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DOES MANAGERIAL ABILITY REDUCE FIRMS COST OF DEBT? THE MEDIATING ROLE OF EARNINGS QUALITY AND THE MODERATING EFFECT OF INDEPENDENT COMMISSIONERS

NURUL YULIANA
ANIES LASTIATI

Universitas Trilogi
Jl. TMP Kalibata No. 1, Jakarta Selatan, DKI Jakarta, Indonesia

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Corresponding author:
nurulyuliana@trilogi.ac.id

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Abstract: *This study examines the impact of managerial ability on the cost of debt (COD). It also evaluates the role of earnings quality as a mediator between managerial ability and COD. It further explores the moderating role of the independent board of commissioners in the relationship between managerial ability and earnings quality. Using the path analysis method, this study analyzes data from the financial statements of manufacturing companies listed on the Indonesian Stock Exchange (IDX) from 2021 to 2023. This study finds that higher managerial ability will result in lower cost of debt. Furthermore, it indicates that managerial ability will increase firms' earnings quality. This study also finds no evidence of a mediating effect in the relationship between managerial ability and the cost of debt. In addition, the independent board of commissioners fails to moderate the positive relationship between managerial ability and earnings quality. This study implies that managerial ability plays a key role in lowering cost of debt and improving earnings quality. It also suggests the need to enhance the effectiveness of independent commissioners and strengthen corporate governance practices.*

Keywords : managerial ability, earnings quality, cost of debt, independent commissioners, discretionary accruals

INTRODUCTION

The high cost of debt remains a major challenge for Indonesian companies in managing their capital structures efficiently. To secure lower interest rates, firms must demonstrate their ability to meet their debt obligations and maintain creditor confidence. Managerial ability plays a crucial role in reducing the perceived risk of default. Nevertheless, the extent to which managerial ability contributes to reducing debt costs remains a relevant and important issue that warrants further investigation.

Each company has several options to obtain funding, one of which is the use of debt. Debt is funding obtained from external parties, namely, creditors. Funding obtained from creditors increases the cost of debt for the company. The cost of debt is the effective interest rate paid by a company on loans to inaccurate creditors. Creditors must evaluate a company's potential risk of default before approving a loan.

The role of capable managers is crucial in building creditor confidence, ensuring that creditors trust the company's ability to repay debts on time and minimize the risk of default. Dalwai et al. (2023) found a significant negative relationship between managerial capability and the cost of debt. In other words, the higher the managerial ability, the lower is the company's cost of debt. According to Houcine & Houcine (2020), lenders or creditors use profits to assess the risk of default.

Earnings quality can influence creditors' assessments of credit ratings and cost of debt (Widyaningsih, 2022). Earnings quality is very important because it represents the level of accuracy and reliability of the earnings information presented in financial statements. Managerial ability is one factor that can affect earnings quality. Demerjian et al. (2013) found that earnings quality is positively influenced managerial ability. This means that managers with good abilities tend to make more accurate and reliable financial reports, rarely have to restate their financial statements, and the resulting profits are also more stable and consistent. Research conducted by Suwandi & Daromes (2016) also prove a positive relationship between managerial ability and earnings quality. This shows that the better an organization manages its resources, the more likely it is to maintain sustainable earnings quality in the future.

However, unsupervised managerial power can lead to agency conflicts. This issue arises because agents may not always act in the lender's best interests (Dalwai et al., 2023). Like the research conducted by Romadhon & Kusuma (2020) which found that managerial ability has a negative effect on earnings quality. Managers can act opportunistically because they have more information than principals do. Agency theory posits that agents may be motivated to meet performance expectations in various ways, including through earnings management. This indicates that skilled managers do not always guarantee company performance. Therefore, corporate governance is essential for controlling managerial behavior when conducting a company's operational activities. The Indonesian Institute for Corporate Governance (IICG) defines corporate governance as a system that guides the company's operational activities to align with stakeholders' interests. Corporate governance functions as a system that ensures that a company is run in accordance with law, ethics, and best standards. Thus, an independent board of commissioners can improve earnings quality because they can perform a supervisory function and suppress the opportunistic nature of managers.

