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Do Tax Aggressiveness And Dividend Policy Affect The Relationship Between Earnings Management And Cost Of Debt? Case In Energy Sector Indonesia

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Abstract

Our study investigates how earnings management affects the cost of debt in energy sector firms on the Indonesian Stock Exchange (IDX) period 2015 to 2021. It further involves mediating and moderating the effect of tax aggressiveness and dividend policy. The Structural Equation Modeling (SEM) approach was used to analyze 315 panel data. We found a negative effect of earnings management and audit quality on the cost of debt. Earnings management is found to have a positive effect on tax aggressiveness, while tax aggressiveness has a negative impact on the cost of debt. Tax aggressiveness mediates earnings management-cost of debt effect exhibiting a negative correlation. Lastly, dividend policy is able to strengthen the effect of earnings management on the cost of debt. This research is intended to provide managerial implications for the companies and creditors regarding the asymmetry of financial report information. Policy implications, particularly for fiscal regulators pertaining to tax aggressiveness and financial services authorities concerned with assessing the capability of prospective debtors.

Keywords: earnings management, tax aggressiveness, cost of debt

1. INTRODUCTION

Efficiency is one of the keys to high competition in the business environment (Tjondro et al., 2020). One of the efficiencies that the company targets is the efficiency of the cost of debt that arise as a result of debt policy in the company's funding activities (Kitagawa & Shuto, 2019). Companies with low risk bear low cost of debt, and vice versa (Safiq et al.,

2018). The potential risks of a company can be described through information in financial reports (Suminar & Nadi, 2020). Financial reports are a vital source of information about financial performance, financial condition, and resource management (Nurlinda & Bertuah, 2019). Good performance in financial reports creates positive appreciation by creditors, which is expected to reduce the company's cost of debt (Tjondro et al., 2020).

This interest in presenting neat financial reports urges management to make various efforts to manage profits to meet stakeholders' expectations (Suminar & Nadi, 2020). Through its flexibility, management can carry out earnings management (EM) practices to produce financial reports to reflect profit information in accordance with its objectives (Iriyadi, 2019; Scott & O'Brien, 2019). This opportunistic practice in earnings management causes the information submitted to be not credible because it needs to reflect the actual value of the company (Orazalin, 2018). The audit quality function is essential in minimizing information asymmetry between stakeholders and users of financial reports by increasing the credibility of the financial information submitted (Bacha, 2019). Utilization of audit quality results serves to increase the credibility of a company's financial reports, thereby reducing the possibility of unreliable information for stakeholders, including investors, who rely on these reports (Atkinson et al., 2012, p. 340).

Previous research by Gandía & Huguet (2021, Orazalin (2018; and Thi et al. (2021) concluded that earnings management has a negative correlation with the cost of debt, contrary to Thu et al. (2018) which produces findings where earnings management has no correlation with the cost of debt. Other research by Bacha, (2019); and Orazalin (2018) concluded that auditor reputation or quality plays an influential role in mitigating the company's debt cost ratio. However, Kurniawati et al., (2019) did not find sufficient evidence to convince that there is an influence of audit quality on the cost of debt. Relatively little research on earnings management on the cost of debt in the last few decades has been conducted in developing countries. Apart from that, the inconsistencies in the results of previous studies make the relationship between earnings management, audit quality, and cost of debt even more interesting to explore.

The interest in earnings management by increasing income can be aimed at distributing dividends. Earnings management is driven by two motivations, namely the willingness to pay dividends tax-free and avoiding corporate income tax (Karjalainen et al., 2020). Meanwhile, research by Trong (2020) resulted in findings that managers often use dividend policy as a signaling device to indicate better financial health. Amidu et al. (2019) concluded that high earnings management increases tax aggressiveness, while tax aggressiveness itself has a negative effect on the cost of debt (Kovermann, 2018). From this, researchers indicate that dividend policy is considered capable of disrupting the relationship

between earnings management and the cost of debt, and tax aggressiveness is predicted to have a mediating role in this relationship, so it is hoped that these two variables will become new elements that provide a more complex picture.

This study aims to collect empirical evidence on how earnings management behavior influences the cost of debt which is moderated by dividend policy and mediated by tax aggressiveness and also examines the independent role of auditor quality on the cost of debt in energy sector companies in Indonesian Stock Exchange (IDX) during 2015-2021. Company size and tangibility were added as control variables because they are considered to influence the cost of debt and can produce a more fitting research model. The energy sector was chosen because it is one of the sectors that has the potential to become ammunition to improve the Indonesian economy. This sector is considered to make a significant contribution to the average growth target of the Indonesian economy (Pahala, The 2nd IOG 2021). Additionally, we tried to focus on the Energy sectors in Indonesia as we took into account the biggest earnings management case of Enron as one of the energy companies over the years. We bring this issue to Indonesia as one of the emerging countries.

The author hopes that the results of this research will be able to provide managerial implications, especially for fiscal policy-making regulators and financial policy-making authorities in company funding in Indonesia as a developing country. It is also hoped that the results of this research will increase positive literacy in the academic field.

2. LITERATURE REVIEW

2.1 Earnings Management

Profit or earnings management can be defined as a manager's efforts to make accounting policy choices for various specific purposes (Abdurrahman et al., 2020; Scott & O'Brien, 2019). According to (Sulistyanto, 2018) each stakeholder tries to carry out managerial manipulation of financial reporting through the application of policies that deviate from accounting norms determined for specific purposes. The practical definition of earnings management is the managerial effort to regulate the capital structure and quality of reports in order to create a balance between debt that is considered justified and the means available to finance that debt (Mollik et al., 2020). This balance is critical in instilling confidence in financial reports, thereby increasing investor protection and fostering trust (Hasan et al., 2020).

However, earnings management in a negative perspective is carried out by management by making decisions by changing the information in the financial statements which must be presented in such a way that it accurately reflects the consistent condition of

the company, as anticipated by the publication of external party reports where the conditions tend to be favorable and not actually (Scott & O'Brien, 2019).

