


The Effect of Firm Size, Profitability, Audit Quality, and Dividend Policy on Earnings Management at Indonesian Conventional Banking

Candra Yoga Prasetyo¹, Januar Eko Prasetyo^{1*} 

¹Universitas Pembangunan Nasional Veteran Yogyakarta, Jl. Padjajaran 104
Condongcatur Sleman, 55283, Indonesia

*Corresponding Email: januar_ep@upnyk.ac.id

ARTICLE INFORMATION

Publication information

Research article

HOW TO CITE

Prasetyo, C. Y., & Prasetyo, J. E. (2025). The effect of firm size, profitability, audit quality, and dividend policy on earnings management at Indonesian conventional banking. *International Journal of Applied Business & International Management*, 10(3), 505-520.

DOI:

<https://doi.org/10.32535/ijabim.v10i3.4270>

Copyright © 2025 owned by Author(s).
Published by IJABIM



This is an open-access article.

License:

Attribution-Noncommercial-Share Alike (CC BY-NC-SA)

Received: 18 October 2025

Accepted: 19 November 2025

Published: 20 December 2025

ABSTRACT

Earnings management is a major concern for stakeholders, as it can reduce the credibility of financial statements and affect investment decision-making. Even though financial reporting regulations are being tightened, earnings management remains a phenomenon because it negatively affects the quality of corporate earnings and investor trust. Therefore, ongoing effort is needed to identify factors that influence or limit these practices, specifically in Indonesian conventional banking. This study aims to empirically test the simultaneous and partial influence of the structural factor (firm size), performance factor (profitability), external governance factor (audit quality), and managerial policy factor (dividend policy) on earnings management in conventional banking companies listed on the IDX from 2020–2024. This research uses purposive sampling with 105 samples that meet the criteria. Overall, this research shows that the factor influencing earnings management in Indonesian conventional banks is only firm size, with a significance value of 0.000, which is below 0.05. The significance value for profitability is 0.466, for audit quality 0.624, and for dividend policy 0.356; these three variables have values above 0.05. The independent variables in this research show that the overall effect on earnings management is still weak and needs improvement by incorporating other variables for future researchers.

Keywords: Audit Quality; Dividend Policy; Earnings Management; Firm Size; Profitability

INTRODUCTION

Earning management, according to [Shubina et al. \(2022\)](#), is managing revenue and expenses to ensure that a business obtains net operating profit. Earning management is often done by companies to influence the earnings information reported in financial statements for personal gain or to maximize the company's market value. This practice can be done through accounting policies or tangible actions that affect the company's earnings. Managers are considered agents who may manipulate financial statements for personal or corporate interest, such as increasing bonuses, avoiding debt treaty violations, or reducing the attention of regulators or taxes ([Godfrey et al., 2010](#)). Earning management is a major concern for stakeholders, as it can reduce the credibility of financial statements and affect investment decision-making. Even though financial report regulation continues to be tightened, earnings management still becomes a phenomenon, negatively affecting the quality of corporate earnings and investor trust. Therefore, ongoing effort is needed to identify factors that influence or limit the practice, specifically in Indonesian conventional banking.

Firm size is a size that can be categorized based on many ways, like the size of total log assets ([Agustia & Suryani, 2018](#)). Previous research suggests that firm size can create motivation for earning management; larger firms usually have operational complexity and large funding needs and may have a broad stakeholder base. This puts a burden on the company to report more reliable financial reports, and managers can be motivated to do earnings management in order to present information that meets stakeholder expectations ([Lupita & Meiranto, 2018](#)). Research done by [Wardana et al. \(2024\)](#) shows that the firm size variable has a negative effect on earnings management, while research from [Atmamiki & Priantinah \(2023\)](#) and [Ayem & Agatha \(2022\)](#) shows that the firm size variable has a positive effect on earnings management.

Profitability is a company's capability to gain profit or earnings ([Putri & Prasetyo, 2024](#)). On the other hand, profitability is included in the company performance measurement aspect, which shows the company's performance in generating profit. When a company has low profitability in some time period, this will cause the use of earnings management by maximizing the company's profit in order to attract new investors and maintain current investors ([Lestari et al., 2022](#)). Based on research from [Helmi et al. \(2023\)](#) and [Wardana et al. \(2024\)](#), profitability has a positive effect on earnings management.

Audit quality is a performance quality of an auditor who audits a company. [Christiani and Nugrahanti \(2014\)](#) stated that audit quality has the ability to maximize company financial report results and is capable of inspiring investor confidence. [Sanjaya \(2016\)](#) stated that auditors who join Big Four public accounting firms will be graded as having good quality because they have training and precise audit methods, compared to auditors who join non-Big Four public accounting firms, so it can be a barrier to doing earnings management. Research from [Atmamiki & Priantinah \(2023\)](#) and [Helmi et al. \(2023\)](#) shows that audit quality has a negative effect on earnings management.

Then a pressure to hold or give the dividend can be used by management to do earnings management. When a company gives a dividend and promises to increase a higher dividend payout ratio in the future, it will put pressure on management to maintain earnings in order to fulfill the next dividend share. Because dividend policy is a part of the decision whether the company will give earnings as a dividend to shareholders or hold it as retained earnings for supporting future investment ([Novitasari & Widyawati, 2015](#)). Research from [Ishmah and Permatasari \(2025\)](#) shows that dividend policy has a positive effect on earnings management, and research from [Ananda and Wahidahwati \(2024\)](#) shows that dividend policy has a negative effect on earnings management.

