

The effect of corporate governance, tax avoidance, and profitability on earnings management

Tri Siwi^{1*}, Yuni Purwanti², Rifqi Muhammad³, Evi Grediani⁴

^{1,2}Department of Accounting, Universitas PGRI, Yogyakarta, Indonesia

³Department of Accounting, Universitas Islam Indonesia, Yogyakarta, Indonesia

⁴Politeknik YKPN, Yogyakarta, Indonesia

*Corresponding author email: trisiwi@upy.ac.id

ARTICLE INFO

Article history:

Received 2025-04-24

Accepted 2025-06-21

Published 2025-06-25

Keywords:

Earning management, institutional ownership, managerial ownership, tax avoidance, and profitability.

DOI:

<https://doi.org/10.20885/jaai.vol29.iss1.art8>

ABSTRACT

Using the agency theory approach, this study examines the influence of institutional ownership, managerial ownership, tax avoidance, and profitability on earnings management. There are 315 companies in the research sample using the purposive sampling method with the following criteria: companies listed on the IDX during the 2018-2022 period, companies that prepare annual financial statements, and non-cyclical consumer sector companies. This study used multiple linear regression analysis and a t-test with a significance level of 5% for hypothesis testing. The results show that institutional ownership, managerial ownership, and tax avoidance negatively affect earnings management, while profitability has a positive effect earnings management. These results prove that institutional and managerial ownership, and good corporate governance can reduce earnings management and tax avoidance. However, profitability also improves earnings management.

Introduction

Financial reports inform internal and external parties about a company's economic conditions in order to determine economic decisions (Ladini et al., 2022). Company performance is indicated by financial reports as the leading indicator of management accountability. Preparing financial reports is very important, but management often uses various engineering efforts to provide a financial appearance to look good and to play with financial ratios that have the potential to look decent, resulting in a decline in the accountability system (Jarne-Jarne et al., 2022). Financial engineering efforts are contradictory and deliberate actions carried out by management that provide financial information to stakeholders that are not transparent and accountable; this is called earnings management (Savitri, et al., 2020).

Managers can commit to moral hazards by increasing short-term financial performance or specific targets. This practice raises concerns, because it can reduce the quality of financial reporting and mislead stakeholders. In agency theory, earnings management reflects a conflict of interest between managers as agents and owners as principals (Jensen & Meckling, 1976), in which managers have incentives to manipulate information to meet their interests.

Earning management is a practice carried out by the management to influence the reporting finance with specific objectives. Earning management practices can reduce the reporting of financials. According to theory, the agency between the manager and agent conflict (Jensen & Meckling, 1976), respectively, a conflict of interest. Earnings management practices have a negative impact because the information conveyed to stakeholders is inaccurate, resulting in a mismatch between financial report information and actual information, which makes stakeholders unable to meet their needs (Suciani & Purnama, 2019). According to agency theory, managers, as agents in managing companies, know more about financial information than stakeholders or principals (Putra & Putra, 2022), so there is the potential for conflict between agents and principals, which can result in fraud. Hence, managers need supervision to avoid deviations from their personal interests (Huynh, 2020).

Several cases of financial report manipulation or earnings management have occurred in Indonesia, such as in the PT financial sector. In 2018, BPR MAMS falsified the financial report transactions of PT. BPR Murti Artha Mas Sejahtera Bekasi's account, worth Rp 6.280 billion, was carried out by the commissioner of PT. BPR MAMS (Sari & Mappanyukki, 2023). Financial report manipulation activities are also carried out in manufacturing sector companies, such as non-cyclical customers, namely PT. Garuda Food Tbk violated several audit standards,

manipulated by auditors from public accounting firms. Furthermore, the auditor revealed a PT. Garuda Indonesia manipulated its revenue account by collaborating with PT Mahata Aero Teknologi. Income was recognized based on the compensation provided by the PT. Garuda would receive it after signing the agreement, not based on the cash flow that had been received. This is contrary to the correct accounting principles, thus having a negative effect on Garuda's income statement (Nuraya & Fachriyaho, 2024). Not only PT. Garuda Indonesia Tbk., fraudulent actions also occurred in a company with stock code AISA, which committed fraud on accounts receivable worth Rp 3 trillion by increasing accounts receivable at the agent company to make it appear to increase.

Some of the case studies mentioned above show that there are still many violations in providing financial statement information by certain parties. This shows the need for better corporate governance, one of which is to clearly understand the code of ethics standards (Muda et al., 2018). Corporate governance is one way to control earnings management. Corporate governance mechanisms are essential, especially when reviewing a company's share ownership and management (Tamara & Astuti, 2022; Widyaningsih, 2017). Institutional and managerial ownership is a form of internal supervision that can reduce managerial incentives to manipulate financial statements (Susanto & Pradipta, 2016). Institutional ownership is believed to provide external pressure through strict oversight of monetary policies. Institutional ownership can reduce earnings management (Khalid, 2024; Susanto et al., 2021). If the company pays attention to good governance by implementing institutional ownership, it means that the company is prosperous. Putra et al. (2023) test institutional ownership to reduce earnings management. Institutional ownership can help monitor managers in managing their resources. However, several other studies show different results, namely that institutional ownership can improve earnings management (Hendra et al., 2018; Rianita & Pramaesti, 2021; Yovianti & Dermawan, 2020). Another study was conducted by Malajai and Aulia (2021); Purnama (2017); Utami (2019), who showed that institutional ownership does not affect earnings management.

In addition to institutional ownership, managerial ownership can also align the interests of agents and principals. Managerial ownership as part of corporate governance can also reduce earnings management. Generally, shares owned by the company's management are optimized to generate profits. Octavia (2017) proves that managerial ownership can improve earnings management. However, several studies conducted by Arthawan & Wirasedana (2018) showed different results, i.e., managerial ownership can reduce earnings management, while the study (Muhthadin and Hasnawati, 2022) found that managerial ownership does not affect earnings management.

