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Determinants of Earnings Management: Deferred Tax, Tax Planning, Firm Size with Institutional Ownership as Moderator

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Abstract

Purpose: This study examines the effects of deferred tax expense, tax planning, and firm size on earnings management, with institutional ownership as a moderating variable.

Research Methodology: This study employs a quantitative approach using secondary data from companies in the primary consumer goods sector listed on the Indonesia Stock Exchange over the 2019–2023 period. Purposive sampling identified 14 firms. The analysis was conducted using panel data logistic regression.

Results: The findings reveal that deferred tax expenses significantly affect earnings management. In contrast, tax planning and firm size did not show significant effects. Additionally, institutional ownership moderates the relationship between deferred tax expenses and earnings management but does not moderate the relationships involving tax planning and firm size.

Conclusions: Deferred tax expense is a key determinant of earnings management, whereas tax planning and firm size are not. Institutional ownership plays a selective moderating role and is effective only in the context of deferred tax-related discretion.

Limitations: This study is limited by its relatively small sample size (14 firms) and focus on a single sector, which may restrict the generalizability of the findings. Additionally, the model explained a limited proportion of the variance, indicating the presence of other unexamined factors.

Contributions: This study contributes to the literature by showing that deferred tax expense is a key earnings management driver and institutional ownership is a selective governance mechanism, and by providing empirical evidence from an emerging market on taxation, firm traits, and earnings management.

Keywords: *Deferred Tax Expense, Earnings Management, Firm Size, Institutional Ownership, Tax Planning*

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1. Introduction

Earnings are a primary consideration for investors in evaluating earnings quality and information risk in investment decision-making. Consequently, earnings often become the focal point of managerial practices aimed at influencing reported performance by increasing or decreasing reported income. This practice is commonly referred to as earnings management (Machdar & Nurdiniah, 2021). Earnings

management refers to deliberate actions undertaken by corporate management to process, alter, obscure, or manipulate financial statement figures through the selective application of accounting methods and procedures (Nofrivul, Amran, & Firmanola, 2022). The objective of such actions is to create the impression of improved corporate performance by adjusting reported earnings (Nolastname, Fernando, Hendratno, Dewiyanti, & Yanny, 2021).

The manipulation of financial information through earnings management practices is a major factor undermining the ability of financial statements to accurately reflect a firm's fundamental value. A prominent case of earnings management occurred at PT Garuda Indonesia and came to public attention on April 24, 2019, during the Annual General Meeting of Shareholders, where one of the key agenda items was the approval of the company's 2018 financial statement. In those reports, Garuda Indonesia recognized net income largely driven by a cooperation agreement with PT Mahata Aero Technology, amounting to US$239.94 million (approximately IDR 3.48 trillion).

Subsequently, the Financial Profession Development Center, in collaboration with the Financial Services Authority, identified irregularities in the presentation of Garuda Indonesia's 2018 financial statements. The findings reveal significant discrepancies between the initially published financial statements and the figures after corrections and adjustments in accordance with the applicable accounting standards. Following these adjustments, the company reported a loss of approximately US$175 million (around IDR 2.53 trillion), indicating a difference of about US$180 million compared to the previously reported profit. Initially, the company reported a net income of approximately US$5 million (around IDR 72.5 billion). This case attracted widespread public attention and highlighted the critical importance of transparency and accuracy in corporate financial reporting.

Corporate management, as an internal party with a strategic role in decision-making, continuously strives to optimize firm profits. In this context, earnings quality becomes a crucial aspect that reflects the extent to which reported earnings represent a firm's sustainable economic performance. High-quality earnings are not solely determined by the magnitude of reported income but also by the ability to accurately predict future cash flows and revenues. This quality is influenced by the composition of accrual and cash components embedded in earnings. Therefore, high-quality earnings provide a more reliable, relevant, and unbiased representation of a firm's actual financial condition, thereby enhancing stakeholder confidence (Machdar & Nurdiniah, 2021).

Based on the aforementioned background and empirical phenomena, this study argues that earnings management practices do not occur randomly but are influenced by several relevant determinants. The variables presumed to play a significant role include deferred tax expense, tax planning practices, firm size, and institutional ownership as a governance mechanism that may moderate these relationships. Deferred taxes arise from timing differences between the recognition of revenues and expenses for accounting and their recognition for tax purposes. These timing differences emerge due to discrepancies between accounting standards and tax regulations, resulting in temporary differences between reported accounting income and taxable income, which is used as the basis for tax liabilities. Accordingly, deferred taxes represent financial adjustments that reflect a firm's obligation to reconcile these differences over time.

In practice, firms may utilize deferred tax mechanisms to reduce reported earnings by accelerating their expense recognition, thereby lowering their taxable income. This condition leads to temporary differences between accounting profit (reported in financial statements for external stakeholders) and fiscal profit (used as the basis for taxation) (Herdiansyah, Septiawan, & Ikhsan, 2022). Tax planning is a systematic strategy employed by taxpayers to manage tax obligations efficiently and optimally. The primary objective of this practice is to minimize tax expenses by utilizing legal opportunities within the framework of the prevailing tax regulations. Such efforts are implemented through the careful structuring of operational activities and transaction arrangements, enabling firms to reduce payable taxes, including income tax and other tax categories, without violating legal provisions. Therefore, tax planning functions not only as a tool for fiscal efficiency but also as an integral component of a firm's legitimate and strategic financial management (Wang, 2022).

Firm size reflects the scale of operations and economic capacity of an entity and is commonly measured using indicators such as total assets, total sales, and market capitalization. This variable is frequently employed as a proxy for assessing corporate complexity and public visibility. Firm size is considered to exert a significant influence on earnings management, as larger firms are typically subject to more intensive scrutiny from investors, analysts, and regulators. Heightened expectations of financial performance may incentivize management to maintain earnings stability. Such conditions can increase managerial incentives to engage in earnings management practices, either through accounting policy choices or through the timing of transaction recognition, to present more favorable performance to stakeholders (Olayiwola, Okoro, & Economies, 2021).

