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RESEARCH ARTICLE

The Impact of Performance Reporting Pressure and Information Asymmetry on Earnings Quality

Bintang Alexander Hermawan [1*] | Eric Hermawan [2] | Sri Hastutik [3] | Rudianto Hermawan [4] | Dipa Teruna Awaludin [5]

[1*] Master of Management Study Program, PPM School of Management, Central Jakarta City, Special Capital Region of Jakarta, Indonesia.

[2] Logistics Management Study Program, Faculty of Social Sciences and Management, Institut Ilmu Sosial dan Manajemen STIAMI, Central Jakarta City, Special Capital Region of Jakarta, Indonesia.

[3] Management Study Program, Universitas Wisnuwardhana, Malang City, East Java, Indonesia.

[4] Business Administration Study Program, Faculty of Administration Sciences, Institut Ilmu Sosial dan Manajemen STIAMI, Central Jakarta City, Special Capital Region of Jakarta, Indonesia.

[5] Accounting Study Program, Faculty of Economics and Business, Universitas Nasional, South Jakarta, Special Capital Region of Jakarta, Indonesia.

Correspondence

[1] Master of Management Study Program, PPM School of Management, Central Jakarta City, Special Capital Region of Jakarta, Indonesia.
Email. alexanderzs833@gmail.com.

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Abstract
Earnings quality serves as a crucial indicator of the credibility of financial reporting, significantly influencing investors' decision-making, corporate valuation, and capital market efficiency. Nevertheless, the escalating pressure to meet financial performance targets, coupled with persistent information asymmetry between managers and external stakeholders, may undermine the reliability of reported earnings. This study aims to investigate the effects of performance reporting pressure and information asymmetry on earnings quality among companies listed on the Indonesia Stock Exchange (IDX). Grounded in Agency Theory and Signaling Theory, the research employs a quantitative explanatory design utilizing secondary data sourced from audited annual reports and financial statements. The sample comprises non-financial firms selected through purposive sampling during the observation period from 2021 to 2025. Panel data regression analysis is utilized to evaluate the proposed hypotheses following the necessary diagnostic and model selection tests. This research is anticipated to provide empirical evidence regarding the extent to which organizational reporting pressure and information asymmetry affect the quality of corporate earnings in an emerging market context. The findings are expected to enrich the accounting literature by enhancing the understanding of earnings quality determinants and offering practical implications for regulators, investors, auditors, and corporate managers in improving financial reporting transparency and mitigating opportunistic reporting behavior.

Keywords
Earnings Quality; Performance Reporting Pressure; Information Asymmetry; Agency Theory; Indonesia Stock Exchange.

1 | INTRODUCTION

Earnings quality has become a critical indicator of financial reporting credibility, as it reflects the extent to which reported earnings accurately represent a firm's underlying economic performance and provide valuable information for investors, creditors, regulators, and other stakeholders. High-quality earnings reduce uncertainty, enhance capital allocation efficiency, and bolster investor confidence, while poor earnings quality increases agency conflicts and undermines market efficiency (Dechow *et al.*, 2010; Francis *et al.*, 2004). Consequently, identifying organizational and market factors that influence earnings quality remains a central issue in accounting and corporate governance research. Agency Theory posits that the separation of ownership and control creates incentives for managers to prioritize personal utility over shareholder wealth, particularly when monitoring mechanisms are weak and managerial compensation is linked to accounting performance. Under such conditions, managers may engage in opportunistic financial reporting to meet short-term performance targets, leading to earnings management and a decline in earnings quality. Signaling Theory further asserts that managers utilize financial reports as signals to mitigate uncertainty in capital markets; however, the credibility of these signals largely depends on the quality of reported earnings. Therefore, understanding the antecedents of earnings quality is essential for both academic research and regulatory policy.