Based on this background, this study aims to empirically test the simultaneous and partial influence of firm size, profitability, audit quality, and dividend policy on earnings management in Indonesian conventional banking companies listed on IDX.

The significance of the current research lies in focusing on identifying the earnings management main determinants, which is a crucial issue in the quality of financial reporting. These findings offer important insights into agency conflict and managerial incentives that affect earnings integrity, while also testing the effectiveness of governance mechanisms such as audit quality and dividend policy in curbing practices.

The novelty of this research arises from an integrated analysis that simultaneously examines four diverse groups of determinants, from structural factors (firm size), performance factors (profitability), external governance factors (audit quality), and managerial policy factors (dividend policy), on earnings management. This holistic approach provides a comprehensive understanding of the various pressures faced by management. Furthermore, the comprehensive analysis covering the period 2020–2024 allows this study to evaluate the stability and sensitivity of earning management determinants amidst various disruptive economic phases (during and post-pandemic) of COVID-19.

LITERATURE REVIEW

Agency Theory

Agency theory is a theory that appears when business activity is not always organized directly by the entity, and anything related to management will be assessed by the manager. The owner then asks the auditor to audit the financial report from the manager to the owner themselves. Agency theory becomes more important in line with global capital market growth; agents are required to be accountable for financial reports, including those reflected in the budget realization report, and to obtain an unqualified opinion on the audited financial report. Agency theory explains the relation between the principal (shareholder) and the agent (manager who runs the company) (Godfrey et al., 2010). The relation itself sometimes becomes a conflict between the owner, principal, or agent. Agency theory is used to explain managers' activity in doing earnings management in the company; the action will bring different interests between shareholders and managers, and it will cause a mismatch of information given because the manager is not providing real information. When manager performance is measured by firm profitability, and they have more information than the company owner, that will lead to being accused of doing earnings management (Helmi et al., 2023). In this context, earnings management can be done in order to fulfill some profit and show the stability of dividend shares. Furthermore, the quality of external audit can be used to monitor managerial actions to do earnings management, and company size can be used to measure whether they use earnings management practices or not.

Signalling Theory

Signalling theory explains how a company delivers internal information to external parties such as investors (Godfrey et al., 2010). Executives of the company have more control over information and will be encouraged to convey that information to potential investors in order to raise the company's stock price. Signalling theory describes how companies deliver information to investors through intentional actions by managers using credible company information about prospects that are unobservable by external stakeholders (Spence, 1978). In this context, management can send good signals to external parties about dividend shares and company profit with stable and healthy information, so the signalling will be effective because it will gain external parties' trust.

Positive Accounting Theory

A positive accounting theory explains the process of using skills, understanding, and accounting knowledge, as well as the application of accounting policies set by managers under certain conditions in the future (Atmamiki & Priantinah, 2023). According to Watts and Zimmerman (1990), there are three hypotheses that form the foundation of this theory. The first is the bonus plan hypothesis, which explains that managers will choose accounting methods that maximize their satisfaction by increasing the bonuses they receive. The second is the debt covenant hypothesis, which states that when a company approaches its credit agreement limits, it tends to use accounting methods that can increase company earnings in order to avoid penalties in the debt covenant and reduce costs arising from the penalty. Choosing accounting methods that increase profit can maintain the company's financial health and prevent the risk of default. The last is the political cost hypothesis, where larger companies have a greater chance of choosing accounting methods that reduce earnings. This is used to avoid government policies such as taxes, tariffs, and others.

Hypotheses Development

Earning Management

Earning management is a real action choice, such as cost management or accounting policy choices, that impacts various earnings reports in order to achieve targeted earnings. Financial reports with earnings management aim to manage market reactions to outstanding shares and to manage the entity's reputation (Burlacu et al., 2024). Earning management has various forms, such as "taking a bath," which drastically reduces profit in the financial statements; "income minimization and maximization," which slightly reduces or increases profit from its actual value; and "income smoothing," which makes profits appear consistent and not fluctuating even though, in reality, they do not match what is shown in the financial statements (Pradnyawati et al., 2024).

Firm Size

Firm size is generally categorized into three groups: small, medium, and large, with the classification based on the company's ability to accumulate total assets. Firm size can be measured using various indicators, such as balance sheet volume, total sales, log size, and stock market value (Khairunisa et al., 2019). As a company increases in size, its potential worth also tends to rise, as larger firms often possess greater ability to generate profits and manage assets, thereby boosting investor confidence (Avinda et al., 2025). This measurement is useful for describing the company's capacity to manage resources and face external risks (Paramita & Prasetyo, 2025). Research from Atmamiki and Priantinah (2023) shows that firm size has a significantly positive effect on earnings management based on the positive accounting theory's political cost hypothesis, which explains that bigger firms are more likely to reduce reported earnings to avoid taxes. However, research from Wardana et al. (2024) shows that firm size has a negative effect because larger companies have more limited opportunities to conduct earnings management.

H1: Firm size has an effect on earnings management.

Profitability

Profitability ratios have several types, such as gross profit margin, return on assets, operating profit margin, net profit margin, return on equity, and return on investment (Primalia & Prasetyo, 2025). The function of profitability is to be an important indicator for investors to evaluate a company's performance before making investment decisions. Achieving optimal profitability is a fundamental goal of every business. Company profitability influences earning management practices, as pressure from investors

monitoring financial performance can encourage managers to manipulate financial statements (Rahayu, 2018). In agency theory, there is a conflict between the principal and the manager (agent) that causes earnings management to occur. In the context of earnings management, when a company's profitability is low, managers often engage in earnings management to make profits appear sustainable and attract new investors because the company's profit looks good. Research from Helmi et al. (2023) and Wardana et al. (2024) shows that profitability has a positive effect on earnings management.