Institutional ownership is widely regarded as an effective corporate governance mechanism that enhances the managerial oversight. Institutional investors, such as insurance companies, pension funds, and investment managers, generally possess greater analytical capabilities and resources to monitor the performance and decisions of managers. Firms with a higher proportion of institutional ownership tend to face stricter monitoring, which may mitigate opportunistic managerial behaviors. Moreover, substantial institutional ownership contributes to improved asset utilization efficiency and reduces the likelihood of inefficiencies and resource misallocation. In the context of financial reporting, higher institutional ownership may limit the occurrence of earnings management practices because of the increased pressure to maintain credibility and information quality. Consequently, this condition fosters greater transparency and accountability in corporate financial reporting (Valaskova, Androniceanu, Zvarikova, & Olah, 2021).

Drawing on the preceding background, this study formulates its research problem by investigating the determinants of earnings management while incorporating institutional ownership as a moderating variable. It specifically examines whether deferred tax expenses, tax planning, and firm size significantly influence earnings management, and whether institutional ownership alters these relationships. Through this approach, the study aims to provide a comprehensive understanding of how taxation factors, firm characteristics, and ownership structures interact in shaping managerial behavior related to earnings management practices.

Consistent with these research questions, this study aims to empirically examine the impact of deferred tax expense, tax planning, and firm size on earnings management, while also assessing the moderating role of institutional ownership within these relationships. The objective is to generate empirical evidence on how taxation-related factors and firm characteristics influence managerial incentives in shaping reported earnings. In addition, this research seeks to contribute to the corporate governance literature by analyzing the effectiveness of institutional ownership as a monitoring mechanism in reducing earnings management practices. The results are expected to provide meaningful theoretical insights as well as practical implications for regulators, investors, and policymakers in enhancing transparency and maintaining the integrity of financial reporting.

The significance of this study lies in its contribution to deepening the understanding of the determinants influencing earnings management practices within an increasingly complex corporate governance landscape. Despite growing demands for transparency and accountability in financial reporting, earnings management remains a critical issue due to its potential to distort earnings quality and erode investor confidence. The interaction between deferred tax expense, tax planning, and firm size warrants further investigation, as these factors represent key managerial decisions that may influence financial reporting behavior. Moreover, institutional ownership serves as an important moderating mechanism, given that institutional investors typically play an active monitoring role in encouraging ethical and transparent reporting practices. Therefore, this study is essential in providing empirical evidence that contributes to the literature on earnings management, elucidates the interplay between fiscal factors and ownership structure in shaping managerial discretion, and offers practical implications for regulators and policymakers in strengthening corporate governance mechanisms and enhancing financial reporting transparency.

2. Literature Review and Hypotheses Development

2.1 Agency Theory

Agency theory explains the contractual relationship between managers, acting as agents, and shareholders, acting as principals, in which decision-making authority over the firm's operations is delegated to management. Within this framework, principals entrust agents with the responsibility of managing corporate resources with the expectation of maximizing firm value. However, agency theory also highlights the presence of information asymmetry and divergent preferences and objectives between the two parties. Such conditions create opportunities for conflicts of interest that may influence the quality of managerial decisions. Consequently, the agency perspective serves as a fundamental framework for explaining opportunistic behavior in financial reporting practices, including earnings management.

Agency conflicts arise because shareholders are primarily concerned with maximizing investment returns and firm value, whereas managers may pursue personal interests that are not always aligned with those objectives. Managers may be motivated to maximize their own utility, such as obtaining bonuses, incentives, or maintaining their positions within the organization. In such circumstances, managers have the opportunity to exploit the flexibility inherent in accounting standards to adjust financial statement figures. This practice is often undertaken to create a more favorable perception of firm performance among shareholders and other stakeholders. Therefore, earnings management can be viewed as a logical consequence of unresolved agency conflicts (Wagenhofer, 2015).

2.2 Positive Accounting Theory

Positive accounting theory provides a conceptual framework for explaining and predicting the selection of accounting policies adopted by firms. Within this perspective, companies do not necessarily apply uniform accounting methods; rather, they possess discretion in choosing procedures that best align with their specific conditions and interests. Such variations in accounting choices are influenced by multiple factors, including economic incentives, contractual pressures, and the regulatory environment in which the firm operates. Accordingly, this theory emphasizes that accounting practices are not purely technical in nature but are also shaped by managerial motivations and interests (Mohammadpour & Kiakojori, 2022).

Furthermore, the flexibility inherent in selecting accounting policies and procedures creates opportunities for managers to behave opportunistically in the preparation of financial statements. Managers may exploit alternative accounting methods to influence the magnitude of reported earnings, either by increasing or decreasing them in accordance with specific objectives, such as meeting performance targets or shaping investor perceptions. This practice, which involves managerial intervention in the financial reporting process, is commonly referred to as earnings management. Therefore, earnings management can be understood as a consequence of accounting discretion exercised by managers within the framework of positive accounting theory (Abdurrahmani, Doğan, & Management, 2021).

2.3 Earnings Management

Earnings management refers to the practice of utilizing accounting discretion by management in selecting financial reporting methods and policies to achieve a desired level of reported earnings. In this context, managers possess flexibility in determining the accounting treatment of various transactions, allowing reported income to be adjusted in accordance with specific interests. Such practices do not necessarily reflect the firm's underlying economic condition, as changes in reported earnings are often not accompanied by actual changes in operational performance or long-term profitability (SUKENDRA & SUHENDAH, 2024). Accordingly, earnings management can be understood as a form of managerial intervention in the financial reporting process aimed at influencing stakeholders' perceptions of corporate performance (Pasko et al., 2021).