2.2 Cost of Debt

According to (Atkinson et al., 2012, p. 165) the cost of debt refers to a company's capacity to create profits and the extent to which a company's debt can be covered by its assets. The term cost of debt refers to the burden a company bears due to using long-term and short-term debt. This metric functions as an indicator of a company's ability to fulfill its various obligations in paying expenses or costs that arise, both short-term and long-term commitments (Benjamin & Biswas, 2018). The direct manifestation of the cost of debt is seen in the interest rate applied to the company's overall debt (Ruslim & Muspyta, 2021).

The level of debt or the cost of debt itself, the phenomenon under consideration, may be due to several reasons (Kovermann, 2018). One of the factors that creditors usually use in determining interest rates and loan terms is assessing the risk from financial information (Tjondro et al., 2020). Considering that the cost of debt is one component of a company's capital structure, it would be best for the company to balance the proportion of debt that can be covered by the company's financial resources (Trong, 2020).

2.3 Audit Quality

Audit quality or audit quality (AQ) is an abstract definition and cannot be observed directly. Qawqzeh et al. (2018) explains audit quality as the likelihood of the auditor disclosing violations found in the client's financial statements. The importance of enhanced auditing practices lies in its ability to provide impartial verification of the reliability of financial statements, hence reinforcing investor safeguards and increasing confidence (Hasan et al., 2020).

Improving audit quality increases the credibility of a company's financial reporting, reducing the potential for unreliable information that could harm stakeholders, including investors (Atkinson et al., 2012, p. 340). This is supported by research (Bacha, 2019). Auditors bear the responsibility to provide financial report information of superior quality, because this information serves as a fundamental basis for users of financial reports in the decision-making process. Users of financial reports often assume that auditors affiliated with large KAPs (Public Accounting Firms) provide audit services of superior quality (Rahman et al., 2021).

2.4 Dividend Policy

According (Trong, 2020) dividends are the proportion of a company's income distributed to its shareholders in return for their involvement in the company's funding structure. Dividends refer to the percentage of a company's income or profits to its shareholders, which is determined by the proportion of shares owned by each shareholder (Hussain & Akbar, 2022). Determining dividend policy is influenced by agency costs that arise due to disparities in ownership and control, resulting in the provision of rewards to shareholders (Ullah & Bagh, 2019).

Paying dividends to shareholders is the company's responsibility to allocate a portion of its income to shareholders (Jeradu, 2021). Dividend distribution can function as a means of conveying important information to potential investors before the investment decision-making process (Prasetya et al., 2021). According to Al-Najjar & Kilincarslan (2019), Dividend policy does not always maximize shareholder value; managers tend to prefer to cut or reduce dividend payments because paying dividends reduces the amount of cash the company has.

Dividends are a portion of the company's income based on the directors' policy given to shareholders, with payments based on applicable regulations (Jeradu, 2021). The dividend theory states that the size of the dividend will not influence investment decisions. In contrast, the tax difference theory states that shareholders show a preference for capital gains compared to dividends when the amount of tax imposed is higher (Al-Najjar & Kilincarslan, 2019). On the other hand, bird theory states that shareholders show a greater tendency towards dividends compared to capital gains due to the perception of certainty and availability, which means the profits are more certain. The client effect theory states that shareholders have different preferences based on their needs (Islami et al., 2022).

2.5 Tax Aggressiveness

Tax aggressiveness refers to the strategic actions undertaken by firms to minimize their income tax obligations to tax authorities (Kovermann, 2018). Tax payments reduce retained earnings through tax planning. Understanding the tax planning strategies employed by tax advisors is vital in understanding the type of advice they may provide to clients (Shafer & Simmons, 2011). If the public has expectations of large corporations in terms of their tax contributions, then these expectations are unlikely to be met if those employed to advise large corporations on tax matters also engage in economically significant tax avoidance (Blaylock et al., 2022). In the end, the tax planning refers to a lot of aggressive practices, which are actions taken to mitigate or reduce tax financial obligations that must be fulfilled within a particular framework (Elizabeth & Riswandari, 2022).

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to dividends when the amount of tax imposed is higher (Al-Najjar & Kilincarslan, 2019). On the other hand, bird theory states that shareholders show a greater tendency towards dividends compared to capital gains due to the perception of certainty and availability, which means the profits are more certain, and the client effect theory states that shareholders have different preferences based on their needs (Islami et al., 2022).

2.10 Tax Aggressiveness

Tax aggressiveness refers to the strategic actions undertaken by firms with the aim of minimizing their income tax obligations to tax authorities (Kovermann, 2018). Tax payments reduce retained earnings through tax planning. Understanding the tax planning strategies employed by tax advisors is important in understanding the type of advice they may provide to clients (Shafer & Simmons 2011). Suppose the public has expectations of large corporations regarding their tax contributions. In that case, these expectations are unlikely to be met if those employed to advise large corporations on tax matters also engage in economically significant tax avoidance (Blaylock et al., 2022). In the end, the tax planning refers to a lot of aggressive practices, which are actions taken to mitigate or reduce tax financial obligations that must be fulfilled within a certain framework (Elizabeth & Riswandari, 2022).

2.11 Relatıonshıp Between Varıables

a. Earnings Management, Dividend Policy, and Cost of Debt

Signaling theory states that companies often use financial reports as a means to convey good signals to their stakeholders (Al-Najjar & Kilincarslan, 2019). This shows that companies with earnings management practices are certainly aimed at displaying good profit information carried out by stakeholders which is aimed at creating positive signals for users of financial reports, one of which is creditors (Sulistyanto, 2017, p. 56). This positive appreciation is expected to reduce the company's risk from the creditor's perspective, which can ultimately reduce interest expenses as a component of the cost of debt arising from the company's funding activities. In line with several empirical studies (Gandía & Huguet, 2021; Orazalin, 2018; Thi et al., 2021), it is concluded that the use of earnings management strategies has a negative effect on the cost of debt.

Hypothesis 1: Earnings management has a negative effect on the cost of debt.

The interest in earnings management by increasing income can be aimed at distributing dividends. Earnings management is driven by two motivations, namely the willingness to pay tax-free dividends and avoid corporate income tax (Karjalainen et al.,

2020). Meanwhile, research (Trong, 2020)resulted in findings that dividend policy is often used by managers as a signaling device to indicate better financial health. Basically, the asymmetry of financial statements arises due to opportunistic earnings management practices, but the existence of a dividend policy illustrates that a company's dividend distribution shows that the company's financial performance is better. Hidden earnings management practices are much more difficult to trace in financial reports than distributed dividend policies. This dividend policy ultimately strengthens the creditors' perspective on the company's financial statements. Hence, dividend policy is considered capable of positively moderating the relationship between earnings management and the cost of debt.