H2: Profitability has an effect on earnings management.

Audit Quality

Audit quality holds a crucial role as an external oversight mechanism and as a key factor in controlling earnings management practices. The detection aspect is a reflection of auditor competence, while reporting reflects auditor ethics or integrity (Pinatik, 2021). Effective external oversight by qualified auditors can discourage opportunistic behaviors that may be used by managerial parties (Astami et al., 2017). Based on agency theory, there is a conflict between the principal and the manager (agent). The owner of the firm evaluates manager performance through the financial reports, but managers may engage in earnings management to present good and healthy financial information. To curb such practices, an independent auditor is needed to check and analyze the financial report provided by the manager to prevent the company's detriment. Higher audit quality, such as that provided by Big Four firms, is more effective in detecting earnings management practices, and the size of a public accounting firm is often a benchmark for measuring audit quality. Research from Atmamiki & Priantinah (2023) and Helmi et al. (2023) shows that audit quality has a negative effect on earnings management.

H3: Audit quality has an effect on earnings management.

Dividend Policy

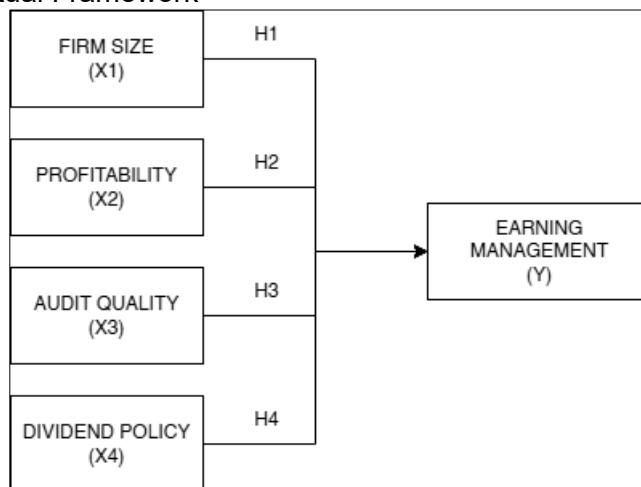
Dividend policy represents an important managerial decision within a company, as it determines the portion of earnings that will be distributed to shareholders. This policy functions not only as part of the firm's internal financial strategy but also as a key factor influencing firm value. Consistent and stable dividend payments tend to strengthen investor confidence because they are interpreted as a positive signal regarding the firm's future prospects. Investors generally view dividend distributions as an indicator of the company's ability to generate sustainable profits (Musdalifah et al., 2025). In line with signalling theory, stable and reliable dividend information allows management to convey credible signals about the company's performance and profitability to external parties. When such signals successfully build trust, managers may have less incentive to engage in earnings management. Empirical findings, however, remain mixed. Ishmah and Permatasari (2025) report that dividend policy positively influences earnings management, whereas Ananada and Wahidahwati (2024) find a negative effect of dividend policy on earnings management.

H4: Dividend policy has an effect on earnings management.

Conceptual Framework

The relationships among the independent and dependent variables investigated in this study are grounded in a conceptual framework. This framework serves to clarify and illustrate how each variable is connected within the research structure. The study focuses on examining how structural factors (firm size), performance factors (profitability), external governance factors (audit quality), and managerial policy factors (dividend policy) influence earnings management. These relationships are depicted in Figure 1.

Figure 1. Conceptual Framework



RESEARCH METHOD

The present research employs secondary data and a quantitative methodology to examine the effects of firm size, profitability, audit quality, and dividend policy on earnings management. The methodological procedures undertaken in this study are outlined as follows.

Population and Sample

This research uses Indonesian conventional banks listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024 as the study population. A purposive sampling method is applied by selecting banks that meet the following criteria: (1) the company operated continuously throughout the 2020–2024 period, (2) the financial statements were complete and audited, and (3) the company did not experience delisting during the study period. The final sample size is determined based on the availability of data that satisfies these criteria.

Data Collection

Data for this study are obtained from the annual financial reports of Indonesian conventional banks, accessed through each bank’s official website. Dividend policy, measured using the dividend payout ratio, is collected from the financial overview section. Firm size, profitability, audit quality, and earnings management are derived from the financial position reports available in each bank’s annual financial statements.

Variables and Measurement

The variables examined in this study are categorized into independent and dependent variables. The independent variables consist of firm size, measured using the natural logarithm of total assets; profitability, measured by net profit divided by total assets; audit quality, distinguished between Big Four and non–Big Four audit firms; and dividend policy, measured using the dividend payout ratio. The dependent variable, earnings management, is measured using the Modified Jones Model.

Data Analysis Method

To assess the relationship effect between firm size, profitability, audit quality, and dividend policy toward earnings management, current research uses a multiple regression analysis approach. This regression analysis uses SPSS 26. Below are the following regression model formulations:

$$Y = \alpha + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \varepsilon$$

Description:

Y	= Earning Management
α	= Constant
$\beta_1, \beta_2, \beta_3, \beta_4$	= Regression Coefficient
X1	= Firm Size
X2	= Profitability
X3	= Audit Quality
X4	= Dividend Policy
ε	= Deviation

This method helps the researcher to determine whether firm size, profitability, audit quality, and dividend policy significantly influence earnings management.

