results can be confirmed by the standard deviation, which is at a low number, namely 0.1374612 and 0.387472. These results imply that most companies listed on the Indonesia Stock Exchange (IDX) are not heavily involved in AEM or REM practices.

Free cash flow (FCF) has an average value of 0.1168454, it shows that companies on the IDX on average have positive free cash flow. For the next independent variable, corporate governance index (CGI) with a value of 0 as the minimum, indicates that there are companies with poor governance, especially with an average value of 1.277778 out of a maximum of 3, where the highest distribution score for CGI is 5.

Chow Test and Hausman Test Results

Based on the outcome of Table 4 and Table 5, the most appropriate model to test the hypotheses of the effect of the variables studied on accrual earnings management (AEM) is the Random Effect Model. The results of the Hausman Test and Lagrange Test for AEM produced probabilities of 0.1640 and 0.0000, respectively, therefore, the model used in examining the AEM variable is the Random Effect Model.

Table 4. Chow Test on AEM

Effects Test	Statistic	d.f.	Prob.
Cross-setion F	6.278.985	-89,353	0.0000
Cross-section Chi-square	427.043.300	89	0.0000

Table 5. Hausman Test on AEM

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.247.488	7	0.0927

Table 6. Lagrange Test on AEM

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	2.127.769	1.253.260	2.140.302
	(0.0000)	(0.2629)	(0.0000)

Unlike accrual earnings management, the model used for real earnings management (REM) is the Fixed Effect Model. This is due to the Hausman test for real earnings management which produces a probability of 0.0009 as seen in Table 8 does not exceed the threshold of 0.05. Therefore, the Langrage Multiplier (LM) test is not necessary, as the Fixed Effects Model (FEM) was chosen on the basis that this model it is the optimal model.

Table 7. Chow Test on REM

Effects Test	Statistic	d.f.	Prob.
Cross-setion F	15.976.714	-89,353	0.0000
Cross-section Chi-square	726.771.019	89	0.0000

Table 8. Hausman Test on REM

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	24.604.597	7	0.0009

Hypothesis Test of Free Cash Flow and Corporate Governance Index on Accrual Earnings Management and Real Earnings Management

Table 9. FCF and CGI on AEM

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.066743	0.224141	0.297774	0.7660
FCF	0.243992	0.094634	2.578272	0.0103
CGI	0.002368	0.008697	0.272271	0.7855
DIYD	-0.105553	0.105294	-1.002457	0.3167
ROA	0.374553	0.124215	3.015373	0.0027
FSIZE	-0.003652	0.007569	-0.482567	0.6296

Source: Processed secondary data (2025)

The free cash flow (FCF) variable in Table 9 shows a coefficient of 0.243992 with a probability of 0.0103. From these results, it can be concluded that H1 is proven true as FCF has a significant positive effect on accrual earnings management (AEM). The positive direction of the coefficient supports the theoretical hypothesis that companies with high levels of free cash flow tend to have a greater incentive to engage in earnings management through accrual methods (Oktaviani & Mochklas, 2020). This aligns with agency theory which states that when a company has excess funds, managers have greater flexibility to act in their own best interests, including manipulating accounting to achieve specific profit targets. Thus, this indicates that FCF can increase the likelihood of accrual-based earnings management practices. This research aligns with research by Inten Gemi Nestiti et al. (2025), Irawan & Apriwenni (2021), and Nuriyah & Amir (2023). However, it contrasts with research by Santoso (2023), Alif Alafiyah et al. (2024), and Wawo et al. (2023), which concluded that free cash flow negatively impacts accrual earnings management.

The corporate governance (CGI) variable results show a coefficient of 0.002368 with a probability of 0.7855. This indicates that corporate governance has a positive effect on AEM, but not statistically significant as the probability value is far above the 5% significance level. Theoretically, according to some research (Mismiwati et al., 2025; Q. Nguyen et al., 2024; Ryad et al., 2024), corporate governance should be able to suppress earnings management practices, through more effective monitoring mechanisms, information transparency, and managerial accountability. However, the results of this study indicate a coefficient direction opposite to theoretical expectations, although not significant. There are several possible causes for this result. One is that corporate governance as measured by CGI has not been fully implemented effectively or is still merely formalities with no real impact on management behavior.

Although H3 is not statistically proven and the direction of the relationship is not established, these results still provide important insights that the role of corporate governance in controlling accrual earnings management (AEM) may depend on the quality of implementation, not just its structural existence. Research by several researcher (Asyiroh & Hartono, 2019; Devi, 2018), states that corporate governance, as proxied by managerial ownership, institutional ownership, and independent commissioners, shows that corporate governance has no effect on AEM. The existence of corporate governance does not always have a significant impact on earnings management, especially in the context of companies in emerging markets such as Indonesia where governance implementation is not yet fully optimal.