Hypothesis 2: Dividend policy strengthens the influence of earnings management on the cost of debt.

b. Audit Quality and Cost of Debt

Increasing the credibility of a company's financial reports is achieved through the use of audit quality, which in turn mitigates potential risks associated with the presence of unreliable information. This is very important for users of financial reports such as investors and creditors who use financial reports as a basis for their decision making. This is supported by research Bacha, (2019) auditors bear the responsibility to provide financial report information of superior quality, because this information serves as a basis for users of financial reports in making decisions related to the organization.

Audit quality in mitigating information asymmetry between management and creditors is important because it increases the reliability of financial information (Bacha, 2019). Utilization of audit quality results serves to increase the reliability of the company's financial reports, thereby reducing the potential for disseminating unreliable information to stakeholders, including investors (Atkinson et al., 2012, p. 341). The reputation or quality of the auditor plays an effective role in reducing the company's cost of debt (Bacha, 2019). Banks and other creditors assume financial information is more reliable for Big Four clients than other companies.

Hypothesis 3: Audit quality has a negative effect on the cost of debt.

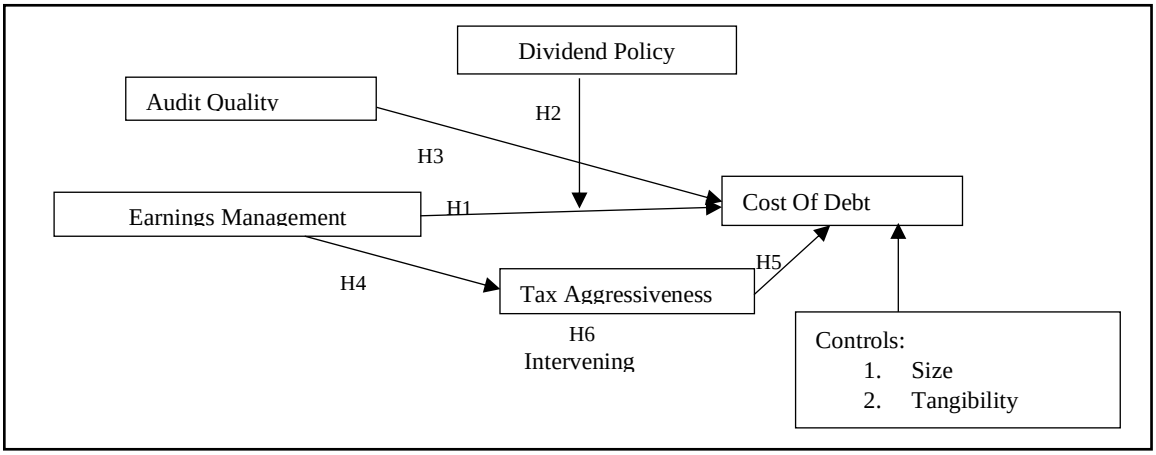
c. Earnings Management, Tax Aggressiveness, and Cost of Debt

Earnings management is a practice undertaken by stakeholders to achieve specific objectives that are deemed advantageous for the organization. Companies strive to create optimal profits by presenting false profit information, which is aimed at reducing the burden or costs they bear. One of the burdens that is the company's obligation is the tax costs that must be remitted to the state at a predetermined amount and rate. Earnings management

efforts also tend to be aimed at reducing tax costs, which is called tax aggressiveness. Amidu et al. (2019) conclude that high earnings management increases tax aggressiveness.
Hypothesis 4: Earnings management has a positive effect on tax aggressiveness.

Managers have the ability to use the flexibility inherent in accounting choices in order to engage in opportunistic behavior, such as financial aggressiveness. One specific form of financial aggressiveness is tax aggressiveness, as identified by Chasbiandani & Herlan (2019). According to Amiram et al. (2019), business people basically utilize tax planning strategies carried out by tax advisors for credibility and cost efficiency. Public expectations of large companies in terms of their tax contributions are unlikely to be met because, essentially, those employed to provide advice to large companies on tax matters are also involved in economically significant tax avoidance (Blaylock et al., 2022).

In the end, this aggressive tax planning was carried out using various neat schemes so that the financial report information produced appeared to be in line with the company's conditions (Elizabeth et al., 2022). The higher the level of aggression in both financial and tax matters that complement each other, the more profit information in financial reports to look good from the creditor's perspective. Earnings Management practices and tax aggressiveness are carried out simultaneously with objectives that benefit the company for various motives. Thus, companies with tax aggressiveness are indicated to have low cost of debt as a result of the tax advisors' schemes being structured in such a good way.
Hypothesis 5: Tax aggressiveness has a negative effect on the cost of debt.
Hypothesis 6: Tax aggressiveness mediates the relationship between earnings management and the cost of debt.
We sketch all the above hypotheses into a figure conceptual framework of research below.



Source: Author, 2023.

2.12 Variable Measurement

Most of the previous research (Abdurrahman et al., 2020; Aladwan, 2019; Aleqab & Ighnaim, 2021; Hasan et al., 2020; Karjalainen et al., 2020; Li et al., 2020; Santosa & Rasyid, 2022)suggested the Modified Jones model to measure discretionary accruals. To obtain a measure of earnings management. Discretionary Accruals (DA) as an independent variable are calculated using the modified Jones method starting by calculating total accruals (TA) where net income or net profit in year t is reduced by total operating cash flow in year t,

$TAit = NIit - CFOit$ (Eq. 1)

Furthermore, TA is estimated using Ordinary Least Square (OLS) to obtain the regression coefficient with the equation,

$TAit \div Ait-1 = \beta1\ (1 \div Ait-1) + \beta2\ (\Delta REV \div At-1) + \beta3\ PPE \div At-1 + \varepsilon$ (Eq. 2)

Then calculating non-discretionary accruals (NDA) with the regression coefficient that has been generated from equation (2), it is found that,

$NDA = -5244(1 \div Ait-1) + 0.016(\Delta REVt \div Ait-1 - \Delta RECt \div Ait-1) - 0.019(PPE \div At-1)$ (Eq. 3)

Finally, calculate discretionary accruals through the equation,

$DAit = TACit/Ait-1 - NDAit$ (Eq. 4)

Where, TAit is the number of accruals in year t divided by total assets in year t-1, ΔREVit is the change in company i's income between years t and t -1, ΔRECit is the change in company i's income between years t and t -1, PPEit is the total fixed assets in year t, Ait-1: total assets in year t-1.