Variable Description

Earning Management

Earning management is a real action choice, such as cost management or accounting policy choices, that impacts various earnings reports in order to achieve earnings report targets. Financial reports with earnings management aim to manage market reaction to outstanding shares and manage the entity's reputation (Hoesada, 2020).

$$NDA_{it} = \frac{x}{y}$$

Firm Size

Firm size is generally categorized into three groups, starting from small, medium, and large, with the classification based on the company's ability to accumulate total assets. Firm size can be measured using various indicators, like balance sheet volume, total sales, log size, and stock market value (Khairunisa et al., 2019).

$$\text{Firm Size} = \ln(\text{Total Asset})$$

Profitability

The function of profitability is an important indicator for investors to evaluate a company's performance before making investment decisions. Achieving optimal profitability is a fundamental goal of every business. Company profitability influences earning management practices, as pressure from investors monitoring financial performance can encourage managers to manipulate the financial statements (Rahayu, 2018).

$$ROA = \frac{\text{Net Profit}}{\text{Total Asset}} \times 100\%$$

Audit Quality

Audit quality holds a crucial role as an external oversight mechanism and a key factor in controlling earnings management practices. The detection aspect is a reflection of the competence of the auditors, while the reporting is a reflection of the ethics or integrity of the auditors (Pinatik, 2021). Effective external oversight by qualified auditors can discourage opportunistic behaviors that may be used by managerial (Astami et al., 2017).

Using dummy variable:
 1 = Big Four 0 = Non-Big Four

Dividend Policy

This is one of the managerial policies in a company. Dividend policy is a crucial decision in a firm's financial management related to the portion of profit that will be shared with shareholders in the form of dividends. This policy not only reflects the internal firm funding strategy but also becomes one of the main factors that affect firm value. When dividend shares are stable and consistent, they will gain investor trust because it will be seen as a positive signal about the firm's prospects in the future. Investors view dividend shares as an indicator of a firm's capability to generate sustainable profit (Musdalifah et al., 2025).

$$\text{Dividend Payout Ratio} = \left(\frac{\text{Total Dividend}}{\text{Net Profit}} \right) \times 100\%.$$

RESULTS

Descriptive Statistics

Table 1. Descriptive Statistics Result

Variable	N	Min.	Max.	Mean	Std. Dev.
Firm Size	105	14.18	21.61	17.4412	1.74785
Profitability	105	-0.086962406	0.0413979826	0.0055781741	0.0219839189
Audit Quality	105	0	1	0.46	0.501
Dividend Policy	105	0%	85%	16.0762%	23.38379%
Earning Management	105	-7.22	0.57	-2.9091	1.23716
Valid N (listwise)	105				

Source: SPSS 26 Result

Based on Table 1, the valid (N) listwise shows 105 valid data. The firm size has a minimum result of 14.18 and a maximum of 21.61, then the firm size mean and standard deviation values were 17.4412 and 1.74785. The profitability variable minimum result displayed -0.086962406 and maximum result 0.0413979826, then the mean displayed value 0.0055781741 and the standard deviation displayed value 0.0219839189. The audit quality variable has 0 as the minimum value and 1 as the maximum value; this variable has a mean of 0.46 and a standard deviation of 0.501. Dividend policy has 0% minimum and an 85% maximum; the mean result is 16.0762%, and the standard deviation is 23.38379%. Earning management as the dependent variable has a minimum result of -7.22 and a maximum of 0.57, and also has a mean result of -2.9091 and a standard deviation of 1.23716.

Classic Assumption Test

Table 2. Result of Classic Assumption Test

Normality	Asym. Sig 2 Tailed.		0.200	Result Normal
Multicoll.	Tolerance		VIF	Result Multicoll. Free
	Firm Size	0.370	2.703	
	Profitability	0.787	1.270	
	Audit Quality	0.854	1.171	
	Dividend Policy	0.349	2.864	
Autocorrel.	DW/Durbin Watson		2.112	Result No Autocorrel.
Heteroscedas.			Sig.	

	Firm Size	0.372	Result Free from Heteroscedas.
	Profitability	0.512	
	Audit Quality	0.788	
	Dividend Policy	0.386	

Source: SPSS 26 Result

According to [Table 2](#) results, the firm size, profitability, audit quality, and dividend policy variables are displayed for data normally distributed using the one-sample K-S method. The result from Asymp. Sig (2-tailed) is 0.200, which is greater than 0.05, meaning the data are normally distributed.

[Table 2](#) displays the results for the multicollinearity test. All independent variables have tolerance values above 0.10: firm size 0.370, profitability 0.787, audit quality 0.854, and dividend policy 0.349. Furthermore, the VIF results for all independent variables have values below 10: firm size, VIF value 2.703, profitability 1.270, audit quality 1.171, and dividend policy, 2.864. These results indicate that all independent variables show no signs of multicollinearity.

The test of autocorrelation, known as the DW/Durbin Watson test, according to [Table 2](#), shows the Durbin Watson result value of 2.112. In this research, the N data were 105, and the k data were 4 in total. Using the Durbin Watson method, the dl value was 1.6038, and the du value was 1.7617, with the analysis result $4 - 1.6038$ equals 2.3962, and $4 - 1.7617$ equals 2.2383.

$$\begin{aligned} &\text{Calculation using:} \\ &du \leq dw \leq 4 - du \\ &1.7617 \leq 2.112 \leq 2.2383 \end{aligned}$$

The calculation result shown above indicates that autocorrelation is not happening because the DW/Durbin Watson value is between du and 4-du.

