Studi Akuntansi, Keuangan, dan Manajemen (SAKMAN)
ISSN 2798-0251, Vol 6, No 1, 2026, 203-217 https://doi.org/10.35912/sakman.v6i1.6342

Executive Overconfidence and Corporate Tax Strategy: Evidence from Emerging Markets

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Article History
Received on 19 February 2026
1st Revised on 09 March 2026
2nd Revised on 10 March 2026
3rd Revised on 07 April 2026
Accepted on 14 April 2026

Abstract
Purpose: This study examines how accounting-based tax strategies operate within managerial accounting, accounting for executive cognition, and whether they are applied uniformly or selectively.
Methodology: This study employs a quantitative panel data design using 22 publicly listed manufacturing firms in Indonesia over the 2020–2023 period, yielding 81 firm-year observations after outlier removal. Fixed effects estimation is applied to analyze the relationships between transfer pricing, real earnings management, thin capitalization, and tax management, proxied by the Cash Effective Tax Rate, with CEO overconfidence as a moderating variable.
Results: The findings show that accounting-based tax strategies do not operate uniformly across firms. Transfer pricing is positively associated with tax management, whereas real earnings management is linked to lower tax burdens. Thin capitalization does not exhibit a significant relationship. CEO overconfidence selectively moderates these relationships, weakening the effectiveness of transfer pricing and strengthening the association between real earnings management and tax management.
Conclusions: The results indicate that tax management is a behavioral process shaped by executives' perceptions of control and discretion within institutional constraints.
Limitations: The analysis is limited to manufacturing firms in a single emerging economy (Indonesia) and relies on an indirect proxy for the measurement of executive cognition.
Contributions: This study contributes to the behavioral accounting and tax management literature by showing that executive cognition shapes the selective use of accounting-based tax strategies.

Keywords: *Behavioral Accounting, CEO Overconfidence, Real Earnings Management, Tax Management, Thin Capitalization*

How to Cite: Haryanto, H., Herianti, E., Marundha, A., Putra, R. D. (2026). Executive Overconfidence and Corporate Tax Strategy: Evidence from Emerging Markets. *Studi Akuntansi, Keuangan, dan Manajemen,* 6(1), 203-217.

1. Introduction

Corporate tax management has traditionally been examined through the lenses of regulatory compliance and financial optimization. From this perspective, tax outcomes are often treated as mechanical consequences of formal rules, incentive structures, and enforcement intensity. Although this approach has generated substantial insights, it remains insufficient. Firms operating under similar tax regimes often exhibit divergent tax behaviors, suggesting that formal regulation alone cannot fully explain the variation in tax management practices (Hjelström, Kallunki, Nilsson, & Tylaite, 2020; Mgammal, 2020). This limitation is particularly salient in emerging economies, where evolving regulatory frameworks coexist with substantial managerial discretion and an uneven enforcement capacity (Sebele-Mpofu, Mashiri, & Korera, 2025). Managerial accounting provides an important perspective for addressing this gap. Tax-related decisions are not isolated technical exercises but are embedded within management control systems that shape planning, performance evaluation, and resource allocation (Hanlon, Yeung, & Zuo, 2022).

Accounting-based instruments, such as transfer pricing, real earnings management, and capital structure choices, function as strategic levers through which managers translate organizational objectives into financial outcomes (Blouin, Robinson, & Seidman, 2018). However, these levers differ substantially in their degree of complexity, regulatory exposure, and visibility to external stakeholders. Consequently, they do not offer uniform levels of discretion or managerial appeal. However, much of the tax literature continues to treat these strategies as broadly interchangeable mechanisms for reducing tax liabilities.