The cost of debt (COD) is the dependent variable, which is calculated by dividing the cost of debt to the total debt (Bacha, 2019; Thu et al., 2018). Dividend policy and audit quality are proxied in binary indicators 0 and 1 or called dummy variables. Issuers who distribute dividends get the number 1, otherwise they are given the number 0. And for issuers who use Big4 as external auditors, their financial reports are given the number 1, conversely 0 for non-Big4. The tax aggressiveness variable as a mediating variable is represented by the effective tax rate (ETR) value, calculated by dividing the tax burden on profit before tax (Drake et al., 2020; Jony, 2020; Mustika et al., 2018).

The hypothesis above will be tested into the model by including control variables, namely variables that are manipulated or left constant to prevent extraneous influences from affecting the relationship between the independent variable and the dependent variable. This practice ensures that the final model is more robust and accurately represents

the desired relationships (Hidayat, 2018). The control variable used in this research is company size, which was chosen as one of the variables because, basically, larger companies tend to have a lower cost of debt. (Orazalin, 2018; Trong, 2020)because it is considered to have a better reputation and has more assets, so it is easier to get a debt loan because it can be used as collateral. Company size is proxied in the natural logarithm of total assets in the current year. Likewise, tangibility is the component of tangible fixed assets owned by the company divided by total assets. Ownership of fixed assets influences creditors' decisions to finance a company. Usually, lenders look for collateral that can be cashed in when providing loans. This is done to anticipate if the company cannot pay its debts in the future. Tangibility is proxied by dividing property plant and equipment (PPE) into total assets. The entire operationalization of this variable is presented below.

Table 1. operationalization of this variable

NO.	Abbreviation	Description	Description
Independent Variable			
1	DA	Discretionary Accruals	DA is used as a proxy for accrual-based earnings management, calculated using the Modified Jones model (Abdurrahman et al., 2020; Aladwan, 2019; Aleqab & Ighnaim, 2021; Hasan et al., 2020; Karjalainen et al., 2020; Li et al. , 2020; Santosa & Rasyid, 2022).
2	AUD	Audit quality	AUD is a proxy for audit quality, it takes 1 if the company audits by the Big 4, it takes 0 if the company audits by a non-Big 4).
Moderating Variables			
3	DIV	Dividends	DIV is a proxy for dividends, it takes 1 if the company distributes dividends in the current financial year, it takes 0 if the company does not distribute dividends in the current financial year.
Intervening Variables			

4	ETR	Effective Tax Rate	Income tax expense divided by profit before tax (Drake et al., 2020; Jony, 2020; Mustika et al., 2018)
Dependent Variable			
5	COD	Cost of debt	A measure of the cost of debt, calculated as the interest expense for the year divided by short-term and long-term debt (Orazalin, 2018; Thu et al., 2018; Trong, 2020)
Control Variables			
6	TANG	Tangibility	TANG is a proxy for Tangible assets; TANG is defined as tangible assets divided by total assets at the end of the year (Huguet and Gandía, 2021; Karjalainen, 2020)
7	SIZE	Size	SIZE is a proxy for company size. SIZE is defined by the natural logarithm of the company's total assets at the end of the year (Orazalin, 2018)

3. RESEARCH METHOD

The data collection method used in this research is by utilizing secondary data obtained from the Indonesian Stock Exchange (IDX) database, which can be accessed via the official website www.idx.co.id, as well as the Indonesian Central Securities Depository (KSEI). KSEI database. The research focuses on public companies in Indonesia as the research population, and sample selection was carried out using a purposive sampling approach. Based on Meiryani, (2021), purposive sampling is considered to have the main characteristic, namely that the sample is selected specifically according to the research objectives, where the author determines the target sample with the following criteria: 1) the company is in the Energy sector on the IDX during the 2015 - 2021 period, 2) the company has long-term debt during the period research, 3) the company has interest expenses. The samples that met the criteria studied were 45 companies with a time span of 7 years, resulting in panel data of 315 samples as in Table 2.

Table 2. Research Sample Criteria

Criteria	Number of Companies
Energy subsector companies listed as of December 2021	71
Company delisting during 2016-2021	-19
The company has not submitted financial reports	-2
Ever registered in a sector other than Energy	-1
Has no interest expense	-4
Sub-Total	**45**
Time range (years)	**7**
Total	**315**

The research data is in the form of an overview of the financial reports for each research sample obtained from several sources, which are then recalculated to find the indicators that form the construct of each variable. Next, data analysis was carried out on the variables above to test validity, reliability and hypothesis testing using the Structural Equational Model - Partial Least Square (SEM - PLS) approach. SEM-PLS was adopted because it was considered capable of analyzing complex measurement models (Hair et al., 2021)where there is a mediation analysis of tax aggressiveness on other variables, and dividend policy as a moderating variable. In contrast to CB-SEM, PLS-SEM offers a more convenient means of specifying interaction terms to represent moderation effects in path models. PLS-SEM emerges as the preferred method for both straightforward moderation models and intricate conditional process models that encompass both moderation and mediation (Hair et al., 2021, p. 12)

Additionally, the moderating effect of the dividend policy variable developed in the research has quite limited literature that can be confirmed through SEM-PLS (Hair et al., 2021 p. 12), and there are company size and tangibility as control variables. SEM-PLS can be applied to secondary data in the form of panels with 1 (one) or more constructs from each latent variable (Hair et al., 2021, p. 12), and to be able to carry out SEM-PLS analysis, it is recommended that the sample size be at least 5 to 10 times larger than the total number of indicators used in the research method (Hair et al., 2021, p. 12). The total number of indicators are 7, the sample required at least 35 to 70 samples. Thus, SEM-PLS is considered a suitable approach for measurement within the scope of this research.