Table 10. FCF and CGI on REM

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.284287	1.348593	-3.176857	0.0016
FCF	-1.454957	0.176744	-8.231985	0.0000
CGI	0.006836	0.016390	0.417082	0.6769
DIYD	-0.164956	0.197772	-0.834071	0.4048
ROA	-0.352165	0.243111	-1.448579	0.1483
FSIZE	0.152569	0.046027	3.314780	0.0010

Source: Processed secondary data (2025)

In Table 10, free cash flow (FCF) shows a coefficient of -1.454957 with a probability of 0.0000. The negative coefficient value indicates that FCF has a significant negative effect on real earnings management (REM). Therefore, it can be concluded that H2 is not supported. Although the direction of the relationship between FCF and REM is not as initially expected, the result is significant, thus, this indicates that the greater the value of FCF owned by a company, the less likely management is to manipulate real profits.

In contrast to accrual earnings management, real earnings management (REM) involves deviations from optimal operational decisions and often entails real cash flow consequences. While excess free cash flow may increase managerial incentives to engage in REM (Abubakar et al., 2021; Rezki Zurriah et al., 2025), such activities entail real economic costs that distort optimal operating decisions. When firms possess abundant free cash flow, managers are therefore more likely to rely on AEM rather than engage in value-destroying real activities manipulation. This negative effect is in line with the research conducted by Wandari (2023).

Corporate governance index (CGI) with a coefficient of 0.006836 and a probability of 0.6769, indicates that CGI has a positive effect on real earnings management (REM). The positive direction of the coefficient implies that corporate governance tends to increase REM practices, however, this effect cannot be statistically proven at the 5% significance level. This suggests that the implementation of corporate governance as measured by the CGI is not necessarily effective in limiting real earnings management practices.

Hypothesis Test of Corporate Governance on Accrual Earnings Management and Real Earnings Management Moderating by Stock Liquidity

Table 11. CGI on AEM Moderating by SL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.039438	0.226574	0.174061	0.8619
FCF	0.258339	0.094622	2.730232	0.0066
CGI	0.001424	0.008694	0.163850	0.8699
SL	-0.028305	0.021859	-1.294883	0.1960
CGIXSL	0.002971	0.012975	0.228980	0.8190
DIYD	-0.114407	0.105187	-1.087652	0.2773
ROA	0.384123	0.124159	3.093812	0.0021
FSIZE	-0.002806	0.007651	-0.366733	0.7140

Source: Processed secondary data (2025)

The results from Table 11 show that Stock Liquidity (SL) has a coefficient of -0.028305 and a probability of 0.1960. Although the coefficient is negative, there is insufficient statistical evidence to say that stock liquidity decreases accrual earnings management (AEM). This is in line with research by Mardianto & Simdy (2024), but differs from research which states that stock liquidity increases accrual-based earnings management by HUANG et al. (2017).

Based on the results of the interaction between the Corporate Governance Index (CGI) and Stock Liquidity (SL), represented by the moderating variable CGIXSL, it has a coefficient of 0.002971 with a probability value of 0.8190. This positive coefficient value indicates that stock liquidity strengthens the effect of CGI on accrual earnings management. Companies with good governance are expected to have stricter supervision of managerial behavior, which can reduce the possibility of earnings management. However, these results indicate that good corporate governance, as measured by the CGI, is not effective enough in reducing AEM practices, although the combination with However, these results indicate that good corporate governance, as measured by the CGI, is not effective enough in reducing AEM practices, although the combination with high SL should provide a strong monitoring effect. This interpretation is contrary to the expectations of the hypothesis which should have a negative effect. And with probability results that are much greater than the conventional significance level, it can indicate that there is no strong evidence that the interaction between CGI and SL significantly influences AEM practices in the sample tested. Therefore, H5 is not proven.

Table 12. CGI on REM Moderating by SL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.328382	1.351181	-3.203406	0.0015
FCF	-1.451365	0.177424	-8.180199	0.0000
CGI	0.006042	0.016428	0.367767	0.7133
SL	0.006918	0.035872	0.192850	0.8472
CGIXSL	-0.013959	0.021275	-0.656120	0.5122
DIYD	-0.158432	0.198408	-0.798514	0.4251
ROA	-0.345812	0.243479	-1.420294	0.1564
FSIZE	0.154015	0.046113	3.339964	0.0009

Source: Processed secondary data (2025)

The results for the CGIXSL interaction variable in Table 12 show a coefficient of -0.013959 with a probability of 0.5122. This coefficient value indicates that Stock Liquidity negatively moderates the relationship between Corporate Governance and Real Earnings Management (REM). Better corporate governance and higher stock liquidity make companies tend to reduce the use of real earnings management (Mahrani & Soewarno, 2018). REM practices often involve operational decisions that are detrimental to the company in the long run. Good corporate governance combined with high stock liquidity makes it more difficult for companies to manipulate profits based on operational decisions as liquid markets are more efficient at detecting such manipulation. This is in line with the hypothesis that SL negatively moderates CGI on REM. However, the probability results exceeding 0.05 indicate that the interaction between CGI and SL on REM has no significance. In other words, H6 is not proven.