Furthermore, earnings management is often viewed as a strategic and potentially manipulative action within accounting practices. Managers may exploit the flexibility embedded in accounting standards to manage the timing of revenue and expense recognition, as well as to select accounting methods that

support the achievement of specific earnings targets (Dennis & Suhendah, 2024). Such behavior is typically driven by various incentives, including compensation contracts, capital market pressures, and efforts to maintain earnings stability. Therefore, earnings management extends beyond technical reporting considerations and reflects opportunistic managerial behavior in leveraging regulatory flexibility (Dechow, Hutton, Kim, & Sloan, 2012).

2.4 Deferred Tax Expense

Deferred tax refers to the portion of income tax that is recoverable in future periods due to temporary differences or the availability of tax loss carryforwards. The recognition of deferred tax affects net income, as it may result in the recording of either deferred tax expense or deferred tax benefit. Deferred tax expense arises from temporary differences multiplied by the applicable marginal tax rate. These temporary differences often originate from the application of discretionary accrual policies, leading to mismatches in the timing of revenue and expense recognition between accounting standards and tax regulations (Lannai, 2022).

Corporate practices involving the early recognition of revenues combined with the deferral of expenses indicate the presence of earnings management in financial reporting (Muhaimin et al., 2025). The level of earnings management is positively associated with the recognition of deferred tax liabilities; higher levels of earnings management tend to result in greater deferred tax liabilities recorded as deferred tax expenses (M. Amidu, W. Coffie, & P. J. J. o. F. C. Acquah, 2019). Deferred tax expense contributes to a reduction in reported earnings in the current period while increasing recognized expenses. This approach allows for the potential recognition of higher earnings in future periods while simultaneously reducing current tax obligations (D. H. Nabila & S. J. J. Herdianty, 2023).

H_1: Deferred tax expense has an effect on earnings management

2.5 Tax Planning

Tax planning refers to a systematic effort to evaluate tax regulations in order to identify the most appropriate strategies for achieving fiscal efficiency. As an integral part of tax management, it involves organizing business operations and structuring transactions in a manner that minimizes tax obligations both income taxes and other applicable levies while remaining fully compliant with existing legal provisions (Pradipta, Irawan, & Arieftiara, 2024). The main objective of tax planning is to explore and utilize available provisions within tax laws that allow firms to legally reduce their tax burden to an optimal and minimal level (Jedlička, 2023). In general, the fundamental goal of tax planning is to minimize tax obligations through the design of strategies that allow firms to reduce their tax expenses optimally in accordance with prevailing regulations (D. H. Nabila & S. Herdianty, 2023).

H_2: Tax planning has an effect on earnings management

2.6 Firm Size

Firm size refers to a classification scale that distinguishes firms as large or small based on various criteria, such as logarithmic measures, total assets, market capitalization, and other relevant indicators. Firm size plays an important role in a company's ability to manage risks arising from diverse conditions. Larger firms tend to face lower levels of risk compared to smaller firms, as they generally possess greater capacity to control market conditions and compete more effectively. In addition, large firms have more substantial resources, enabling them to enhance firm value through broader access to external information sources an advantage that is typically less accessible to smaller firms (Riantono, Sunarto, & Policy, 2022). Firm size also exerts a significant influence on earnings management practices. Smaller firms tend to present stable and favorable performance to attract investors and create positive market perceptions. In contrast, larger firms are generally more cautious in preparing financial statements, as they are subject to greater public scrutiny and face stronger pressures to maintain transparency (Pranata et al., 2021).

H_3: Firm size affects earnings management

2.7 Institutional Ownership as a Moderating Variable in the Relationship between Deferred Tax Expense and Earnings Management

Institutional ownership plays an important role in enhancing the oversight of managerial actions, particularly in financial reporting and compliance with regulations. Institutional investors generally have superior expertise, experience, and resources compared to individual shareholders, enabling them to monitor management effectively. Their presence encourages managers to strictly follow applicable accounting standards, such as PSAK, and adhere to prevailing tax rules. This increased level of scrutiny places pressure on management to operate with greater transparency and accountability, thereby limiting the potential for earnings-management practices. Consequently, firms with higher institutional ownership tend to exhibit stronger governance mechanisms that are more capable of restraining opportunistic managerial behavior (Davis, García-Cestona, & Science, 2023).

Regarding deferred tax expenses, institutional ownership functions as a moderating variable that may influence both the direction and strength of its relationship with earnings management. Deferred tax expenses, which involve estimation and accounting discretion, provide opportunities for managers to adjust reported earnings. However, stringent monitoring by institutional investors limits managerial discretion in exploiting this flexibility. This oversight encourages management to exercise greater caution in selecting accounting policies to ensure that financial reporting accurately reflects the firm's underlying economic conditions (Davis et al., 2023).

H_4: Institutional ownership moderates the effect of deferred tax expenses on earnings management

2.8 Institutional Ownership as a Moderating Variable in the Relationship between Tax Planning and Earnings Management

Tax planning represents the initial and strategic stage in managing corporate tax obligations, involving data collection, analysis, and comprehensive evaluation to produce accurate and transparent reports that comply with prevailing tax regulations. This process aims to minimize potential errors and misuse in the implementation of tax strategies, thereby enabling firms to achieve fiscal efficiency without violating the regulatory requirements. In practice, tax planning extends beyond administrative compliance and incorporates broader economic considerations that may influence overall firm performance (Kramarova, 2021).

Furthermore, the effectiveness of tax planning is influenced by various relevant input and output factors, including managerial behavior, agency costs and ownership structure. In this context, institutional ownership functions as a monitoring mechanism that may moderate the relationship between tax planning and earnings. The presence of strong institutional investors can reduce managerial incentives to exploit tax planning as a tool for earnings manipulation due to stricter oversight of managerial policies and decisions (Kramarova, 2021). Accordingly, institutional ownership has the potential to enhance financial reporting transparency and accountability. Therefore, the following hypothesis is proposed:

H_5: Institutional ownership moderates the effect of tax planning on earnings management

2.9 Institutional Ownership as a Moderating Variable in the Relationship between Firm Size and Earnings Management

Large firms supported by relatively strong corporate governance systems tend to engage in earnings management through income-decreasing strategies, such as reducing reported earnings to mitigate political costs or lower tax burdens. In contrast, smaller firms are generally more inclined toward income-increasing strategies to attract investors, gain access to financing and meet performance targets. These differences suggest that firm size influences both the direction and intensity of earnings management practices, thereby creating opportunities for financial statement manipulation in various forms (Zalata, Ntim, Alsohagy, Malagila, & Accounting, 2022).

