Indonesia Chapter #111

Asia Pacific Fraud Journal
E-ISSN: 2502-695X, ISSN: 2502-8731
Volume 6, Nomor 1 (January-June) 2021
*Asia Pacific Fraud Journal now has been accredited "***SINTA 3***" by Ministry of Research and Technology of The Republic of Indonesia (No SK. 85/M/KPT/2020).*
Availaeble online at: http://apfjournal.or.id/index.php/apf

The Role of Institutional Ownership in Moderating the Determinants of Earnings Management (A Study on Manufacturing Companies in Indonesia)

[1]Novendi Arkham Mubtadi, [2]Eka Riyani Setiawan
[1]Department of Sharia Accounting, Faculty of Islamic Economics and Business, IAIN Pekalongan, Indonesia
[2]Department of Accounting, Faculty of Economics and Business, University of Peradaban, Indonesia

ARTICLE INFORMATION
Article History:
Received May 28, 2020
Revised November 5 2020
Accepted 22 June 2021

DOI:
10.21532/apfjournal.v6i1.193

ABTRACT
The purpose of this study is to examine the effect of deferred tax expense, tax planning, and managerial ownership on earnings management moderated by institutional ownership in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2015-2018. The number of research samples is 16 companies. The sampling technique used in the study is purposive sampling method. This study uses multiple linear regression analysis and Moderated Regression Analysis (MRA) assisted by the IBM SPSS 24 program. The results of this study show that deferred tax expense and managerial ownership haveno effect on earnings management, while tax planning has an effect on earnings management. Institutional ownership is not able to moderate the effect of deferred tax expense and managerial ownership on earnings management, but institutional ownership is able to moderate the effectof tax planning on earnings management. The limitation of this study is that the measurement technique used for earnings management is only accrual earnings management. In addition, researchers do not measure earnings management from real earnings management techniques so that the results obtained cannot explain the extent of deviations from normal business practices. The results of this study are expected to provide considerations for potential investors who wish to invest in a company so that they do not experience losses on their invested capital. Company managers are expected to be able to reconsider everything so that there will be no more fraud that can cause losses to the company and have a bad impact in the future.

Keyword: Deferred Tax Expense, Tax Planning, Managerial Ownership, Institutional Ownership, Earnings Management.

1. INTRODUCTION

There are several phenomena of earnings management practices that have occurred in manufacturing companies in Indonesia, such as the case of PT Kimia Farma where there were differences in the reporting of net income in the financial statements presented, the case of PT Indofarma where the company presented financial reports that were not in accordance with Article 69 of the Capital Market Law, and the case of PT Agis where the company provided materially incorrect earnings information.

From several cases regarding earnings management above, it can be concluded that earnings management is an effort

Corresponding author :
Email: novendi.arkham.mubtadi@iainpekalongan.ac.id

made by company managers to influence information in financial reports with the aim of tricking stakeholders who want to know the company's performance (Sulistyanto, 2008). Earnings management is carried out by exploiting gaps in the use of accrual basis by management when preparing financial statements so that the management can manage earnings by increasing, decreasing or leveling profits (Dananjaya and Ardiana, 2016). Management often manipulates financial reports to make them look good to external parties. Small profits owned by companies are engineered to be bigger so that they look good to external parties, while large profits owned by companies are engineered to be smaller so that the deferred tax expense that must be paid by the companies is small.

Deferred tax expense is the amount of deferred income tax arising from the recognition of a deferred tax liability or asset (Waluyo, 2012: 272). According to Putra et al, (2019), deferred tax expense is an expense that arises due to temporary differences between accounting profit prepared based on Financial Accounting Standards and taxable profit prepared based on tax regulations.

The management tries to reduce and make the tax burden as small as possible in order to minimize tax payments. Efforts to minimize taxes euphemistically are often referred to as tax planning. Tax planning is an effort so that taxes paid by companies are truly efficient (Yunila and Aryati, 2018). In general, the aim of tax planning is to minimize tax liabilities. By doing tax planning, companies hope to be able to minimize corporate tax payments appropriately and legally.

