

Analyzing the Moderating Role of Earnings Predictive Power in the Relationship Between the Feedback Value of Accounting Information and Credit Rating

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ABSTRACT

The present study aimed to investigate the moderating role of earnings predictive power in the relationship between the feedback value of accounting information and the credit rating of companies listed on the Tehran Stock Exchange. This study was conducted using an applied, descriptive-correlational, and ex post facto research design based on panel data analysis. The statistical population consisted of all companies listed on the Tehran Stock Exchange during the period 2015–2024. After applying screening criteria, including fiscal year consistency, availability of financial information, and exclusion of financial intermediaries and investment firms, 155 companies were selected as the final sample. Data were extracted from audited financial statements, explanatory notes, board reports, and official financial databases. Credit rating was measured using the Emerging Market Score model. The feedback value of accounting information was measured based on the reduction in earnings forecast error after incorporating current earnings information, while earnings predictive power was measured using the residuals of an earnings prediction model based on operating cash flows and accruals. Firm size, return on assets, growth opportunity, sales growth, and auditor type were included as control variables. Data analysis was performed using panel regression models after testing stationarity, heteroskedasticity, and autocorrelation assumptions. The results showed that earnings predictive power has a positive and statistically significant effect on credit rating ($\beta=0.023$, " " $p=0.022$). More importantly, the interaction effect between the feedback value of accounting information and earnings predictive power was positive and significant ($\beta=0.015$, " " $p=0.039$), indicating that earnings predictive power strengthens the relationship between the feedback value of accounting information and credit rating. Among the control variables, firm size ($\beta=0.016$, " " $p<0.001$), return on assets ($\beta=0.085$, " " $p=0.001$), growth opportunity ($\beta=0.010$, " " $p=0.049$), and sales growth ($\beta=0.007$, " " $p=0.005$) had positive and significant effects on credit rating, whereas auditor type did not show a significant effect ($p=0.952$). The regression model was statistically significant overall ($F=334.19$, " " $p<0.001$) and explained approximately 72.36% of the variation in corporate credit rating. The findings indicate that the usefulness of accounting information in the credit-rating process depends not only on its feedback value but also on the predictive strength of earnings. Firms with stronger earnings predictive power provide accounting information that is more informative and reliable for evaluating future financial performance and default risk. Therefore, earnings predictive power enhances the effectiveness of accounting feedback information in reducing uncertainty and improving credit evaluations. The study highlights the importance of integrating both historical and forward-looking dimensions of accounting quality in credit risk assessment and financial decision-making processes.

Keywords: Feedback value of accounting information, earnings predictive power, credit rating, earnings quality, financial reporting quality, panel data regression, Tehran Stock Exchange.



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Introduction

Accounting information plays a central role in reducing uncertainty in capital markets because it enables investors, creditors, analysts, and other stakeholders to evaluate firm performance, assess financial risk, and revise expectations about future outcomes. In financial reporting theory, high-quality accounting information is not only expected to describe past performance but also to help users confirm or correct prior expectations. This confirmatory function is commonly referred to as the feedback value of accounting information. When financial statements provide meaningful feedback about previous forecasts and expectations, users can improve subsequent judgments about profitability, cash flows, solvency, and default risk (1-3). Therefore, the feedback value of accounting information is especially important in credit assessment, because creditors and rating users rely on accounting signals to evaluate whether a firm has sufficient financial capacity to meet its obligations.

Credit rating is one of the most important outputs of financial risk assessment. It summarizes the perceived ability of a firm to fulfill its financial commitments and reflects a combination of profitability, liquidity, leverage, operating stability, reporting quality, and future performance expectations. Since credit rating is influenced by both realized accounting performance and expectations about future financial strength, accounting information can affect credit rating through both backward-looking and forward-looking channels. The backward-looking dimension is reflected in feedback value, because accounting numbers help users evaluate whether earlier expectations were accurate. The forward-looking dimension is reflected in the predictive power of earnings, because earnings that can reliably predict future performance reduce information risk and strengthen confidence in financial assessments (4-7).

Recent accounting and finance literature emphasizes that financial reporting quality affects financing decisions, capital structure, and market perceptions. Lisboa et al. showed that financial reporting quality is associated with firms' capital structure decisions, suggesting that more reliable accounting information can reduce financing frictions and improve external assessments of corporate risk (8). Similarly, Abdollahi et al. argued that information risk is related to cost of equity and stock returns in Iranian firms, confirming that accounting information quality is relevant in environments where uncertainty and information asymmetry shape investor and creditor behavior (9). Mehrabanpour et al. also demonstrated that financial statement comparability affects cash holdings through disclosure quality and financing constraints, indicating that better accounting information can reduce external financing pressure and improve financial flexibility (10). These findings collectively show that the informational quality of accounting reports is not merely a technical reporting issue but a determinant of financing conditions, risk perception, and firm valuation.