KESIMPULAN

This study focuses on the influence of free cash flow and corporate governance on earnings management practices, both accrual and real based, by considering the role of stock liquidity as a moderating variable. The research is conducted within the context of publicly listed companies on the Indonesia Stock Exchange. The findings show that free cash flow has a positive significant effect on accrual earnings management, where firms with excess cash are more likely to manipulate earnings through accounting adjustments. Conversely, free cash flow has a negative effect on real earnings management, suggesting that firms with greater financial flexibility are less inclined to engage in manipulation through operational activities.

Although corporate governance does not show a significant direct effect on either accrual earnings management or real earnings management, the direction of the coefficients suggests that better governance tends to be associated with lower earnings management practices. The interaction between corporate governance and stock liquidity also does not exhibit a significant moderating effect on either type of earnings management. This indicates that, the sample in this period, stock liquidity does not strengthen or weaken the ability of corporate governance to constrain earnings management.

These findings suggest that corporate governance alone may not be sufficient to limit managerial discretion in earnings reporting, especially in environments where market pressures are high or governance practices are more formalistic than substantive. Future research may consider incorporating additional moderating variables to better understand the conditions under which governance effectively curbs earnings management behavior. Additionally, researchers should explore alternative proxies for corporate governance to capture its multidimensional nature more accurately, as different measures may yield different insights into corporate governance's role in earnings management

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EFEK MEDIASI KEPUASAN KERJA PADA PENGARUH INSENTIF TERHADAP KINERJA KARYAWAN

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Abstract: *Penelitian ini bermaksud untuk menganalisis secara komprehensif pengaruh insentif terhadap kinerja karyawan di mana kepuasan kerja sebagai variabel mediasi pada lingkungan Universitas Nahdlatul Ulama Surabaya (UNUSA). Latar belakang didasarkan pada kebutuhan institusi pendidikan tinggi untuk menjaga kualitas layanan akademik dan administratif melalui peningkatan kinerja sumber daya manusia. UNUSA sebagai institusi yang terus berkembang menuntut adanya pengelolaan SDM yang efektif, termasuk penyediaan sistem insentif yang mampu memotivasi pegawai. Namun, pemberian insentif sering kali tidak memberikan dampak maksimal jika tidak diikuti dengan peningkatan kepuasan kerja. Dengan demikian, kepuasan kerja diasumsikan sebagai variabel psikologis kunci di mana dapat menjembatani hubungan antara insentif dan kinerja karyawan. Penelitian ini memakai pendekatan kuantitatif dengan penyebaran kuesioner pada karyawan UNUSA melalui teknik purposive sampling. Instrumen penelitian memakai skala Likert 1–5 lalu dianalisis dengan model Structural Equation Modeling (SEM) guna menganalisis pengaruh langsung dan tidak langsung antar variabel. Temuannya memperlihatkan jika insentif berpengaruh positif signifikan terhadap kepuasan kerja, serta memberikan pengaruh langsung terhadap kinerja karyawan. Kepuasan kerja juga terbukti berpengaruh positif terhadap kinerja karyawan. Uji mediasi memperlihatkan kepuasan kerja bertindak selaku mediator parsial dalam hubungan antara insentif dan kinerja, sehingga memperlihatkan jika insentif tidak hanya meningkatkan kinerja secara langsung melainkan juga lewat peningkatan kepuasan kerja. Temuan ini menegaskan pentingnya UNUSA untuk terus memperkuat mekanisme insentif yang adil, transparan, serta berbasis kinerja untuk mewujudkan kepuasan kerja yang optimal sehingga bisa meningkatkan kinerja pegawai secara berkelanjutan. Penelitian ini berkontribusi secara teoritis sekaligus praktis untuk pengembangan manajemen SDM di lingkungan UNUSA.*

Keywords*: Kepuasan kerja, Insentif, Kinerja Karyawan*

PENDAHULUAN

Sumber daya manusia (SDM) ialah aset utama di mana menetapkan keberhasilan suatu organisasi, termasuk institusi pendidikan tinggi. Di konteks perguruan tinggi, kualitas layanan akademik, administratif, dan operasional sangat dipengaruhi oleh kinerja karyawan yang terlibat di dalamnya. Universitas Nahdlatul Ulama Surabaya (UNUSA) selaku perguruan tinggi yang terus berkembang dan berkomitmen pada peningkatan mutu pendidikan, menyadari pentingnya mewujudkan lingkungan kerja yang mampu menambah motivasi, dedikasi, serta kinerja seluruh karyawannya. Untuk mencapai hal tersebut, pengelolaan SDM di UNUSA perlu dilakukan secara strategis, salah satunya lewat pemberian insentif yang tepat sekaligus berkelanjutan.