Recent advances in behavioral accounting and agency theory challenge this assumption. A growing body of research demonstrates that executive decision-making is shaped not only by incentives and monitoring mechanisms but also by cognitive traits that influence how risk, control, and opportunity are perceived (Hanlon et al., 2022; Pittenger, Glassman, Mumbower, Merritt, & Bollenback, 2023). Among these traits, CEO overconfidence has emerged as a central concept. Overconfident executives tend to overestimate their ability to influence outcomes and favor decisions they perceive as being under their direct control (Burkhard, Sirén, van Essen, Grichnik, & Shepherd, 2023; Schumacher, Keck, & Tang, 2020). Prior studies link overconfidence to heightened risk-taking and more aggressive tax behaviour, often implicitly assuming that its effects operate uniformly across strategic domains (Carrer & Slavov, 2021; Hsieh, Wang, & Demirkan, 2018).

This study departs from this assumption. It argues that CEO overconfidence operates as a selective cognitive mechanism rather than a general intensifier of aggressive behavior. Specifically, overconfidence shapes the accounting-based tax strategies that executives emphasize, depending on how controllable and interpretable those strategies appear to managers. Transfer pricing, real earnings management, and thin capitalization differ not only in technical design but also in their perceived degrees of discretion, regulatory scrutiny, and operational controllability (Blouin et al., 2018; Lenz, 2020). Consequently, the same behavioral trait may weaken reliance on one tax strategy while strengthening reliance on another tax strategy.

Indonesia provides a particularly relevant empirical setting for examining these dynamics in this study. The Indonesian tax regime combines ongoing regulatory reforms with explicit policy constraints on certain tax planning practices and continued reliance on managerial judgment in financial decision-making. For example, the Ministry of Finance of the Republic of Indonesia introduced Regulation No. 169/PMK.010/2015 (PMK 169, 2015), which imposes a formal debt-to-equity ratio limit for corporate income tax purposes, directly restricts the use of excessive leverage to reduce taxable income, thereby narrowing managerial discretion regarding thin capitalization strategies. Simultaneously, prior research indicates that enforcement capacity and audit effectiveness in developing economies remain uneven, preserving significant room for interpretation and discretion in other tax-related decisions (Sebele-Mpofu et al., 2025).

By integrating behavioral insights into tax management analysis, this study shifts attention away from tax strategies as static technical tools and toward tax planning as a cognitively framed managerial process. Using data from Indonesian manufacturing firms, this study addresses the following research objective:

- This study examines whether accounting-based tax strategies (transfer pricing, real earnings management, and thin capitalization) are associated with tax management outcomes.
- To test how CEO overconfidence moderates these relationships, particularly whether such moderation is uniform or selective across different strategies.

This study demonstrates that executive overconfidence influences tax outcomes in a selective and strategy-dependent manner, highlighting managerial discretion as a cognitively filtered rather than uniformly exercised capacity. By integrating behavioral accounting perspectives into corporate tax strategy research, this study challenges the assumption that tax planning is purely rational and technical. Instead, it shows that executive cognition shapes how and when specific accounting-based strategies are deployed. This contributes to a more nuanced understanding of persistent cross-firm heterogeneity in tax behavior, which prior literature has often attributed solely to structural or governance factors.

Methodologically, this study advances the literature by employing a panel data design that simultaneously examines three accounting-based tax strategies–transfer pricing, real earnings management, and thin capitalization–within a single analytical framework. The use of fixed effects estimation on a sample of 22 Indonesian manufacturing firms over the 2020–2023 period, yielding 81 firm-year observations after outlier removal, allows for the robust testing of selective moderation effects. Furthermore, this study operationalizes CEO overconfidence using an indirect proxy in an emerging market context, providing a replicable empirical template for future research on executive cognition and tax management in non-Western institutions.

From a policy perspective, the findings offer practical insights for tax regulators, audit committees, and boards of commissioners in emerging economies. As overconfident CEOs weaken the effectiveness of transfer pricing but strengthen the relationship between real earnings management and tax outcomes, regulators should avoid one-size-fits-all oversight mechanisms. Instead, policies need to incorporate behavioral considerations by encouraging the disclosure of executive risk-taking propensities or strengthening internal governance mechanisms that limit excessive managerial discretion. Companies may also benefit from separating tax planning responsibilities from financial reporting oversight to mitigate aggressive tax avoidance driven by overconfidence in executives. The remainder of the paper develops the theoretical background and hypotheses, outlines the empirical design, presents the results, and discusses the implications for behavioral accounting, corporate governance, and tax oversight in emerging market contexts.

