The 4th International Conference on Education Innovation and Social Sciences, August 2025
ISSN (Online): 2961-9602

THE EFFECT OF EARNINGS MANAGEMENT AND DIVIDEND POLICY ON COMPANY PERFORMANCE: THE MODERATING ROLE OF CORPORATE GOVERNANCE QUALITY

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Keywords

firm performance, earnings management, dividend policy, corporate governance quality

Abstract

This study was conducted to determine the effect of earnings management and dividend policy on company performance with the quality of corporate governance as moderation in energy sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022. This study uses quantitative methods with a population of 38 companies and a sample of 190 observation data. The results of this study indicate that earnings management has no significant effect on company performance, dividend policy has no significant effect on company performance, and the quality of corporate governance, which is used as a moderating variable, cannot moderate earnings management and dividend policy.

INTRODUCTION

Company performance is the primary benchmark for assessing the effectiveness of operations and the achievement of financial objectives of a company (Dewi & Wijaya, 2021) . One factor that influences company performance is earnings management practices, which are managerial actions to modify financial statements to achieve specific objectives (Assad et al., 2023) . Dividend policy also plays an important role in attracting investors and influencing market sentiment toward company stability (Aulia et al., 2025) .

Decisions regarding dividend distribution are often influenced by managerial motivations, including signals about future profit prospects (Abbadi et al., 2020) . In practice, the interaction between earnings management and dividend policy can send mixed signals that influence perceptions and assessments of company performance (Irmasari et al., 2025) .

Good corporate governance serves as a supervisory mechanism to minimize conflicts of interest and improve the accountability of financial reports (Surifah, 2017) . In this context, the quality of corporate governance plays an important role in controlling profit management practices and ensuring that dividend policies remain balanced as expected.

In Indonesia, energy companies play a significant role in the Indonesian economy (Imanullah & Syaichu, 2023) . PT Perusahaan Gas Negara Tbk (PGAS) demonstrates the implementation of GCG through transparent reporting, an independent audit committee, and a whistleblowing system. PGAS's dividends increased from IDR 141.05 (2022) to IDR 182.08 (2024) with a payout ratio of± 80% and a dividend yield >10% (PGAS, 2025; Simply Wall St, 2025). This situation raises questions about whether the high dividends are driven by fundamental performance or profit management strategies, and to what extent GCG moderates this relationship.

To improve understanding of this topic, this article focuses on repeating previous research results using data from companies in the energy sector in Indonesia that were listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022. This study is expected to provide a more in-depth view of profit management and dividend policy in relation to company performance.

Literature Review

Agency Theory

The main theory in profit management research is agency theory (Jensen, 2009) . This theory explains the relationship between agents and capital owners as principals (Alchian and Demsetz, 1954) . This relationship can lead to an information imbalance between the parties involved. Agency conflicts can be reduced through transparency in financial reporting or strengthening internal oversight and control (Hadinata & Oktorina, 2023) .

Signaling Theory

Signal Theory explains why companies emphasize the importance of the information they release in investment decisions made by third parties (Hobbs & Schneller, 2012) . Investors' decisions on where to place their investments are influenced by signals and information provided by companies (Taleb, 2019) .

Conceptual Framework

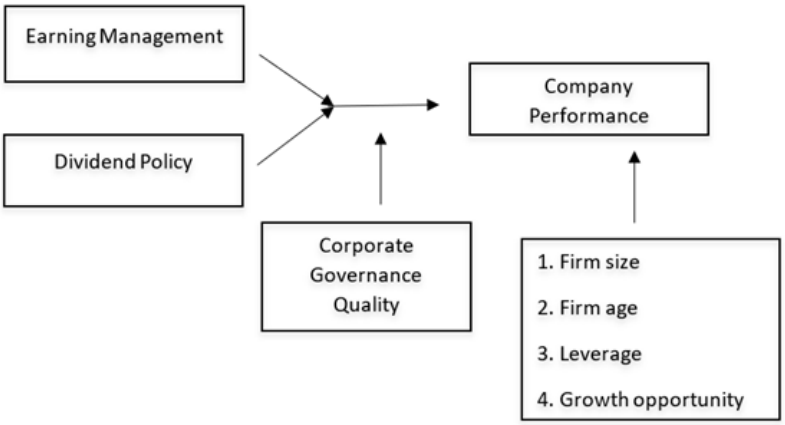

Figure 1. Conceptual Framework

Hypothesis

Profit management is related to the level of profit earned by an entity and is used as a benchmark by financial statement users to assess the level of success of an entity (Mahrani & Soewarno, 2018) . Profit management can affect company performance. If profit management is done well, company profits can increase, which in turn affects performance. However, if profit management is conducted unethically or excessively, it can harm the company's long-term performance. The results of this study are relevant to previous research on the Influence of Profit Management on Company Performance (Lestari, Nanik & Anjelina, 2021) .