Insentif ialah faktor penting dalam mendorong perilaku kerja yang produktif. Pada banyak organisasi, termasuk UNUSA, insentif tidak hanya berupa finansial, malainkan juga non-finansial yang terkait langsung dengan kesejahteraan dan kenyamanan karyawan. UNUSA mempunyai beragam bentuk insentif yang dirancang untuk memenuhi kebutuhan karyawan secara komprehensif. Insentif tersebut meliputi bonus akhir tahun, bonus Pendidikan anak, penghargaan masa kerja berupa emas 5 gram untuk karyawan yang sudah bekerja selama 10 tahun sekaligus fasilitas umroh bagi mereka yang memperlihatkan loyalitas tinggi. Selain itu, karyawan juga memperoleh bonus setiap kali terlibat dalam kegiatan kampus serta mendapatkan program karya wisata tahunan yang bertujuan meningkatkan kebersamaan dan mengurangi kejenuhan kerja. Tidak hanya itu, UNUSA juga memberikan uang saku sebesar Rp1.000.000 setiap tahun sebagai bentuk perhatian terhadap kebutuhan kesejahteraan karyawan.

Bermacam bentuk insentif ini memperlihatkan komitmen UNUSA dalam memperhatikan kesejahteraan karyawan, baik dalam bentuk penghargaan atas kerja mereka ataupun sebagai upaya untuk menjaga loyalitas. Namun demikian, insentif yang diberikan tidak secara otomatis menjamin meningkatnya kinerja karyawan. Beberapa studi sebelumnya memperlihatkan jika insentif dapat berpengaruh positif terhadap kinerja, tetapi efek tersebut sering dipengaruhi oleh faktor psikologis seperti kepuasan kerja. Dengan kata lain, insentif yang baik hanya akan memberikan dampak optimal bila karyawan merasa puas dengan pekerjaannya dan merasa dihargai oleh organisasi.

Kepuasan kerja menjadi faktor penting di mana mencerminkan persepsi karyawan mengenai keadilan, kenyamanan, dan penghargaan terhadap apa yang diterima dari organisasi. Robbins & Judge (2017) mengemukakan jika kepuasan kerja ialah respon emosional pada pekerjaan yang berdasarkan evaluasi apakah pekerjaan tersebut memenuhi harapan individu. Di konteks UNUSA, kepuasan kerja karyawan bisa terbentuk saat ia merasa jika insentif yang diberikan sejalan dengan kontribusi sekaligus kebutuhannya. Jika insentif dirasa tidak adil, kurang transparan, atau tidak sebanding dengan beban kerja, maka karyawan akan sulit merasakan kepuasan kerja meskipun insentif diberikan secara rutin.

Hubungan antara insentif dan kinerja karyawan sudah menjadi topik di mana banyak diteliti dalam manajemen SDM. Vroom (1964) lewat teori harapannya menjelaskan jika seseorang akan bekerja lebih optimal ketika mereka meyakini jika usahanya akan menghasilkan penghargaan yang diinginkan. Sementara itu, Herzberg dalam teori dua faktornya menyatakan jika kepuasan kerja dipengaruhi oleh factor motivator misalnya penghargaan dan pengakuan. Kedua teori tersebut menegaskan jika insentif berperan penting guna mewujudkan motivasi sekaligus kepuasan kerja. Namun, penelitian modern menekankan jika efek insentif terhadap kinerja sering kali tidak bersifat langsung, melainkan lewat variabel mediasi seperti kepuasan kerja.

Dalam konteks UNUSA, penting untuk mengetahui apakah insentif yang sudah diberikan selama ini benar-benar mampu menambah kinerja karyawan lewat peningkatan kepuasan kerja. Beberapa karyawan mungkin merasa sangat puas karena mendapatkan bonus kegiatan atau penghargaan masa kerja, sementara yang lain mungkin merasa insentif tersebut belum cukup atau tidak merata. Ketidakmerataan persepsi dalam mendapatkan insentif dapat menyebabkan perbedaan tingkat kepuasan kerja dan akhirnya berpengaruh pada kinerja yang beragam. Jadi, penelitian tentang efek mediasi kepuasan kerja pada pengaruh insentif terhadap kinerja karyawan menjadi sangat relevan untuk dilakukan.

Selain itu, sebagai institusi pendidikan tinggi yang tengah berkembang, UNUSA dituntut untuk mempunyai tenaga kerja yang profesional, produktif, serta mampu bekerja sesuai standar mutu layanan. Untuk mencapai hal tersebut, pemahaman mengenai faktor yang mempengaruhi kinerja karyawan menjadi penting. Jika insentif terbukti berpengaruh besar terhadap kinerja lewat kepuasan kerja, maka UNUSA bisa merumuskan kebijakan peningkatan insentif secara lebih terarah dan efektif. Sebaliknya, jika pengaruhnya rendah atau tidak signifikan, maka UNUSA perlu mengevaluasi kembali pendekatan manajemen SDM yang sudah diterapkan.

Penelitian ini menjadi penting karena memberikan gambaran mengenai bagaimana insentif memengaruhi kepuasan dan kinerja karyawan, khususnya di lingkungan perguruan tinggi keagamaan yang mempunyai karakteristik unik seperti UNUSA. Insentif seperti program umroh dan bonus Pendidikan anak memperlihatkan jika UNUSA tidak hanya berorientasi di aspek finansial, melainkan juga di kebutuhan spiritual sekaligus keluarga karyawan. Program-program tersebut dapat menjadi faktor pembentuk loyalitas jangka panjang yang mempunyai efek signifikan terhadap kinerja.

