



Earnings Management, Firm Size, and Dividend Policy: Examining the Mediating Effect of Tax Avoidance

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Abstract. This research aims to analyze the effect of Earnings Management and Firm Size on Dividend Policy with Tax Avoidance as an intervening variable in Food and Beverage subsector companies, covering the period from 2019 to 2023. This study uses a quantitative approach with the Partial Least Square analysis method to test the relationship between variables. The secondary data used was obtained from the company's annual financial statements during the study period, with samples selected using purposive sampling technique. The results showed that Earnings Management has no significant effect on Dividend Policy, while Firm Size has a positive effect on Dividend Policy. Tax Avoidance is not able to mediate the effect of Earnings Management and Firm Size on Dividend Policy in Food and Beverage companies listed on the Indonesia Stock Exchange.

Keywords: Earnings Management, Firm Size, Dividend Policy, Tax Avoidance, Food and Beverage

1 Introduction

According to a study [1], in relation to dividend policy, earnings management allows companies to adjust the amount of profit that appears appropriate to be distributed in the form of dividends. However, this practice often involves manipulating or changing data on expenses and revenues, thereby affecting the perception of company profits. In some countries, including Indonesia, complex accounting regulations and the demand for transparent financial reports may encourage companies to engage in earnings management to meet regulatory requirements.

Firm size is also an important factor in determining dividend policy and is directly related to operational capacity and profit potential. Large-scale companies are generally supported by more adequate resources, giving them greater potential to achieve better economies of scale than smaller companies and often leading to superior financial performance.

Tax avoidance allows companies to adjust tax expenses within permissible standards so that the available net income becomes larger [2]. In this context,

[3] note that companies with a high level of earnings management or a larger size are considered to have more advantages and opportunities to practice tax avoidance, which in turn gives them greater ability to pay dividends. By reducing the amount of taxes payable to the state, companies can record adjusted net income to be distributed to shareholders in the form of dividends.

2 Methods

The purposive sampling method was applied to conduct this research. This research determines the population with a total of 95 Food and Beverage subsector companies listed on the Indonesia Stock Exchange (IDX) with the observation period 2019 – 2023 as the following sample details:

Table 1. Sample Selection Criteria

No	Sample Criteria	Total Company
1	Food and beverage companies listed on the IDX in November 2024	95
2	Food and beverage companies that do not publish financial reports consistently during 2019–2023	(42)
3	Food and beverage companies that do not publish financial reports in rupiah currency during 2019–2023	(2)
Number of Selected Samples		51
Year of Observation (2019–2023)		5
Number of Observed Samples		255

A total of three kinds of variables—independent, dependent, and intervening—are used in this investigation. According to a study [4], the variables in this study are Earnings Management (X_1) and Firm Size (X_2) as independent variables, Dividend Policy (Y) as the dependent variable, and Tax Avoidance as the intervening variable.

2.1 Descriptive Statistical Analysis

In general, descriptive statistical analysis is a technique for describing, summarizing, and presenting data in a simpler and easier to understand form. This analysis focuses on describing the characteristics of existing data, such as mean, median, standard deviation, as well as presenting data in tabular or graphical form, without drawing conclusions or generalizations to the population.

2.2 Multicollinearity Test

The multicollinearity test is a method aimed at examining the existence of relationships between independent variables in regression [5]. The multicollinearity test is run to detect whether there is a correlation between independent variables in a regression model [6]. High multicollinearity will cause instability in the value of regression coefficients and increase the likelihood of errors in making predictions.

2.3 Model Fit Test

To determine how well the constructed models (measuring and structural) match the available data, Smart PLS employs the model fit test [7]. The goal of the model fit test is to find out if the model fits the data being studied and if the connection between the variables in the model can be described properly.

2.4 Hypothesis Test – Direct Effect

The direct effect test aims to test the strength and direction of the direct relationship between the independent and dependent variables in the structural model [7]. This direct effect is usually measured using the path coefficient, which displays the magnitude of the influence of one variable on another.

2.5 Hypothesis Test – Indirect Effect

In a structural model, the indirect effect test determines how much of an impact the mediating variable (mediator) has on the overall model [7]. The purpose of this test is to determine if a mediator variable mediates the relationship between an independent and dependent variable. To test the significance of this effect, the bootstrapping technique is carried out to obtain a sample distribution of the path coefficient and calculate the p-value.