In this context, institutional ownership serves as a governance mechanism that strengthens the oversight of managerial decision-making. The presence of institutional investors with superior monitoring capabilities fosters greater accountability in corporate decisions, including financial reporting.

Enhanced monitoring reduces the likelihood of earnings management behavior in both large and small firms (Zalata et al., 2022). Therefore, institutional ownership is expected to moderate the relationship between firm size and earnings management. Accordingly, the following hypothesis is proposed.

H_6: Institutional ownership moderates the effect of firm size on earnings management

Based on the theoretical foundations outlined above, the conceptual framework of this study is illustrated as follows Figure 1:

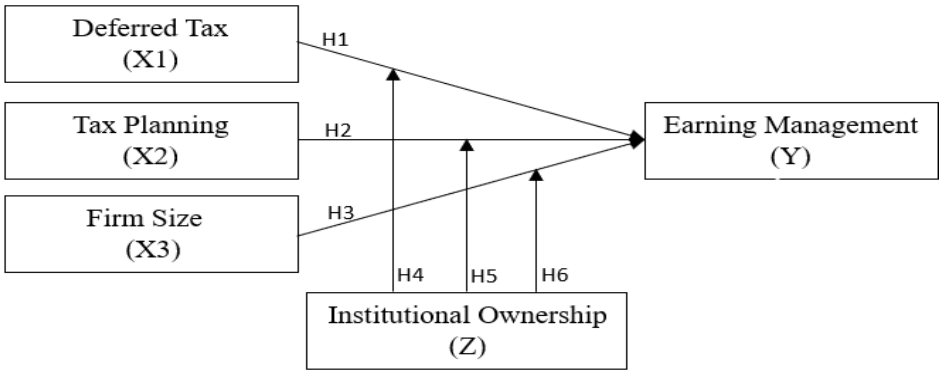

Figure 1. Conceptual framework

3. Methodology

This study adopts a quantitative approach based on the nature of the data employed. Quantitative studies rely on numerical information and emphasize systematic data collection, statistical analysis, and interpretation to generate empirical findings. In this study, the key variables are deferred tax expense, tax planning, and firm size as independent variables affecting earnings management, while institutional ownership is incorporated as a moderating variable. The analysis focuses on firms in the primary consumer goods sector listed on the Indonesia Stock Exchange. This study utilizes secondary data derived from annual reports accessed through the official Indonesia Stock Exchange website (www.idx.co.id) and other supporting sources. The dataset includes financial statements spanning 2019–2023, providing a five-year observation horizon.

3.1 Earnings Management

Earnings management can be understood as the deliberate use of managerial discretion in selecting alternative accounting methods to shape reported financial results in line with targeted earnings levels. This practice entails choosing and applying accounting policies that are considered most suitable for achieving organizational objectives while still operating within the boundaries permitted by accounting standards (Ater & Hansen, 2020). In this study, earnings management is proxied using the revenue discretionary model developed by Stubben (Fairus, Sihombing, & Research, 2020), which is designed to capture abnormal revenue patterns. The measurement procedure applied in this study is as follows:

1) Revenue Model

$$\Delta ARit = \alpha + \beta 1\ \Delta R1\_3it + \beta 2\ \Delta R4it + e \quad (1)$$

2) Conditional Revenue Model

$$\Delta ARit = \alpha + \beta 1 \Delta Rit + \beta 2 \Delta Rit \times SIZEit + \beta 3 \Delta Rit \times AGEit + \beta 4 \Delta Rit \times AGE\_SQit + \beta 5 \Delta Rit \times GRMit + \beta 6 \Delta Rit \times GRM\_SQit + e \quad (2)$$

3.2 Deferred Tax Expense

Deferred Tax Expense (X_1), as an independent variable in this study, refers to the expense that arises due to temporary differences between accounting income reported in financial statements and taxable income used for tax computation purposes. These differences emerge from the divergence between financial accounting standards and tax regulations, reflecting the timing mismatch in revenue and expense recognition. This variable provides important insights into how deferred taxation influences

corporate financial reporting and decision-making processes (A. Görlitz & M. J. M. r. q. Dobler, 2023). In this study, the deferred tax expense is operationalized and measured using the following formula:

$$DTE = \frac{Deferred\ Tax\ Expense}{\text{Total Assets}} \quad (3)$$

3.3 Tax Planning

Tax Planning (X_2) is conceptualized in this study as a systematically designed strategy to manage corporate tax obligations efficiently and optimally without violating applicable regulations. This approach emphasizes the importance of appropriate decision-making in operational activities and financial reporting to legally minimize tax burden. Referring to (Le & research, 2022), the tax planning variable is measured using the tax retention rate indicator, which reflects a firm's ability to retain earnings after tax. The measurement was calculated using the following formula:

$$TRRit = \frac{Net\ Income\ it}{Pretax\ Income\ (EBIT)it} \quad (4)$$

3.4 Firm Size

Firm Size (X_3) in this research reflects the magnitude of a company's operational scale, which is commonly indicated by the total assets or the overall economic resources it controls. Firms with larger asset bases are generally considered to possess stronger financial capacity to sustain and expand their operations, as well as to demonstrate greater stability and performance over time. Firm size is frequently employed as a proxy for organizational complexity and degree of public visibility in the market. Following the approach suggested by (Kijkasiwat, Phuensane, & Management, 2020), firm size in this study is operationalized using the following formula:

$$\text{SIZE} = \text{Ln (Total Aset)} \quad (5)$$

3.5 Institutional Ownership

Institutional ownership is defined as the percentage of a company's outstanding shares owned by institutional investors, including mutual funds, pension funds, insurance companies, and other large financial institutions. This proportion reflects the degree of influence that institutional investors can exert over corporate governance practices and internal managerial decision-making processes. A higher level of institutional ownership is generally associated with stronger monitoring capabilities, as institutional investors are assumed to have greater expertise, resources, and incentives to oversee management activities closely. Consequently, they are considered more effective in reducing managers' opportunistic behavior through enhanced supervision and governance mechanisms (Ning, Majeed, & Zeb, 2022). In this study, institutional ownership is measured using the following formula: IOit =

$$INS = \frac{Institusional\ Shareholding}{Outstanding\ Shares} \times 100\% \quad (6)$$