Dari paparan itu, bisa disimpulkan jika penelitian mengenai efek mediasi kepuasan kerja pada pengaruh insentif terhadap kinerja karyawan di UNUSA sangat penting untuk dilakukan. Studi ini tidak hanya kontribusi secara ilmiah dalam bidang manajemen SDM, tetapi juga memberikan masukan praktis bagi UNUSA dalam merumuskan strategi peningkatan kinerja yang lebih efektif, adil, dan berkelanjutan.

METODOLOGI

Insentif

Insentif ialah imbalan atau penghargaan di mana diberikan organisasi pada karyawannya selaku upaya untuk mendorong motivasi sekaligus meningkatkan kinerja. Menurut Dessler (2015), insentif ialah bentuk kompensasi di mana diberikan oleh perusahaan pada karyawan berdasarkan kinerja mereka. Insentif bisa bersifat finansial misalnya bonus, komisi, tunjangan pendidikan, ataupun non-finansial misalnya penghargaan, pengakuan, serta kesempatan pengembangan karier.

Robbins & Judge (2017) menyatakan jika insentif ialah faktor penting di mana memengaruhi motivasi ekstrinsik. Saat karyawan merasa jika usahanya dihargai lewat insentif, maka ia cenderung meningkatkan kontribusi dalam pekerjaannya. Perihal itu relevan dengan teori Harapan (Expectancy Theory) oleh Vroom (1964), jika individu akan berperilaku tertentu jika ia yakin bila upaya tersebut akan menghasilkan hasil yang diinginkan.

Dalam konteks Universitas Nahdlatul Ulama Surabaya (UNUSA), insentif yang diberikan meliputi bonus akhir tahun, bonus pendidikan anak, penghargaan masa kerja berupa emas 5 gram dan fasilitas ibadah umroh, bonus kegiatan, karya wisata tahunan, serta uang saku sebesar Rp1.000.000 setiap tahun. Bermacam bentuk insentif tersebut dikategorikan sebagai insentif finansial dan non-finansial yang keduanya diakui dapat memengaruhi motivasi dan perilaku kerja(Armstrong, 2014).

Beberapa penelitian mendukung jika insentif berpengaruh terhadap motivasi dan kinerja. Misalnya, Yousaf et al. (2014) menemukan jika insentif berpengaruh positif terhadap motivasi dan kinerja pegawai di institusi pendidikan. Demikian pula, Alshammari (2020) menyebutkan jika insentif finansial sekaligus non- finansial menjadi faktor signifikan dalam meningkatkan produktivitas dan loyalitas karyawan.

Kepuasan Kerja diartikan selaku kondisi emosional positif hasil dari evaluasi pengalaman kerja individu. Menurut Locke (1976), kepuasan kerja ialah perasaan positif di mana muncul dari penilaian individu pada pekerjaannya. Robbins & Judge (2017) juga menjelaskan jika kepuasan kerja dipengaruhi oleh faktor misalnya gaji, lingkungan kerja, hubungan dengan rekan kerja, serta penghargaan atas kontribusi.

Herzberg lewat Two-Factor Theory menjelaskan jika kepuasan kerja dipengaruhi oleh motivator, yaitu faktor yang berkaitan dengan penghargaan, pencapaian, dan pengakuan. Insentif seperti bonus, penghargaan masa kerja, dan penghargaan non-finansial ialah bagian dari motivator yang dapat meningkatkan kepuasan kerja. Jadi, insentif yang diberikan UNUSA bisa menjadi faktor yang memengaruhi tingkat kepuasan kerja karyawan.

Hubungan antara insentif dan kepuasan kerja sudah banyak dibuktikan secara empiris. Studi oleh Danish & Usman (2010) memperlihatkan jika insentif berpengaruh signifikan terhadap kepuasan kerja dalam organisasi. Temuan serupa juga dilaporkan oleh Wibowo & Saputra (2020) dalam penelitian di sektor pendidikan, jika insentif yang memadai mampu menambah kepuasan kerja karyawan.

Dalam konteks UNUSA, kepuasan kerja dapat muncul ketika karyawan merasa dihargai lewat bermacam bentuk insentif, baik yang bersifat finansial ataupun non-finansial. Misalnya, pemberian emas 5 gram dan fasilitas umroh sebagai penghargaan masa kerja memperlihatkan bentuk penghargaan jangka panjang yang dapat meningkatkan loyalitas dan kepuasan kerja.

Kinerja Karyawan diartikan selaku hasil kerja yang dicapai berdasarkan standar, tujuan, serta tanggung jawab yang diberikan pada individu dalam organisasi. Menurut Mangkunegara (2017), kinerja ialah hasil kerja secara kualitas ataupun kuantitas di mana dicapai pegawai saat menjalankan tugasnya sejalan dengan tanggung jawab yang diberikan. Kinerja dapat dipengaruhi oleh kapabilitas individu, motivasi, lingkungan kerja, sekaligus sistem penghargaan yang ada.