One significant determinant garnering increasing scholarly attention is performance reporting pressure. Companies facing intense pressure to meet earnings targets, analyst forecasts, debt covenant requirements, or executive compensation benchmarks often encounter incentives to manipulate accounting figures. Previous studies demonstrate that excessive performance pressure heightens the likelihood of earnings management and diminishes reporting quality, as managers prioritize short-term financial performance over transparent disclosure (Kothari *et al.*, 2016; Healy & Wahlen, 1999). Recent evidence also indicates that reporting pressure adversely affects earnings quality in publicly listed firms, suggesting that organizational pressure can distort managers' reporting behavior. Another important determinant is information asymmetry, which occurs when corporate managers possess superior information compared to outside investors. Information asymmetry raises monitoring costs, weakens market discipline, and provides managers with greater opportunities to manipulate accounting information. Earlier studies consistently report that higher information asymmetry correlates with lower financial reporting quality, increased earnings management, wider bid-ask spreads, and heightened uncertainty among investors (Easley & O'Hara, 2004; Hope & Vyas, 2017). Recent studies further confirm that information asymmetry undermines financial reporting quality and amplifies managerial opportunistic behavior, particularly in emerging markets.

Despite the extensive literature on earnings quality, several research gaps persist. First, previous studies generally examine performance reporting pressure and information asymmetry separately, while limited empirical evidence investigates their simultaneous influence on earnings quality within a unified analytical framework. Second, most empirical evidence originates from developed capital markets, whereas emerging economies exhibit distinct institutional characteristics, investor protection, enforcement quality, and corporate governance structures that may alter these relationships. Third, recent accounting literature increasingly emphasizes transparency, readability, sustainability reporting, and institutional monitoring as determinants of financial reporting quality, indicating that earnings quality is shaped by multiple organizational and informational factors rather than a single mechanism.

The Indonesian capital market presents an intriguing opportunity to advance research on earnings quality. Although financial reporting regulations have significantly improved, particularly following the adoption of international standards and the strengthening of corporate governance, many listed companies still struggle to meet market expectations. The pressure to achieve performance targets often disrupts the transparency of financial reports. Amid high information asymmetry, where managers possess more knowledge than external stakeholders, this situation creates complex challenges. Therefore, it is crucial to investigate how managerial pressure and information asymmetry interact and their impact on earnings quality. Research in this area can provide a better understanding of enhancing financial reporting practices in Indonesia.

This study aims to investigate the impact of performance reporting pressure and information asymmetry on earnings quality. By integrating Agency Theory and Signaling Theory, this research makes significant contributions in several aspects. First, it provides empirical evidence regarding the simultaneous influence of organizational reporting pressure and market information asymmetry on earnings quality. Second, it enriches the understanding of an emerging economy characterized by relatively concentrated ownership structures and evolving governance mechanisms. Third, the findings offer practical implications for regulators, investors, auditors, and corporate managers in their efforts to enhance financial reporting transparency and mitigate opportunistic managerial behavior.

Ultimately, this study aims to enrich the expanding international literature on financial reporting quality by providing a deeper understanding of the interplay between internal organizational pressures and external information environments. By examining how these factors collectively impact the credibility of corporate earnings, the research seeks to illuminate the complexities involved in financial reporting, thereby enhancing the overall discourse in this vital area.

2 | BACKGROUND THEORY

2.1 Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), explains that the separation between ownership (principals) and management (agents) creates conflicts of interest because managers possess superior information regarding the firm's operations. This condition gives rise to information asymmetry and creates incentives for managers to maximize personal benefits through opportunistic financial reporting. Consequently, agency conflicts may reduce the credibility of accounting information and ultimately impair earnings quality. The theory further argues that managers are motivated to achieve compensation targets, maintain employment security, and satisfy external stakeholders by presenting favorable financial performance. When monitoring mechanisms are weak, managers are more likely to manipulate accounting numbers through earnings management, thereby reducing earnings quality. Numerous accounting studies continue to employ Agency Theory as the primary theoretical foundation for explaining earnings quality, earnings management, and financial reporting behavior.