Apart from deferred tax expense and tax planning, another variable that is examined as a factor affecting earnings management is managerial ownership. Theoretically, management who owns a high percentage of shares will act like people who have power (Zakia et al., 2019). Large management ownership will effectively monitor company activities. When the share ownership by management is low, there is a tendency for an increase in manager's opportunistic behavior (Khuwailid and Hidayat, 2017). Managerial ownership is considered capable of aligning potential differences in interests between management and other shareholders. It is assumed that the problem between agents and principals will disappear if a manager also serves as a shareholder.

Another ownership structure is institutional ownership which is also considered to be used by companies as an effective monitoring tool. According to Khuwailid and Hidayat (2017), companies with large institutional ownership indicate their ability to monitor management. The greater the institutional ownership, the more efficient the utilization of company assets and it is also expected to act as prevention against waste by management. The existence of high institutional ownership limits managers in carrying out earnings management (Dananjaya and Ardiana, 2016).

There are differences in the results of previous studies regarding the effect of deferred tax expense, tax planning, managerial ownership and institutional ownership on earnings management. Some claim to have an effect, but others claim to have no effect.

Research on the effect of deferred tax expense on earnings management was conducted by Putra et al (2019) with the results that deferred tax expense has an effect on earnings management. These results indicate that the greater the deferred tax expense held by manufacturing companies listed on the Indonesia Stock Exchange, the greater the opportunity for the companies to carry out earnings management (Putra et al 2019). The results of this study are consistent with the results of research conducted by Sari et al (2019) that deferred tax expense has a significant effect on earnings management. However, the results of this study are not in line with the results of research conducted by Lubis and Suryani (2018) that deferred tax expense has no effect on earnings management.

The results of research conducted by Yunila and Aryati (2018) show that tax planning has a positive effect on earnings management. This is in line with the results of research conducted by Putra et al (2019) that partially tax planning has an influence on earnings management. The results of this study are also consistent with the results of research conducted by Lubis and Suryani (2018) that tax planning has a positive and significant effect on earnings management. However, the results of this study contradict the results of research conducted by Sari et al. (2019), that tax planning has no effect on earnings management.

The results of research conducted by Marini (2017) show that managerial ownership has insignificant effect on earnings management. The results of this study are in line with the results of research conducted by Dananjaya and Ardiana (2016) that institutional ownership has a significant positive effect on earnings management. Khuwailid and Hidayat (2017) state that institutional ownership is able to moderate the relationship between managerial ownership and accrual earnings management.

Due to different research results as described above, it is important to conduct further research to see the latest results. Although this research is a replication of previous research conducted by Khuwailid and Hidayat (2017), there is a difference where the previous research examined from 2011 to 2015, while the current research examined from 2015 to 2018.

The novelty of this research is that the previous research examined mining companies in the oil and gas sector, but the current research examined manufacturing companies with the reason that manufacturing companies were companies that were attractive to many investors and very vulnerable to earnings management practices.

2. LITERATURE REVIEW AND HYPOTHESIS

Earnings Management

According to Zakia et al (2019), earnings management is a manager's behavior to play with discretionary accrual components to determine the size of company profits because accounting standards provide several alternative methods and procedures that can be used. In accounting standards, such measures are allowed and recognized as long as the company is able to clearly disclose what is done in the financial statements, although the obligation to disclose all accounting methods and procedures has not been able to eliminate managers' fraudulent attemptsto maximize their own benefits.

Based on the description above, it can be concluded that earnings management is an action taken by managers by manipulating accounting data or information so that the amount of profit recorded in the financial statements is in accordance with the manager's wishes, both for personal gain and for the benefit of the company, which in turns can interfere with the financial statement users who believe the engineered profit figures as non-engineered profit figures.