Dessler (2015) menjelaskan jika kinerja dapat meningkat apabila karyawan mempunyai motivasi kerja yang tinggi, merasa puas terhadap pekerjaannya, serta mendapatkan dukungan organisasi yang memadai. Pemberian insentif ialah strategi guna menambah motivasi di mana akhirnya akan berpengaruh pada peningkatan kinerja.

Studi oleh Judge et al. (2001) lewat meta-analisis mengemukakan jika kepuasan kerja berhubungan positif yang kuat dengan kinerja karyawan. Di sisi lain, insentif sebagai faktor eksternal juga ditemukan mampu meningkatkan performa, terutama ketika penghargaan dirasa adil dan transparan (Deci et al., 1999).

Insentif, Kepuasan Kerja, dan Kinerja Karyawan Hubungan antara insentif, kepuasan kerja, serta kinerja sudah menjadi topik penting dalam kajian manajemen

SDM. Penelitian Baron & Kenny (1986) menjelaskan jika variabel bisa berfungsi sebagai mediator bila memenuhi hubungan sebab-akibat tertentu dalam model analisis. Dalam konteks ini, kepuasan kerja bertindak selaku variabel mediasi antara insentif dan kinerja.

Studi oleh Teh & Sun (2012) memperlihatkan jika kepuasan kerja mempunyai efek mediasi di hubungan antara insentif dan kinerja. Artinya, insentif yang lebih baik bisa menambah kepuasan kerja, dan kepuasan kerja yang tinggi akhirnya menambah kinerja karyawan. Studi nasional seperti Rachmawati (2019) juga mengemukakan bila kompensasi sekaligus penghargaan berpengaruh signifikan terhadap kepuasan dan kinerja pegawai perguruan tinggi di Indonesia. Dengan demikian, model penelitian insentif → kepuasan → kinerja sangat cocok diterapkan pada UNUSA.

Metode Penelitian

Studi ini memakai pendekatan kuantitatif dengan jenis penelitian explanatory research di mana dipakai guna menjelaskan hubungan sebab- akibat antar variabel, khususnya untuk menganalisis pengaruh variabel independen (insentif) terhadap variabel dependen (kinerja karyawan) serta menguji peran kepuasan kerja selaku variabel mediasi.

Pendekatan kuantitatif dipilih sebab studi ini mengukur variabel secara numerik lewat instrumen berupa kuesioner terstruktur. Selain itu, studi ini memakai analisis statistik guna menganalisis hipotesis lewat model regresi dan analisis mediasi. Menurut Sugiyono (2019), penelitian kuantitatif cocok dipakai guna menguji teori, menciptakan hubungan antar variabel, serta menghasilkan kesimpulan objektif berdasarkan data statistik.

Dengan demikian, desain penelitian ini mampu menjawab tujuan penelitian yaitu menguji pengaruh langsung dan tidak langsung insentif terhadap kinerja karyawan lewat kepuasan kerja pada lingkungan UNUSA.

Lokasi dan Waktu Penelitian

Penelitian dilakukan di Universitas Nahdlatul Ulama Surabaya (UNUSA), yang beralamat di Jl. Jemursari di Wonocolo Surabaya. Pemilihan lokasi dilakukan karena UNUSA ialah institusi pendidikan yang mempunyai sistem pemberian insentif yang beragam, seperti bonus akhir tahun, bonus pendidikan anak, penghargaan masa kerja (emas 5 gram dan umroh), insentif kegiatan, karya wisata, serta uang saku tahunan.

Populasi Dan Sampel

Populasi

Populasi penelitian ini ialah semua karyawan UNUSA, baik dosen ataupun tenaga kependidikan (tendik). Populasi dipilih secara keseluruhan karena seluruh karyawan mempunyai akses terhadap insentif dan berpotensi mengalami dampak terhadap kepuasan dan kinerja kerja.

Sampel

Teknik sampling memakai sampling jenuh (census sampling). Menurut Sugiyono (2019), sampling jenuh dipakai apabila semua anggota populasi dijadikan sampel, terutama apabila ukuran populasi relatif kecil (<200 orang). Dengan demikian, seluruh karyawan UNUSA yang memenuhi kriteria dijadikan responden dalam penelitian ini.

Kriteria Sampel

Responden yang dijadikan sampel mencukupi kriteria berikut:

1. Karyawan aktif di UNUSA minimal 1 tahun.
2. Pernah menerima insentif dari UNUSA (bonus, tunjangan pendidikan, karya wisata, penghargaan masa kerja, dll.) Bersedia mengisi kuesioner penelitian.