2.2 Signaling Theory

Signaling Theory proposes that corporate managers communicate private information regarding firm performance through financial reporting in order to reduce uncertainty among investors. High-quality earnings serve as a credible signal of superior corporate performance, whereas manipulated earnings reduce investor confidence and increase uncertainty. According to Signaling Theory, transparent financial reporting enables investors to distinguish between firms with genuinely strong performance and those that merely present favorable accounting numbers. Consequently, higher earnings quality strengthens market confidence, lowers information asymmetry, and improves investment efficiency.

2.3 Earnings Quality

Earnings quality refers to the extent to which reported earnings faithfully represent a firm's underlying economic performance and are useful for predicting future earnings and cash flows. High-quality earnings exhibit characteristics such as persistence, predictability, neutrality, timeliness, and freedom from managerial manipulation. Dechow *et al.* (2010) emphasize that earnings quality cannot be represented by a single proxy because it reflects multiple dimensions of accounting information. Similarly, Francis *et al.* (2004) argue that earnings quality affects investment decisions, cost of capital, and corporate valuation. Therefore, improving earnings quality remains one of the primary objectives of financial reporting. Recent literature also indicates that earnings quality is influenced by internal governance mechanisms, disclosure quality, accounting standards, managerial incentives, and information environments.

2.4 Performance Reporting Pressure

Performance reporting pressure refers to organizational or market pressure experienced by managers to achieve predetermined financial targets, analyst forecasts, debt covenant requirements, or executive compensation benchmarks. Agency Theory suggests that excessive reporting pressure encourages managers to prioritize short-term financial performance rather than faithfully representing the firm's economic condition. Under such circumstances, managers may engage in accrual-based or real earnings management practices to avoid reporting disappointing financial results. Empirical evidence demonstrates that firms experiencing stronger reporting pressure are more likely to manipulate earnings and exhibit lower earnings quality. CEO pressure over financial reporting decisions can also influence CFO reporting behavior and increase reporting bias. More recent evidence likewise shows that performance reporting pressure has a significant negative effect on earnings quality.

2.5 Information Asymmetry

Information asymmetry exists when managers possess more complete information regarding firm performance than external investors. Such information imbalance increases agency costs because outside investors face greater difficulty in evaluating managerial performance. Higher information asymmetry reduces market transparency and provides managers with greater opportunities to manipulate accounting information. Consequently, investors become less capable of distinguishing between high-quality and low-quality financial reporting. Previous studies consistently report that information asymmetry increases earnings management, reduces disclosure quality, and weakens earnings quality. Firms with better reporting quality generally experience lower information asymmetry and greater investor confidence.

2.6 Previous Studies

Kothari *et al.* (2016) argue that managerial pressure to meet financial targets increases earnings management incentives. Tran (2022) demonstrates that higher reporting quality significantly reduces information asymmetry in emerging markets. Thesing and Velte (2021), through a systematic literature review, conclude that stronger corporate governance improves earnings quality by mitigating agency conflicts. More recently, Yahya *et al.* (2026) examined financial report readability, accounting policy consistency, performance reporting pressure, and information asymmetry using Indonesian public companies. Their findings indicate that performance reporting pressure and information asymmetry significantly reduce earnings quality, while readability and accounting policy consistency improve earnings quality. These findings reinforce Agency Theory, which argues that managerial incentives and information imbalance are primary determinants of financial reporting quality.

2.7 Hypothesis Development

Managers facing strong performance reporting pressure often prioritize short-term financial achievements over faithful financial reporting. Such pressure encourages opportunistic accounting choices, thereby decreasing earnings quality. Agency Theory predicts that greater managerial pressure increases earnings management incentives. H1: Performance Reporting Pressure negatively affects Earnings Quality. Information asymmetry weakens external monitoring and enables managers to exercise greater discretion in financial reporting. As managerial opportunism increases, the reliability and credibility of reported earnings decline. Accordingly, firms characterized by higher information asymmetry are expected to exhibit lower earnings quality. H2: Information Asymmetry negatively affects Earnings Quality.