Therefore, this study examines the effect of managerial ability on the cost of debt. It also investigates whether earnings quality mediates the relationship between managerial ability and the cost of debt and whether the proportion of independent commissioners strengthens the relationship between managerial ability and earnings quality. The novelty of this study lies in its comprehensive approach, which not only analyzes the direct relationship between managerial ability and the cost of debt, but also explores the mediating role of earnings quality and the moderating effect of the independent board of commissioners.

THEORETICAL FRAMEWORK AND HYPOTHESES

Agency Theory

Agency Theory, developed by Jensen & Meckling (1976), explains the relationship between the principal (capital owner) and the agent (company management), in which the agent has a contractual relationship with the principal. The principal entrusts the agent by carrying out tasks for the principal's benefit, including making operational decisions, granting authorization, and delegating authority (Nabiilah & Lastiati, 2024). This theory explains how parties involved in a contractual relationship can make agreements to reduce information asymmetry and uncertainty. This conflict arises because the agent has better access to information about the company's performance and decisions, whereas the principal relies only on reports presented by the agent. Jensen & Meckling (1976) also explain that debt issuance creates agency conflicts between companies and lenders. This issue arises because agents may not always act in the lender's best interests (Dalwai et al., 2023). They may make decisions that favor themselves, potentially increasing the risk for lenders.

Upper Echelon Theory

Upper Echelon Theory (UET), first introduced in strategic management by Hambrick & Mason (1984), states that strategic decisions and firm performance are partly influenced by managers' backgrounds. Managers' experiences, values, and personalities have a significant impact on firm performance. According to Hambrick & Mason (1984), managerial characteristics are divided into two categories: observable and psychological. Observable characteristics include age, career history, education, socioeconomic background, finance, and group characteristics. These factors are often used as indirect indicators to assess manager performance (Waldman et al., 2004). Psychological characteristics included mindset and personal values. These psychological factors play a role in shaping the leadership styles and strategies applied by managers to run the company. In contrast to observable characteristics, psychological characteristics are more difficult to measure and change because they are part of an individual's personality (Finkelstein et al., 2009). This theory asserts that both the observable and psychological characteristics of managers influence firm performance equally because managers' decisions often reflect their experience, skills, and perspective on the business world (Hambrick & Mason, 1984).

Signalling Theory

Signaling theory was developed to resolve the information asymmetry that occurs (Wang & Rokhshi, 2024). According to signaling theory, internal parties have access to more complete information about a company's actual performance than external stakeholders such as investors and creditors. Managers are motivated to disclose more information to the capital market, one of which influences the cost of capital. By disclosing accurate information about company performance, managers can demonstrate that the company is well managed. Companies use observable qualities, such as financial statements and corporate disclosures, to communicate the true conditions of the company with investors. This signal includes records, reviews, statements, and descriptions of the company's past, present, and future conditions, all of which are crucial for decision making. According to Orazalin & Akhmetzhanov (2019), financial information transparency reduces information asymmetry and corporate funding cost. This is because the information provided as a signal can reduce the uncertainty for investors and creditors. When companies provide clear and accurate financial reports, stakeholders can better assess their financial conditions and mitigate the associated risks.

To comprehensively understand the relationships between the variables in this study, a conceptual framework was developed to illustrate the logical flow between the underlying theory and examined variables.