4. Results and Discussions

4.1 Results

4.1.1 Data Analysis

4.1.1.1 Descriptive Statistical Analysis

Descriptive statistical analysis was used in this study to present an overall picture of the sample firms across all variables under investigation. This approach summarizes and describes the main characteristics of the dataset, allowing for a clearer understanding of its distribution, central tendency and variability. Through this method, the study was able to illustrate the general condition of each research variable without conducting further inferential testing at this stage. According to Sudarmanto et al. (2022), descriptive statistics involve analyzing data by systematically describing the observed

information as it is, without the intention of making generalizations or broader conclusions beyond the sample, or employing more complex statistical modeling techniques.

Table 1. Results of descriptive statistical analysis

	ML	DTE	TRR	SIZE	INS
Mean	0.097427	0.012472	0.755111	16.47527	0.679882
Median	0.100315	0.008274	0.762505	16.80359	0.672947
Maximum	0.949939	0.042618	1.051460	19.04441	0.915239
Minimum	-1.779041	0.000224	0.368654	13.61995	0.411639
Std. Dev.	0.310568	0.011674	0.073220	1.490232	0.148711
Skewness	-2.810689	0.858635	-1.421625	-0.137312	-0.001051
Kurtosis	20.89291	2.427277	15.97953	1.999457	1.588317
Jarque-Bera	1025.955	9.557988	514.9444	3.139809	5.812491
Probability	0.000000	0.008404	0.000000	0.208065	0.054681
Sum	6.819877	0.873014	52.85780	1153.269	47.59174
Sum Sq. Dev.	6.655230	0.009403	0.369917	153.2345	1.525931
Observations	70	70	70	70	70

Based on Table 1, the descriptive statistical results provide an overall summary of both the dependent and independent variables included in this study, which can be interpreted as follows.

1. Earnings Management. The earnings management variable exhibits a minimum value of -1.779041 and a maximum value of 0.949939, indicating a relatively wide range of variations among the observed firms. The mean value was 0.097427, while the median was 0.100315, which reflects the central position of the data when arranged from the lowest to highest values. Referring to the threshold suggested by Stubben (2010), an average value exceeding 0.075 indicates that, on average, the sample firms tend to engage in earnings management practices. In addition, the standard deviation of 0.310568 is higher than the mean, implying that earnings management practices among firms are highly dispersed and heterogeneous across the samples.
2. Deferred Tax Expense. For deferred tax expense, the minimum value is 0.000224, and the maximum value reaches 0.042618. The mean was 0.012472, whereas the median was 0.008274, indicating a relatively low central tendency. The standard deviation of 0.011674 is slightly lower than the mean, suggesting that the distribution of deferred tax expenses across firms is relatively stable with limited variation. This implies that most firms in the sample demonstrate similar patterns of deferred tax expense recognition.
3. Tax Planning. The tax planning variable shows a minimum value of 0.368654 and a maximum value of 1.051460, indicating a moderate variation across firms. The mean value of 0.755111 and median of 0.762505 were relatively close, suggesting a fairly symmetrical distribution of data. Furthermore, the standard deviation of 0.073220 is much lower than the mean, indicating that tax planning practices are relatively consistent among the sampled firms, with low variability.
4. Firm Size. Firm size, measured based on total assets, has a minimum value of 13.61995 and a maximum value of 19.04441, reflecting differences in the operational scale among firms. The mean was 16.47527, whereas the median was 16.80359, indicating a relatively balanced distribution. The standard deviation of 1.490232, which is lower than the mean, suggests that variations in firm size across the sample are relatively moderate and not excessively dispersed.
5. Institutional Ownership. Institutional ownership ranges from 0.411639 to 0.915239, indicating a fairly high proportion of institutional shareholdings across firms. The mean value is 0.679882, with a median of 0.6727947, showing that institutional investors hold a dominant position in most of the sampled companies. The standard deviation of 0.148711 is lower than the mean, indicating a

relatively low variability in institutional ownership, meaning that the ownership structure among firms is relatively homogeneous within the sample.

4.1.1.2 Estimation and Selection of Panel Data Regression Models

Three primary approaches are commonly employed in estimating panel data regression models: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Based on the results of the Chow, Hausman, and Lagrange Multiplier (LM) tests, this study adopts a panel data regression approach for hypothesis testing, with the Random Effect Model (REM) selected as the most appropriate specification. The REM does not require classical assumption testing, as it utilizes the Generalized Least Squares (GLS) approach in its estimation technique, which is considered more efficient in handling heteroscedasticity and autocorrelation issues (Sugiyono, 2023).

4.1.1.3 Moderated Regression Analysis (MRA)

Panel data regression combines cross-sectional and time-series data, where the same cross-sectional units are observed over multiple time periods. A regression equation is a mathematical formulation that describes the relationship between one or more independent variables with known values and a dependent variable whose value is estimated.