The heteroscedasticity test result displayed in [Table 2](#) using the Glejser model, with the dependent variable ABSRES, shows that the significance values of all independent variables were greater than 0.05. For firm size, the sig. was 0.372, profitability sig. 0.512, audit quality 0.788, and dividend policy 0.386. This indicates there are no signs of heteroscedasticity.

Multiple Linear Regression

Table 3. Result of Multiple Linear Regression

Model	Coefficient				t	Sig.
	Unstandardized Coeff.		Standardized Coeff			
	B	Standardized Error	Beta			
Constant	4.440	1.660		2.674	0.009	
Firm Size	-0.432	0.102	-0.611	-4.257	0.000	
Profitability	4.051	5.536	0.072	0.732	0.466	
Audit Quality	0.115	0.233	0.046	0.491	0.624	
Dividend Policy	0.007	0.008	0.137	0.928	0.356	

Source: SPSS 26 Result

In [Table 3](#), the results of significance are shown. For the firm size variable, the sig. value was 0.000, which is below 0.05, indicating that firm size affects earnings management. The profitability sig. result was 0.466, which exceeds 0.05, indicating that profitability does not affect earnings management. The audit quality sig. result was 0.624, which also exceeds 0.05, meaning it does not affect earning management. Then the dividend policy sig. result was 0.356, the same as the previous variables, indicating that this variable does not affect earning management. As described, this means only the firm size variable affects earnings management, while the rest of the independent variables do not affect the dependent variable.

Hypothesis Test

Table 4. Result of Hypothesis Test

Simultant (F Test)	Sig. Anova		X1, X2, X3, X4 simultaneously influences the dependent variable
	Regression	0.000	
Partial (T Test)	Sig.		
	Firm Size	0.000	Affect Y
	Profitability	0.466	Does Not Affect Y
	Audit Quality	0.624	Does Not Affect Y
	Dividend Policy	0.356	Does Not Affect Y
Determination Coeff.	R Square	0.238	X1, X2, X3, X4 simultaneously influences the dependent variable by providing explanation 23.8%

Source: SPSS 26 Result

According to [Table 4](#), the research findings illustrate that the independent variables have an effect on the dependent variable simultaneously, with a simultaneous result of 0.000, which is below 0.05.

Next, the results from the partial test of independent variables shown in [Table 4](#) indicate that the firm size variable has a significant value of 0.000 and partially affects earning management, while the other variables, profitability, audit quality, and dividend policy, do not affect earning management. Based on their values, profitability has a significant value of 0.466 above 0.05, audit quality has 0.624 above 0.05, and dividend policy is also above 0.05 with a significant value of 0.356. Based on table results, the first hypothesis is accepted that tell firm size have effect toward earning management with significant value 0.000 below 0.05, and the second hypothesis is rejected because profitability have no effect toward earning management with significant value 0.466 above 0.05, third hypothesis rejected because audit quality not affect the earning management with significant value 0.624 above 0.05, fourth hypothesis rejected because dividend policy variable have no effect toward earning management with significant value 0.356 above 0.05

The determination coefficient in [Table 4](#) shows an R-squared value of 0.238, meaning that firm size, profitability, audit quality, and dividend policy are able to simultaneously influence or explain 23.8% of earnings management. The remaining 77.2% is due to additional factors influenced by variables outside this research.

DISCUSSION

The Effect of Firm Size on Earning Management

The firm size variable has a t-value of -4.257 with a significance value of 0.000 . Based on this finding from the H1 test between firm size and earnings management, the first hypothesis is accepted, as it shows a significant negative effect of firm size on earnings management in Indonesian conventional banking for the period 2020–2024. Larger firms face more limitations in conducting earnings management because they must maintain trust and credibility as major financial institutions. Large companies also tend to employ high-quality external auditors who can effectively prevent practices such as earnings management through stronger oversight and higher auditor competence (Astami et al., 2017). This finding is consistent with agency theory, where owners rely on auditors to examine the financial reports prepared by managers, requiring managers to be accountable. However, it contradicts positive accounting theory under the political cost hypothesis, which argues that larger companies may adopt accounting methods that reduce earnings to avoid political pressures, taxes, or public scrutiny.

The findings of this research are supported by Wardana et al. (2024), who also report that firm size has a negative effect on earnings management. These results further reinforce agency theory, suggesting that larger firms implement stronger monitoring mechanisms to limit opportunistic behavior. In Indonesia, large banks face stricter supervision and more frequent audits compared to smaller banks. Additionally, the Indonesian banking sector relies heavily on public trust; when reputation declines due to earnings management, banks risk losing customers and experiencing reduced income. Consequently, larger banks are compelled to prioritize transparency. However, this result contradicts the findings of Atmamiki & Priantinah (2023) and Ayem & Agatha (2022), which show that firm size positively influences earnings management because larger companies may have more opportunities to manipulate earnings. Banking institutions operate differently from sectors such as manufacturing, where earnings management is used primarily to attract investors; in banking, earnings management relates more to maintaining reputation. Therefore, the first hypothesis is accepted.