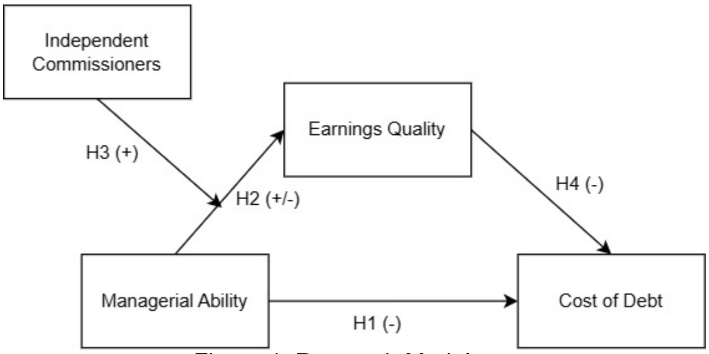

Figure 1. Research Model

Managerial Ability and Cost of Debt

Based on upper echelon theory, strategic decisions and company performance are partly influenced by the manager's background. Managerial ability plays a crucial role in determining a company's strategic direction, managing resources, and leading an organization to achieve its goals. Highly capable managers can effectively manage company resources, even during crises. They can do so in two ways, by increasing cash flow from the company's assets or by issuing debt to raise additional funds (Petkevich & Prevost, 2018). Petkevich & Prevost (2018) found that highly capable managers play an important role in corporate financial policy. Highly able managers tend to be more effective in making efficient investment decisions, ensuring that resources are optimally allocated to maximize returns and sustain long-term growth (Lastiati et al., 2024). High managerial capability is a positive signal for creditors, as it indicates lower financial risk for the company. This is in line with the results of research conducted by Dalwai et al. (2023), who found that managerial ability has a significant negative effect on the cost of debt. This implies that high managerial ability can lead to a lower cost of debt. Yang et al. (2024) also found that managerial integrity can significantly reduce the cost of debt.

H_1: Managerial ability have a negative effect on cost of debt

Managerial Ability, Earnings Quality, and Independent Commissioners

Financial reports must reflect the reality of company performance because it can reduce information asymmetry between agents and principals (Lukita, 2022). According to Dechow et al. (2010), earnings quality provides important information about a company's financial performance, which is useful for decision making. Earnings quality contains information about a company's income and plays an important role in supporting the sustainability of the company. Lukita (2022) stated that managerial ability positively affects earnings quality. Similarly, Demerjian et al. (2013) found a positive relationship between managerial ability and earnings quality. Suwandi & Daromes (2016) confirmed this positive relationship. This shows that the better a manager is in managing his/her resources, the more likely it is to maintain good earnings quality. High earnings quality reflects a company’s operational performance. Managers have a deeper understanding of a company's condition, so they are able to compile reliable information for future forecasts.

Romadhon & Kusuma (2020) found different results in their research, indicating that managerial ability negatively affects earnings quality. Nabiilah & Lastiati (2024) also find that managerial ability negatively affects earnings quality. This means that higher managerial ability results in lower earnings quality, in line with Wandi (2022), who finds that opportunistic behavior affects earnings management. When managers act opportunistically, they are strongly motivated to engage in earnings management. Managers can act opportunistically because they have more information than principals do. Agency theory posits that agents may be motivated to meet performance expectations in various ways, including through earnings management. Therefore, this study does not assume the direction of the relationship between managerial ability and earnings quality, and formulates it as a two-tailed hypothesis.

H_2: Managerial affects earnings quality

Corporate governance plays a role when there is a conflict of interest between the principal and the agent. Corporate governance is an integration of internal and external mechanisms aimed primarily at building an effective governance structure and establishing a balance of power among shareholders, directors, and management to better protect the interests of stakeholders. Hidayatul (2022) proves that the proportion of independent commissioners has a positive and significant effect on earnings quality. This shows that independent commissioners are considered to have objective supervision of company management, and they are free from internal company interests. Independent commissioners can play a role in improving earnings quality by limiting earnings management practices through the supervisory function of financial reporting and minimizing the possibility of fraud in financial reports (Nurdiniah & Munandar, 2020). Immanuel & Hasnawati (2022), state that the independent commissioners have a negative effect on earnings management. Thus, independent commissioners can improve earnings quality because they can perform a supervisory function and suppress the opportunistic nature of managers.

H_3 : The independent commissioners moderates the relationship between managerial ability and earnings quality

Earnings Quality, and Cost of Debt

Creditors use earnings to assess default risk (Houcine & Houcine, 2020). Earnings quality is considered a component that allows lenders to assess default risk more accurately, as it makes it easier for them to predict future earnings and cash flows. Earnings quality can influence creditors in assessing a company's credit rating and cost of debt (Widyaningsih, 2022). Quality earnings accurately reflect a company's current operating performance, which can be an indicator of future performance, and serve as a useful measure for assessing the company. Houcine & Houcine (2020) found that better earnings quality is significantly associated with lower debt costs. In line with the results of research conducted by Thuy et al. (2022), earnings quality has a negative relationship with cost of debt. This means that when a company's earnings quality is high, the cost of debt that must be paid by the company tends to be lower. A high earnings quality indicates more stable and reliable financial performance, which makes lenders more confident in providing loans with low interest rates. Conversely, when earnings are of low quality, lenders perceive greater risk, so they may set a higher cost of debt to compensate for this risk.