Table 2. Results of Moderated Regression Analysis (MRA)

Variables	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-1.606030	4.538230	-0.353889	0.7256
DTE	57.78266	18.44347	3.132961	0.0026
TRR	0.831136	3.632516	0.228804	0.8198
SIZE	0.040280	0.155507	0.259026	0.7965
INS	3.860865	5.993525	0.644173	0.5218
DTE INS	-92.08679	26.05059	-3.534921	0.0008
TRR INS	-0.883384	4.777076	-0.184921	0.8539
SIZE INS	-0.147743	0.210195	-0.702885	0.4848
Effects Specification			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			0.291449	1.0000
Weighted Statistics				
R-squared	0.228955	Mean dependent var		0.097427
Adjusted R-squared	0.141902	S.D. dependent var		0.310568
S.E. of regression	0.28769	Sum squared resid		5.131481
F-statistic	2.630052	Durbin-Watson stat		2.582241
Prob(F-statistic)	0.019089			
Unweight Statistics				
R-squared	0.228955	Mean dependent var		0.097427
Sum squared resid	5.131481	Durbin-Watson stat		2.582241

Based on the results presented in Table 2, after estimating the model using the Random Effects Model (REM), the regression equation of this study can be formulated as follows:

$$Y = \alpha + b1\,X1 + b2\,X2 + b3\,X3 + b4\,(X1 * Z) + b5\,(X2 * Z) + b6\,(X3 * Z) + e \quad (7)$$

The estimated panel regression equation is as follows:

$$ML = -1.606030 + 57.78266\,DTE + 0.831136\,TRR - 0.040280\;SIZE - 92.08679\,(DTE * INS) - 0.883384\,(DTE * INS) - 0.147743\,(SIZE * INS) + e \quad (8)$$

The regression results are as follows:

a. The constant value M. Amidu, W. Coffie, and P. Acquah (2019) of -1.606030 indicates that when all independent variables deferred tax expense, tax planning, and firm size are held constant at zero, the predicted value of earnings management is -1.606030.
b. The regression coefficient of Deferred Tax Expense (DTE) is 57.78266, implying that a one-unit increase in deferred tax expense is associated with an increase of 57.78266 in earnings management, ceteris paribus.
c. The regression coefficient of tax planning (TRR) is 0.831136, indicating that a one-unit increase in tax planning leads to an increase of 0.831136 in earnings management, holding other variables constant.
d. The regression coefficient of firm size (SIZE) is -0.040280, suggesting that a one-unit increase in firm size is associated with a decrease of 0.040280 in earnings management, ceteris paribus.
e. The interaction coefficient between institutional ownership and deferred tax expense (DTE × INS) is -92.08679, indicating that institutional ownership weakens the positive effect of deferred tax expenses on earnings management. A one-unit increase in the interaction term reduces earnings management by 92.08679 units.
f. The interaction coefficient between institutional ownership and tax planning (TRR × INS) is -0.883384, suggesting that institutional ownership weakens the effect of tax planning on earnings management.
g. The interaction coefficient between institutional ownership and firm size (SIZE × INS) is -0.147743, indicating that institutional ownership weakens the relationship between firm size and earnings management.

4.2 Hypothesis Testing

4.2.1 Coefficient of Determination

The coefficient of determination (R^2) was employed to evaluate the extent to which the variation in the dependent variable can be explained by the independent variables included in the regression model. In this study, the interpretation and decision-making process were based on the Adjusted R-squared value, as it offers a more reliable measure by adjusting for the number of predictors in the model, thereby providing a more accurate representation of explanatory power.

Table 3. Results of the Coefficient of Determination (R^2)

R-squared	0.228955	Mean dependent var	0.097427
Adjusted R-squared	0.141902	S.D. dependent var	0.310568
S.E. of regression	0.28769	Sum squared resid	5.131481
F-statistic	2.630052	Durbin-Watson stat	2.582241
Prob(F-statistic)	0.019089		

As presented in Table 3, the R-squared value is 0.228955, indicating that the independent variables exhibit a relatively low explanatory power in relation to the dependent variable. The Adjusted R-squared value is 0.141902, suggesting that approximately 14.19% of the variation in earnings management can be explained by the independent variables included in the model. The remaining 85.81% is attributed to other factors not examined in this study, indicating that the model has limited explanatory capabilities.

4.2.2 F-Test

An F-test was conducted to evaluate the joint effect of all independent variables on the dependent variable. This test serves as an important criterion for assessing the overall feasibility and goodness-of-fit of the regression models. The decision-making basis involves comparing the F-statistic value with the critical F-table value or examining the probability value of the F-statistic.

Table 4. Results of the F-Test

R-squared	0.228955	Mean dependent var	0.097427
Adjusted R-squared	0.141902	S.D. dependent var	0.310568
S.E. of regression	0.28769	Sum squared resid	5.131481
F-statistic	2.630052	Durbin-Watson stat	2.582241
Prob(F-statistic)	0.019089		

As presented in Table 4, the F-statistic value is 2.630052, while the critical F-table value at a significance level of $\alpha = 5\%$, with df1 = (k−1) = 4 and df2 = (n−k) = 65, is 2.52. Since the F-statistic (2.630052) exceeds the F-table value (2.52), and the probability value of the F-statistic (0.019089) is lower than 0.05, it can be concluded that the independent variables jointly have a statistically significant effect on the dependent variable.

4.2.3 t-Test

A t-test was conducted to examine the extent to which each independent variable influenced the dependent variable. The basis for decision-making involves comparing the t-statistic value with the critical t-table value or evaluating the probability (p-value). The empirical analysis provides comprehensive insights into the determinants of earnings management by highlighting the complex relationships among deferred tax expense, tax planning, and firm size. Furthermore, the moderating role of institutional ownership reveals how corporate governance mechanisms may weaken or strengthen managerial discretion in financial reporting practices.