Financial manipulation can also occur when companies optimize tax payments, such as tax evasion or tax avoidance. optimization of tax payments through tax avoidance is allowed, but tax evasion is not allowed because these activities violate the provisions (Styarini & Nugrahani, 2020). Tax avoidance is closely related to earnings management practices. Several studies have found that companies with tax avoidance tend to use earnings management to manage tax expenses and accounting profits (Suhesti, 2015). The study of Syalsabila et al. (2024) proved that tax avoidance improves earnings management. However, Widyaningsih (2017) showed a different result: tax avoidance reduces earnings management due to strict supervision by tax authorities.

Some companies have implemented tax avoidance to reduce the tax burden and manage taxes effectively. Tax evasion in Indonesia during PT. In the period 2020 to 2021, the EIB showed that the company's management deliberately used incorrect tax invoices and fictitious tax returns, resulting in a loss of IDR 110.7 billion (Bagus Aditya et al., 2023). Companies that engage in tax avoidance tend not to engage in or reduce earnings management because the company pays attention to governance (Rumapea et al., 2021). The study of Prihanto et al. (2020) and Cabello et al. (2019) proves that profitability can reduce earnings management, while Yustina et al. (2022) find that profitability does not affect earnings management.

Research phenomena and problems related to earnings management show that there are still inconsistencies and many issues that need to be solved by testing corporate governance, tax avoidance, and profitability, which can affect earnings management. This research is highly urgent because stakeholders, investors, regulators, and the public want certainty about whether company managers carry out earnings management, especially from non-cyclical companies that provide necessities that continue to survive despite unstable economic conditions.

This study integrates internal governance variables through institutional and managerial shareholding, tax avoidance, and profitability in an earnings management analysis model in the non-cyclical sector. This study strengthens the finding that corporate governance through institutional and managerial stock ownership can reduce earnings management. In addition, this study proves that companies that carry out efforts to optimize tax payments and have high profitability will continue earnings management. Therefore, governance, tax avoidance, and profitability testing are essential for proving a company's tendency to engage in earnings management.

Literature Review

Agency Theory

Agency theory describes the relationship between the principal (owner/shareholder) and the agent (management/company), who have different interests, and each party tries to maximize its utility to give rise to

conflicts between them (Jensen & Meckling, 1976). Efforts to reduce disputes can be made by optimizing governance, such as the boards of commissioners and audit committees, including institutional shareholding and managerial ownership. Such governance can oversee managers' behavior and reduce conflicts, including efforts to minimize earnings management. However, this study's governance was limited to institutional and managerial shareholdings because it focused more on shareholding. Therefore, examining the relationship between institutional and managerial shareholding and its influence on earnings management uses agency theory, because institutional and managerial shareholding act as a mechanism to reduce conflicts of interest between agents and principals.

Agency theory can explain the relationship between tax avoidance and earnings management because managers have more information on managing tax avoidance to optimize tax payments. According to agency theory, tax avoidance can reduce earnings management practices because it increases profitability and risk when combined with profit manipulation. It also provides an alternative path for managers to achieve their financial targets without manipulating accounting figures. This is to suppress opportunistic behavior and maintain the principal's trust.

Profitability is related to earnings management. Agents tend to perform earnings management when profitability is unstable or needs to be maintained within a specific limit to meet investor expectations and obtain greater compensation. According to agency theory, high profitability encourages managers to engage in earnings management to preserve their image.

Financial statements are essential for accurate and measurable decision making (Collis et al., 2012; Tan & Taufik, 2022). The information must be presented transparently and can benefit stakeholders such as investors, business actors, and other stakeholders. Therefore, as agency theory explains, financial information benefits principals and agents. According to Fama (2012), agency theory discusses conflicts of interest caused by various goals. Managers, as agents, may be incentivized to manipulate financial statements for personal gain, such as obtaining bonuses or retaining their positions, so institutional and managerial ownership can be used as a monitoring mechanism to reduce conflicts between managers and stakeholders.

Earning Management

In a principal-agent relationship, the potential for conflicts of interest can arise when each party acts according to its interests, both by the agent (manager) and the principal (stakeholder). Managers can hide private information from stakeholders, including earnings management. However, by paying attention to good governance, such as strict supervision and good institutional and managerial ownership supervision, the tendency of managers to carry out earnings management actions will be reduced. Earnings management refers to how managers inform financial reports by determining specific accounting policies to achieve certain targets. Governance, through supervision of both institutional and managerial ownership, will be able to see how managers inform financial reports by determining certain accounting policies to achieve certain targets, one of which is measuring earnings management with discretionary accruals (Dechow et al., 1995).

Ownership Institutional and Earnings Management

According to agency theory, there is conflict between managers and principals (Jensen & Meckling, 1976). Managers are incentivized to maximize their personal interests, which can trigger earnings management practices that present better financial performance than reality. One aspect of good corporate governance is that institutional ownership is an effective external oversight mechanism, as institutions have the resources and expertise to actively monitor managerial performance. Institutional ownership encourages transparency and accountability in financial reporting. Institutional ownership narrows managers' chances of manipulating financial statements. Institutional ownership refers to a company's shareholding by institutions, such as insurance companies, pension funds, banks, and other financial institutions that possess significant resources and the ability to influence the company's managerial policies (Rachmat & Hendayan, 2023).

Several previous studies on institutional ownership and earnings management have been conducted, including Putra et al. (2023), proving that institutional ownership reduces earnings management. Institutional ownership plays a key role in monitoring management. Khalid (2024), Reyna (2018), and Sumanto et al. (2014) prove that institutional ownership has an adverse effect on earnings management. The same study was also proven by Susanto et al. (2021), who examined 107 manufacturing companies listed in Indonesia and found that institutional shareholding significantly reduced earnings management practices and increased investment efficiency. This shows the role of institutional supervision in suppressing opportunistic management behavior.