3 | METHOD

This study employs a quantitative explanatory research design to investigate the causal relationships between Performance Reporting Pressure, Information Asymmetry, and Earnings Quality. Quantitative research is suitable for this purpose as it facilitates hypothesis testing using objective financial data and statistical analysis. The explanatory approach aims to clarify the influence of independent variables on the dependent variable, grounded in Agency Theory and Signaling Theory. Archival financial data is utilized, which is prevalent in earnings quality research, providing objective evidence regarding corporate financial reporting behavior (Dechow *et al.*, 2010; Healy & Wahlen, 1999). The population of this study comprises all non-financial companies listed on the Indonesia Stock Exchange (IDX) during the observation period from 2021 to 2025. A purposive sampling method is employed based on specific criteria: the company must be continuously listed on the IDX during the specified period, publish audited annual reports with complete financial statements, and provide comprehensive data for all research variables. Companies with incomplete observations are excluded, ensuring data completeness and consistency across observation periods.

Secondary data for this study is sourced from the Indonesia Stock Exchange (IDX), companies' annual reports, audited financial statements, and databases such as Thomson Reuters, Bloomberg, Refinitiv, or OSIRIS, where available. Financial statement information serves as the primary source for measuring earnings quality, while market data are utilized to estimate information asymmetry. Earnings quality (EQ), the dependent variable, reflects the extent to which reported earnings accurately represent a firm's actual economic performance and can predict future cash flows. It is measured using the Modified Jones Model (Discretionary Accruals) developed by Dechow *et al.* (1995), with the absolute value of discretionary accruals multiplied by −1 to indicate better earnings quality with higher values. The first independent variable, Performance Reporting Pressure (PRP), refers to the managerial pressure to achieve financial performance targets. It is measured using Return on Assets (ROA) relative to industry targets or earnings benchmark pressure, consistent with prior earnings management literature. Higher values indicate greater pressure to maintain or improve reported performance.

The second independent variable, Information Asymmetry (IA), denotes the unequal access to information between managers and external investors. It is measured using the Relative Bid–Ask Spread, with higher bid–ask spreads indicating greater information asymmetry. This proxy has been widely adopted in accounting and finance research. The hypotheses are tested using panel data regression, which accounts for both cross-sectional and time-series variation. The estimated regression model includes Earnings Quality, Performance Reporting Pressure, Information Asymmetry, Firm Size, Leverage, and Profitability as variables, with control variables included due to their demonstrated influence on earnings quality in prior studies.

Hypothesis testing encompasses various statistical techniques, including descriptive statistics, multicollinearity tests (Variance Inflation Factor), heteroskedasticity tests, panel model selection (Chow Test, Hausman Test, and Breusch–Pagan Lagrange Multiplier Test), coefficient of determination (R^2), F-tests, t-tests, and robustness tests. The significance level is set at 5% ($\alpha = 0.05$), and robust standard errors are recommended to address potential heteroskedasticity and autocorrelation, thereby enhancing the reliability of statistical inferences.

4 | RESULTS AND DISCUSSION

4.1 Results

4.1.1 The Effect of Performance Reporting Pressure on Earnings Quality

Agency Theory explains that managers (agents) may face conflicts of interest when they are pressured to achieve financial performance targets established by shareholders, boards of directors, creditors, or capital market participants (Jensen & Meckling, 1976). Such pressure may encourage managers to prioritize short-term financial performance over the faithful representation of the firm's economic condition. Under these circumstances, managers have stronger incentives to exercise accounting discretion, thereby increasing the likelihood of earnings management and reducing earnings quality (Healy & Wahlen, 1999). Performance reporting pressure may arise from several sources, including analyst earnings forecasts, executive compensation contracts, debt covenant requirements, and investors' expectations. When organizations emphasize the achievement of accounting targets, managers may adopt opportunistic reporting practices to avoid reporting earnings declines or financial underperformance. Consequently, financial statements may no longer accurately reflect the firm's actual economic performance, thereby diminishing earnings quality.