H_4: Earnings Quality have a negative effect on cost of debt

Managerial Ability, Earnings Quality, and Cost of Debt

Managers' abilities are very important in determining a company's operational performance, including in making strategic decisions that have an impact on the company's financial statements. Demerjian et al. (2013) state a positive relationship between managerial ability and earnings quality. The higher a manager's ability, the better the quality of reported earnings. Romadhon & Kusuma (2020) found different results in their research, indicating that managerial ability negatively affects earnings quality. This means that the higher the managerial ability, the lower is the earnings quality. This finding aligns with Wandi (2022), who shows that opportunistic behavior affects earnings management. When managers act opportunistically, they are strongly motivated to manage earnings.

According to Orazalin & Akhmetzhanov (2019), transparency of financial information can reduce information asymmetry and corporate funding costs. Earnings quality is considered a component that allows lenders to assess the risk of default more accurately, as it makes it easier for them to predict future earnings and cash flows. Earnings quality can influence creditors in assessing credit ratings and the cost of corporate debt (Widyaningsih, 2022). Thuy et al. (2022) state that earnings quality has a negative relationship with the cost of debt. Le et al. (2021) also found that companies with better accrual quality have a lower cost of debt. This means that when the quality of a company's earnings is high, the cost of the debt that the company must pay tends to be lower.

H_5: Earnings quality mediates the relationship between managerial ability and cost of debt

Tabel 2. Summary of Operational Variables

Type of Variable	Name	Variable Definition	Measurement
Dependent	Cost of Debt	The cost of debt is the effective interest rate a company pays on its debt to creditors (Juwita & Julia, 2021).	COD=Interest expense/average total debt. Average total debt is calculated by summing the current year's and previous year's interest-bearing debt, both short-term and long-term, and then dividing by two (Lastiati et al., 2020).
Independen t	Managerial Ability	Managerial ability is how efficiently managers manage company resources to produce optimal output (Demerjian et al., 2012).	FirmEff=Sales/COGS+SG&A expense+net PPE+net operating lease+net R&D+goodwill+ other intangible assets The efficiency score of the company is assumed to not only include managerial ability factors. This measurement model separates firm characteristics and defines the residual or error term as the managerial ability score (Demerjian et al., 2012). FirmEff= $\alpha+\beta1size+\beta2market share+\beta3FCF+ \beta4age+\beta5diversification+\varepsilon$
Mediator	Earnings Quality	Earnings quality is important information about the company's financial performance that is useful for decision making (Dechow et al., 2010).	Total accruals are calculated, then separating the components of normal accrual levels (nondiscretionary accruals) and abnormal accrual levels (discretionary accruals) (Dechow et al., 1995). $TAC_{it}=NI_{it} - CFO_{it}$ Total accruals are estimated with multiple regression equations as follows: $TAC/A_{it-1}= \beta1(1/A_{it-1})+\beta2(\Delta REV_{it} /A_{it-1})+ \beta3(PPE_{it}/Ait_{-1})+\varepsilon$ Then, calculate the nondiscretionary accrual with the following formula: $NDA_{it}=\beta1(1/A_{it-1})+\beta2(\Delta REV_{it}-\Delta REC_{it}/A_{it-1})+ \beta3(PPE_{it}/A_{it-1})$ Discretionary accruals are calculated using the following formula: $DA_{it}=(TAC_{it}/A_{it-1})-NDA_{it}$
Moderator	Independent Commisioner s	Independent commissioners provide more effective oversight as they are free from internal interests (Hakim et al., 2022).	DKI=Number of independent commissioners/ Total board of commissioners (Hakim et al., 2022)
Controls	Firm Size	According to Li et al. (2022) and Tran (2022), Larger companies have a lower cost of debt due to better information flow and less uncertainty.	Size=Ln(total assets) (Dalwai et al., 2023)
	Leverage	High corporate leverage raises financial distress risk, increasing the cost of debt (Ugur et al., 2022).	Lev=Total debt/total assets (Dalwai et al., 2023)
	Firm Age	Firm age indicates a firm sustainability and stability, reflecting its ability to endure and grow over time (Chen et al., 2021).	Age=Ln(number of years the company has been listed on the IDX) (Chen et al., 2021).