Researchers tested the validity and reliability of pretest data using the SmartPLS 3 software by looking at the values of outer loading and average variance extracted (AVE), where indicators are said to be valid when they have outer loading values > 0.7 and AVE >

0.5 (Hair et al., 2021). The SmartPLS 3 output related to the validity test shows that all indicators of earnings management, cost of debt, audit quality, dividend policy, tax aggressiveness, size and tangibility have outer loading values > 0.7 and AVE > 0.5 so they are declared valid. This is due to the utilization of data when each latent variable is represented by a single construct. Then, for the reliability test, it shows the value of composite reliability (CR) > 0.7 and Cronbach's alpha (CA) > 0.7 so that everything is reliable, referring to Hair, et al. (2021).

After completing the outer model analysis, namely the measurement model, the next step is to carry out the inner model analysis, which is also called structural model analysis. This research began by evaluating the R square value of each equation. The coefficient of determination, sometimes called R-squared, measures the degree to which exogenous variables impact endogenous variables. R-squared values can be classified into three different categories: strong, moderate, and weak. The coefficient of determination, denoted by R-squared, is considered strong if the value is 0.75, moderate if the value is 0.5, and weak if the value is 0.25 (Hair et al., 2021).

Then, the relationship hypothesis test is carried out through bootstrapping. Hypothesis a can be accepted if the p-value < 0.005 and t-statistic > t-table 1.964. Meanwhile, the original sample provides an indication of the relationship's orientation as stated in the hypothesis. A positive original sample indicates that the direction of the relationship between the variables being tested is in the same direction, whereas a negative original sample indicates the contrary. Whereas, the MRA or Moderated Regression Analysis is carried out to test the moderating effect in increasing or reducing the relationship between the independent variable and the dependent variable. positive original samples indicate a strengthening effect, while original to negative samples indicate a weakening effect.

4. RESULTS

The aim of this research is to examine the effect between the discretionary accruals variable and the cost of debt, taking into account the moderating effect of the dividend policy variable and the mediating effect of the effective tax rate variable. The research sample in the study that met the research criteria was 45 companies with a research time of 7 (seven) years, resulting in 315-panel data, with variable description results below.

Table 3. Descriptive Statistics of Research Variables

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DA	315	-0.315	0.327	-0.005	0.097
COD	315	0,000	0.139	0.038	0.025
AUD	315	0,000	1,000	0.410	0.493
DIV	315	0,000	1,000	0.311	0.464
ETR	315	-1,050	0.914	0.183	0.246
Valid N (listwise)	315				

Source: Author (2023).

In the variable description table, it is found that discretionary accruals range from -0.315 to 0.327; the average value is -0.005. The negative notation (-) on the average DA indicates that the research sample carried out an earnings management strategy that involved intentionally reducing reported profits. rather than increasing profits, researchers assume this is aimed at reducing tax costs, which in the statistical description of the ETR value has an average of 0.183 or 18.3%. In comparison, the average rate of Corporate Income Tax (PPh) for 2015-2021 is around 22.5 %. The ETR value ranges from -1.05 to 0.914.

Cost of Debt ranges from 0 to 0.139, with an average COD value of 0.038, and a standard deviation value of 0.025. This means that the research sample has an average debt burden of 3.8% of its total debt. Furthermore, the audit quality proxy uses a dummy with a value of 0 to 1. The mean of Audit Quality is 0.410, indicating that about 41% of the research sample consisted of financial reports that have undergone auditing by KAP Big4 within the specified research timeframe. The standard deviation value of the AQ variable is 0.493. The Dividend Policy value ranges from 0 to 1, with an average value of 0.410, meaning that throughout the research period the sample distributed dividends as much as 31.1% of the total sample. The standard deviation value of each indicator is close to the average of the variable.

Next, the data processing process was carried out, starting with testing the validity and reliability of the 315 panel data obtained. Validity testing begins by assessing convergent validity. Convergent validity is measuring the validity of reflective indicators as a measure of

dimensions or latent variables by looking at the outer loading and the Average Variance Extracted (AVE) value in each indicator of that dimension. Based on the SmartPLS 3 output after the initial test, it shows that all indicators of all research variables have outer loading values > 0.7 and AVE > 0.5 so they are declared valid.

Based on the SmartPLS 3 output, it shows that the loading value of each indicator related to the latent variable has a higher value compared to the loading value of the indicators related to other latent variables, so it is concluded that it meets the discriminant validity requirements. The reliability test produces composite reliability (CR) values > 0.7 and Cronbach's alpha (CA) > 0.7 so that everything is declared reliable. This cannot be separated from the fact that each variable tested is represented by 1 (one) variable construct as the indicator being tested. Based on the analysis of the results of the validity and reliability tests in this pretest, the total sample of 315 panel data using 7 (seven) variables is valid and reliable. Details regarding the validity and reliability tests of the initial data are in Table 3A.

Table 4. Output SEM Smart-PLS 3.2.9

A. Construct Reliability and Validit

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Quality Audits	**1.00**	**1.00**	**1.00**	**1.00**
Control 1: Size	**1.00**	**1.00**	**1.00**	**1.00**
Control 2: Tangibility	**1.00**	**1.00**	**1.00**	**1.00**
Cost of Debt	**1.00**	**1.00**	**1.00**	**1.00**
Dividend Policy	**1.00**	**1.00**	**1.00**	**1.00**
Earnings Management	**1.00**	**1.00**	**1.00**	**1.00**
Moderating Effect 1: EM*DIV	**1.00**	**1.00**	**1.00**	**1.00**
Tax Aggressiveness	**1.00**	**1.00**	**1.00**	**1.00**

The collinearity test is used to see whether the indicators created do not have a significant relationship and can be assessed using various Variance Inflated Factor (VIF) methods. There are no collinearity problems if VIF < 3 (Hair et al., 2021, p. 122). Next, a blindfolding procedure is carried out, where analysis is carried out to evaluate the level of relevance of predictions obtained from the construct model. The analysis technique uses a Q

Square value that is greater than 0.05, resulting in the conclusion that a construct model has significance (Hair, et al., 2017). This means that the exogenous factors used to predict endogenous variables are accurate. The analysis shows that the Q square value of the research endogenous variable is above 0.05, so the research data is relevant. Collinearity and relevance test results in Table 3B.