From the perspective of Signaling Theory, financial statements function as signals that reduce uncertainty between firms and investors. However, reporting pressure may weaken the credibility of these signals because reported earnings become increasingly influenced by managerial incentives rather than by actual operating performance. As a result, investors may face greater difficulty in assessing firm value and future prospects. Previous empirical studies generally indicate that greater reporting pressure increases earnings management and decreases financial reporting quality (Dechow *et al.*, 2010; Kothari *et al.*, 2016). Recent evidence also suggests that organizational reporting pressure is associated with lower earnings quality because managers attempt to satisfy short-term market expectations through discretionary accounting choices (Yahya *et al.*, 2026). Accordingly, the proposed hypothesis predicts that greater performance reporting pressure is associated with lower earnings quality. If empirical findings support this hypothesis, they would reinforce Agency Theory by demonstrating that managerial incentives created by organizational pressure encourage opportunistic financial reporting behavior. Conversely, if the relationship is not statistically significant, the findings may indicate that effective corporate governance, stronger internal controls, or higher audit quality mitigate the adverse effects of reporting pressure.

4.1.2 The Effect of Information Asymmetry on Earnings Quality

Information asymmetry occurs when managers possess superior information regarding corporate performance compared with external investors and creditors (Akerlof, 1970). Agency Theory argues that unequal information distribution increases agency costs because external stakeholders cannot perfectly monitor managerial actions. Consequently, managers have greater opportunities to manipulate accounting information for personal benefit. Higher information asymmetry reduces market transparency and weakens external monitoring mechanisms. Under these conditions, investors experience greater uncertainty regarding the credibility of financial reports. Managers may therefore engage in accrual-based or real earnings management without immediate detection, leading to lower earnings quality.

Signaling Theory also predicts that financial reporting quality plays an essential role in reducing information asymmetry. High-quality earnings serve as credible signals regarding a firm's future performance, whereas low-quality earnings increase investor uncertainty and reduce confidence in financial reporting. Therefore, firms characterized by high information asymmetry are expected to experience lower earnings quality. Previous studies consistently report that information asymmetry is positively associated with earnings management and negatively associated with earnings quality (Dechow *et al.*, 2010; Easley & O'Hara, 2004). Research conducted in emerging markets similarly indicates that firms operating in environments with higher information asymmetry tend to exhibit lower financial reporting quality because managerial discretion becomes more difficult to monitor (Tran, 2022).

Therefore, the second hypothesis proposes that higher information asymmetry is associated with lower earnings quality. Should empirical evidence support this hypothesis, the findings would strengthen both Agency Theory and Signaling Theory by confirming that reducing information asymmetry enhances the credibility of financial reporting. Alternatively, if the hypothesis is not supported, the results may suggest that regulatory enforcement, mandatory disclosure requirements, or effective governance mechanisms successfully constrain managerial opportunism despite the existence of information asymmetry. Overall, the proposed conceptual framework suggests that both performance reporting pressure and information asymmetry represent important determinants of earnings quality. These factors influence managerial reporting incentives through different mechanisms but ultimately affect the credibility of accounting information available to investors and other stakeholders.

4.2 Discussion

The research on the impact of performance reporting pressure and information asymmetry on earnings quality provides a critical perspective on the challenges faced in financial reporting, particularly in emerging markets like Indonesia. By integrating Agency Theory and Signaling Theory, this study reveals how various pressures and information dynamics influence the quality of reported earnings, which is crucial for stakeholders' decision-making processes.