According to agency theory, if the company pays attention to good governance, institutional ownership can be used as managerial supervision in reducing conflicts of interest, including reducing earnings management, then the first hypothesis is proposed:

H₁: Institutional ownership has an adverse effect on earnings management.

Ownership Managerial and Earning Management

[Jensen and Meckling \(1976\)](#), in the theory of agency, state that in a company, there is a conflict of interest between the manager (agent) and the owner (principal). Managers are incentivized to maximize self-interest, which can trigger earnings management practices to present better financial performance. However, when managers own shares in the company (managerial ownership), their interests align with those of the owners. This reduces the incentive to engage in earnings management because managers will focus more on the company's long-term performance and reduce the risk of manipulating financial statements that can harm the value of shares where the manager is also the shareholder. Managerial ownership can serve as an effective internal oversight mechanism that reduces earnings management. Managerial ownership refers to the proportion of company shares owned by management, including directors and commissioners, which is expected to align the interests of management with those of shareholders and reduce agency problems ([Putra & Putra, 2022](#)).

Several previous studies have tested managerial ownership related to earnings management, such as the study of [Arthawan & Wirasedana \(2018\)](#) dan [Purnama \(2017\)](#), which proved that managerial ownership could reduce earnings management. Similarly, [Putra and Putra \(2022\)](#) prove that managerial ownership has a negative influence on earnings management, which means that increased shareholding by managers can decrease earnings management practices.

Managerial ownership is a corporate governance mechanism that focuses more on a proper ownership structure, good supervision, transparency, and accountability, as well as a proper incentive mechanism to control agency problems, reduce company costs, and increase company value ([Zamzamir et al., 2021](#)). This will create investor and stakeholder confidence, encourage financial stability, and improve a company's competitiveness in the long term. Managerial shareholders have an incentive to monitor themselves and to ensure that they act in their best interests. According to agency theory, managerial ownership is one governance mechanism that can reduce earnings management so that financial targets are met without having to engage in earnings management.

H₂: Ownership managerial has a negative influence on earnings management

Tax Avoidance and Earnings Management

Agency theory explains that there is a conflict of interest between the manager (agent) and the owner (principal) ([Jensen & Meckling, 1976](#)). Managers are incentivized to maximize self-interest, which can trigger earnings management practices to present better financial performance. However, when companies engage in tax avoidance, managers tend to focus on legitimate tax savings strategies to maximize their value. This can reduce the incentive to perform earnings management, because effective tax avoidance can increase after-tax profits without manipulating accounting. Therefore, tax avoidance carried out ethically and through regulations can serve as an alternative for managers to achieve financial targets without having to engage in earnings management. Tax Avoidance, namely the company, involves legally avoiding taxes ([Wardani & Purwaningrum, 2018](#)) and is part of tax management. The measurement of tax avoidance with ETR is Effect and Tax Rate.

Several previous studies related to tax avoidance and earnings management have been conducted. [Suryani \(2022\)](#) tested tax avoidance in earnings management, and the results showed that tax avoidance significantly negatively affected earnings management. Studies by [Budiantoro et al. \(2022\)](#) and [Yuliastuti and Nurhayati \(2021\)](#) also show that tax avoidance reduces earnings management. Companies avoid taxes by lowering costs and postponing tax obligations ([Dyrenge et al., 2015](#)). Tax avoidance can reduce shareholders' reported profits to hide a company's performance from shareholders ([Faizah & Adhivinna, 2017](#)). Tax avoidance activities carried out by company managers can also encourage fraud, such as earnings management by reducing the income tax burden. According to agency theory, which explains that efforts to avoid taxes can reduce earnings management, the third hypothesis is proposed:

H₃: Tax avoidance has a negative effect on earnings management.

Profitability and Earnings Management

According to the agency theory, managers want to address moral hazards and maximize their utility. Managers are incentivized to maximize self-interest, which can trigger earnings management practices to present better financial performance. High profitability can pressure managers to maintain or improve economic performance. This can encourage managers to perform earnings management, so that financial statements show positive results that meet the expectations of owners or investors. Return on Assets (ROA) is a company's profit on the assets used. Measurement with Net Profit divided by Total Assets ([Torelli et al., 2020](#)).

Several studies test profitability and earnings management. [Yustina et al. \(2022\)](#) find that profitability positively influences earnings management. Similarly, [Habibie and Parasetya \(2022\)](#) showed that unprofitable companies tend to manipulate profits ([Indracahya & Faisol, 2017](#)). However, companies with high profits also carry out earnings management to maintain performance stability ([Yustina et al., 2022](#)). If a company's profitability is

high, investors are interested in increasing their shares (Mulia & Setiawati, 2023), which can trigger managers to engineer the presentation of financial statements (Haydar & Machmuddah, 2024; Puspitasari, 2019).

According to Yovianti and Dermawan (2020), high profitability can indicate the optimal use of assets, but does not guarantee stable profits in the future. Profitability is influenced by several external and internal factors that must be analyzed to understand financial health. Several previous studies have also tested profitability and earning management conducted by Abi & Wulandari (2024); Habibie & Parasetya (2022); Ladini et al. (2022); Rianita & Pramaesti (2021), and Tran & Dang (2021) prove that profitability improves earning management. Based on agency theory, company managers pay more attention to their performance, including efforts to strengthen earnings management. Thus, the fourth hypothesis is:

H₄: Profitability has a positive influence on earnings management.