Research Hypothesis

Deferred tax expense can be used to detect earnings management practices by looking at the results of fiscal corrections in the form of negative corrections. Negative correction is a condition where income according to fiscal accounting is smaller than commercial accounting, and expenditure according to fiscal accounting is greater than commercial accounting. Deferred tax expense causes the level of profit earned to decrease and the level of costs to increase, thus the opportunity to get profit in the future is greater and reduces the amount of tax paid. The first hypothesis proposed in this study is:

H1: Deferred tax expense has an effect on earnings management.

Tax planning is an effort or strategy carried out by management to minimize the payment of its tax expense as long as it does not violate taxation rules. So, by doing tax planning, companies can reduce the amount of company profits to be able to get tax benefits without violating the applicable tax laws. It is assumed that tax planning can be used to detect earnings management, because management always responds to changes in tax rates, both increases and decreases,which are considered by management as an opportunity to provide profit for the company. The greater the level of tax planning carried out by management, the higher the earnings management will be. The second hypothesis proposed in this study is:

H2: Tax planning has an effect on earnings management.

Managerial ownership is the number of shares owned by the company management, which means that management also acts as a shareholder of the company it manages. It is assumed that managers will take steps that are in line with what they want as shareholders in general. Shareholders and managers have different interests in maximizing their goals. Shareholders have the goal of obtaining dividends on shares, while managers have an interest in obtaining bonuses from investors for the performance achieved in one accounting period. The third hypothesis proposed in this study is:

H3: Managerial ownership has no effect on earnings management.

Institutional ownership has an important role in monitoring management. Institutional ownership encourages increased supervision of company performance to be more optimal (Khuwailid and Hidayat, 2017). Supervision of company performance will pressure managers to take earnings management actions with an accrual discretion in accordance with the Statement of Financial Accounting Standards (*Indonesia: Pernyataan Standar Akuntansi Keuangan / PSAK*) and applicable tax regulations. The greater the institutional ownership, the higher the supervision effort by institutional investors, which can prevent managers from engaging in opportunistic behavior by increasing the amount of burden and reducing the amount of profit so that less taxes are paid. The fourth hypothesis proposed in this study is:

H4: Institutional ownership moderates the effect of deferred tax expense on earnings management.

Tax planning is used by companies to minimize corporate tax payments. To get tax advantages, companies try to do good tax planning. Good tax planning tends to reduce the company's net income. With the existence of high institutional ownership, it is expected that earnings management actions taken by the company can be avoided. The fifth hypothesis proposed in this study is:

H5: Institutional ownership moderates the effect of tax planning on earnings management.

Managerial ownership is ownership of company shares by management. Ownership of company shares by management can reduce management's desire to gain prosperity by increasing revenue from the company's profit level in the hope of getting a large bonus. With institutional ownership as supervision in a company led by company management, in carrying out earnings management, both have the same motivation to increase profits. The sixth hypothesis proposed in this study is:

H6: Institutional ownership moderates the effect of managerial ownership on earnings management

3. METHODS

The sampling technique used in this study is purposive sampling technique. Purposive sampling is a sampling technique with certain considerations or criteria. The criteria used to select samples in this study are as follows (Table 2).

Data collection techniques used in this research include literature study and documentation. Literature study is a data collection technique by conducting studies of various books, literature, notes and various reports related to the problem to be solved (Nazir, 1998). Documentation is a record of past events. The data used are in the form of financial reports from 2015 to 2018 which have been recapitulated by the authors according to research needs.

Measurements in this study can be seen in the following (Appendix 1).

4. RESULT AND DISCUSSION

The results of the research for hypotheses 1-3 can be seen in table 3.

The results of the research for hypotheses 4-6 can be seen in table 4.