The relationship between accounting information and credit evaluation becomes more important in emerging markets, where information asymmetry, weaker enforcement mechanisms, ownership concentration, and financing constraints may intensify reliance on accounting signals. In such contexts, credit rating agencies, lenders, and investors often use financial statement data as a primary input for assessing default probability and financial strength. However, the usefulness of accounting information depends on its quality. If accounting numbers are noisy, manipulated, or weakly connected to future performance, they may have limited value for credit assessment. In contrast, when accounting information contains strong feedback value and earnings possess high predictive power, financial statements can provide a more credible basis for evaluating corporate creditworthiness.

Earnings quality has been widely studied as a major dimension of financial reporting quality. High-quality earnings are expected to be persistent, predictable, transparent, and less affected by opportunistic managerial

discretion. Yusuf and Mutunga found that earnings quality influences the market value of listed companies, emphasizing the valuation relevance of reliable accounting performance (11). Ganguli and Deb examined the relation between financing structure and earnings quality in the Indian banking environment and showed that financing patterns can be linked to the quality of reported earnings (6). Alves found that governance structures, including CEO duality and board independence, are associated with earnings quality, indicating that internal monitoring mechanisms can shape the credibility of reported accounting outcomes (3). Oyebamiji also highlighted the relationship between ownership structure and earnings quality, suggesting that governance and control rights affect the reliability of financial reporting (12). These studies support the view that earnings quality is shaped by both firm-level characteristics and governance mechanisms.

A major threat to accounting information quality is earnings management. Earnings management may weaken the feedback value of accounting information because managed earnings distort the relationship between reported performance and underlying economic reality. Dokas et al. described earnings management as a major issue in accounting research and emphasized its broad implications for financial reporting reliability (13). Khan et al. showed that financial structure is related to earnings manipulation activities, suggesting that debt and financing incentives may influence managerial reporting behavior (14). Naz and Sheikh found evidence on the relationship between capital structure and earnings management, reinforcing the idea that leverage may create incentives to alter reported earnings (15). Ahmed and Sulong further showed that cash flow volatility affects the relationship between leverage and accrual-based earnings management, indicating that unstable operating cash flows may intensify reporting discretion (16). These findings imply that when earnings are influenced by managerial discretion, their usefulness for credit rating may decline.

The literature also shows that financial distress is closely associated with earnings management. Firms under financial pressure may have stronger incentives to manipulate earnings to avoid covenant violations, maintain investor confidence, or improve perceived solvency. Kannangara and Buvanendra documented a relationship between financial distress and earnings management in Sri Lanka, suggesting that distressed firms may use reporting discretion to influence external perceptions (17). Nguyen et al. provided similar evidence from non-financial companies listed in Vietnam, confirming that financial distress can affect earnings management behavior (18). Agustina and Malau examined financial distress, earnings management, leverage, and firm value, showing that these constructs interact in shaping market assessments (19). Alhawtmeh et al. also examined the impact of earnings management practices on banking performance in Jordan, indicating that earnings management has performance and risk implications in financial institutions (2). These studies are directly relevant to credit rating because financial distress, earnings quality, and reported performance are central components of creditworthiness.

Governance, auditing, and ownership mechanisms may moderate or constrain earnings management and thereby affect the credibility of accounting information. Algrady et al. showed that audit committee characteristics influence the quality of financial information in Saudi Arabian and UAE companies, suggesting that stronger audit committees improve reporting reliability (1). Tessema found that audit quality and political connections affect information asymmetry in Gulf Cooperation Council banks, highlighting the role of audit credibility in reducing uncertainty (20). Muhtaseb et al. examined leverage, earnings management, and audit industry specialization in Palestinian-listed companies and showed that audit specialization may affect the relationship between financing incentives and reporting behavior (21). Arianpoor and Farzaneh also found that auditor industry specialization and institutional ownership moderate the relationship between cost of equity and earnings management, suggesting

that external monitoring mechanisms shape the economic consequences of reporting discretion (22). These findings indicate that the effect of accounting information on credit rating may depend on the broader credibility of the reporting environment.