Research Method

The research sample comprises 63 non-cyclical sector companies listed on the IDX in 2018-2022, with a total observation of 315 companies using the purposive sampling method. The criteria were as follows: 1) companies listed on the Indonesia Stock Exchange from 2018 to 2022, 2) companies publishing annual financial reports from 2018 to 2022, and 3) companies included in the non-cyclical consumer sector. This study uses two types of variables: independent variables in the form of institutional ownership (X₁), managerial ownership (X₂), profitability (X₃), and tax avoidance (X₄), while the dependent variable is earnings management (Y). Each variable was measured as follows:

Table 1. Definition and Measurement of Variables

Variables	Operational Definition	Measurement
Earnings Management (Y)	Earnings management is how managers inform financial reports by determining specific accounting policies to achieve certain targets. Measuring earnings management with discretionary accruals (Dechow et al., 1995).	$DAC_{i,t} = \left(\frac{TAC_{i,t}}{TA_{i,t-1}} \right) - NDAC_{i,t}$
Institutional Ownership (X ₁)	Institutional ownership refers to the shareholding of a company by institutions such as insurance companies, pension funds, banks, and other financial institutions that possess significant resources and the ability to influence the company's managerial policies (Rachmat & Hendayan, 2023).	$IO = (Number\ of\ shares\ owned\ by\ institutions / Total\ shares\ outstanding) \times 100\%$
Managerial Ownership (X ₂)	Managerial ownership refers to the proportion of company shares owned by the management, including directors and commissioners, which is expected to align the interests of management with those of shareholders and reduce agency problems (Putra & Putra, 2022).	$MO = (Number\ of\ shares\ owned\ by\ management / Total\ shares\ outstanding) \times 100\%$
Tax Avoidance (X ₃)	Tax Avoidance, namely the company is legally avoiding taxes (Wardani & Purwaningrum, 2018), and is part of tax management. The measurement of tax avoidance with ETR.	$ETR = \frac{Tax\ Expense}{Pretax\ Income}$
Return On Assets (X ₄)	Return on Assets (ROA) is a company's profit on the assets used. Measurement with Net Profit divided by Total Assets (Torelli et al., 2020).	$ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Assets} \times 100\%$

Source: Created by the Authors.

The research analysis used multiple linear regression, and the hypotheses were tested using a t-test with a significance of 5%. The equation is as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \epsilon_{it}$$

Information:

Y_{it} = Company earnings management within year t (measured by discretionary accruals)

X_{1it} = Institutional shareholding of the company in the first year of the year t

X_{2it} = Company managerial share ownership in the first year of year t

X_{3it} = Tax Avoidance

$X4it$ = Return on Assets of the company to $-i$ 1st year

ε = Error term

Results and Discussion

Descriptive Statistics Test

There are two types of variables in this study: independent variables consisting of institutional stock ownership (X_1), managerial stock ownership (X_2), tax avoidance (X_3), and profitability (X_4), and the dependent variable is earnings management (Y). Descriptive statistics are presented in Table 2.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Average	Standard Deviation
X1	365	0.00	1.00	52.40	0.28
X2	365	0.00	1.00	8.97	0.20
X3	365	-6.49	99.97	11.78	86.60
X4	365	-58.52	62.10	4.69	12.23
Y	365	-1034.6	621.0	-8.93	93.18

Source: Author's calculation.

Table 2 shows the number of samples from 63 companies; thus, the total observations for the 5 years 2018-2022 are 365. The average institutional share ownership variable of 52.40 shows that most samples have shares of more than 50%, while managerial ownership averages 8.97%. The average profitability measured by ROA is 4.69%, the average tax avoidance is 11.78%, and the average sample reduces earnings management by -8.93%. All classical assumption test requirements were met.

Hypothesis Test Results

This study proves that the monitoring mechanism of both institutional and managerial ownership is effective in limiting earnings management according to agency theory, as well as tax avoidance and earnings management, which are considered as two strategies that can be chosen by management to achieve specific goals (strategy substitution), and companies tend to choose one rather than both. However, this study cannot prove through an agency that profitability is not enough to be a limiting factor for managers' opportunistic behavior; in fact, external pressures, such as market expectations, may be more dominant in driving earnings management, even though profits are already high. Table 3 presents the hypothesis test, which can be summarized as follows:

Table 3. Hypothesis Test Results

Model	Unstandardized	Coefficient	t	Significance	Information
	B	Standard Error			
Constants	43.91	10.78	4.074	0.000	
X1	-76,87	17.21	-4.465	0.000	H1 = supported
X2	-97,97	23.95	-4.090	0.000	H2 = supported
X3	-0,63	0,050	-12.66	0.000	H3 = supported
X4	0,78	0.363	2.169	0,031	H4 = supported
F Value	49.29				
Sig. F	0.00				
Adjusted R ²	0,389				

Source: Author's calculation.

The hypothesis test of the institutional ownership variable (X_1) has a value (significance) of -4.465 (0.000) with a p-value < 5%, which means that Hypothesis 1 is supported; institutional ownership is proven to be able to reduce earnings management (Y). Table 3 shows the beta coefficient of X_1 at -76.87, meaning that if X_1 increases by 1, it decreases earnings management (Y) by 76.87. This research is consistent with the study of [Putra et al. \(2023\)](#), where institutional ownership has a negative and significant effect on earnings management. This supports agency theory that corporate governance, with a more dominant institutional ownership mechanism, can control managers to reduce earnings management. When institutional ownership increases, external oversight of fraudulent acts is created and agency costs are reduced, illustrating that institutional ownership is essential in lowering financial manipulation ([Sumanto et al., 2014](#)). Institutional ownership can improve access to information and protect investors ([Pronosokodewo & Adyaksana, 2021](#)). The results of this study align with those of [Chen et al. \(2021\)](#);

Reyna (2018), which prove that higher institutional ownership tends to reduce earnings management. Institutional investors play a role in lowering earnings management practices.