H1: Profit management has a significant effect on company performance.

Signaling theory is the action taken by a company to convey information to investors about the company's condition (Nur Aulia et al., 2020) . One type of information released by companies is annual reports (Saputra, 2023) . The growth and development of a company are assessed based on the profit income reported in the financial statements, where the higher the profit earned by the company, the larger the dividends distributed to shareholders (Reysa et al., 2022) . The results of this study are relevant to previous research on the influence of dividend policy on company performance in the mining industry, an empirical study of manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2018 (Wau & Waruwu, 2021) .

H2: Dividend policy has a significant effect on company performance

Agency theory serves as the theoretical foundation for corporate governance (Al-Faryan, 2024) . Effective corporate governance establishes a system of oversight and balance within a company, and conflicts of interest can be reduced through the implementation of Good Corporate Governance (GCG) (Jefrizal, 2019) . The results of this study are relevant to previous research on the influence of profit management on company performance with GCG as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2017 (Jefrizal, 2019) .

H3: The quality of corporate governance moderates the relationship between profit management and dividend policy on company performance.

METHOD

Method

This study aims to determine the effect of earnings management and dividend policy on the performance of energy companies listed on the Indonesia Stock Exchange (IDX) during the period of 2018-2022. This study uses a descriptive research method with a quantitative approach, namely the earnings management model .

Sample and Data

The population in this study consists of energy sector companies listed on the Indonesia Stock Exchange (IDX) that published annual reports during the period 2018-2022, totaling 87 companies. The sample in this study was selected using non-probability sampling with purposive sampling technique. The sample used in this study consisted of 38 companies that met the sample criteria, resulting in 190 observations for the 2018-2022 period.

Variable

The dependent variable in this study is Company Performance (Y). In this study, company performance refers to how well a company has generated profits or value for financial providers and other stakeholders (Sari et al., 2022) . This study uses two independent variables (X), namely earnings management and dividend policy. The following are the various measures used:

Table 1. Dependent, independent, moderating, and control variables

Variable Type	Variable	Formula	Reference
Dependent	Company Performance	ROA = $\frac{Laba\ Bersih}{Total\ Aset}$	(Jufrizen & Al Fatin, 2020) , (Sari et al., 2022)
Independent	Profit Management	Modified Jones Model: a) Determining the total accruals score TACit = NIit – CFOit b) Determining the estimated accruals score using the OLS regression equation: $\frac{TAC_{it}}{A_{it-1}} = \beta 1 \left(\frac{1}{A_{it-1}}\right) + \beta 2 \left(\frac{REV_{it} - REV_{it-1}}{A_{IT-1}}\right) + \beta 3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon$ c) Determining the Non-Discretionary Accrual Score $NDA_{(it)} = \beta 1 \left(\frac{1}{A_{it-1}}\right) + \beta 2 \left(\frac{REV_{it} - REV_{it-1}}{A_{it-1}} - \frac{REC_{it} - REC_{it-1}}{A_{it-1}}\right) + \beta 3 \left(\frac{PPE_{it}}{A_{it-1}}\right)$ d) Calculating the value of Discretionary Accruals: $DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$	(Boachie & Mensah, 2022)

	Dividend Policy	Dividend Pay Ratio = $\frac{Total\ Deviden}{Laba\ Bersih}$	(Jeradu, 2021)
Moderation	Corporate Governance Quality	GCG = $\frac{Jumlah\ nilai\ tata\ kelola\ perusahaan\ yang\ diterapkan}{Jumlah\ kriteria\ penerapan\ GCG}$	(Firmansyah et al., 2021)
Control	Company Size	Size = Ln (total Assets)	(Barus et al., 2019) , (Gustivani & Anggraini, 2022)
	Company Age	Company Age = Observation Year - Year of Establishment	(Chowanda & Nariman, 2023)
	Leverage	Debt-to-Asset Ratio = $\frac{Total\ Utang}{Total\ Aset}$	(Yuliastuti & Nurhayati, 2021)
	Growth Potential	PBV = $\frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Equity}$	(Setiawan & Mahardika, 2019)

RESULTS

Table 2. Descriptive Statistics

Information	N	Mean	Median	Minimum	Maximum	Standard Deviation
Company Performance	190	0.02993	0.026041	-0.617254	0.585	0.141767
Profit Management	19	0.053407	1.58E-05	-0.530968	1.448340	0.237250
Dividend Policy	190	0.236416	0	-0.451445	8.012124	0.686479
Corporate Governance Quality	190	0.786974	0.80	0.45	1.00	0.119127
Company Size	19	28.82	28.62927	24.89144	32.36002	1.538010
Company Age	19	13.94737	12.00000	1.00000	32	8.372756
Leverage	190	0.5275	0.503768	0.001578	2.418443	0.359193
Company Growth	190	0.864831	0.493466	0.059136	11.699	1.232303