2. Literature Review and Hypotheses Development

In managerial accounting, tax management reflects how managers exercise discretion under uncertainty, rather than merely how firms comply with tax rules. Tax strategies emerge from internal judgments about risk, control, and accountability, which are shaped by both organizational structures and executive cognition. This perspective allows tax-related decisions to be examined as behavioural outcomes embedded in managerial control processes

2.1 Tax Management within Managerial Accounting

Corporate tax management is typically defined as a set of practices aimed at reducing corporate tax liabilities while complying with the prevailing regulations. Much of the tax and accounting literature approaches these practices as technical responses to statutory rules, tax rates, and enforcement intensity, implicitly assuming that firms react to external incentives rationally (Hjelström et al., 2020; Mgammal, 2020). This view captures the important institutional drivers of tax behavior, but it also simplifies how tax-related decisions are made inside organizations. From a managerial accounting perspective, tax decisions rarely operate independently. They are embedded in management control systems that structure planning, performance evaluation, and internal resource allocation (Hanlon et al., 2022). In practice, tax outcomes reflect managerial judgment regarding the deployment of accounting instruments to support broader strategic objectives. Therefore, accounting-based tax strategies operate as control levers rather than merely compliance tools.

Three mechanisms are particularly salient in this context: transfer pricing, real earnings management, and thin capitalization. Transfer pricing governs the allocation of revenues and costs across organizational units and, in multinational settings, across jurisdictions, influencing both the reported performance and taxable income (Blouin et al., 2018). Real earnings management affects reported outcomes through operational decisions on production, sales timing, and discretionary expenditures, enabling managers to shape earnings and cash flows through actual activities (Roychowdhury, 2006).

Thin capitalization reflects financing choices that increase interest deductibility through higher leverage, thereby reducing taxable income when permitted by regulation (Gregova, Smrcka, Michalkova, & Svabova, 2021). What matters for the present study is that these strategies do not offer an equivalent scope for discretion. They differ in terms of complexity, regulatory exposure, and visibility to external stakeholders. As a result, they confront managers with qualitatively different decision environments, even when pursuing similar tax-related objectives.

2.2 Behavioural Agency Theory and Managerial Discretion

Traditional agency theory explains managerial behaviour primarily through incentive misalignment and information asymmetry between principals and agents (Meckling & Jensen, 1976; Pretorius & Fairhurst, 2019). Within this framework, managers are assumed to respond rationally to compensation schemes and monitoring mechanisms, adjusting their actions to maximize their expected utility. This assumption has been influential, but leaves little room for how managers interpret risk, responsibility, and control. Behavioural agency theory relaxes this assumption by incorporating bounded rationality and psychological considerations into the analysis of managerial decision-making (Diwei Lv, Chen, & Lan, 2022; Martin, Wiseman, & Gomez-Mejia, 2020).

Executives do not mechanically respond to incentives. Instead, they rely on subjective perceptions of risk, accountability, and potential losses when evaluating strategic alternatives. These perceptions shape not only whether discretion is exercised but also where it is exercised. From this perspective, managerial discretion is not simply a structural condition created by governance arrangements. It is a cognitively mediated capacity that depends on how executives understand the feasibility, consequences, and legitimacy of alternative actions (Gupta, Nadkarni, & Mariam, 2019). This distinction is important because it implies that identical institutional settings may still generate different strategic outcomes.

2.3 CEO Overconfidence as a Selective Cognitive Mechanism

Within the behavioral agency literature, CEO overconfidence has emerged as a central cognitive trait that shapes strategic behavior. Overconfidence refers to a systematic tendency to overestimate one's ability to influence outcomes and underestimate uncertainty and risk (Burkhard et al., 2023; Schumacher et al., 2020). Prior research has linked overconfidence to heightened risk-taking, aggressive investment behaviors, and greater engagement in earnings manipulation and tax aggressiveness (Carrer & Slavov, 2021; Hsieh et al., 2018).