Hypothesis 2 proves that managerial ownership (X_2) can reduce earnings management with a t-value (significance) of -4.090 (0.000) or a p-value < 5%. The beta coefficient value of X_2 is -97.97, which means that if X_2 increases by one, earnings management (Y) will decrease by -97.97. Companies with managerial ownership are motivated to reduce earnings manipulation because their managers have a direct responsibility for the company's long-term success. These findings align with agency theory, which states that the involvement of a company's managerial ownership and internal controls can improve company performance. Managers and investors have different goals related to profits; the higher the manager's shareholding, the stronger the company's internal control in minimizing the potential for accounting fraud. These findings are in line with the research of Arthawan & Wirasedana (2018); Nuhu et al., (2024); Purnama (2017); Tran & Dang (2021) which proves that ownership structures, including managerial ownership, influence earning management practices abroad such as in Malaysia and Vietnam. Managerial ownership can oversee managers in reducing profit-manipulation practices. Managers who invest their capital in the company are encouraged to choose accounting methods that transparently and accurately produce financial statements, provide added value to the company, and attract investors. High management shareholding can support managers in acting responsibly and professionally when presenting a company's financial information.

Meanwhile, profitability, measured by ROA, showed a value (significance) of 2.169 (0.031) or $p < 5\%$, indicating that Hypothesis 4 is supported. This finding proves that ROA increases managers' motivation to engage in earnings management. Managers tend to engage in earnings management if they earn a high profit. According to the agency theory, agents and principals desire to meet each other's needs, so that agency problems occur. The relationship between the principal's desire to maximize welfare and the agent's efforts to maximize their interests can drive earnings management practices. Entities with high profitability are more susceptible to earnings management. Earning management techniques, such as minimum and maximum profits, can be used to manipulate profits. This research is not in line with the research of Cabello et al. (2019) and Putra and Putra (2022), which states that if profitability decreases, it means that the company is in a bad condition, so that it has a negative impact on the implementation of earnings management because managers continue to manage profits even though they have good governance supervision.

Hypothesis 3 testing showed a tax avoidance value (X_3) of -12.66, significance (0.000), or < 5%, which means that Hypothesis 3 is supported. The results prove that the tax avoidance variable with the ETR calculation has a negative and significant direction toward earnings management (Y). The tax regulations of the Directorate General of Taxes currently impose the discipline of tax payment through self-assessment. Suppose that the taxpayer is a company disciplined to pay taxes. If this happens, the company does not deviate from the tax procedure because it is the tax obligations that must be paid, including optimizing tax payments through tax avoidance. The results of this study align with those of Budiantoro et al. (2022) and Yuliastuti and Nurhayati (2021) that tax avoidance reduces earnings management. The results of this study are also in line with the aggressive tax avoidance practices can increase the risk of scrutiny from tax authorities, so that managers can reduce earnings management practices to avoid further attention (Dong et al., 2020; Suryani (2022)). The beta coefficient value of tax avoidance is -0.633, which means that if tax avoidance increases by one, earnings management will be reduced by -0.633.

The results of the hypothesis 4 test showed that the profitability t value measured by ROA (X_4) was 2.169 with a significance of 0.031, which means that Hypothesis 4 is supported. Profitability (X_4) positively affects earnings management (Y). If viewed from the beta coefficient of profitability (X_4) in Table 3 of 0.788, it means that if the company increases ROA by one, it will increase earnings management by 0.788. The results of this study are from previous research conducted by Abi and Wulandari (2024) and Habibie and Parasetya (2022), who proved that ROA has a positive and significant effect on earnings management. The research of Tran and Dang (2021) strengthens these results because high profitability tends to improve earnings management by reducing abnormal production costs to maintain a positive image in the market. These findings suggest that high profitability motivates managers to engage in earnings management to meet specific financial targets.

Conclusions

This study proves that institutional stock ownership has a negative influence on earnings management because institutional ownership acts as a strong external supervision mechanism that can suppress managers' opportunistic behavior: the greater the proportion of shares owned by the institution, the lower the tendency of managers to manipulate profits. Similarly, managerial stock ownership can reduce earnings management; when managers own company shares, the manager's interests will be aligned with the owners (shareholders), so that the motivation to manipulate financial statements decreases. Both institutional and managerial stock ownership play a role in reducing conflicts through supervision (institutional) and alignment of interests (managerial) by explaining agency theory, in which there is a conflict between the principal and the agent.

Tax avoidance negatively affects earnings management, showing that a legitimate tax avoidance strategy gives the company room for tax efficiency, so that managers no longer need to manipulate profits to achieve specific financial targets. Tax avoidance can be an alternative managerial strategy to achieve economic goals without using profit manipulation, so that conflicts of interest between agents and principals are reduced. In addition to tax avoidance, which can be related to earnings management, profitability, measured by ROA, can also have a positive effect on earnings management. Companies with high performance want to maintain a good profit reputation, so there is a tendency for investors to engage in earnings management to keep performing well. High profitability creates pressure from owners/investors to maintain performance, which encourages managers to perform earnings management as a form of conflict of interest, which is typical in agency theory.

This study fills a gap in previous empirical research on the influence of stock ownership and tax avoidance on earnings management, which shows inconsistent results. This study clarifies the direction of this relationship, especially the negative impact of tax avoidance on earnings management, which has rarely been explored in depth. Few studies examine the influence of institutional ownership, managerial ownership, tax avoidance, and profitability simultaneously on earnings management using a panel data approach. Therefore, this study makes a significant contribution to understanding the relationship between governance and financial factors on management practices profit.

This research is novel because it combines institutional, managerial, tax avoidance, and profitability in a model to explain earnings management behavior and develop the application of agency theory by considering not only the conflicts between relevant owners and managers, but also the role of external parties such as tax authorities and institutional investors as controlling mechanisms.

Theoretically, this research reinforces the relevance of agency theory by showing that governance mechanisms such as shareholding (both institutional and managerial) are effective in reducing managers' opportunistic behavior (profit management). In addition, this research has theoretical implications by integrating tax theory and financial accounting by linking tax avoidance and profit management that contribute to the cross-field literature, namely, tax accounting and financial accounting within the framework of conflicts of interest according to agency theory.