Table 5. Results of the t-Test

Variables	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-1.60603	4.53823	-0.35389	0.7256
DTE	57.78266	18.44347	3.132961	0.0026
TRR	0.831136	3.632516	0.228804	0.8198
SIZE	0.04028	0.155507	0.259026	0.7965
INS	3.860865	5.993525	0.644173	0.5218
DTE INS	-92.0868	26.05059	-3.53492	0.0008
TRR INS	-0.88338	4.777076	-0.18492	0.8539
SIZE INS	-0.14774	0.210195	-0.70289	0.4848

Table 5 show empirical findings derived from the panel data regression analysis using the random effects model provide a comprehensive understanding of the determinants of earnings management. The model integrates Deferred Tax Expense (DTE), Tax Planning (TRR), Firm Size (SIZE), and Institutional Ownership (INS), along with their interaction terms, to examine both direct effects and moderating influences. The empirical results show that Deferred Tax Expense (DTE) has a positive and statistically significant impact on earnings management. This is supported by a t-statistic value of 3.132961, which is higher than the critical threshold of 1.99714, and a p-value of 0.0026, which is far below the 0.05 significance level. These outcomes indicate strong statistical evidence that changes in deferred tax expenses are closely related to the degree of managerial discretion in financial reporting practices. The positive coefficient implies that higher deferred tax expenses tend to be associated with an increased likelihood of earnings manipulation. This suggests that deferred tax accounting can be strategically used by managers to adjust reported earnings, reflecting opportunistic behavior in financial-reporting decisions.

In contrast, the empirical findings indicate that Tax Planning (TRR) does not exert a statistically significant influence on earnings management. This is supported by a t-statistic value of 0.228804, which is far below the critical threshold, and a p-value of 0.8198, which exceeds the conventional significance level of 0.05. These results imply that the extent of tax planning activities, as measured in this study, is not related to variations in managerial behavior regarding Earnings Manipulation (EM).

Therefore, tax planning seems to operate independently of opportunistic financial reporting practices, suggesting that such activities are primarily directed toward compliance with tax regulations rather than being used as a tool to manage or manipulate reported earnings.

Similarly, the empirical findings show that Firm Size (SIZE) has no statistically significant effect on earnings management practices. This is indicated by a t-statistic of 0.259026, which is well below the critical value, and a p-value of 0.7965, which exceeds the 0.05 significance level. These results suggest that differences in firm scale are not systematically linked to variations in managerial discretion in the financial reporting. In other words, firm size does not inherently influence the likelihood or intensity of earnings manipulation. This implies that both large and small firms may demonstrate comparable tendencies in managing reported earnings.

Regarding the moderating effect, Institutional Ownership (INS) significantly influences the relationship between Deferred Tax Expense and earnings management. This is shown by the interaction term (DTE × INS), which produces a t-statistic of −3.534921 and a p-value of 0.0008, both significant at the 5% level. The negative sign of the interaction coefficient indicates that institutional ownership weakens the positive association between deferred tax expenses and earnings manipulation. This suggests that higher levels of institutional ownership improve monitoring effectiveness, thereby limiting opportunistic managerial behavior and reducing the extent to which deferred tax expenses are used as a mechanism for earnings management. However, the empirical results indicate that Institutional Ownership does not significantly moderate the relationship between Tax Planning and earnings management. This is evidenced by a t-statistic of −0.184921 and a p-value of 0.8539, both of which do not meet the required significance levels. Similarly, the moderating effect of Institutional Ownership on the relationship between Firm Size and earnings management is not supported, as shown by a t-statistic of −0.702885 and a p-value of 0.4848. These findings imply that institutional investors may not be sufficiently effective in shaping or limiting managerial behavior related to tax planning activities and firm size in the context of earnings management.

Overall, the empirical results demonstrate that Deferred Tax Expense is a key determinant of earnings management, exerting a significant influence on managerial discretion in financial reporting. In contrast, Tax Planning and Firm Size do not show statistically significant effects, indicating that these variables play a limited role in explaining variations in earnings manipulation within the observed sample. Furthermore, Institutional Ownership exhibits a selective governance function, as its moderating effect is only evident in the relationship between deferred tax expenses and earnings management. This suggests that institutional investors are effective in constraining opportunistic behavior related to deferred tax reporting; however, their influence remains limited in other contexts, such as tax planning activities and firm size.

4.2 Discussions

The findings of this study provide strong and credible empirical support for explaining the key factors driving earnings management behavior, particularly when viewed through the lens of agency theory. Moreover, these results highlight the continued relevance of such determinants within the context of modern financial reporting practices, where managerial discretion and transparency are critical issues. First, the significant positive effect of Deferred Tax Expense (DTE) on earnings management indicates that tax-related accruals continue to serve as a strategic instrument for managerial discretion. Deferred taxes arise from temporary differences between accounting and taxable income, which inherently involve estimates and professional judgment. This flexibility creates opportunities for managers to engage in opportunistic earnings adjustment.

Recent literature confirms that deferred tax components are closely associated with earnings management practices, particularly in accrual manipulation and income smoothing (A. Görlitz & M. Dobler, 2023). Furthermore, empirical evidence suggests that deferred tax expenses can serve as an indicator for detecting earnings management behavior, especially when book–tax differences increase ((Hanifah, Abukosim, Kesuma, & Development, 2025); (Saputra & Kuntadi, 2023). From an agency theory perspective, these findings imply that managers tend to exploit the flexibility embedded in tax-

based accounting practices to pursue their interests. Such discretionary behavior enables managers to strategically adjust reported figures, increasing information asymmetry between management and stakeholders. This condition has the potential to weaken transparency and reduce the effectiveness of corporate-monitoring mechanisms.

Second, the insignificant effect of Tax Planning (TRR) on earnings management suggests that tax planning activities do not necessarily reflect opportunistic behavior. Instead, tax planning may function as a legitimate efficiency strategy aimed at minimizing tax burden without distorting financial reporting. This finding is consistent with recent empirical studies indicating that tax planning does not always influence earnings management, particularly in firms operating within strict regulatory compliance and robust governance frameworks (Andani & Damayanty, 2024);(Theis, Zainuddin, & Djaelani, 2023). These results imply a clearer separation between tax strategies and financial-reporting practices. This phenomenon is especially evident in emerging markets, where stronger enforcement of tax compliance and financial reporting standards has reduced the overlap between the two domains. Consequently, firms increasingly manage tax obligations and financial disclosures through more distinct and independent mechanisms.