Jenis Dan Sumber Data

Data Primer

Didapat lewat pembagian kuesioner pada seluruh karyawan UNUSA. Kuesioner berisi item-item pertanyaan terkait insentif, kepuasan kerja, serta kinerja karyawan. Data Sekunder didapat dari:

1. Dokumen internal UNUSA terkait program insentif
2. Data kepegawaian
3. Laporan tahunan
4. Literatur, buku, jurnal, dan artikel ilmiah

Teknik Pengumpulan Data

Teknik pengumpulan data penelitian ini ialah:

1. Kuesioner

   Kuesioner diberikan secara online (Google Form) atau hardcopy pada responden, memakai skala Likert 1–5:

   1 = Sangat Tidak Setuju

   2 = Tidak Setuju

   3 = Netral

   4 = Setuju

   5 = Sangat Setuju

   Kuesioner ini mengukur persepsi terhadap:

   a. Insentif yang diterima
   b. Tingkat kepuasan kerja
   c. Kinerja diri karyawan
2. Dokumentasi

   Dipakai guna mendapatkan data pendukung misalnya struktur organisasi, jumlah karyawan, kebijakan insentif, dan sejarah pemberian bonus di UNUSA.

Definisi Operasional Variabel

Insentif (X)

Insentif ialah imbalan finansial dan non-finansial di mana diberikan UNUSA pada karyawannya selaku bentuk penghargaan atas kontribusinya.

Indikator:

1. Bonus akhir tahun
2. Bonus pendidikan anak
3. Penghargaan masa kerja (emas, umroh)
4. Insentif kegiatan
5. Karya wisata tahunan
6. Uang saku kegiatan tahunan

(Sumber: Armstrong, 2014; Dessler, 2015)

Kepuasan Kerja (Z)

Diartikan selaku perasaan positif karyawan pada pekerjaannya di mana timbul dari penilaian pada bermacam aspek pekerjaan.

Indikator:

1. Kepuasan pada gaji/kompensasi
2. Kepuasan pada penghargaan
3. Kepuasan pada lingkungan kerja
4. Kepuasan ada hubungan dengan atasan
5. Kepuasan pada peluang pengembangan

(Sumber: Robbins & Judge, 2017; Herzberg, 1966)

Kinerja Karyawan (Y)

Merujuk pada kualitas sekaligus kuantitas hasil kerja yang dicapai karyawan sejalan dengan tugas dan tanggung jawab.

Indikator:

1. Kualitas kerja
2. Kuantitas kerja
3. Ketepatan waktu
4. Responsibilitas
5. Kerja sama

(Sumber: Mangkunegara, 2017; Dessler, 2015)

Teknik Analisis Data

Analisis data penelitian ini mencakup:

Uji Instrumen

1. Uji Validitas
   Memakai korelasi Pearson Product Moment untuk memastikan setiap item kuesioner valid.
   Item valid bila r-hitung > r-tabel dan $p < 0.05$.
2. Uji Reliabilitas
   Memakai Cronbach Alpha.
   Instrumen reliabel bila nilai Alpha > 0,70.
3. Uji Asumsi Klasik
   Dipakai sebelum melaksanakan regresi:
   a. Uji Normalitas
   b. Uji Multikolinearitas
   c. Uji Heteroskedastisitas
   d. Uji Linearitas
   Semua uji mengikuti standar analisis regresi linier.
4. Analisis Regresi Berganda
   Dipakai guna mengetahui pengaruh:
   a. Insentif → Kinerja
   b. Insentif → Kepuasan
   c. Kepuasan → Kinerja
5. Uji Mediasi (Sobel Test / Bootstrapping)
   Untuk mengetahui apakah kepuasan kerja memediasi pengaruh insentif terhadap kinerja.

Model mediasi mengacu pada Baron & Kenny (1986):

$X \rightarrow Y$
$X \rightarrow Z$
$Z \rightarrow Y$

Pengaruh X terhadap Y berkurang sesudah Z dimasukkan.

Jika memakai Partial Least Square (PLS), maka uji mediasi dihitung berdasarkan nilai indirect effect dan t-statistic dari bootstrapping.

6. Model Analisis Penelitian
   Model yang dipakai di penelitian ini ialah:
   Insentif (x) → kepuasan kerja (z) → kinerja
   Kepuasan kerja bertindak selaku variabel mediasi di antara hubungan insentif dan kinerja.

HASIL DAN PEMBAHASAN

Hasil

1. Gambaran Umum Responden

Penelitian ini mengikutsertakan 120 karyawan UNUSA di mana terdiri dari:

Tabel 1. Data Responden

Karakteristik	Frekuensi	Persentase
Jenis Kelamin		
Laki-laki	45	37,5%
Perempuan	75	62,5%
Status Pekerjaan		
Dosen	50	41,7%
Tenaga Kependidikan	70	58,3%
Masa Kerja		
1–5 tahun	25	20,8%
6–10 tahun	40	33,3%
>10 tahun	55	45,9%

Sebagian besar responden sudah bekerja > 10 tahun, sehingga relevan dengan pemberian insentif seperti emas 5 gram dan umroh.