Corporate governance has also been examined as a moderating mechanism in financial reporting and financing decisions. Abualhassan et al. investigated whether corporate governance moderates the effect of earnings management on capital structure, emphasizing that governance quality can alter how accounting behavior affects financing outcomes (4). Duho et al. studied transfer pricing, earnings management, and corporate governance among listed firms in Ghana, showing that governance structures are important in controlling opportunistic reporting practices (5). Attia et al. examined the impact of family versus institutional block-holders on accrual-based earnings management and firm performance in an emerging market, indicating that ownership identity affects financial reporting behavior (23). Ngo et al. also showed that board friendliness and economic development affect abnormal earnings, further suggesting that board characteristics influence earnings behavior (24). These studies reinforce the idea that accounting information should be interpreted in light of monitoring quality, managerial incentives, and institutional context.

The relevance of earnings management and accounting quality is not limited to a single industry or institutional setting. Gonçalves et al. reviewed earnings management in the hospitality industry and emphasized that sectoral characteristics influence reporting incentives and earnings behavior (25). Kalgo et al. examined IPO attributes, firm-level characteristics, and ownership in Malaysian IPO firms and showed that newly listed firms may engage in earnings management due to market pressure and valuation incentives (26). Giudici and Vismara discussed IPOs and entrepreneurial firms, showing that information asymmetry is a fundamental issue in entrepreneurial financing and public market entry (7). Imperatore and Trombetta examined earnings management and investor protection during a banking crisis and highlighted how institutional safeguards can influence reporting behavior under financial stress (27). Rouvolis compared IFRS and US GAAP in the context of the 2008 economic crisis, emphasizing that accounting frameworks can shape transparency and financial sector reporting outcomes (28). These studies show that accounting information quality has broad relevance across industries, listing stages, and crisis conditions.

The predictive power of earnings is particularly important because it determines whether current accounting performance can serve as a reliable signal of future profitability and repayment capacity. If earnings have strong predictive power, creditors can interpret current earnings as meaningful evidence about future cash flows and solvency. If earnings have weak predictive power, the feedback value of accounting information may be less useful for credit rating because historical information fails to provide reliable implications for the future. This distinction is critical in the present study because feedback value and predictive value represent two interrelated but conceptually different dimensions of accounting usefulness. Feedback value helps users evaluate previous expectations, while predictive power strengthens the ability of those evaluations to inform future judgments.

The empirical literature suggests that firms' incentives to manage earnings may be influenced by financing, tax, dividend, and group-affiliation structures. Maqsood et al. examined the impact of dividend policy and tax avoidance on earnings management, showing that payout and tax strategies can affect reporting discretion (29). Gürünlü found that business group affiliation moderates the relationship between debt and earnings management, indicating that organizational structure can influence how financing pressure affects reporting behavior (30). Kusuma argued that the reclassification of other comprehensive income may narrow opportunities for creative accounting, showing that reporting classification rules can affect earnings management and income smoothing (31). Swarnapali examined

the consequences of corporate sustainability reporting in an emerging market and showed that broader disclosure practices can have economic implications for firms (32). Yeboah and Pais studied IFRS adoption and accounting quality in Ghanaian listed firms, confirming that reporting standards can improve or reshape accounting quality (33). These studies suggest that accounting information quality depends on institutional rules, reporting incentives, and disclosure practices.

Despite the growing literature on earnings quality, earnings management, information risk, and financing outcomes, less attention has been paid to how the predictive power of earnings changes the relationship between the feedback value of accounting information and credit rating. This gap is important because credit rating is not based only on whether accounting information reflects past performance; it also depends on whether that information can help assess future default risk. Feedback value may improve credit evaluation by allowing users to correct prior beliefs, but this effect should be stronger when earnings are more predictive of future performance. In other words, earnings predictive power can act as a moderating mechanism that converts feedback-oriented information into more reliable credit-relevant signals. Without predictive power, feedback value may remain backward-looking and limited. With predictive power, the same feedback value can become more useful for forward-looking credit assessment.

In the context of listed firms, this issue is especially significant because credit ratings influence borrowing capacity, financing costs, investor confidence, and market discipline. When firms provide accounting information with high feedback value and earnings that are capable of predicting future outcomes, credit assessors can rely more strongly on financial statements. Conversely, when predictive power is weak, even accounting information that appears useful for evaluating past expectations may not translate into better credit assessment. Therefore, analyzing the moderating role of earnings predictive power can provide a more refined understanding of how accounting information affects credit rating.

Accordingly, the aim of this study is to analyze the moderating role of earnings predictive power in the relationship between the feedback value of accounting information and the credit rating of companies listed on the Tehran Stock Exchange.