Source: (Data processing)

RESEARCH METHODS

The population of this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2021–2023. Outlier data were removed from the sample to reduce potential bias from extreme data values. Aulia & Atok (2017) suggest that eliminating outliers is crucial to obtain unbiased results. Outliers were identified using a Z-score threshold of ±3, meaning that observations with standardized values above 3 or below -3 were excluded. After adjusting for outliers, the final sample consisted of 317 firm-year observations. The details of the sample selection process are presented in Table 1.

Table 1. Selected Data Sample

Description	Amount
Manufacturing companies listed on the IDX during 2021 to 2023	174
Companies with incomplete financial statements and annual reports for the 2021–2023 period	(28)
Companies whose financial statements are not denominated in rupiah	(34)
Total companies used in the research	112
The amount of research sample (2021-2023)	336
Sample with outliers	(19)
The amount of research sample (2021–2023) without outliers	317

Source: (Data processing)

Variables Operationalization

Table 2 summarizes the variables used in this research. These variables were investigated to achieve the objectives of this research.

RESULTS AND DISCUSSION

Descriptive analysis was conducted to examine the characteristics of the research sample, which included the average value, standard deviation, and minimum and maximum values. It is seen in Table 3. It provides statistical summaries of the data for the variables used in the analysis. The final sample comprised 317 observations from manufacturing companies listed on the IDX.

Tabel 3. Descriptive Statistics

Variabel	Mean	Std.Dev	Min	Max
Cost of Debt	0.06	0.05	0.00	0.39
Managerial Ability	-0.01	0.23	-0.72	0.99
Earnings Quality	0.09	0.09	-0.35	0.30
Commissioners Independent	0.41	0.09	0.25	0.67
Size	28.24	1.60	24.65	32.86
Age	2.38	1.15	0.00	3.83
Leverage	0.42	0.23	0.00	1.40

Source: (Data processing)

Panel data research can be estimated using three approaches: the Pooled Least Squares or Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the most appropriate approach, three tests were conducted: the Chow, Hausman, and Lagrange multiplier tests. The results indicated that the Random Effect Model (REM) was the most suitable for this study. According to Porter et al. (2009) the random effect panel model estimation uses the Generalized Least Squares (GLS) approach, eliminating the need for classical assumption tests. In this model, the GLS estimation involves a variable transformation to meet the least-squares criteria. The GLS estimation results show homoscedasticity, which means there is no heteroscedasticity problem.

A discussion of the test results obtained using path analysis is summarized in Table 4. Present data on path coefficients, z-values, p-values, and decisions regarding hypotheses results. Path analysis is the development of multiple regression analysis (Sarwono, 2011). Path analysis was used to analyze the pattern of relationships between variables, with the aim of explaining the direct and indirect effects between the independent and dependent variables. The mediating variable can mediate the relationship between the independent and dependent variables if it meets two conditions, namely, if there is a significant relationship between the independent variable and the mediating variable, as well as between the mediating variable and the dependent variable. A mediating variable was considered unable to mediate if one of the relationships was not significant.