DISCUSSION

The Effect of Deferred Tax Expenses on Earnings Management

The results of this study, conducted using multiple regression analysis, show that Ha is rejected, so it can be said that the deferred tax expense has no effect on earnings management. This study shows that the size of the company's deferred tax expense is not a factor that can influence the company in practicing earnings management. Manufacturing companies in Indonesia that take advantage of loopholes to manage their earnings by using deferred tax expense in their fiscal

Table 2. **Sample Selection Procedure**

No	Explanation	Number of companies
1.	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2018	149
2.	Manufacturing companies that did not publish complete annual reports on the IDX respectively from 2015 to 2018	(89)
3.	Companies that do not use the Indonesian rupiah currency in their financial statements	(14)
4.	Companies that incurred losses during the year of observation	(11)
5.	Incomplete available data regarding deferred tax expense, tax planning, managerial ownership and institutional ownership	(12)
The number of research samples in 1 period		23
Total observation period for 4 years (23x4)		92
Number of research samples (23x4)		92

Source: Processed data, 2019

Table 4. **Individual Parameter Test (t test)Results**

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	t	Sig.
		B	*Std. Error*	Beta		
1	*(Constant)*	-.033	.028		-1.168	.246
	Deferred Tax Expense	-.891	.751	-.077	-1.186	.239
	Tax Planning	.062	.007	.801	9.424	.000
	Managerial Ownership	-.078	.041	-.128	-1.921	.058
	DFFIT	14.663	1.149	1.063	12.760	.000

a. *Dependent Variable*: Earnings Management

Source: Processed data, 2019

income statement will be corrected in the taxable income statement. Tax regulations provide more stringent restrictions on tax calculations. In other words, taxation only recognizes tax expense in that period and does not recognize deferred tax expense. The results of this study are consistent with the results of research conducted by Purnamasari (2019) that deferred tax expense has no significant effect on accrual earnings management.

The Effect of Tax Planning on Earnings Management

The results of this study, conducted using multiple regression analysis, show that Ha is accepted, so it can be said that tax planning has an effect on earnings management. This indicates that the higher the level of tax planning carried out by manufacturing companies listed on the Indonesia Stock Exchange, the greater the opportunity for companies to practice earnings management. With good tax planning and management, the company will take tax savings to a minimum without violating applicable tax regulations. One way that companies can do tax planning is to reduce the amount of taxable profit, so that the companies can reduce the amount of tax paid. The results of this study are in line with the results of research conducted by Harvoninsah&Lisya (2019) and Almashaqbeh, et al. (2019) that tax planning has a positive effect on earnings management practices, or in other words, the higher the tax planning, the greater the opportunity for companies to practice earnings management.

The Effect of Managerial Ownership on Earnings Management

The results of this study, conducted using multiple regression analysis, show that Ha is rejected, so it can be said that managerial ownership has no effect on earnings management. This means that the shares owned by the manager are not proportional to the shares owned by the company or outside parties. Shares owned by the manager will not be able to have an impact in decision making. The results of this study are supported by the results of previous research conducted by Mudjianti (2018) that managerial ownership does not have a significant effect on earnings management.

Table 5. **MRA Regression Analysis Results**

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	t	Sig.
		B	*Std. Error*	Beta		
1	(*Constant*)	1.350	.687		1.963	.053
	Deferred Tax Expense	-1.031	.484	-.089	-.694	.490
	Tax Planning	.097	.007	1.252	13.557	.000
	Managerial Ownership	-1.487	.687	-2.422	-2.165	.034
	Institutional Ownership	-1.156	.691	-1.876	-1.673	.098
	Deferred Tax Expense * Institutional Ownership	1.292	4,825	.035	.268	.790
	Tax Planning *Institutional Ownership	-.332	.045	-.619	-7.341	.000
	Managerial Ownership * Institutional Ownership	-.014	.161	-.010	-.090	.929
	DFFIT	18.212	1.031	1.332	17.657	.000

a. *Dependent Variable*: Earnings Management

Source: Processed data, 2019

The Effect of Deferred Tax Expenses on Earnings Management Moderated by Institutional Ownership

The results of this study show that Ha is rejected,while Ho is accepted.So it can be said that institutional ownership is not able to moderate the effect of deferred tax expense on earnings management. The amount of deferred tax is not one of the loopholes for management to practice earnings management. Institutions outside the company have provided tax policies to company management and they do not interfere with company taxation. Therefore, institutional ownership is not able to influence the relationship between deferred tax expense and earnings management. The results of this study contradict the results of previous research conducted by Khuwailid and Hidayat (2017), that institutional ownership moderates the causal relationship between deferred tax expense and accrual earnings management. Accrual discretion made by companies when reinforced by institutional ownership has an influence on earnings management. This can occur because the deferred tax expense, when reinforced by institutional ownership, has an effect on management to increase earnings for the benefit of shareholders.