Third, the finding that Firm Size (SIZE) does not significantly affect earnings management indicates that organizational scale is no longer a primary determinant of financial reporting behavior. In the modern business environment, firms, regardless of their size, face relatively similar regulatory frameworks, technological transparency, and stakeholder scrutiny. Recent studies suggest that firm size alone is insufficient to explain earnings management practices, as other factors, such as governance quality, financial pressure, and managerial incentives play more dominant roles (M. D. Permatasari, A. Yahya, M. Andriyani, & R. J. E. J. E. M. B. Rusdianzyah, 2024);(Sriwahyuni & Ernandi, 2020). Therefore, the absence of a significant effect of firm size in this study implies that the organizational scale alone does not determine earnings management behavior. This finding underscores the importance of structural governance mechanisms, such as monitoring systems, ownership structures, and internal controls, in constraining or enabling managerial discretion in financial reporting.

Fourth, the moderating effect of Institutional Ownership (INS) on the relationship between deferred tax expense and earnings management highlights the effectiveness of corporate governance mechanisms. The negative interaction coefficient indicates that institutional investors function as an oversight mechanism that can constrain opportunistic managerial behavior. Institutional ownership enhances monitoring effectiveness, reduces agency conflicts, and promotes higher-quality financial reporting. Recent literature further confirms that governance mechanisms, including institutional ownership, are effective in mitigating earnings management practices and limiting the misuse of accounting discretion (Hanifah, Abukosim, & Kesuma, 2025);(M. D. Permatasari, A. Yahya, M. Andriyani, & R. Rusdianzyah, 2024). This finding supports the monitoring hypothesis, which posits that institutional investors possess the capability and economic incentives to effectively oversee managerial actions. Through their expertise, resources, and substantial shareholdings, institutional investors are in a stronger position to discipline the management and promote transparency in financial reporting.

Fifth, the absence of a moderating effect of institutional ownership on the relationship between tax planning and earnings management suggests that institutional investors may not perceive tax planning as a high-risk activity that requires intervention. Tax planning is generally viewed as a legitimate managerial strategy aimed at optimizing tax efficiency rather than as earnings manipulation. Recent studies indicate that governance mechanisms do not necessarily constrain all managerial actions, particularly those considered compliant with the regulatory frameworks (Theis et al., 2023). This finding implies that institutional ownership tends to be more sensitive to opportunistic financial reporting behavior than to tax-related strategies that focus on efficiency. In other words, institutional investors are more responsive to managerial actions that potentially distort reported earnings, whereas their involvement in tax planning activities remains relatively limited.

Finally, the insignificant moderating effect of institutional ownership on the relationship between firm size and earnings management indicates that monitoring effectiveness does not depend on the firm scale.

Institutional investors tend to place greater emphasis on governance quality and transparency than on firm size when performing their monitoring function. Recent empirical evidence supports the view that governance effectiveness is relatively consistent across firms, regardless of size (Sriwahyuni & Ernandi, 2020). This suggests that the presence of institutional investors does not automatically strengthen oversight in large firms or weaken it in smaller firms. Instead, monitoring effectiveness is more strongly determined by governance structure robustness and corporate disclosure quality.

Overall, the findings of this study underscore that earnings management practices are primarily influenced by the level of accounting discretion embedded in deferred tax reporting. This indicates that managers tend to exploit the flexibility inherent in deferred tax accounts to adjust reported earnings. Furthermore, institutional ownership is an effective but selective governance mechanism. On the one hand, it is proven to constrain opportunistic financial reporting behavior, thereby enhancing monitoring effectiveness. However, its influence remains limited in controlling managerial activities that are perceived as legitimate or efficiency-oriented, such as tax planning strategies and decisions related to firm size. This suggests that the governance function exercised by institutional investors is more targeted than comprehensive.

5. Conclusions

5.1 Conclusion

Based on empirical findings, this study demonstrates that deferred tax expenses significantly affect earnings management, indicating that variations in deferred tax components reflect managerial discretion in recognizing temporary differences between accounting income and taxable income. In contrast, tax planning does not significantly affect earnings management, suggesting that corporate strategies aimed at minimizing tax burdens are not directly associated with earnings manipulation practices within the observed sample. Similarly, firm size has no significant effect on earnings management, implying that the scale of operations and the magnitude of total assets do not inherently determine the extent of managerial involvement in earnings manipulation.

Furthermore, institutional ownership moderates the relationship between deferred tax expenses and earnings management, reinforcing its role in strengthening corporate governance mechanisms and constraining managerial discretion in the use of deferred tax adjustments. However, institutional ownership does not moderate the relationship between tax planning and earnings management or influence the relationship between firm size and earnings management. These findings indicate that, despite the presence of institutional investors, their monitoring function has not been sufficiently effective in altering the impact of tax planning activities or firm size on managerial behavior related to earnings manipulation.

5.2 Research Limitations

This study has several limitations that should be acknowledged. First, the relatively limited sample size, consisting of only 14 firms, along with the focus on a single industrial sector, may constrain the broader applicability and generalizability of the findings to other industries or contexts. Furthermore, the statistical model employed in this study explains only a modest proportion of the observed variance, suggesting that additional variables and external factors not incorporated into the analysis may also play an important role in influencing research outcomes.

5.3 Suggestions and Directions for Future Research

Based on these findings, firms should strategically optimize the management of deferred tax expenses and tax planning activities while maintaining efficiency and carefully considering their potential implications for earnings management practices and the moderating role of institutional ownership. Future research should incorporate additional determinants, such as corporate governance quality, ownership concentration, and managerial incentives, to provide a more comprehensive explanation of the relationship between firm size and earnings management behavior. Moreover, firms are expected to enhance transparency and disclosure related to tax practices to strengthen governance quality, increase investor confidence, and minimize the risk of opportunistic financial reporting behavior.

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ES conceptualized the study and led the manuscript writing. AWJ handled the methodology and data analysis. JK collected and curated the data, MA conducted the literature review and validation. KR supervised and reviewed the manuscript.

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