Tabel 4. Hypothesis Result

Hypothesis	Flow	Coefficient	z Statistics	P value	Conclusion
H_1	Managerial ability -> Cost of debt	-0.0164	-4.30	0.000***	Accept
H_2	Managerial ability -> Discretionary accruals	-0.0283	-2.39	0.017**	Accept
H_3	Managerial ability -> Discretionary accruals (moderated by independent commissioners)	0.0441	-0.77	0.443	Reject
H_4	Discretionary accruals -> Cost of debt	-0.0054	-0.49	0.627	Reject
H_5	Managerial ability -> Discretionary accruals -> Cost of debt	0.0002	0.48	0.63	Reject

Note: ***p-value < 0.01; **p-value < 0.05
Source: Output STATA 17 (processed data)

The Effect of Managerial Ability on Cost of Debt

These findings indicate that managerial ability has a negative effect on the cost of debt. In other words, the higher a company's managerial capability, the lower its debt costs. This suggests that competent managers are better equipped to manage financial and operational risks, thereby enhancing the stability of a company and reducing its perceived credit risk.

Such stability builds creditors' confidence in the company's ability to meet its financial obligations, which, in turn, contributes to lower borrowing costs. This result is consistent with Dalwai et al. (2023) who found that higher managerial ability is associated with improved efficiency and a reduction in perceived credit risk. Similarly, Petkevich & Prevost (2018) emphasize that highly capable managers play a crucial role in shaping corporate financial policy, including the design of an optimal and efficient capital structure.

The Effect of Managerial Ability on Earnings Quality

This study finds that managerial ability has a significantly positive impact on earnings quality. In this context, earnings quality is measured using discretionary accruals (DA), in which a higher DA value indicates lower earnings quality. The results indicate that companies with higher managerial ability tend to have lower discretionary accruals, which in turn reflect higher earnings quality.

These findings suggest that capable managers are more likely to present accurate and reliable financial reports with less tendency toward earnings manipulation. As a result, reported earnings better reflect a company's operational performance. This aligns with the findings of Lukita (2022) who demonstrated a positive relationship between managerial ability and earnings quality. Similarly, Demerjian et al. (2013) showed that managerial competence contributes to better earnings quality, as skilled managers are more effective in managing financial reporting. Furthermore, Suwandi & Daromes (2016) confirmed that better managerial performance is associated with the ability to maintain high-quality earnings, which are critical for providing stakeholders with reliable financial information for future decision-making.

Overall, the evidence supports the idea that firms led by competent managers are more likely to produce high-quality earnings, reflecting not only sound financial management but also a deeper understanding of their operations and strategic direction.

Moderating Effect of Independent Commissioners on the Relationship Between Managerial Abilty on Earnings Quality

The findings of this study indicate that independent commissioners do not moderate the relationship between managerial ability and earnings quality. This finding suggests that the presence of independent commissioners neither strengthens nor weakens the influence of managerial ability on earnings quality. These results are consistent with the findings of Pratomo & Alma (2020) who reported that independent commissioners have no significant effect on earnings management practices.

From a corporate governance perspective, independent commissioners are expected to serve as an effective mechanism to ensure the reliability of financial reporting and reduce the likelihood of earnings manipulation. However, in practice, their roles may be limited. In many companies, the appointment of independent commissioners appears to be more of a formal compliance with regulatory requirements than a substantive effort to enhance governance quality. As a result, their influence on monitoring managerial behavior and ensuring the quality of reported earnings may be minimal.

The Effect of Earnings Quality on Cost of Debt

The analysis indicates that earnings quality does not significantly influence the cost of debt. This finding suggests that variations in discretionary accruals, which serve as proxies for earnings quality, do not substantially affect the interest rates or borrowing costs imposed on the company. These results are in line with previous studies by Widyaningsih (2022) and Yuniarta (2013) both of which also concluded that earnings quality does not significantly impact the cost of debt.

One possible explanation is that creditors may not prioritize earnings quality when evaluating a firm's creditworthiness or when determining the cost of borrowing. In the context of the Indonesian debt market, which is considered relatively illiquid, the pricing of debt instruments tends to rely more heavily on other financial indicators such as leverage rather than the credibility or accuracy of reported earnings. As Widyaningsih (2022) points out, the weak responsiveness of the market to financial information—particularly earnings-related disclosures—may limit the role of earnings quality in influencing debt costs. This reflects a broader structural issue within the financial market, where mechanisms that typically reward transparent and high-quality reporting may not function effectively.