The Effect of Tax Planning on Earnings Management Moderated by Institutional Ownership

The results of this study show that Ha is accepted.So it can be said that institutional ownership is able to moderate (weaken) the effect of tax planning on earnings management. The higher the tax planning is, the higher the chance for the company to carry out earnings management. Therefore, the supervision by institutional ownership aims to prevent management from practicing earnings management. The results prove that tax planning affects earnings management because tax planning can detect companies in conducting earnings management and institutional ownership is able to weaken the relationship between tax planning and earnings management. The results of this study contradict the results of previous research conducted by Khuwailid and Hidayat (2017) that institutional ownership is unable to moderate the relationship between tax planning and earnings management. With the existence of tax planning, which is part of the company's budget planning, and strict supervision from the regulator (Ministry of Energy and Natural Resources), companies have no loopholes for tax manipulation. Corporate stock holders as institutional ownership of the company are unable to influence management decisions related to accrual policies to carry out earnings management.

The Effect of Managerial Ownership on Earnings Management Moderated by Institutional Ownership

The results of this study show that Ha is rejected.So it can be said that institutional ownership is not able to moderate the effect of managerial ownership on earnings management. Management ownership is the proportion of management's shareholders who actively participate in making company decisions (directors and commissioners). Low managerial ownership will not be effective in monitoring company activities. When share ownership by management is low, there is a tendency for increased opportunistic manager behavior. Managerial ownership can align the potential differences in interests between management and other shareholders. The problems between the agent and the principal are assumed to disappear if a manager, who is also a shareholder, can influence decision making.

The results of this study contradict the results of previous research conducted by Khuwailid and Hidayat (2017) that institutional ownership can moderate the causal relationship between managerial ownership and accrual earnings management. The policies taken by management, who are also shareholders, will have a big influence on company decisions (accrual discretion) when influenced by institutional ownership.

5. CONCLUSION

Based on the data analysis and the discussion described above, the researchers can draw several conclusions as follows. 1) Deferred tax expense has no effect on earnings management. This means that the amount of deferred tax expense of the company is not a factor that can influence the company in conducting earnings management. 2) Tax planning has an effect on earnings management. This indicates that tax planning carried out by manufacturing companies listed on the Indonesia Stock Exchange increases the chances of these companies to do earnings management. 3) Managerial ownership has no effect on earnings management. This means that the shares owned by the manager are not proportional to the shares owned by the company or outside parties. Shares owned by the manager will not be able to have an impact in decision making. Institutional ownership is not able to moderate the effect of deferred tax expense on earnings management. The amount of deferred tax expense is not one of the loopholes for management to conduct earnings management. Institutions outside the company have provided tax policies to company management and they do not interfere with company taxation. 4) Institutional ownership is able to moderate (weaken) the effect of tax planning on earnings management. The higher the tax planning, the higher the chance for the company to carry out earnings management. Therefore, the supervision of institutional ownership aims to prevent management from practicing earnings management. 5) Institutional ownership is not able to moderate the effect of managerial ownership on earnings management. Low management ownership will not be effective in monitoring company activities. When share ownership by management is low, there is a tendency for increased opportunistic manager behavior. Suggestions for further researchers are as follows. 1) Using earnings management proxy, discretionary accruals, other than using the Modified Jones model such as using the Beaver and Engel model or the Kothari model, or using Real Earnings Management to get more accurate results. 2) Extending the research period in order to get more accurate research results. 3) Using different research subjects in addition to the manufacturing industry, such as banking, telecommunications or mining companies to find out the existence of earnings management practices in various types of companies.