Table 5. Output SEM Smart-PLS 3.2.9

B. Collinearity Statistics (VIF)

Outer VIF Values

Inner VIF Values

	VIF				Cost of Debt	Tax Aggressiveness
AUD	**1.00**			**Audit Quality**	**1.31**	
COD	**1.00**			**Control 1: Size**	**1.38**	
DA	**1.00**			**Control 2: Tangibility**	**1.23**	
DIV	**1.00**			**Cost of Debt**		
ETR	**1.00**			**Dividend Policy**	**1.21**	
EM * DIV	**1.00**			**Earnings Management**	**1.13**	**1.00**
SIZE	**1.00**			**Moderating Effect 1: EM*DIV**	**1.13**	
TANG	**1.00**			**Tax Aggressiveness**	**1.25**	

Analysis of the inner model (structural model) begins by testing the R square value for each equation. Based on the SmartPLS 3 output, the R square value of the cost of debt is 0.34. This figure shows that the variables earnings management, tax aggressiveness, dividend policy, audit quality, company size and tangibility contribute 34% to the cost of debt in this research model. R2 values of 0.75, 0.50, and 0.25 are classified as large, medium, and weak (Hair et al., 2021, p. 122). This research is included in the moderate model category, namely, research constructs that are prepared using a model that is not too strong but also not too weak so that it can be a reference in developing research constructs involving these variables.

This research model is classified as moderate, with a contribution of 35%, researchers consider that the exogenous variables are sufficient to represent the dependent

endogenous variables. There are concerns that adding other variables will actually make the research focus even more biased. The R2 value must also be interpreted in the context of the model and its complexity; an excessive R2 value indicates that the model overfits the data (Hair et al., 2021, p. 122).

Meanwhile, the R square value of tax aggressiveness is 0.09, which indicates that the earnings management construct with tax aggressiveness of 9% is included in the weak model category. The model shows that 9% of earnings management variables can explain tax aggressiveness. The remaining 91% of the data cannot be explained by earnings management variables alone; this shows that there are other variables that are not considered in the current model. Considering that tax aggressiveness is an intervening variable that will be tested for relationships with other variables, the weak r square value for this variable can be ignored.

In testing the fit model, an SRMR (standardized root mean square residual) value of 0.06 was obtained far below the 0.08 cutoff. Based on the data collected, it can be concluded that the fit model obtained from this research has a satisfactory goodness-of-fit level. The relationships observed in the research model appear to be adequate, therefore requiring further investigation through hypothesis testing. Rsquare test and Model Fit output results in Tabel 3C and 3D.

Table 6. Output SEM Smart-PLS 3.2.9

A. Quality Criteria

R Square

	R Square	R Square Adjusted
Cost of Debt	0.34	0.32
Tax Aggressiveness	0.09	0.09

B. Model Fit		
Fit Summary		
	Saturated Model	**Estimated Model**
SRMR	0.00	0.06
d_ULS	0.00	0.09
d_G	0.00	0.02
Chi-Square		30.04
NFI	1.00	0.91

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When testing the hypothesis through bootstrapping, you will see the path coefficient value, namely the original sample, T statistics, and P value. The results of research related to testing this hypothesis will be shown in Figure 2 below.

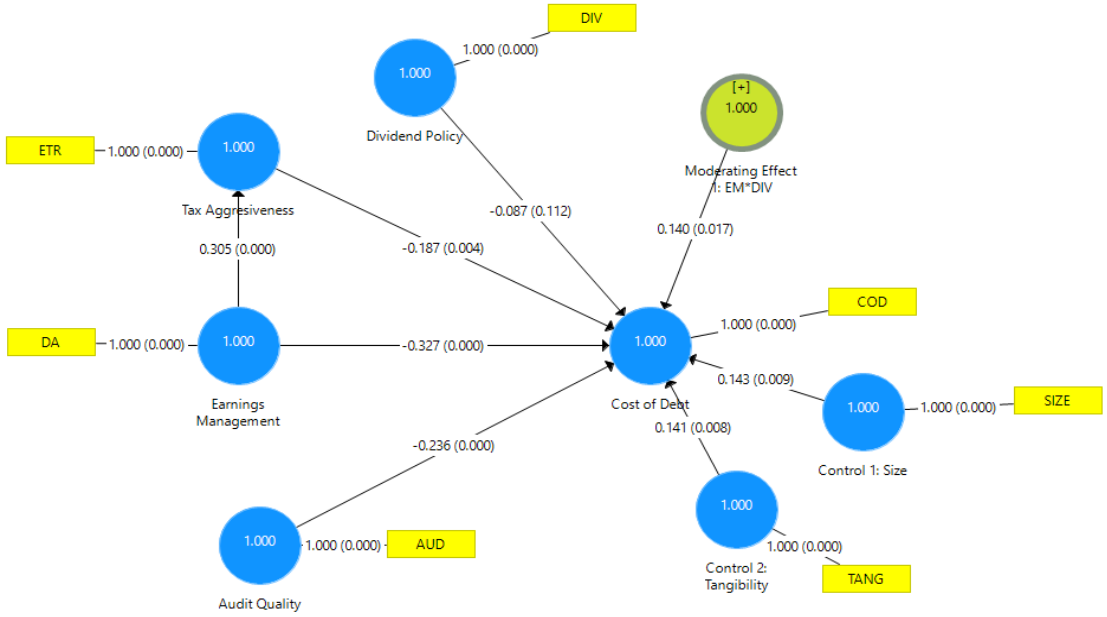

Figure 2. Path Diagram - P Value

The hypothesis test above shows the results that the negative value of the original sample suggests that there is an inverse relationship between the variables under investigation, whereas the positive value implies a positive association between the variables. The t-statistics value is above 1.96, and the p-value is less than 0.05, the hypothesis proposed. Meanwhile, one hypothesis produces data that does not support it; that is, it is concluded that the entire hypothesis proposed is acceptable based on the path coefficient in Table 3E below.