Mediating Effect of Earnings Quality on the Relationship Between Managerial Ability on Cost of Debt

The results show that managerial ability is proven to have a negative effect on the cost of debt, and managerial ability is proven to have an effect on earnings quality. However, earnings quality does not affect the cost of debt, so it can be concluded that earnings quality does not act as a mediating variable in the relationship between managerial ability and cost of debt. In other words, the effect of managerial ability on the cost of debt is directly more dominant than through earnings quality.

This finding aligns with agency theory, which explains that capable managers, acting as agents, are better at reducing information asymmetry and managing risk, thereby increasing creditors' trust and lowering the cost of debt. When managers possess greater abilities, they can make more efficient decisions, manage operations effectively, and maintain good relationships with lenders. This leads creditors to perceive lower default risk and, consequently, offer loans with lower interest rates.

Although this study finds that managerial ability significantly improves earnings quality, the absence of a significant effect of earnings quality on the cost of debt suggests that earnings quality may not be a primary consideration for creditors in Indonesia. Creditors tend to place greater emphasis on other factors, such as a company's leverage level, when assessing credit risk. This finding is consistent with that of Yuniarta (2013), who finds that earnings quality has no effect on the cost of debt. In addition, Utami (2022) discovered that leverage has a significant effect on the cost of debt, indicating that creditors more closely scrutinize capital structure than the quality of accounting information. This implies that, even if earnings quality improves, creditors remain focused on factors that better reflect a company's ability to meet its debt obligations.

Therefore, this study contributes to theoretical development by demonstrating that managerial ability has a stronger direct effect on reducing the cost of debt than its indirect effect through earnings quality. Moreover, this study broadens the understanding that earnings quality as a signal has limitations, depending on creditors' perceptions, preferences, and primary considerations when evaluating lending risks.

CONCLUSION

Based on the results, we conclude that managerial ability significantly and negatively affects the cost of debt. This indicates that the higher the managerial ability, the lower the cost of debt that a company must bear. In other words, as management capabilities increase, a company's debt costs decrease. Further, managerial ability has a positive and significant effect on earnings quality. This suggests that companies with more capable management tend to have higher earnings quality, meaning that the more competent the management, the better is the quality of the earnings reported. The study also reveals that an independent board of commissioners does not have a significant impact on the relationship between managerial ability and earnings quality. This implies that independent boards do not play a role in strengthen or weaken the relationship between managerial ability and earnings quality. Moreover, earnings quality as measured by discretionary accruals does not influence the cost of debt. Therefore, earnings quality does not act as a mediating variable in the relationship between managerial ability and cost of debt.

These findings contribute significantly to the literature, particularly in understanding the role of managerial ability in reducing the cost of debt. This study also opens the door for further research on corporate governance effectiveness, especially in Indonesia's manufacturing industry, and provides new insights into the factors influencing a company's debt cost. For companies, the results emphasize the importance of recruiting competent managers to secure lower borrowing costs. Additionally, the study highlights the need to evaluate the role of independent commissioners, whose functions may not be fully optimized in the company. By improving managerial quality and internal oversight, companies can manage debt costs more effectively and enhance their financial performance. For creditors, this study indicates that managerial ability is an important factor in assessing credit risk. Therefore, in credit risk assessment, creditors should not only rely on earnings quality reflected in financial statements but also consider the managerial ability of the company. Meanwhile, for regulators such as OJK and BEI, the study suggests that there is a need to review policies regarding the role, independence, and effectiveness of independent commissioners. It also recommends the implementation of stricter regulations to strengthen oversight functions in corporate governance, so that companies can achieve higher levels of compliance and transparency.

This study has some limitations that need to be considered. The measurement of managerial ability in this study is based only on the efficiency of managers in managing company resources to generate output without considering other factors that may influence managerial performance. Additionally, the scope of this research is limited to the manufacturing industry, which may not represent all sectors of industry in Indonesia. Therefore, future research should expand the measurement of managerial ability, not only limited to its ability to manage resources to produce output, but also consider other factors that may influence managerial performance. Additional factors, such as managerial education background, compensation or salary levels, work experience, and tenure in the company, could provide a more comprehensive picture of managerial leadership quality. Future studies could expand the scope of the industry to obtain more comprehensive and applicable results.

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