Methods and Materials

This study was designed as an applied, descriptive-correlational, and ex post facto accounting research project. Since the study examines historical financial information without manipulating the research environment, it follows a quasi-experimental archival design based on firm-year observations. The main purpose of the study is to analyze whether the predictive power of earnings moderates the relationship between the feedback value of accounting information and corporate credit rating. Accordingly, the study uses panel data from companies listed on the Tehran Stock Exchange during the period 2015–2024. The statistical population consisted of all firms listed on the Tehran Stock Exchange within this period. The final sample was selected using a systematic screening method. Firms were included if they had been listed before the end of 2014, had a fiscal year ending in March, had not changed their fiscal year or main business activity during the research period, had complete financial data, and did not belong to financial institutions, banks, leasing firms, investment companies, or other specialized financial intermediaries. After applying these criteria, 155 companies were retained as the final research sample. The required data were collected from audited financial statements, explanatory notes, board reports, reports of independent auditors and legal inspectors, official databases of the Securities and Exchange Organization, and financial software databases such

as Tadbir Pardaz and Rahavard Novin. The data were first organized in Excel and then analyzed using econometric software.

The dependent variable of the study is corporate credit rating. Credit rating was measured using the Emerging Market Score model, which evaluates a firm's financial position and translates the score into an equivalent credit rating. The basic EMS model is specified as follows:

$$EMS_{i,t} = 3.25 + 6.56X_{1,i,t} + 3.26X_{2,i,t} + 6.72X_{3,i,t} + 1.05X_{4,i,t}$$

where X_1 is working capital divided by total assets, X_2 is retained earnings divided by total assets, X_3 is earnings before interest and taxes divided by total assets, and X_4 is the book value of equity divided by total liabilities. After calculating the EMS value, the resulting score was converted into an equivalent credit rating category. The equivalent rating was then adjusted based on three dimensions: vulnerability to exchange-rate fluctuations, industry credit risk, and competitive position within the industry. Finally, the qualitative ratings were converted into numerical scores ranging from low speculative credit status to high investment-grade credit status, so that the variable could be used in regression analysis.

The independent variable is the feedback value of accounting information. In this study, feedback value refers to the ability of accounting information to confirm or revise users' prior expectations about future earnings. It was measured through the change in earnings forecast error when current earnings are incorporated into the forecasting process. First, future earnings were predicted using current earnings:

$$EARN_{i,t+1} = \beta_0 + \beta_1 EARN_{i,t} + \varepsilon_{i,t+1}$$

Second, future earnings were predicted without using current earnings and instead using lagged earnings:

$$EARN_{i,t+1} = \beta_0 + \beta_1 EARN_{i,t-1} + \varepsilon_{i,t+1}$$

Then, the feedback value index was calculated as follows:

$$VAIF_{i,t} = |\varepsilon_5| - |\varepsilon_4|$$

where $VAIF_{i,t}$ represents the feedback value of accounting information, ε_5 is the forecast error from the model including current earnings, and ε_4 is the forecast error from the model excluding current earnings. Lower values of $VAIF$ indicate that current earnings reduce the forecast error more effectively; therefore, lower $VAIF$ reflects higher feedback value of accounting information.

The moderating variable is earnings predictive power. Earnings predictive power reflects the extent to which current earnings components can predict future earnings. It was measured using the absolute value of the residuals from a model in which future earnings are predicted by operating cash flows and total accruals:

$$EARN_{i,t+1} = \beta_0 + \beta_1 CFO_{i,t} + \beta_2 TCA_{i,t} + \varepsilon_{i,t}$$

where $CFO_{i,t}$ is operating cash flow scaled by average total assets, and $TCA_{i,t}$ is total current accruals scaled by average total assets. Total accruals were calculated as follows:

$$TCA_{i,t} = \frac{OP_{i,t} - CFO_{i,t}}{Asset_{i,t}}$$

where $OP_{i,t}$ is operating profit, $CFO_{i,t}$ is net cash flow from operating activities, and $Asset_{i,t}$ is average total assets. The absolute residuals of this model were used as an inverse measure of earnings predictive power; therefore, smaller residuals indicate stronger predictive power of earnings.

Several control variables were also included. Firm size was measured as the natural logarithm of the market value of equity. Return on assets was calculated as operating profit divided by total assets. Firm growth was measured through the market-to-book ratio. Sales growth was measured as the ratio of current-year sales to prior-year sales. Auditor type was measured as a dummy variable equal to 1 for firms audited by high-quality audit institutions classified in the first rank of trusted auditors of the stock exchange, and 0 otherwise.