The Effect of Profitability on Earning Management

The result of the H2 test for the second hypothesis, which examines the effect of profitability on earnings management, shows a t-value of 0.732 with a significance value of 0.466 . This indicates that profitability has no effect on earnings management in Indonesian conventional banking during the 2020–2024 period, and therefore, the second hypothesis is rejected. This result suggests that companies with either high or low profitability do not necessarily influence earnings management practices. When profitability is high, the company's earnings appear strong, and performance looks healthy to investors. In such conditions, managers have little incentive to engage in earnings management because profitability already provides favorable signals. Conversely, when profitability is low, managers also tend to avoid earnings management because such actions could attract investor scrutiny, making it difficult to manipulate financial information. Any attempts to do so may raise suspicion and undermine investor trust (Istanita & Ulfah, 2023).

This finding contradicts agency theory, which argues that conflicts between principals and agents create pressure for managers to manipulate earnings to present better financial performance. However, the result aligns with Arafah et al. (2024), who also find that profitability does not affect earnings management. The rejection of the second hypothesis is likely influenced by the 2020–2024 timeframe, during which global disruptions became a crucial factor in interpreting financial behavior. The Indonesian Financial Services Authority (OJK) issued regulations allowing banks to restructure loans

and credit during the pandemic recovery period. This policy significantly reduced pressure on managers to engage in earnings management because regulatory requirements were temporarily relaxed to accommodate the crisis. Therefore, the second hypothesis is rejected.

The Effect of Audit Quality on Earning Management

The audit quality variable has a t-value of 0.491 and a significance value of 0.624. Based on these results, H3, which examines the relationship between audit quality and earnings management, is rejected because the findings show that this independent variable does not influence the dependent variable. This indicates that relying solely on the size of the public accounting firm as a proxy for audit quality is not sufficient to curb earnings management. Other, more effective indicators of audit quality may exist beyond audit firm size. The rejection of this hypothesis is also influenced by the standardized audit regulations in Indonesia, which impose strict competence and independence requirements on all auditors, whether they come from Big Four firms or not. Additionally, the banking industry in Indonesia is subject to dual supervision from both external and internal auditors. These strong internal corporate governance mechanisms reduce the unique statistical impact typically associated with Big Four auditors.

Audit quality plays an essential role as an external oversight mechanism and is a key factor in controlling earnings management practices. The detection aspect reflects auditor competence, while the reporting aspect reflects ethics and integrity (Pinatik, 2021). Effective external oversight by qualified auditors can discourage opportunistic managerial behavior (Astami et al., 2017). However, this finding contradicts agency theory, which highlights conflicts between principals and agents. While owners assess managerial performance based on financial reports, managers may engage in earnings management to present more favorable financial information. Independent auditors are therefore expected to examine and analyze the financial reports provided by management to prevent practices that could harm the company.

These results are consistent with the findings of Arafah et al. (2024) and Ayem & Agatha (2022), both of which report that audit quality does not affect earnings management. This indicates that audit firm size is no longer a sufficient proxy for audit quality. Therefore, the third hypothesis is rejected.

The Effect of Dividend Policy on Earnings Management

The t-value for dividend policy is 0.928, with a significance value of 0.356. Based on these results, H4, which proposes an effect of dividend policy on earnings management, is rejected. This indicates that dividend policy does not influence earnings management. The level of earnings generated by a company does not necessarily determine its decision to distribute dividends. Dividend distribution is determined through resolutions made at the general meeting of shareholders. To distribute higher dividends, a company must strengthen its profitability through strategies that enhance overall performance (Ananada & Wahidahwati, 2024). The rejection of the fourth hypothesis is influenced by the fact that, in the Indonesian banking sector, dividend policy is often driven by the need to preserve the capital adequacy ratio, particularly during the 2020–2024 recovery period following global health-related disruptions. Banks prioritized retaining earnings to strengthen their capital buffer against non-performing loans rather than smoothing earnings to support dividend distribution. Dividend decisions are also determined in the general meeting of shareholders. Therefore, management has little incentive to manipulate earnings to influence a dividend policy that requires approval from shareholders. The findings of this study contradict signalling theory, which suggests that management can convey positive signals to external parties through stable and healthy

dividend distributions and profit information to build external trust. Therefore, the fourth hypothesis is rejected.

CONCLUSION

The findings and discussion presented above clarify the purpose of this study, which is to empirically examine the simultaneous and partial effects of firm size, profitability, audit quality, and dividend policy on earnings management in Indonesian conventional banking companies. The results show that firm size has a significant negative effect on earnings management, confirming previous research and emerging as the only independent variable that influences earnings management in this study. Profitability does not affect earnings management because companies with either high or low profitability tend to present earnings in a manner that already reflects healthy performance in the eyes of investors, reducing the incentive to engage in earnings manipulation. Audit quality also shows no effect, which indicates that measuring audit quality solely based on the size of the public accounting firm is insufficient. Various other dimensions of audit quality beyond firm size must be considered. Dividend policy similarly does not influence earnings management, as dividend distribution is not directly determined by the level of earnings but rather through decisions made during the general meeting of shareholders.

Overall, the findings demonstrate that firm size is the only factor among the variables tested that influences earnings management in Indonesian conventional banks. This suggests the need to explore additional determinants beyond profitability, audit quality, and dividend policy when assessing earnings management practices. Based on these results, investors are advised to consider firm size as a key indicator when evaluating the likelihood of earnings management in conventional banking companies. Since other factors do not show significant effects, investors should also examine alternative indicators, including more comprehensive assessments of audit quality, rather than relying solely on the size of the public accounting firm.