3 Results

3.1 Descriptive Statistical Analysis Results

The following are the outcomes of the descriptive statistical examination of the study’s data

Table 2. Descriptive Statistics of Research Data

Variable	N	Min	Max	Mean	Stdev
Earnings Management	255	-0.043	0.055	0.001	0.010
Firm Size	255	21.911	32.499	28.451	1.901
Dividend Policy	255	-6.603	5.385	0.260	0.681
Tax Avoidance	255	-4.253	6.935	0.262	0.763

3.2 Descriptive Statistical Analysis Results

Reference from Table 2 above, there are 255 sample data from 51 companies over a 5-year period. The explanation of the results of descriptive statistical analysis from Table 2 is as follows:

- **Earnings Management:** The variable shows a minimum value of -0.043 owned by PT Bakrie Sumatera Plantations Tbk (UNSP) in 2019 and a maximum value of 0.055 owned by PT Wahana Pronatural Tbk (WAPO) in 2023. When compared to the mean value of 0.001, the standard deviation of the Earnings Management variable is very high at 0.010. Such a broad range is shown in the Earnings Management variable data.
- **Firm Size:** From 2020 to 2019, the Firm Size variable exhibits a range of values, from 21.911 for PT Pantai Indah Kapuk Dua Tbk (PANI) to 32.499 for PT Indofood CBP Sukses Makmur Tbk (ICBP). Compared to the average value of 28.451, the standard deviation of the Firm Size variable is 1.901. There is a very small variation in the data set for the Firm Size variable.
- **Dividend Policy:** Between 2022 and 2023, PT Buyung Poetra Sembada Tbk (HOKI) has a maximum of 5.385 in the Dividend Policy variable, and a minimum of -6.603 in 2023. While the average value for the Dividend Policy variable is 0.260, the standard deviation is 0.681, which is higher. This demonstrates the massive dispersion of the data for the Dividend Policy variable.
- **Tax Avoidance:** The Tax Avoidance variable shows a minimum value of -4.253 owned by PT Mahkota Group Tbk (MGRO) in 2022 and a maximum value of 6.934 owned by PT Prasadha Aneka Niaga Tbk (PSDN) in 2019. A value of 0.262 represents the average, whereas the standard deviation for the Tax Avoidance variable is 0.763, which is higher. This shows that the Tax Avoidance variable data has a wide spread.

3.3 Multicollinearity Test Results

The following are the outcomes of the multicollinearity test conducted on the data used in this study.

Table 3. Multicollinearity Test Results

Variable	Dividend Policy (VIF)	Tax Avoidance (VIF)
Earnings Management	1.001	1.001
Firm Size	1.001	1.001
Tax Avoidance	–	1.001

Note: VIF = Variance Inflation Factor

From Table 3, it can be concluded that there is no multicollinearity in this research model because the Variance Inflation Factor (VIF) of each independent variable is less than or equal to 10. The VIF value obtained is 1.001, and based on the results of the multicollinearity test, it shows that the research model can be used reliably.

3.4 Model Fit Test Results

Using the study's data, the fit model test yielded the following results.

Table 4. Model Fit Test Results

Indicator	Saturated Model	Estimated Model
SRMR	0.000	0.000
d_ULS	0.000	0.000
d_G	0.000	0.000
Chi-Square	0.000	0.000
NFI	1.000	1.000

The difference between the SRMR and NFI values is less than 0.10 and greater than 0.90, as shown in Table 4. This research paradigm is well-suited to the data we have here, so we may draw our conclusions.

3.5 Direct Effect Results

The following are the outcomes of the Direct Effect test conducted on the data contained within this research.

Table 5. Path Coefficient Test Results

Variable	O	Stdev	T Statistics	P Values
Earnings Management → Dividend Policy	-0.089	0.087	1.022	0.154
Earnings Management → Tax Avoidance	-0.019	0.031	0.611	0.271
Firm Size → Dividend Policy	0.226	0.070	3.231	0.001
Firm Size → Tax Avoidance	-0.025	0.065	0.385	0.350
Tax Avoidance → Dividend Policy	0.050	0.048	1.029	0.152

From Table 5. above, it can be seen the relationship between variables shown by the Original Sample (O) number and the level of significance shown by the P-Values number.

3.6 Indirect Effect Results

These are the outcomes of an Indirect Effect test run on the study's data. To better understand the connection between the two sets of variables, Table 6 summarizes the function of mediating variables. By referring to the table, it can be seen the magnitude and direction of the indirect effect, as well as the accompanying statistical confidence level.

Table 6. Specific Indirect Effect Test Results

Variable	O	Stdev	T Statistics	P Values
Earnings Management → Tax Avoidance → Dividend Policy	-0.001	0.002	0.383	0.351
Firm Size → Tax Avoidance → Dividend Policy	-0.001	0.005	0.243	0.404

4 Discussion

4.1 Earnings Management and Dividend Policy

The results of the study provide an understanding that Earnings Management has no effect on Dividend Policy so that H1 is rejected. A company’s dividend policy tends to be more influenced by fundamental factors such as cash flow stability, investment needs, and long-term business strategies, rather than earnings manipulation. Dividend policy is often determined based on the company’s fixed policy that is not affected by short-term earnings fluctuations. Many companies have a conservative dividend policy to maintain reputation and investor confidence, so they are not affected by earnings management efforts.