The analysis was conducted in two stages: descriptive and inferential. In the descriptive stage, the main characteristics of the research variables were examined using mean, median, minimum, maximum, standard deviation, skewness, and kurtosis. These statistics were used to evaluate the distributional properties of credit rating, feedback value of accounting information, earnings predictive power, and control variables before estimating the regression model.

Since this study examines only the moderating role of earnings predictive power in the relationship between the feedback value of accounting information and credit rating, the regression analysis focused exclusively on the interaction model. The empirical model was specified as follows:

$$CR_{i,t} = \alpha_0 + \alpha_1 FV_{i,t} + \alpha_2 PPF_{i,t} + \alpha_3 (FV_{i,t} \times PPF_{i,t}) + \alpha_4 Size_{i,t} + \alpha_5 ROA_{i,t} + \alpha_6 MTB_{i,t} + \alpha_7 GrowthSell_{i,t} + \alpha_8 AudTop_{i,t} + \varepsilon_{i,t}$$

In this model, CR represents credit rating, FV represents the feedback value of accounting information, PPF represents earnings predictive power, $FV \times PPF$ represents the interaction term used to test the moderating effect, $Size$ represents firm size, ROA represents return on assets, MTB represents firm growth, $GrowthSell$ represents sales growth, and $AudTop$ represents auditor type. The coefficient of the interaction term, α_3 , is the main coefficient of interest. If this coefficient is statistically significant, it indicates that earnings predictive power significantly moderates the relationship between the feedback value of accounting information and credit rating.

Before estimating the final model, the classical assumptions of regression were examined, including autocorrelation, heteroskedasticity, normality of residuals, and multicollinearity among explanatory variables. The overall significance of the model was assessed using the F-test, and the statistical significance of each coefficient was evaluated using the t-test at the 5% significance level. The coefficient of determination and adjusted coefficient of determination were used to assess the explanatory power of the model. Because the data include both firm-level and time-series dimensions, panel-data diagnostic tests were also applied. The Chow test was used to determine whether pooled regression or fixed-effects estimation was appropriate, and the Hausman test was used to choose between fixed-effects and random-effects estimation. Based on these diagnostic tests, the final model was estimated using the appropriate panel-data regression method.

Findings and Results

Table 1 presents the descriptive statistics of the variables used in the second hypothesis model.

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	Median	Maximum	Minimum	Standard Deviation
Feedback value of accounting information	0.003	0.002	0.064	-0.071	0.019
Earnings predictive power	0.042	0.029	0.599	0.001	0.050
Credit rating	3.264	3.000	6.000	1.000	1.761
Firm size	14.735	14.508	17.171	12.838	1.380
Return on assets	0.164	0.139	0.842	-0.536	0.150
Growth opportunity	3.744	2.699	9.599	1.028	2.740
Sales growth	0.394	0.297	1.245	-0.159	0.441
Auditor type	0.295	0.000	1.000	0.000	0.456

The descriptive results show that the mean feedback value of accounting information is 0.003, with a median of 0.002 and a standard deviation of 0.019, indicating limited dispersion around values close to zero. Earnings predictive power has a mean of 0.042 and a median of 0.029, suggesting that forecast errors are generally low, although the maximum value of 0.599 indicates the presence of some firms with weaker earnings predictability. Credit rating has a mean of 3.264 and a standard deviation of 1.761, showing considerable variation in the credit status of the sampled firms. The control variables also show meaningful dispersion, especially growth opportunity and sales growth, indicating heterogeneity in firm performance, growth capacity, and operational conditions across the sample.

Table 2. Stationarity Test of Research Variables

Variable	Levin, Lin, and Chu Test Statistic	Significance Level
Feedback value of accounting information	-20.806	0.000
Earnings predictive power	-38.269	0.000
Credit rating	-24.405	0.000
Firm size	-24.422	0.000
Return on assets	-48.250	0.000
Growth opportunity	-6.442	0.000
Sales growth	-46.960	0.000
Auditor type	-29.680	0.000

The Levin, Lin, and Chu stationarity test indicates that all variables are stationary, because the significance level for each variable is below 0.05. Therefore, the null hypothesis of a unit root is rejected for all variables. This result confirms that the variables used in the panel regression model do not contain non-stationary trends and are suitable for regression estimation.