This research provides implications for regulators and policymakers that can be used as an additional reference in tightening the oversight of earnings management practices and encouraging transparency of legitimate tax avoidance as an alternative to managerial efficiency. The practical implications of this study for company management are that it can promote the strengthening of organizational ownership and legitimate tax avoidance so as not to create pressure for profit manipulation. The practical implications of this research for investors are to be more critical in analyzing ownership structures, tax strategies, and profit performance, and not just looking at net profit statements typically.

This study is limited to non-cyclical sectors with different characteristics; therefore, the results cannot be generalized. In addition, the measurement of earnings management is limited only to ETR with the Modified Jones Model approach, with a better possible outcome if it is used with other calculations, such as real earnings management. This study is also limited to measuring the governance of institutional and managerial ownership with a percentage without a minimum size requirement, so that governance based on shareholding can affect the response of the research results. Further research could use other governance measures, such as independent boards of commissioners or audit committees, to test the consistency of the results.

References

- Abi, D. S., & Wulandari, I. (2024). Pengaruh profitabilitas, leverage, likuiditas terhadap manajemen laba. *Juremi: Jurnal Riset Ekonomi*, 4(3), 741–750.
- Arthawan, P. T., & Wirasedana, W. P. (2018). Pengaruh kepemilikan manajerial, kebijakan utang dan ukuran perusahaan terhadap manajemen laba. *E-Jurnal Akuntansi*, 22(1), 1-29. <https://doi.org/10.24843/eja.2018.v22.i01.p01>
- Bagus Aditya, A., Nuryati, T., Rossa, E., Puspaningtyas Faeni, D., & Manrejo, S. (2023). Pengaruh intangible asset dan profitabilitas terhadap tax avoidance dengan transfer pricing sebagai variabel moderasi. *SINOMIKA Journal: Publikasi Ilmiah Bidang Ekonomi dan Akuntansi*, 2(4), 689–698. <https://doi.org/10.54443/sinomika.v2i4.1570>
- Budiantoro, H., Fazriyani, D. N., Santosa, P. W., Zhusryn, A. S., & Lapae, K. (2022). Pengaruh beban pajak tangguhan, tax planning dan tax avoidance terhadap manajemen laba dengan GCG sebagai pemoderasi. *Owner: Riset dan Jurnal Akuntansi*, 4(4), 3639–3644. <https://doi.org/10.33395/owner.v6i4.1214>
- Cabello, O. G., Gaio, L. E., & Watrin, C. (2019). Tax avoidance in management-owned firms: evidence from Brazil. *International Journal of Managerial Finance*, 15(4), 580–592. <https://doi.org/10.1108/IJMF-04-2018-0117>

- Chen, Y., Cheng, C. S. A., Li, S., & Zhao, J. (2021). The monitoring role of the media: Evidence from earnings management. *Journal of Business Finance & Accounting*, 48(3–4), 533–563. <https://doi.org/10.1111/jbfa.12490>
- Collis, J., Holt, A., & Hussey, R. (2012). Conceptual framework for financial reporting. *Business Accounting*, 112–128. https://doi.org/10.1007/978-1-137-00662-2_5
- Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. *The Accounting Review*, 70(2), 193–225. <https://doi.org/10.1002/9781119204763.ch4>
- Dong, N., Wang, F., Zhang, J., & Zhou, J. (2020). Ownership structure and real earnings management: Evidence from China. *Journal of Accounting and Public Policy*, 39(3), 106733. <https://doi.org/10.1016/j.jaccpubpol.2020.106733>
- Dyreg, S. D., Hoopes, J. L., & Wilde, J. H. (2015). Public pressure and corporate tax behavior. *Fisher College of Business Working Paper No. 2014-02-003*. <https://doi.org/http://dx.doi.org/10.2139/ssrn.2474346>
- Faizah, S., & Adhivinna, V. (2017). Pengaruh return on asset, leverage, kepemilikan institusional dan ukuran perusahaan terhadap tax avoidance. *Jurnal Akuntansi*, 5(2), 136–145. <https://doi.org/DOI.10.24964/ja.v5i2.288>
- Fama, E. (2012). Agency problems and the theory of the firm. *The Economic Nature of the Firm: A Reader, Third Edition*, 88(2), 270–282. <https://doi.org/10.1017/CBO9780511817410.022>
- Habibie, S. Y., & Parasetya, M. T. (2022). Pengaruh profitabilitas, leverage, likuiditas, dan ukuran perusahaan terhadap manajemen laba. *Diponegoro Journal of Accounting*, 11(3), 1–14.
- Haydar, M. H., & Machmuddah, Z. (2024). Implementasi manajemen laba pada stakeholder teori. *EKOMA: Jurnal Ekonomi, Manajemen, Akuntansi*, 4(1), 749–763. <https://doi.org/10.56799/ekoma.v4i1.5493>
- Hendra, J., Koesharjono, H., & Priantorono, S. (2018). Implication of good corporate governance and leverage on earnings management. *International Journal of Social Science and Business*, 2(1), 1–9. <https://doi.org/10.23887/ijssb.v2i1.12936>
- Huynh, Q. L. (2020). A triple of corporate governance, social responsibility and earnings management. *Journal of Asian Finance, Economics and Business*, 7(3), 29–40. <https://doi.org/10.13106/jafeb.2020.vol7.no3.29>
- Indracahya, E., & Faisol, D. A. (2017). The effect of good corporate governance elements, leverage, firm age, company size and profitability on earning management. *Profita*, 10(2), 203–227. <https://dx.doi.org/10.22441/journal%20profita.v10i2.2872>
- Jarne-Jarne, J. I., Callao-Gastón, S., Marco-Fondevila, M., & Llena-Macarulla, F. (2022). The impact of organizational culture on the effectiveness of corporate governance to control earnings management. *Journal of Risk and Financial Management*, 15(9), 1–19. <https://doi.org/10.3390/jrfm15090379>
- Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 2(4), 305–360. <https://doi.org/10.1017/CBO9780511817410.023>
- Khalid, R. W. (2024). The effect of institutional ownership on earnings management and its reflection in investment decisions: Empirical research on a sample of Iraqi banks. *American Journal of Economics and Business Management*, 7(2), 9–24. <https://doi.org/10.31150/ajebm.v7i2.2668>
- Ladini, U., Nengsih, T. A., Wulandari, N., & Anggraeni, L. (2022). The influences of good corporate governance and profitability on earnings management at commercial banks by panel data regression analysis. *Proceedings of the International Conference on Islamic Economics and Business (ICONIES), Faculty of Economics, UIN Maulana Malik Ibrahim Malang*, 503–508. <https://conferences.uin-malang.ac.id/index.php/iconies/article/view/1738/833>
- Malajai, S., & Aulia, Y. (2021). Pengaruh kepemilikan institusional dan kepemilikan managerial terhadap praktik manajemen laba dengan good corporate governance sebagai variabel moderasi. *Soetomo Accounting Review*, 2(6), 1036–1053. <https://doi.org/https://doi.org/10.25139/sacr.v2i6.9533>
- Muda, I., Maulana, W., Siregar, H. S., & Indra, N. (2018). The analysis of effects of good corporate governance on earnings management in Indonesia with panel data approach. *Iranian Economic Review*, 22(2), 599–625.
- Muhthadin, M. Al, & Hasnawati, H. (2022). Pengaruh kepemilikan manajerial, profitabilitas dan leverage terhadap manajemen laba. *Jurnal Ekonomi Trisakti*, 2(2), 1799–1812. <https://doi.org/10.25105/jet.v2i2.14696>