Table 7. Output SEM Smart-PLS 3.2.9

C. Final Results
Path Coefficients
Mean, STDEV, T-Values, P-Values

	Original Sample (O)	Sample Mean (M)	Standard Deviatio	T Statistics (|O/STDEV|)	P Values

			n (STDEV)		
Audit Quality -> Cost of Debt	-0.24	-0.24	0.05	4.73	**0.00**
Control 1: Size -> Cost of Debt	0.14	0.15	0.05	2.62	**0.01**
Control 2: Tangibility -> Cost of Debt	0.14	0.14	0.05	2.67	**0.01**
Dividend Policy -> Cost of Debt	-0.09	-0.09	0.05	1.59	**0.11**
Earnings Management -> Cost of Debt	-0.33	-0.33	0.05	6.09	**0.00**
Earnings Management -> Tax Aggressiveness	0.31	0.31	0.07	4.54	**0.00**
Moderating Effect 1: EM*DIV -> Cost of Debt	0.14	0.15	0.06	2.41	**0.02**
Tax Aggressiveness -> Cost of Debt	-0.19	-0.18	0.07	2.88	**0.00**

Specific Indirect Effects
Mean, STDEV, T-Values, P-Values

	Original Sample (O)	**Sample Mean (M)**	**Standard Deviation (STDEV)**	**T Statistics (|O/STDEV|)**	**P Values**
Earnings Management -> Tax Aggressiveness -> Cost of Debt	-0.06	-0.06	0.03	2.16	**0.03**

Based on the bootstrapping results in Figure 2 above, it can be concluded that the research model hypothesis testing is as follows:

Table 8. Research Model Hypothesis Testing

Hypothesis	Hypothesis Statement	*Original Sample*	*T-statistics* (> 1.96)	P-values (< 0.05)	Conclusion
H1	Earnings management has a negative effect on the cost of debt.	- 0.327	6,749	0,000	Data supports the hypothesis
H2	Dividend policy strengthens the influence of earnings management on the cost of debt	0.140	2,538	0.011	Data supports the hypothesis
H3	Audit quality has a negative effect on the cost of debt	- 0.236	4,685	0,000	Data supports the hypothesis
H4	Earnings management has a positive effect on tax aggressiveness	0.305	4,466	0,000	Data supports the hypothesis
H5	Tax aggressiveness has a negative effect on the cost of debt	- 0.187	3,031	0.002	Data supports the hypothesis
H6	Tax aggressiveness mediates the effect of earnings management on the cost of debt	- 0.057	2,296	0.022	Data supports the hypothesis

Source: SEM-SmartPLS3 Processed Data (2023).

Discretionary accrualsaffects the cost of debt, with the variable probability value is 0.000, less than 0.05 and the t count is 6.749, it is greater than the t table of 1.967 and the original sample is -0.327, each increase in discretionary accruals has an effect on reducing the cost of debt by 32.7%. Dividend policy moderates the influence of earnings management on the cost of debt with the variable probability value being 0.011, smaller than 0.05 and t calculated at 2.538 greater than t table 1.967 and the original sample value of 0.140; dividend policy strengthens the influence of discretionary accruals on the cost of debt by 14 .0%.To test this type of moderator variable, researchers looked at the path coefficient of the

dividend policy variable for each exogenous variable, namely earnings management, and the cost of debt as an endogenous variable. The results of the hypothesis test found that there was no significance in these two relationships, so that dividend policy in this study was categorized as a pure moderator as according to (Hair et al., 2021, p. 157).

Audit quality affects the cost of debt with the variable probability value being 0.000, which is smaller than 0.05 and the t count of 4.685 is greater than the t table of 1.967 and the original sample is -0.236. Each increase in audit quality unit is able to reduce the cost of debt by 23.6%. Discretionary accruals affect the effective tax rate a variable probability value of 0.000 is smaller than 0.05, and the t statistic of 4.466 is greater than the t table of 1.967 and the original sample of 0.305, each unit increase in discretionary accruals indicates an increase in tax aggressiveness of 30.5%. Tax aggressiveness effect on the cost of debt, with the probability value of the variable being 0.002, which is smaller than 0.05, and the calculated t is 3.031, which is greater than the t table of 1.967, and the original sample value is -0.187. The increase in tax aggressiveness has an effect on reducing the cost of debt by 18.7%. Tax aggressiveness mediates the effect of discretionary accruals on the cost of debtwithThe variable probability value is 0.022, which is smaller than 0.05 and the calculated t is 2.296, which is greater than the t table of 1.967 and the original sample is -0.057.The mediating role of tax aggressiveness in this research is categorized into competitive mediation, where the indirect and direct effects are significant but in opposite directions. (Hair et al., 2021, p. 142). The two research control variables, namely company size and tangibility, have a positive effect on the cost of debt. The probability value for each variable is 0.012 and 0.005, which is smaller than 0.05, and the t statistics of 2.411 and 2.783 are greater than the t table of 1.967 and the original sample of 0.143 and 0.142.

5. DISCUSSIONS

In the last few decades, earnings management practices have received increasing attention among policy makers, investors, practitioners and academics (Orazalin, 2018)because it can produce financial information that leads to better performance, increases company value and reduces the company's cost of debt (Tjondro et al., 2020). The cases of Enron, Worldcom, Global Crossing, Bank Lippo, and Garuda Indonesia provide important lessons for various groups. This study aims to explore the moderating effect of dividend policy on the relationship between earnings management and the cost of debt, which is mediated by tax aggressiveness in companies going public in the energy subsector in the 2015-2021 period. Researchers also independently examined the relationship between audit quality and the cost of debt.

First, this study proves that earnings management affects the cost of debt with a negative correlation. This is in line with several previous empirical studies (Gandía & Huguet, 2021; Orazalin, 2018; Thi et al., 2021) who found that earnings management practices had a negative effect on the cost of debt. Reinforced with signaling theory in (Sulistyanto, 2017, p. 56) financial reports are used by organizations to convey good or negative signals to their stakeholders. This shows that companies with earnings management practices are certainly aimed at displaying good profit information carried out by stakeholders which is aimed at creating positive signals for users of financial reports, one of which is creditors. (Scott & O'Brien, 2019). This positive appreciation is expected to reduce the company's risk from the creditor's perspective, which can ultimately reduce interest expenses as a component of cost of debt arising from the company's funding activities.