REFERENCES

Almahaqbeh, A.A., Abdul Jabbar, H., &Shaari, H. (2018). Real Earning ManagementandTaxConsiderations: A Conceptual Analisis. International Journal of Business Management and Commerce, Vol.3, No.2, pp.25-35.

Dananjaya, D. G. Y & Ardiana, P. A. (2016). Proporsi Dewan Komisaris Independen sebagai Pemoderasi Pengaruh Kepemilikan Institusional pada Manajemen Laba. E-Jurnal Akuntansi Universitas Udayana Vol.15, No.2, hal. 1595-1622.

Harvoninsah & Lisya. (2014). The Influence of Corporate Tax Rate Changes Toward Earnings Management. International Journal of Business, Economics and Law, Vol. 5, No.1, pp.38-47

Khuwailid & Hidayat, N. (2017). Peran Pemoderasi Kepemilikan Institusional pada Pengaruh Beban Pajak Tangguhan, Perencanaan Pajak dan Kepemilikan Manajerial terhadap Manajemen Laba Akrual. Jurnal Riset Akuntansi dan Perpajakan Vol. 4, No. 1, hal. 117-133.

Lubis, I & Suryani. (2018). Pengaruh Tax Planning, Beban Pajak Tangguhan dan Ukuran Perusahaan Terhadap Manajemen Laba. Jurnal Akuntansi dan Keuangan, Vol. 7, No. 1.

Marini. (2017). Pengaruh Kepemilikan Manajerial dan Leverage terhadap Manajemen Laba dengan Konvergensi IFRS sebagai Variabel Moderating pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2009-2013. JurnalAkuntansiManajerial, Vol. 2, No. 1.

Mudjianti, R. (2018). The Effect Of Tax Planning, Ownership Structure, and Deferred Tax Expense on Earning Management. Advances in Social Science, Education and Humanity Research, Vol.231, pp. 371-381.

Nazir. (1998). MetodePenelitian. Jakarta: Rineka Cipta.

Putra, R. H. D. K., dkk. (2019). Pengaruh Perencanaan Pajak dan Beban Pajak Tangguhan Terhadap Manajemen Laba pada Perusahaan Manufaktur Sub Makanan dan Minuman yang Terdaftar di Bursa Efek Indonesia Periode 2013-2017. Jurnal Online Mahasiswa Universitas Pakuan, Vol. 1, No. 1.

Purnamasari, D. (2019). How The Effect of Deffered Tax Expenses and Tax Planning on Earning Management? International Journal of Scientific & Technology Research, Vol. 8, No. 2, pp. 78-83.

Sari, R. N., dkk. (2019). Pengaruh Beban Pajak Tangguhan, Perencanaan Pajak dan Profitabilitas terhadap Manajemen Laba Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2012-2017. Jurnal Online Mahasiswa Universitas Pakuan, Vol. 1, No. 1.

Sulistyanto. (2008). Manajemen Laba: Teori dan Model Empiris. Jakarta: Grasindo.

Utari, & Sari (2016). Pengaruh Asimetri Informasi, Leverage, Kepemilikan Manajerial dan Kepemilikan Institusional pada Manajemen Laba. E-Jurnal Akuntansi Universitas Udayana, Vol. 15, No. 3.

Waluyo. (2012). Akuntansi Pajak. Jakarta: Salemba Empat.

Yunila, F & Aryati, T. (2018). Pengaruh Perencanaan Pajak dan Pajak Tangguhan terhadap Manajemen Laba dengan Kualitas Audit Sebagai Variabel Moderasi. Seminar Nasional Cendekiawan ke 4 Tahun 2018 Buku 2: "Hukum, Politik, Manajemen, Ekonomi, Akuntansi, Konseling, Desain dan Seni Rupa", Hal. 1021-1027.

Zakia, V., dkk. (2019). Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional, Ukuran Perusahaan, Leverage, Profitabilitas, Pertumbuhan Penjualan terhadap Manajemen Laba dengan Good Corporate Governance sebagai Variabel Moderating. E-JRA Vol. 8, No. 4.