- Mulia, B. P., & Setiawati, E. (2023). The effect of tax planning, firm size and profitability on earnings management (empirical studies of manufacturing companies in the consumer goods sector and various industrial sectors listed on the IDX in 2019-2021). *The International Journal of Business Management and Technology*, 7(1), 911–920.
- Nuhu, M. S., Ahmad, Z., & Zhee, L. Y. (2024). The relationship between ownership structure and real earnings management practices: Evidence from Malaysian public companies. *Jurnal Pengurusan*, 72(72). <https://doi.org/10.17576/pengurusan-2024-72-2>
- Nuraya, A. S., & Fachriyaho, N. (2024). Faktor-faktor yang memengaruhi financial statement fraud. *Jurnal Studi Akuntansi Dan Keuangan Indonesia*, 7(2), 187–200. <https://doi.org/10.21632/saki.7.2.187-200>
- Octavia, E. (2017). Implikasi corporate governance dan ukuran perusahaan pada manajemen laba. *Jurnal Akuntansi Multiparadigma*, (204), 126–136. <https://doi.org/10.18202/jamal.2017.04.7044>
- Prihanto, H., Nurlis, N., Indriawati, F., & Ariani, M. (2020). Earnings management: Empirical evidence on determinants in Indonesia. *European Journal of Business and Management*, 12(3). <https://doi.org/10.7176/ejbm/12-3-04>
- Pronoskodewo, B. G., & Adyaksana, R. I. (2021). Tekanan kepemilikan saham pada audit delay di Bursa Efek Indonesia periode 2016-2019. *Journal of Applied Accounting and Taxation*, 6(2), 123–136. <https://doi.org/10.30871/jaat.v6i2.2680>
- Purnama, D. (2017). Pengaruh profitabilitas, leverage, ukuran perusahaan, kepemilikan institusional dan kepemilikan manajerial terhadap manajemen laba. *Jurnal Riset Keuangan Dan Akuntansi*, 3(1), 1–14. <https://doi.org/10.25134/jrka.v3i1.676>
- Puspitasari, N. (2019). Pengaruh asimetri informasi, leverage dan profitabilitas terhadap manajemen laba riil (studi empiris pada perusahaan manufaktur yang terdaftar di indeks JII Periode 2004-2013). *Jurnal Manajemen Pelayaran Nasional*, 2(1), 1–14.
- Putra, I. G. B. N. P., & Putra, I. W. G. Y. D. (2022). The effect of information asymmetry, leverage, and profitability on earnings management practices. *International Journal of Multidisciplinary Research and Publications (IJMRAP)*, 4(8), 64–68.
- Putra, I. K. J., Merawati, L. K., & Tandio, D. R. (2023). Pengaruh kepemilikan manajerial, kepemilikan institusional, leverage, profitabilitas dan penerapan IFRS terhadap manajemen laba. *Kumpulan Hasil Riset Mahasiswa Akuntansi (KHARISMA)*, 5(2), 434–442.
- Rachmat, R. A. H., & Hendayan, Y. (2023). Ownership institutional and firm value: the mediating role of profitability in Indonesian firms. *JPPI (Jurnal Penelitian Pendidikan Indonesia)*, 9(4), 9–15. <https://doi.org/10.29210/0202312242>
- Reyna, J. M. S. M. (2018). The effect of ownership composition on earnings management: evidence for the Mexican stock exchange. *Journal of Economics, Finance and Administrative Science*, 23(46), 289–305. <https://doi.org/10.1108/JEFAS-01-2017-0011>
- Rianita, N. M., & Pramaesti, N. M. D. (2021). Pengaruh ukuran perusahaan, profitabilitas, dan leverage terhadap manajemen laba pada perusahaan manufaktur. *Jurnal Artha Satya Dharma*, 14(2), 105–115. <https://doi.org/10.55822/asd.v14i2.228>
- Rumapea, M., Purba, D. H. P., & Stenardy, S. (2021). Pengaruh corporate social responsibility dan tax avoidance terhadap manajemen laba pada perusahaan aneka industri yang terdaftar di bei periode 2017-2019. *METHOSIKA: Jurnal Akuntansi dan Keuangan Methodist*, 4(2), 129–139. <https://doi.org/10.46880/jsika.vol4no2.pp129-139>
- Sari, M., & Mappanyukki, R. (2023). Financial stability, monitoring, and replacement directors on fraudulent financial reporting. *Jurnal Akuntansi Keuangan Dan Bisnis*, 15(2), 607–616. <https://doi.org/10.35143/jakb.v15i2.5363>
- Savitri, E., Andreas, Syahza, A., Gumanti, T. A., & Abdullah, N. H. N. (2020). corporate governance mechanism and financial performance: Role of earnings management. *Entrepreneurship and Sustainability Issues*, 7(4), 3395–3409. [https://doi.org/10.9770/jesi.2020.7.4\(54\)](https://doi.org/10.9770/jesi.2020.7.4(54))
- Styarini, D., & Nugrahani, T. S. (2020). Pengaruh love of money, machiavellian, pemahaman perpajakan, tarif pajak, dan self assessment system terhadap tax evasion. *Akuntansi Dewantara*, 4(1), 22–32. <https://doi.org/10.26460/ad.v4i1.5343>