Second, through this research, it can be concluded that dividend policy strengthens the influence of earnings management on the cost of debt. Study by Trong, (2020) who concluded that dividend policy is often used by managers as a signaling device to indicate better financial health, so the interests of earnings management by increasing income can be aimed at distributing dividends. Creditors often focus on this dividend policy. Companies that distribute dividends are considered to have better financial health, so the business risks they bear are smaller. Even though earnings management itself is basically driven by the motivation to pay dividends tax-free (Karjalainen et al., 2020).

Basically, the asymmetry of financial statements arises as a result of opportunistic earnings management practices, but the existence of a dividend policy illustrates that a company's dividend distribution shows that the company's financial performance is better. Hidden earnings management practices are much more difficult to trace in financial reports than distributed dividend policies. This dividend policy ultimately strengthens the creditors' perspective on the company's financial statements. Therefore, the dividend policy enhances the impact of profits management on the cost of debt, according to the principles of signaling theory. It is expected that companies that distribute larger dividends are more profitable compared to those that distribute lower dividends. Due to the prevailing skepticism among analysts and investors towards dividend signal hypothesis, periodic testing has been conducted.

Third, this study finds that audit quality has a negative effect on the cost of debt. Previous research by Bacha, (2019) auditors bear the responsibility to provide financial report information of superior quality, because this information serves as a basis for users of financial reports in the decision-making process relating to the organization. The importance of audit quality is very important in mitigating information asymmetry between management and creditors by increasing the reliability of financial information (Bacha,

2019). Utilization of audit quality results serves to increase the trustworthiness of a company's financial reports, thereby reducing the potential for unreliable information that could harm stakeholders, including investors. The reputation or quality of the auditor plays an effective role in reducing the company's cost of debt (Bacha, 2019). Banks and/or other creditors assume that financial information is more reliable for Big 4 clients compared to other companies.

Fourth, this research produces findings where, based on existing evidence, it can be concluded that earnings management has a positive influence on tax aggressiveness. The higher the earnings management practices carried out, the higher the tax aggressiveness in the company. Because basically, apart from being aimed at creating good profit information, earnings management practices are also based on the motive of reducing the tax burden. There is a tendency to reduce profits in the research sample companies, which is in line with the resulting effective tax rate value, which is below the tax rate applicable in Indonesia. In other words, there is a tendency for tax aggressiveness motives in earnings management practices themselves. The smaller the profit generated can have an influence on reducing the tax costs paid. This is supported by agency theory with tax motivation with the aim of reducing tax costs to produce optimal profits. In line with the findings, Amidu et al. (2019) conclude that high earnings management increases tax aggressiveness.

Fifth, empirical evidence shows that there is a negative effect between tax aggressiveness and the cost of debt. There is a recognized relationship between a company's level of tax aggressiveness and its potential reduction in cost of debt. It is supported by Kovermann, (2018) tax aggressiveness itself has a negative effect on the cost of debt. Likewise, Tjondro et al. (2020) suggest that prospective creditors in Indonesia should also consider the risks of tax avoidance and earnings management as a basis for decision-making when wanting to provide loans.

Sixth, research proves that tax aggressiveness mediates the effect of earnings management on the cost of debt. The flexibility of accounting choices is chosen by managers to act opportunistically through financial aggressiveness in the form of tax aggressiveness. Tax planning strategies by tax advisors are often utilized by business people. Expectations of large tax contributions from large companies are actually unlikely to be met because, essentially, those employed to advise large companies on tax matters are also involved in economically significant tax avoidance (Blaylock et al., 2022). In the end, this aggressive tax planning is formed in a neat scheme with various motives and objectives so that the financial report information produced appears to be in accordance with the company's conditions (Elizabeth & Riswandari, 2022). The higher the level of financial and tax aggressiveness that complement each other, it is indicated that it can increase profit information in financial

reports so that it looks good from the creditor's perspective. Earnings Management practices and tax aggressiveness are carried out simultaneously with objectives that benefit the company for various motives. Thus, companies with tax aggressiveness are indicated to have low cost of debt as a result of the tax advisors' schemes being structured in such a good way.

Seventh, this research further finds the influence of the two control variables on the cost of debt, namely company size and tangibility. Companies with large assets are thought to have large costs of debt as well. The larger the size of a company increases the level of competition, which requires high levels of funding. The company utilizes loans in its funding policy, which of course incurs interest charges on these loans. This interest expense is the main component in the cost of debt, so the cost of debt incurred is higher. Likewise with tangibility, which is a component of tangible fixed assets owned by the company in total assets. This finding is in line with other research findings Orazalin, (2018; Trong, (2020). Company size and fixed asset ownership influence creditors' decisions to finance a company. Usually, lenders look for collateral that can be cashed in when providing loans. This is done to anticipate if the company cannot pay its debts in the future.

6 CONCLUSION

This study found that the entire hypothesis could be proven in research. Earnings management practices carried out by the company and audit quality have been proven to have a negative effect on the company's cost of debt. Opportunistic earnings management is allegedly able to reduce the company's cost of debt, and good quality external auditors are also found to be able to reduce the cost of debt in a dependent manner. Earnings management has a positive effect on tax aggressiveness, tax aggressiveness has a negative effect on the cost of debt, and tax aggressiveness mediates the effect of earnings management on the cost of debt in a negative or opposite direction, so it is categorized as a competitive mediator. Lastly, dividend policy is able to strengthen the relationship between earnings management and the cost of debt.

It has been proven that companies are quite adept at managing various strategies in carrying out various opportunistic practices to obtain various motivations that are profitable for stakeholders. Business people can manipulate the financial information presented in a fairly neat scheme so that even though each of these motivations is contradictory to each other, for example, increasing profits for the sake of creating a high profitability ratio in order to reduce the cost of debt, this motivation to increase profits is still able to reduce the tax burden borne. Thus, it is hoped that this research will be able to provide managerial implications for companies to strive to minimize opportunistic practices so that financial report information asymmetry can be avoided. Furthermore, there are policy implications,

especially for fiscal policymakers regarding tax aggressiveness schemes, financial services authorities, and creditors in analyzing the skills of prospective debtors. Creditors are advised to be able to consider earnings management activities and tax aggressiveness in the debtor's financial report information when granting loans.

7. LIMITATION

This study has limitations that need to be developed in the future in that this research only uses a single construct variable for each latent variable. It is hoped that further research can add other indicators that will further strengthen the research model.

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