However, much of this literature implicitly assumes that overconfidence operates uniformly across strategic domains. This assumption is problematic. Overconfident executives do not indiscriminately pursue aggressive actions. Rather, they tend to favor strategies they perceive as being under their direct control while avoiding actions characterized by high complexity, ambiguity, or intense external scrutiny. Building on this insight, this study conceptualizes CEO overconfidence as a selective cognitive mechanism. Overconfidence directs managerial attention toward accounting-based strategies that align with executives' subjective sense of control and interpretability. In tax management, this selectivity is particularly salient because accounting-based strategies differ markedly along these dimensions.

Transfer pricing typically involves complex documentation requirements, inter-unit coordination, and exposure to regulatory challenges, which may reduce perceived controllability (Blouin et al., 2018). Real earnings management operates through internal operational decisions embedded in day-to-day managerial activities and may therefore be viewed as more directly manageable (Roychowdhury 2006). Thin capitalization occupies an intermediate role. Although leverage decisions fall within managerial authority, they are often constrained by explicit regulatory thresholds that limit discretion (Gregova et al., 2021).

2.4 Hypotheses Development

2.4.1 Transfer Pricing and Tax Management

Transfer pricing enables firms to allocate profits across organizational units and, where applicable, across jurisdictions (Rathke, Rezende, & Watrin, 2021). When implemented strategically, it can reduce overall tax liabilities while shaping internal performance evaluation and resource allocation. From a managerial accounting perspective, firms that engage more intensively in transfer pricing are therefore expected to exhibit more effective tax management (Fonseca, Jucá, & Vieito, 2024).

H_1: Transfer pricing positively influences tax management in MNEs

2.4.2 Real Earnings Management and Tax Management

Real earnings management affects reported performance through operational decisions that alter cash flows, production costs, and discretionary expenditures (Boujelben, Khemakhem-Feki, & Alqatan, 2020). These actions may reduce taxable income through performance management, even when tax minimization is not the primary objective of the firm. Therefore, greater reliance on real earnings management is expected to be associated with lower effective tax burdens (Delgado, Fernández-Rodríguez, García-Fernández, Landajo, & Martínez-Arias, 2023; Lou, Wang, & Wright, 2026).

H_2: Real earnings management negatively influences tax management

2.4.3 Thin Capitalization and Tax Management

Thin capitalization reduces taxable income through interest deductibility associated with higher leverage (De Mooij & Liu, 2021; Goyvaerts & Roggeman, 2020). Prior research suggests that, in principle, firms with higher leverage may achieve greater tax savings, provided that their debt levels remain within regulatory limits (Dangl & Zechner, 2021; Hanlon & Heitzman, 2022).

H_3: Thin capitalization positively influences tax management

2.4.4 CEO Overconfidence, Transfer Pricing, and Tax Management

Under the selective cognition framework, CEO overconfidence is expected to shape managers evaluation of the feasibility of transfer pricing as a tax strategy (Hsu & Lee, 2025; Lee, Park, & Chen, 2023). Given its complexity and regulatory exposure, overconfident executives may perceive transfer pricing as less controllable, weakening its association with tax management outcomes (Herianti, Paulus, Sueb, & Tanzil, 2021).

H_4: CEO overconfidence negatively moderates the relationship between transfer pricing and tax management

2.4.5 CEO Overconfidence, Real Earnings Management, and Tax Management

Real earnings management operates through internal operational decisions that executives perceive as highly controllable (Wali & Masmoudi, 2020). Prior studies indicate that overconfident managers are more inclined to manipulate earnings and make performance-driven operational changes (Sanghyun & Sangbong 2025). Therefore, overconfidence is expected to strengthen the association between real earnings management and tax management (Salehi, Lari DashtBayaz, Hassanpour, & Tarighi, 2020).