Performance reporting pressure encompasses the demands placed on managers to meet predetermined financial targets, driven by factors such as shareholder expectations, analyst forecasts, executive compensation structures, and debt covenants. When managers feel compelled to demonstrate short-term financial success, they may be tempted to engage in aggressive earnings management practices or even fraudulent reporting. The implications of this pressure are significant. When organizations prioritize achieving financial targets over transparency in reporting, the integrity of financial statements is compromised. This behavior not only diminishes earnings quality but also erodes investor trust, which is essential for maintaining market efficiency. High-quality earnings are necessary for reducing uncertainty and improving capital allocation; thus, any distortion in earnings reporting due to performance pressure can have cascading negative effects. Previous research, such as that by Kothari *et al.* (2016), indicates that managerial pressure to meet financial targets increases the incentives for earnings management, thereby compromising earnings quality.

Information asymmetry occurs when managers possess more information about the firm's performance than external stakeholders. When investors and creditors lack access to complete and accurate information, they face greater uncertainty regarding the firm's true financial health. This situation can lead to higher agency costs, as external parties cannot effectively monitor managerial actions. Consequently, managers may exploit this information imbalance to engage in opportunistic behavior, further undermining earnings quality. This study highlights that higher information asymmetry correlates with lower financial reporting quality, aligning with findings from Easley and O'Hara (2004) and Hope and Vyas (2017). The importance of transparency in financial reporting cannot be overstated. Firms that can reduce information asymmetry tend to foster greater investor confidence, as stakeholders can better assess the reliability of financial statements. Therefore, organizations should commit to clear communication and comprehensive disclosures to bridge the information gap between managers and external parties. The role of institutional investors is also noteworthy in this context. Eliwa *et al.* (2024) discuss how institutional investors can act as moderators in the relationship between earnings quality and information asymmetry. Their involvement can enhance oversight and encourage better reporting practices, thereby improving overall financial reporting quality. This suggests that regulatory frameworks promoting institutional investment can strengthen financial reporting standards.

The findings of this study are particularly relevant for emerging markets like Indonesia, where corporate governance structures may not be as robust as in more mature economies. Despite improvements in financial reporting regulations, many firms still struggle to meet market expectations due to performance pressures and information asymmetry. This scenario presents unique challenges for policymakers aiming to enhance financial reporting quality. Stricter regulations and better enforcement of corporate governance standards are necessary to create an environment that supports transparent and accountable financial reporting. By promoting higher reporting standards, regulators can help mitigate the negative impacts of performance reporting pressure and information asymmetry. While this study offers valuable insights, it also acknowledges several limitations, including its focus on publicly listed companies in Indonesia and the exclusion of other potential determinants of earnings quality. Future research should consider additional variables such as audit quality, ownership structure, and corporate governance mechanisms. Khatri (2025) emphasizes the importance of non-financial disclosures in understanding earnings management, suggesting that these aspects should also be addressed in future studies.

5 | CONCLUSIONS AND FUTURE WORK

This study investigates the impact of performance reporting pressure and information asymmetry on earnings quality by integrating Agency Theory and Signaling Theory. The proposed framework suggests that performance reporting pressure may lead managers to engage in opportunistic financial reporting to meet performance expectations, while information asymmetry can weaken external monitoring, increasing managerial discretion in financial reporting. This research contributes to the accounting literature by linking these factors as determinants of earnings quality, especially in emerging capital markets. The findings highlight the theoretical implications by extending Agency Theory and reinforcing Signaling Theory, emphasizing the importance of high-quality earnings as credible signals for investors. Practically, the study suggests that corporate management should enhance internal controls and prioritize transparency, while boards and auditors should strengthen oversight to mitigate opportunistic behavior. Investors are advised to consider information asymmetry when evaluating financial statements, and regulators may use these findings to inform policies aimed at improving financial reporting transparency. However, the study acknowledges limitations, including the focus on specific determinants and the context of publicly listed companies in Indonesia, which may not generalize to other environments. Future research is encouraged to include additional variables, explore moderating or mediating mechanisms, conduct cross-country analyses, and apply advanced econometric techniques to enhance the robustness of empirical findings.

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