Source: Data processed using Eviews 12

From Table 1 above, it can be seen that the number of samples that meet the criteria reached 190 data taken from 2018 to 2022. The results of the table show that the company's performance has a mean of 0.029932, which means that companies in the energy sector generate a net profit of 2.99% of their total assets. From the profit management output results, it can be seen that the mean is 0.053407, which reflects that companies in the energy sector on average practice profit management of 5.34% of their total assets. From Table 1, it can also be seen that the mean of the dividend policy is 0.236416, indicating that companies generally only distribute around 23.64% of their net profit as dividends to shareholders.

The next discussion explains the control variables. Company Size has a mean value of 28.82260, which means that the companies have a large scale of operations. Company Age has a mean value of 13.94737, indicating that, in general, companies in the energy sector have been operating for almost 14 years. This means that many companies have not been established for long. Leverage has a mean value of 0.527500, meaning that companies generally finance 52.75% of their capital through debt. Company growth has a mean value of 0.864831, meaning that companies on average increase their asset size or sales by 86.64% compared to the previous year.

Table 3. Panel Data Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Company Performance	0.257	0.143552	1.791557	0.075

Profit Management	0.113743	0.038043	2.989887	0.0033
Dividend Policy	-0.022256	0.013484	-1.650612	0.1009
Corporate Governance Quality	-0.289794	0.181627	-1.595542	0.1127

Source: Data processed using Eviews 12

From the results of the test in Table 2, it is known that there is a significant effect of profit management on company performance. Meanwhile, dividend policy does not affect company performance, and the moderating variable does not act as a moderator.

Table 4. Panel Data Regression with Moderator

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Company Performance	-0.650763	0.9856	-0.660264	0.510
Profit Management	0.2031	0.214813	0.945598	0.3459
Dividend Policy	0.2287	0.130971	1.746341	0.0829
Corporate Governance Quality	-0.212579	0.180763	-1.176008	0.2415
Profit Management Moderation	-0.114606	0.282695	-0.405407	0
Dividend Policy Moderation	-0.321908	0.17197	-1.871822	0.063
Company Size	0.02513	0.034340	0.732044	0.465
Company Age	0.015047	0.0055	2.722797	0.0073
Leverage	-0.159450	0.051796	-3.078390	0.0025
Company Growth	0.00367	0.009040	0.405944	0.685

Source: Data processed using Eviews 12

From the results of Table 3, the moderating variables do not moderate profit management on company performance, and the moderating variables are unable to moderate dividend policy on company performance.

DISCUSSION

Earnings management has a significant effect on company performance.

The first test was conducted to prove that Profit Management has a significant effect on Company Performance. The test results showed a significance value of 0.033, which is smaller than 0.05 and has a coefficient value of 0.113743, indicating that Profit Management has a significant effect on Company Performance. This means that it is in accordance with H1, which states that Profit Management has a positive effect on company value. Therefore, the test results can be stated that Profit Management has a positive and significant effect on Company Performance.

Dividend policy has a significant effect on company performance.

The second test was conducted to prove that dividend policy has a significant effect on Company Performance. The test results showed a significance value of 0.1009, which is greater than 0.05 and has a coefficient value of -0.022256. It can be said that Dividend Policy has no effect on Company Performance. This can be concluded from the test results rejecting H2.

Corporate governance quality moderates earnings management and dividend policy on company performance.

The third test was conducted to prove the third hypothesis that Corporate Governance Quality moderates Earnings Management and Dividend Policy on Company Performance. The test results showed a significance value of 0.6858 and 0.0633, which is greater than 0.05 and has a coefficient value of -0.114606 and -0.321908. From the analysis results, it can be concluded that Corporate Governance Quality does not significantly influence the relationship between Profit Management and Company Performance, and Corporate Governance Quality has a weak but statistically significant moderating effect on the relationship between Dividend Policy and Company Performance. This can be concluded from the results of rejecting H3.

CONCLUSION

This study aims to examine the effect of earnings management and dividend policy on company performance in Indonesian companies between 2018 and 2022, tested on energy companies listed on the Indonesia Stock Exchange (IDX). The findings indicate that the results are not consistent with the hypothesis. The results indicate that profit management significantly influences company performance, meaning that better profit management leads to better company performance. However, dividend policy does not have a significant influence. Additionally, corporate governance quality does not moderate the relationship between profit management and dividend policy. For future research, it is recommended to examine other variables related to company performance.

ACKNOWLEDGEMENT

The author would like to express his gratitude to all parties who have provided support, guidance, and contributions, so that this research could be completed successfully.

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