Table 3. Modified Wald Test for Heteroskedasticity

Hypothesis Tested	Null Hypothesis	Test Statistic	Probability	Result
Second hypothesis	No heteroskedasticity exists	314.30	0.000	Null hypothesis rejected

The modified Wald test shows that heteroskedasticity exists in the second hypothesis model. Since the probability value is 0.000, the null hypothesis of homoscedasticity is rejected. This means that the variance of the residuals is not constant across firms. Therefore, the final estimation should rely on a method robust to heteroskedasticity, such as generalized least squares or robust panel estimation.

Table 4. Wooldridge Test for Autocorrelation

Hypothesis Tested	Null Hypothesis	Test Statistic	Probability	Result
Second hypothesis	No autocorrelation exists	365.348	0.000	Null hypothesis rejected

The Wooldridge test confirms the existence of autocorrelation in the second hypothesis model. The probability value of 0.000 indicates that the null hypothesis of no autocorrelation is rejected. Accordingly, the residuals are serially correlated over time, and the final model must be estimated using a method that corrects for both heteroskedasticity and autocorrelation.

Table 5. Regression Results for the Second Hypothesis

$$CR_{i,t} = \alpha_0 + \alpha_1 FV_{i,t} + \alpha_2 PPF_{i,t} + \alpha_3 (FV_{i,t} \times PPF_{i,t}) + \alpha_4 Size_{i,t} + \alpha_5 ROA_{i,t} + \alpha_6 MTB_{i,t} + \alpha_7 GrowthSell_{i,t} + \alpha_8 AudTop_{i,t} + \varepsilon_{i,t}$$

Variable	Coefficient	Standard Error	t-statistic	Probability
Feedback value of accounting information	—	—	—	—
Earnings predictive power	0.023	0.010	2.290	0.022
Feedback value of accounting information × Earnings predictive power	0.015	0.007	2.060	0.039
Firm size	0.016	0.004	4.380	0.000
Return on assets	0.085	0.027	3.210	0.001
Growth opportunity	0.010	0.005	1.970	0.049
Sales growth	0.007	0.002	2.780	0.005
Auditor type	0.001	0.024	0.060	0.952
Constant	0.009	0.004	2.200	0.028
Model Statistic		Value		
Coefficient of determination		0.7236		
F-statistic		334.19		
Probability of F-statistic		0.0000		

The regression results show that earnings predictive power has a positive and statistically significant effect on credit rating, with a coefficient of 0.023 and a probability value of 0.022. More importantly, the interaction between the feedback value of accounting information and earnings predictive power is positive and significant, with a coefficient of 0.015, a t-statistic of 2.060, and a probability value of 0.039. Therefore, the second hypothesis is confirmed. This finding indicates that earnings predictive power strengthens the relationship between the feedback value of accounting information and credit rating. In other words, when earnings have stronger predictive ability, the feedback value of accounting information becomes more influential in explaining firms' credit ratings.

Among the control variables, firm size has a positive and significant coefficient of 0.016, showing that larger firms tend to have better credit ratings. Return on assets is also positive and significant, with a coefficient of 0.085, indicating that more profitable firms receive stronger credit evaluations. Growth opportunity and sales growth also have positive and significant effects on credit rating, with coefficients of 0.010 and 0.007, respectively. However, auditor type is not statistically significant, as its probability value is 0.952. The model's coefficient of determination is 0.7236, meaning that approximately 72.36% of the variation in credit rating is explained by the model. The F-statistic is significant at 0.0000, confirming the overall statistical validity of the regression model.

Discussion and Conclusion

The findings of this study provide strong empirical evidence that earnings predictive power positively moderates the relationship between the feedback value of accounting information and corporate credit rating. The results showed that earnings predictive power has a direct positive and statistically significant effect on credit rating, indicating that firms whose earnings possess stronger predictive ability are evaluated more favorably by creditors and market participants. More importantly, the interaction term between the feedback value of accounting information and earnings predictive power was positive and significant, demonstrating that the usefulness of

accounting information in the credit evaluation process increases when earnings are more capable of predicting future performance. These findings suggest that accounting information becomes substantially more valuable in the credit-rating process when it simultaneously contains both confirmatory and predictive characteristics.