2. Uji Instrumen Penelitian

a. Uji Validitas

Semua item dikatakan valid sebab nilai r-hitung >r-tabel (0,176) dan p<0,05

Tabel 2. Uji Validitas

Variabel	Jumlah Item	Status
Insentif	10	Valid
Kepuasan Kerja	10	Valid
Kinerja Karyawan	10	Valid

b. Uji Reliabilitas

Hasil uji reliabilitas memakai Cronbach Alpha: Semua variabel dinyatakan realiabel.

3. Uji Asumsi Klasik

Semua hasil uji asumsi klasik memenuhi persyaratan:

a. Normalitas p-value kolmogrov-smirnov=0,200 (>0,05)
b. Multikolinearitas: VIF < 3 (tidak terjadi multikonearitas)
c. Heteroskedastisitas: p-value >0,05 (tidak terjadi heterosedastisitas)
d. Linearitas: Sig < 0,05 (hubungan linear)

4. Hasil Analisis Regresi

a. Pengaruh Insentif Terhadap Kinerja Hasil regresi menunjukan:
Insentif berpengaruh psitif signifikan terhadap kinerja karyawan. Maknanya makin baik insentif yang diberikan (bonus akhir tahun, umroh, emas, tunjangan pendidikan anak serta karya wisata), maka makin tinggi kinerja.

b. Pengaruh Insentif terhadap Kepuasan Kerja Interprestasi:
Insentif UNUSA secara signifikan menambah kepuasan kerja karyawan. Karyawan merasa diakui dan dihargai.

c. Pengaruh Kepuasan Kerja terhadap Kinerja Karyawan Interprestasi:
Kepuasan kerja memberikan kontribusi penting guna meningkatkan kinerja karyawan. Karyawan yang puas mempunyai komitmen lebih tinggi

5. Analisis Mediasi (Uji Sobel / Bootstrapping)

Interprestasi Mediasi:

a. Pengaruh langsung insentif terhadap kinerja = signifikan
b. Pengaruh insentif – kepuasan = signifikan
c. Pengaruh tidak langsung = signifikan

Maka kepuasan kerja terbukti memediasi secara signifikan hubungan antara insentif dengan kinerja karyawan UNUSA. Di mana disebut partial mediation, artinya kinerja karyawan meningkat tidak hanya karena insentif langsung, melainkan juga karena insentif meningkatkan kepuasan kerja terlebih dahulu.

Pembahasan

Insentif berpengaruh positif signifikan terhadap kinerja karyawan. Insentif yang diberikan oleh UNUSA, seperti bonus akhir tahun, bonus pendidikan anak, penghargaan masa kerja berupa emas 5 gram dan fasilitas umroh, karya wisata tahunan, uang saku, serta insentif kegiatan, terbukti mampu meningkatkan kinerja karyawan. Hal ini memperlihatkan jika makin baik dan relevan insentif yang diterima, maka makin tinggi pula motivasi dan produktivitas karyawan.

Insentif berpengaruh positif signifikan terhadap kepuasan kerja. Berdasarkan hasil riset memperlihatkan jika insentif memberikan kontribusi besar terhadap meningkatnya kepuasan kerja. Karyawan merasa dihargai, diakui, dan mendapatkan apresiasi secara langsung ataupun tidak atas kontribusinya. Insentif yang adil dan transparan memberikan perasaan nyaman serta menumbuhkan loyalitas terhadap institusi.

Kepuasan kerja berpengaruh positif dan signifikan terhadap kinerja karyawan. Karyawan yang merasa puas dengan pekerjaannya akan memperlihatkan perilaku kerja yang lebih positif, seperti peningkatan kualitas, kuantitas, ketepatan waktu, kerja sama, dan tanggung jawab. Temuan ini mendukung teori jika kepuasan kerja menjadi faktor penting yang menentukan kinerja dalam organisasi, termasuk dalam lingkungan perguruan tinggi seperti UNUSA.

Kepuasan kerja memediasi pengaruh insentif terhadap kinerja. Penelitian membuktikan jika kepuasan kerja mempunyai peran selaku variabel mediasi. Di mana bermakna jika insentif tidak hanya meningkatkan kinerja secara langsung, melainkan juga secara tidak langsung lewat peningkatan kepuasan kerja. Dengan kata lain, insentif yang efektif akan menambah kepuasan kerja, di mana akhirnya berpengaruh pada peningkatan kinerja karyawan.

KESIMPULAN

Kepuasan kerja menjadi faktor kunci di mana menjembatani hubungan antara insentif dengan kinerja karyawan UNUSA. Dengan adanya insentif yang diberikan oleh UNUSA kepada pegawai berupa bonus akhir tahun, bonus pendidikan anak, penghargaan masa kerja 10 tahun berupa emas 5 gram dan fasilitas umroh, uang saku serta insentif kegiatan yang terbukti dapat meningkatkan kepuasan kerja dan kinerja karyawan dilingkungan UNUSA.

Karyawan yang merasa puas dengan adanya insentif akan memperlihatkan perilaku kerja yang lebih positif, dapat meningkatkan kualitas kerja, kerja sama yang lebih baik, dan juga dapat meningkatkan tanggung jawab pada pekerjaan karyawan di lingkungan UNUSA.

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