LIMITATION

The results of this research use four independent variables: firm size, profitability, audit quality, and dividend policy. The R-square value is 23.8%, indicating that these independent variables explain 23.8% of the variation in earnings management, while the remaining 77.2% is influenced by factors outside this research. The performance factor in this study uses profitability measured by ROA; therefore, future research can consider other performance indicators besides profitability. The audit quality variable in this study uses a dummy variable, measuring audit quality only through the size of the public accounting firm and not through other relevant criteria. Future researchers are encouraged to explore audit quality more comprehensively. The managerial policy factor uses dividend policy, which shows minimal effect on earnings management. Future research may incorporate other managerial policy variables related to earnings management.

ACKNOWLEDGMENT

The authors are very grateful to everyone who has contributed to this research, including colleagues, academic mentors, and all individuals who supported this study through their insights and engagement, as well as the data providers who assisted in collecting the financial data. Their assistance and knowledge were crucial in completing this research.

DECLARATION OF CONFLICTING INTERESTS

The authors declare that there is no conflict of interest regarding this article.

REFERENCES

- Agustia, Y. P., & Suryani, E. (2018). Pengaruh ukuran perusahaan, umur perusahaan, leverage, dan profitabilitas terhadap manajemen laba (Studi Pada Perusahaan Pertambangan yang Terdaftar di Bursa Efek Indonesia Periode 2014-2016). *Jurnal Aset (Akuntansi Riset)*, 10(1), 71-82. <https://doi.org/10.17509/jaset.v10i1.12571>
- Ananada, O. N. O. N., & Wahidahwati, W. (2024). Pengaruh free cash flow, financial distress, kebijakan dividen, dan ukuran perusahaan terhadap manajemen laba. *Jurnal Ilmu dan Riset Akuntansi*, 13(10).
- Arafah, M. D., Fakhruddin, I., Pramono, H., & Santoso, S. E. B. (2024). Pengaruh karakteristik dewan pengawas syariah, profitabilitas, ukuran perusahaan dan kualitas audit terhadap manajemen laba. *Scientific Journal of Reflection: Economic, Accounting, Management and Business*, 7(2), 464-479. <https://doi.org/10.37481/sjr.v7i2.842>
- Astami, E. W., Rusmin, R., Hartadi, B., & Evans, J. (2017). The role of audit quality and culture influence on earnings management in companies with excessive free cash flow: Evidence from the Asia-Pacific region. *International Journal of Accounting & Information Management*, 25(1), 21-42. <https://doi.org/10.1108/IJAIM-05-2016-0059>
- Atmamiki, K. T., & Priantinah, D. (2023). Pengaruh leverage, cash holding, ukuran perusahaan, dan kualitas audit terhadap manajemen laba dengan kepemilikan manajerial sebagai variabel moderasi. *Nominal Barometer Riset Akuntansi Dan Manajemen*, 12(2), 227-241. <https://doi.org/10.21831/nominal.v12i2.59214>
- Avinda, I. N., Hidayat, A. M., & Kartawinata, B. R. (2025). The influence of financial performance and ESG on firm value with firm size as moderator. *International Journal of Accounting and Finance in Asia Pasific*, 8(2), 257-273. <https://doi.org/10.32535/ijafap.v8i2.4003>
- Ayem, S., & Agatha, A. (2022). Pengaruh corporate social responbility, ukuran perusahaan, dan kualitas audit terhadap manajemen laba. *Reslaj: Religion Education Social Laa Roiba Journal*, 4(5), 1306-1320. <https://doi.org/10.47476/reslaj.v4i5.1117>
- Burlacu, G., Robu, I. B., & Munteanu, I. (2024). Exploring the influence of earnings management on the value relevance of financial statements: Evidence from the Bucharest Stock Exchange. *International Journal of Financial Studies*, 12(3), 72. <https://doi.org/10.3390/ijfs12030072>
- Christiani, I., & Nugrahanti, Y. W. (2014). Pengaruh kualitas audit terhadap manajemen laba. *Jurnal Akuntansi Dan Keuangan*, 16(1). <https://doi.org/10.9744/jak.16.1.52-62>
- Godfrey, J., Hodgson, A., Tarca, A., Hamilton, J., & Holmes, S. (2010). *Accounting Theory* (7th ed.). Wiley John & Sons.
- Helmi, S. M., Kurniadi, A., Anam, M. K., & Nurfiza, S. (2023). Pengaruh profitabilitas dan kualitas audit terhadap manajemen laba dengan ukuran perusahaan sebagai variabel moderasi. *Jurnal Akuntansi Trisakti*, 10(1), 51-68. <https://doi.org/10.25105/jat.v10i1.15496>
- Hoesada, H. (2020). *Dengan Ingat Tulus kepada KSAP*. Komite Standar Akuntansi Pemerintahan (KSAP). <https://www.ksap.org/sap/wp-content/uploads/2020/09/MAJALAH-MAYA-KSAP-1-OKTOBER-2020.pdf>
- Ishmah, N. F., & Permatasari, D. (2025). Pengaruh kepemilikan manajerial, kepemilikan institusional, leverage, ukuran perusahaan dan kebijakan dividen terhadap manajemen laba. *Jurnal Ilmiah Sultan Agung*, 4(1), 195-217.