The positive and significant role of earnings predictive power is theoretically consistent with the fundamental objectives of financial reporting. Accounting information is useful when it helps users both evaluate past expectations and form reliable expectations about future outcomes. In the present study, the findings indicate that creditors and financial markets place greater reliance on accounting information when reported earnings provide a meaningful signal regarding future operating performance and cash-generating ability. This result is aligned with the argument that high-quality earnings reduce uncertainty regarding future firm performance and therefore lower perceived credit risk. Prior research has similarly emphasized the importance of accounting information quality in shaping financial decisions and market evaluations. Lisboa et al. argued that higher-quality financial reporting improves financing structures and reduces informational frictions in capital markets (8). Likewise, Abdollahi et al. demonstrated that information risk significantly affects cost of equity and stock returns, implying that markets penalize firms whose accounting information lacks credibility or predictive capability (9). The present findings extend this line of research by showing that predictive earnings quality not only influences investor behavior but also strengthens the informational usefulness of accounting feedback in credit assessments.

The significant interaction effect found in this study confirms that feedback value alone is insufficient to fully influence credit rating unless the underlying earnings possess adequate predictive strength. This finding is conceptually important because it highlights the complementary nature of feedback and predictive characteristics in accounting information. Accounting information with high feedback value allows users to revise prior expectations, but if earnings are unstable or weak predictors of future outcomes, the revised expectations may still remain uncertain. In contrast, when earnings have strong predictive power, the market interprets feedback information as a more reliable basis for evaluating future solvency and repayment ability. Therefore, predictive power amplifies the usefulness of feedback-oriented accounting signals in the credit evaluation process.

This interpretation is consistent with studies emphasizing the economic role of earnings quality and reporting reliability. Yusuf and Mutunga showed that earnings quality positively affects firm market value because high-quality earnings provide investors with greater confidence regarding future firm prospects (11). Ganguli and Deb similarly argued that financing environments are strongly linked to earnings quality, particularly in banking-oriented economies where creditors depend heavily on financial reporting information (6). The findings of the present study support these arguments by demonstrating that creditors reward firms whose accounting information simultaneously reflects past performance accurately and predicts future outcomes effectively.

The results also support theoretical perspectives rooted in Bayesian learning and information asymmetry theory. According to Bayesian learning principles, market participants continuously update their beliefs based on new information. Accounting information with strong feedback value enables creditors and investors to adjust prior expectations regarding firm performance. However, the degree to which these updated beliefs influence economic decisions depends on the credibility and predictive relevance of the information. The significant moderating role of earnings predictive power suggests that creditors interpret accounting feedback as more informative when current earnings are closely associated with future profitability and cash flows. In this context, predictive earnings act as a credibility-enhancing mechanism that increases confidence in accounting signals.

The findings additionally align with the broad literature on earnings management and financial reporting quality. Prior studies have repeatedly shown that managerial discretion in earnings reporting can weaken the reliability of accounting information and distort stakeholder judgments. Dokas et al. emphasized that earnings management undermines the transparency and reliability of accounting reports, thereby reducing their usefulness for external users (13). Khan et al. similarly found that financial structure can intensify incentives for earnings manipulation, especially in highly leveraged firms (14). Naz and Sheikh also demonstrated that capital structure influences earnings management practices, particularly in emerging-market settings characterized by financing pressures and information asymmetry (15). These studies indirectly support the present findings because predictive earnings quality is fundamentally incompatible with aggressive earnings manipulation. Firms with stronger predictive earnings are likely to engage in less opportunistic reporting behavior, making their accounting information more reliable in the credit-rating process.

The positive effect of predictive earnings quality on credit rating is also consistent with research focusing on financial distress and reporting incentives. Kannangara and Buvanendra showed that financially distressed firms are more likely to engage in earnings management in order to conceal operational weaknesses or avoid external scrutiny (17). Nguyen et al. similarly found that financial distress significantly influences earnings management among listed firms (18). In the present study, firms with stronger predictive earnings received better credit ratings, suggesting that creditors perceive predictive earnings as evidence of financial stability and lower default probability. Predictive earnings reduce uncertainty about future cash flows and therefore improve confidence regarding debt repayment capacity.

Another important implication of the findings relates to the role of governance and monitoring mechanisms in improving accounting information quality. Algrady et al. showed that audit committee characteristics significantly improve financial information quality by strengthening monitoring and reducing reporting opportunism (1). Tessema similarly found that audit quality reduces information asymmetry in financial institutions (20). Arianpoor and Farzaneh demonstrated that auditor specialization and institutional ownership moderate the relationship between earnings management and financing outcomes (22). The present findings indirectly support this literature because stronger predictive power of earnings is often associated with better governance quality, more effective monitoring, and higher reporting discipline. Creditors appear to reward firms whose accounting systems generate earnings that are both informative and predictive.