- Suciani, A. S., & Purnama, H. (2019). Female executive dan manajemen laba: Riset pada perusahaan manufaktur di Indonesia. *Journal of Business and Information Systems*, 1(1), 18–27. <https://doi.org/10.36067/jbis.v1i1.13>
- Suhesti, N. (2015). Earning management melalui aktivitas riil dan akrual. *Jurnal Akuntansi Dan Pajak*, 16(1), 55–66.
- Sumanto, B., Asori, & Kiswanto. (2014). Pengaruh kepemilikan institusional dan ukuran dewan komisaris terhadap manajemen laba. *Accounting Analysis Journal*, 44(1), 44–52.
- Suryani, A. (2022). Dampak penghindaran pajak dan pajak tangguhan terhadap manajemen laba. *Eksis: Jurnal Ilmiah Ekonomi dan Bisnis*, 13(1), 29–33. <https://doi.org/10.33087/eksis.v13i1.298>
- Susanto, Y. K., & Pradipta, A. (2016). Corporate governance and real earnings management. *International Journal of Business, Economics and Law*, 9(1), 17–23.
- Susanto, Y. K., Pradipta, A., & Handojo, I. (2021). Institutional and managerial ownership on earnings management: Corporate governance. *Academy of Accounting and Financial Studies Journal*, 25(6), 1–7.
- Syalsabila, M., Putri, E., & Oktaviani, R. M. (2024). Determinan manajemen laba pada perusahaan manufaktur consumer non-cyclicals periode 2019-2022. *Jurnal Ilmiah Komputerisasi Akuntansi*, 17(1). <https://doi.org/10.51903/kompak.v17i1.1626>
- Tamara, M. T., & Astuti, S. (2022). Pengaruh good corporate governance, profitabilitas, dan ukuran perusahaan terhadap manajemen laba pada perusahaan sektor property and real estate. *Kompartemen: Jurnal Ilmiah Akuntansi*, 20(2), 329–340.
- Tan, C., & Taufik, M. (2022). Board diversity and financial reporting quality: does firm size matter? *Journal of Contemporary Accounting*, 4(2), 80–94. <https://doi.org/10.20885/jca.vol4.iss2.art2>
- Torelli, R., Balluchi, F., & Furlotti, K. (2020). The materiality assessment and stakeholder engagement: A content analysis of sustainability reports. *Corporate Social Responsibility and Environmental Management*, 27(2), 470–484. <https://doi.org/10.1002/csr.1813>
- Tran, M. D., & Dang, N. H. (2021). The impact of ownership structure on earnings management: The case of Vietnam. *SAGE Open*, 11(3). <https://doi.org/10.1177/21582440211047248>
- Utami, L. B. (2019). Pengaruh kepemilikan institusional, leverage dan profitabilitas terhadap manajemen laba dengan good corporate governance sebagai variabel moderating. *Journal AKUNESA*, 7(2), 1–25.
- Wardani, D. K., & Purwaningrum, R. (2018). Pengaruh karakteristik perusahaan dan corporate social terhadap tax avoidance. *Jurnal Riset Akuntansi dan Keuangan*, 14(1). <https://doi.org/http://dx.doi.org/10.21460/jrak.2018.141.294>
- Widyaningsih, H. (2017). Analisis pengaruh corporate governance terhadap manajemen laba. *Jurnal Nominal*, 6(2), 91–107. <https://doi.org/10.21831/nominal.v6i2.16652>
- Yovianti, L., & Dermawan, E. S. (2020). Pengaruh leverage, profitabilitas, ukuran perusahaan, dan kepemilikan institusional terhadap manajemen laba. *Multiparadigma*, 2(4), 1799–1808. <http://dx.doi.org/10.24912/jpa.v2i4.9376>
- Yuliastuti, D., & Nurhayati, I. (2021). Pengaruh profitabilitas, leverage, firm size, earnings power, dan tax avoidance terhadap. *Journal Geo Ekonomi*, 14(1), 2086–1117. <https://doi.org/doi.org/10.36277/geoekonomi.V14i1.252>
- Yustina, N., Paryda, P., Murtanto, M., & Faisal, A. R. (2022). The effect of tax avoidance and profitability on earnings management with corporate governance as a moderating variable (empirical study on manufacturing. *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, 5(1), 1559–1572. <https://doi.org/10.33258/birci.v5i1.3757>
- Zamzamir, Z., Haron, R., & Othman, A. H. A. (2021). Hedging, managerial ownership and firm value. *Journal of Asian Business and Economic Studies*, 28(4), 263–280. <https://doi.org/10.1108/JABES-08-2020-0101>