4.2 Firm Size and Dividend Policy

The results of the study provide an understanding that Firm Size has a significant effect on Dividend Policy so that H2 is accepted. Companies with larger Firm Size tend to have easier access to financial resources, more stable earnings, and consistent cash flow, which allows management to pay dividends more regularly. In addition, large companies often have a better reputation in the eyes of investors and face greater pressure to meet market expectations, including in terms of dividend distribution. A strong Dividend Policy is also used by large companies to demonstrate their financial strength and increase investor confidence.

4.3 Earnings Management and Tax Avoidance

H3 is rejected since the study’s results show that Earnings Management does not affect Tax Avoidance. Avoiding legal risks and damaging reputations should be a company’s first priority when it comes to tax legislation. Tax Avoidance usually involves long-term and complex strategies that not fully correlated with short-term Earnings Management. In addition, increasingly stringent tax regulations and supervision by tax authorities in Indonesia can limit the company’s room for maneuver to carry out significant Tax Avoidance practices, despite indications of Earnings Management.

4.4 Firm Size and Tax Avoidance

The results provide an understanding that Firm Size has no effect on Tax Avoidance so that H4 is rejected. Large companies are often monitored more closely by tax authorities due to their potential to practice significant tax avoidance. This increased supervision can limit the space for large companies to use Tax Avoidance strategies, so Firm Size does not produce a meaningful influence on the level of Tax Avoidance.

4.5 Dividend Policy and Tax Avoidance

By demonstrating that dividend policy does not influence tax avoidance, the results support the rejection of H5. Tax Avoidance usually involves complex tax planning, while Dividend Policy is more influenced by profit stability and shareholders' need for returns. In addition, dividend distribution does not always reflect the company's tax policy, because Tax Avoidance strategies often focus on managing the pre-tax profit component rather than distributed profits.

4.6 Earnings Management and Dividend Policy through Tax Avoidance as A Mediating Variable

The study's findings disprove H6 since they show that tax avoidance is not a major factor in the effect of earnings management on dividend policy. The strategic orientation and main objectives of Tax Avoidance are often not directly related to earnings management or Dividend Policy. Tax Avoidance tends to focus on optimizing tax liabilities through transaction structuring or utilizing tax law loopholes, without considering the impact on accounting profits used in Earnings Management or funds available for dividends. In addition, companies that are more aggressive in conducting tax avoidance often have different fund allocation priorities, such as reinvestment or expansion, so that the Dividend Policy becomes less influenced by the tax strategy. Furthermore, Tax Avoidance can be complex and is not always reflected directly in the financial statements, so its relationship with Earnings Management practices and Dividend Policy decisions becomes insignificant.

4.7 Firm Size and Dividend Policy through Tax Avoidance as A Mediating Variable

The results of the study provide an understanding that Tax Avoidance does not have a significant role in the influence of Firm Size on Dividend Policy so that H7 is rejected. Large companies generally have a greater capacity to pay dividends due to better financial stability and cash flow. However, Tax Avoidance practices are often more related to tax efficiency than to Dividend Policy. Large companies may have more complex tax avoidance strategies, but the impact on dividends is often indirect as dividend policy is more influenced by strategic decisions such

as capital requirements, market perceptions, and shareholder preferences. In addition, large companies are often subject to greater scrutiny from regulators and stakeholders, which may limit the extent to which Tax Avoidance affects their financial decisions, including Dividend Policy. That being the case, it's possible that tax avoidance isn't the most important component in the correlation between company size and dividend policy.

5 Conclusion

Research on food and beverage traded businesses on the IDX from 2019 to 2023 found no correlation between earnings management and dividend policy or tax evasion. But, while firm size does affect dividend policy, it has no bearing on tax evasion. Beyond that, tax dodging is unaffected by dividend policy. And neither the correlation between earnings management and dividend policy nor the correlation between company size and dividend policy includes tax evasion as a moderating element. If these results are correct, then tax evasion is not a mediator between business size and dividend policy in terms of financial dynamics. The results showed that Tax Avoidance is not the main factor influenced by Earnings Management or Firm Size. Companies are advised to remain in strict compliance with tax regulations and focus on tax efficiency through lawful strategies. Firm Size has no significant effect on Dividend Policy and Tax Avoidance, but companies can improve operational efficiency to ensure that large size provides real benefits, such as reduced operating costs and increased revenue.

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