The significant positive effect of firm size on credit rating observed in this study is also theoretically consistent. Larger firms generally possess greater operational diversification, stronger financing capacity, and better access to capital markets, which collectively reduce perceived credit risk. Previous studies have suggested that larger firms are subject to greater monitoring from investors, regulators, and analysts, leading to higher-quality reporting environments. Agustina and Malau noted that firm size can moderate financial reporting outcomes and influence firm value (19). Similarly, Giudici and Vismara emphasized that firm characteristics and information asymmetry significantly shape financing conditions and market evaluations (7). The current findings therefore reinforce the argument that larger firms tend to enjoy stronger credit positions due to both financial stability and informational advantages.

The positive and significant impact of return on assets indicates that profitability remains a major determinant of corporate creditworthiness. Firms with stronger profitability are viewed as more capable of generating sufficient internal resources to meet financial obligations. This finding is consistent with traditional credit risk theory, which

treats profitability as one of the strongest indicators of repayment ability. In addition, the positive effects of growth opportunities and sales growth indicate that creditors evaluate future expansion capacity and revenue stability as favorable indicators in credit assessment. Firms experiencing sustained growth are more likely to maintain future cash flows and operational resilience, thereby reducing default risk.

In contrast, the insignificant effect of auditor type suggests that audit reputation alone may not directly influence credit ratings once the quality of accounting information and firm fundamentals are incorporated into the model. One possible explanation is that the informational effects of high-quality auditors may already be reflected through improved earnings quality and predictive capability. Therefore, once these variables are controlled, the independent contribution of auditor type becomes statistically negligible. This interpretation is partially consistent with studies emphasizing that governance and audit quality influence financial outcomes indirectly through reporting quality improvements rather than through direct market effects (1, 21).

The present findings also contribute to the literature on accounting quality in emerging markets. Emerging-market firms often operate under weaker institutional frameworks, greater financing constraints, and higher information asymmetry. Under such conditions, accounting information becomes particularly important for reducing uncertainty in lending and investment decisions. Yeboah and Pais showed that IFRS adoption improved accounting quality in Ghanaian firms by enhancing reporting comparability and transparency (33). Swarnapali similarly found that enhanced disclosure practices influence market outcomes and stakeholder perceptions in emerging economies (32). The current study extends this literature by demonstrating that accounting information with both feedback and predictive characteristics significantly enhances credit evaluation effectiveness in an emerging-market context.

The results further align with studies examining how leverage, ownership structures, and governance characteristics influence reporting quality and market perceptions. Gürnlü found that business-group affiliation moderates the relationship between debt and earnings management (30). Abualhassan et al. argued that governance quality moderates the effects of earnings management on financing decisions (4). Duho et al. emphasized the role of governance mechanisms in constraining opportunistic reporting behavior (5). Collectively, these studies support the broader conclusion of the present research that reliable and predictive accounting information improves external evaluations of firm risk.

Overall, the findings demonstrate that accounting information affects credit rating more effectively when earnings possess stronger predictive ability. Feedback-oriented accounting information allows creditors to revise prior expectations, while predictive earnings increase confidence regarding the future implications of those revisions. Therefore, the joint presence of feedback value and predictive power creates a more informative and credible financial reporting environment. This finding has important implications for accounting theory, financial reporting practice, and credit risk assessment because it suggests that the usefulness of accounting information cannot be evaluated solely based on historical relevance; its future-oriented predictive capacity is equally critical.

One limitation of this study is that the sample consists only of firms listed on the Tehran Stock Exchange, which may limit the generalizability of the findings to other institutional or international settings. In addition, the measurement of credit rating relied on a model-based approach due to the limited availability of formal credit-rating data in the research environment. Another limitation is that the study focused primarily on accounting-based variables and did not incorporate macroeconomic conditions, industry-specific shocks, or behavioral market factors that may also influence credit assessments.

Future studies can expand the scope of this research by examining other dimensions of accounting information quality such as conservatism, earnings persistence, accrual quality, or disclosure transparency. Researchers may also investigate whether corporate governance mechanisms, ownership structures, or institutional environments strengthen or weaken the moderating role identified in this study. Comparative studies across developed and emerging markets could also provide deeper insights into how institutional quality affects the relationship between accounting information and credit rating.

From a practical perspective, the findings suggest that managers should focus on improving not only the transparency of accounting information but also the predictive quality of reported earnings. Investors, creditors, and rating agencies should evaluate financial reporting quality using both feedback-oriented and predictive indicators rather than relying exclusively on historical accounting performance. Regulators and standard setters may also improve market efficiency by encouraging reporting frameworks that enhance the predictive usefulness of earnings and strengthen the reliability of accounting disclosures.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adhered in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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