- Istanita, R., & Ulfah, Y. (2023). Pengaruh profitabilitas dan leverage terhadap manajemen laba dengan dewan komisaris independen sebagai variabel moderating. *FORUM EKONOMI: Jurnal Ekonomi, Manajemen Dan Akuntansi*, 25, 503–513.
- Khairunisa, S., Yudowati, S. P., & Majidah, M. (2019). Pengaruh tingkat profitabilitas, leverage, ukuran perusahaan, dan kepemilikan saham publik terhadap pelaporan keuangan di internet (studi empiris pada Perusahaan Indeks Kompas 100 yang terdaftar di Bursa Efek Indonesia Periode Tahun 2017). *eProceedings of Management*, 6(3).
- Lestari, R., Junjuran, M. I., Jannah, B. S., & Nufaisa, N. (2022). Pengaruh ukuran dewan pengawas Syariah, kompensasi bonus, komposisi gender dan pendidikan dewan direksi terhadap manajemen laba. *Journal of Accounting and Financial Issue*, 3(2), 1-15. <https://doi.org/10.24929/jafis.v3i2.2275>
- Lupita, I. W., & Meiranto, W. (2019). Pengaruh surplus arus kas bebas, ukuran perusahaan, leverage, dan kualitas audit terhadap manajemen laba. *Diponegoro Journal of Accounting*, 7(4).
- Musdalifah, M., Anwar, A., Nurman, N., Tawe, A., & Aslam, A. P. (2025). Kebijakan dividen terhadap nilai perusahaan pada sektor perbankan di Bursa Efek Indonesia. *Jurnal Ekonomi Bisnis Dan Akuntansi*, 5(3), 148–157. <https://doi.org/10.55606/jebaku.v5i3.5860>
- Novitasari, B., & Widyawati, D. (2015). Pengaruh profitabilitas, pertumbuhan penjualan, dan kebijakan dividen terhadap harga saham. *Jurnal Ilmu dan Riset Akuntansi*, 4(2).
- Paramita, M. D., & Prasetyo, J. E. (2025). Investigating the effect of disclosure of sustainability reports, leverage, and company size on financial performance in the banking sector. *International Journal of Applied Business and International Management*, 10(2), 246–260. <https://doi.org/10.32535/ijabim.v10i2.3969>
- Pinatik, S. (2021). The effect of auditor's emotional intelligence, competence, and independence on audit quality. *International Journal of Applied Business and International Management*, 6(2), 55–67. <https://doi.org/10.32535/ijabim.v6i2.1147>
- Pradnyawati, S. O., Yuliantari, N. K. A., Wedayanti, N. M. E., & Yunita, N. L. P. (2024). The analysis of financial ratios, good corporate governance, reward, and asymmetric information in earnings management of manufacturing companies in Indonesia. *International Journal of Applied Business and International Management*, 9(3), 416–432. <https://doi.org/10.32535/ijabim.v9i3.3466>
- Primalia, M. H. P., & Prasetyo, J. E. (2025). The effect of corporate governance, profitability, and working capital on carbon emission disclosure in energy sector companies. *Dinasti International Journal of Economics, Finance & Accounting*, 5(6), 5589-5601. <https://doi.org/10.38035/dijefa.v5i6.3701>
- Putri, K. N. G., & Prasetyo, J. E. (2024). Pengaruh leverage, likuiditas, dan profitabilitas terhadap nilai perusahaan pada sub sektor hotel, restoran, dan pariwisata. *Equity: Jurnal Akuntansi*, 4(2), 12-22. <https://doi.org/10.46821/equity.v4i2.415>
- Rahayu, L. P. (2018). Pengaruh profitabilitas terhadap manajemen laba dengan ukuran perusahaan sebagai moderasi. *Jurnal Ekobis Dewantara*, 1(2), 14-24.
- Sanjaya, I. P. S. (2016). Pengaruh kualitas auditor terhadap manipulasi aktivitas riil. *Jurnal Akuntansi dan Keuangan*, 18(2), 85-91. <https://doi.org/10.9744/jak.18.2.85-91>
- Shubina, S., Miroshnyk, O., Belyaninova, K., & Bieliaiev, A. (2022). Ensuring accounting and analysis of revenue and expenses in the enterprise profit management system. *Financial and Credit Systems: Prospects for Development*, 2(5), 26-35. <https://doi.org/10.26565/2786-4995-2022-2-03>

- Spence, M. (1978). Job market signaling. In *Uncertainty in Economics* (pp. 281-306). Academic Press.
- Wardana, D. N., Kusbandiyah, A., Hariyanto, E., & Amir, A. (2024). Peran kepemilikan manajerial dalam memoderasi pengaruh profitabilitas leverage dan ukuran perusahaan terhadap manajemen laba. *Owner: Riset dan Jurnal Akuntansi*, 8(2), 1508-1521. <https://doi.org/10.33395/owner.v8i2.2056>
- Watts, R. L., & Zimmerman, J. L. (1990). Positive accounting theory: A ten-year perspective. *Accounting Review*, 65(1), 131-156.

ABOUT THE AUTHOR(S)

1st Author

Candra Yoga Prasetyo is an accounting student at the Faculty of Economics and Business UPN "Veteran" Yogyakarta. He graduated from senior high school.
Email: candrayogapras10@gmail.com

2nd Author

Januar Eko Prasetyo is a faculty member at the Faculty of Economics and Business UPN "Veteran" Yogyakarta. He holds a doctorate in accounting, and he is a lecturer in the same field.
ORCID ID: <https://orcid.org/0000-0002-2161-4998>
Email: januar_ep@upnyk.ac.id