H_5: CEO overconfidence positively moderates the relationship between real earnings management and tax management

2.4.6 CEO Overconfidence, Thin Capitalization, and Tax Management

Thin capitalization decisions are frequently subject to explicit regulatory constraints that limit managerial discretion (Cortes & Kiss, 2023). Behavioral agency theory suggests that when discretion is structurally constrained, the influence of individual cognitive traits on strategic outcomes is correspondingly reduced (Jain, Zaman, & Harjoto, 2024; Zolotoy, O'Sullivan, & Martin, 2022). Consequently, CEO overconfidence is not expected to exert a strong moderating effect in this domain.

H_6: CEO overconfidence does not significantly moderate the relationship between thin capitalization and tax management

The six hypotheses reflect a core conceptual argument: accounting-based tax strategies are not interchangeable instruments, and the role of executive cognition in shaping tax outcomes depends on the degree of managerial discretion inherent in each strategy. Transfer pricing (*H_1*) and real earnings management (*H_2*) are expected to influence tax management, albeit through different mechanisms, whereas thin capitalization (*H_3*) operates within tighter regulatory boundaries. When CEO overconfidence is introduced as a moderating factor, its effects are predicted to be selective rather than uniform across all firms. CEO overconfidence is expected to weaken the effectiveness of transfer pricing (*H_4*) because of its complexity and regulatory exposure but strengthen the association between real earnings management and tax management (H_5) because the latter is perceived as more controllable. In contrast, when structural constraints limit managerial discretion, as in thin capitalization, CEO overconfidence is not expected to exert a significant moderating influence (H_6). This selective pattern supports the broader behavioral accounting perspective that tax planning is a cognitively framed process and that cross-firm heterogeneity in tax behavior arises partly from how executives perceive and exercise discretion in different strategic domains.

3. Methodology

This study uses a quantitative panel data design to examine how accounting-based tax strategies affect corporate tax management and whether these relationships are conditioned by CEO overconfidence among publicly listed manufacturing firms in Indonesia. Manufacturing firms provide an appropriate setting because they operate within relatively comparable production structures, rely extensively on accounting discretion, and face multiple opportunities to manage tax outcomes through their reporting, operating, and financing decisions (Ado & Tanko, 2024).

Panel data estimation is suitable because it captures both cross-sectional and time-series variations while controlling for unobserved firm-specific characteristics that remain stable over time. This design helps isolate within-firm variations in tax strategy and managerial behavior rather than differences driven by persistent structural firm attributes. Model selection was conducted using Chow and Lagrange Multiplier tests, followed by the Hausman test. Based on these procedures, the fixed-effects estimator was selected because it best captures within-firm variation over time. All continuous variables are winsorized at conventional levels to reduce the influence of extreme observations, and heteroscedasticity-adjusted standard errors are applied (Ishak, 2024).

Tax management is measured using the Cash Effective Tax Rate, calculated as cash taxes paid divided by pre-tax income, adjusted for special items, and multiplied by minus one so that higher values reflect stronger tax management. Transfer pricing is measured by the ratio of related-party sales to total company sales. Real earnings management is measured following Roychowdhury by estimating abnormal real activities from abnormal cash flow from operations, abnormal production costs, and abnormal discretionary expenses, scaled by lagged total assets. Thin capitalization is measured using the Modified Asset-to-Debt ratio. CEO overconfidence is proxied by abnormal asset growth relative to industry-adjusted benchmarks.

CEO overconfidence is not directly observable in archival financial data. Therefore, this study uses abnormal asset growth as a behavioral proxy. This measure is appropriate because it captures expansion decisions that exceed ordinary firm or industry patterns and, therefore, reflects optimistic managerial beliefs about future performance and perceived control over outcomes. This proxy also fits the selective cognition framework of this study because it links executive cognition to observable discretionary behavior. Although indirect, the measure remains analytically useful, and the fixed effects design further reduces the concern that it merely reflects stable firm-level characteristics rather than within-firm variation in executive behavior over time. Table 1 reports the operationalization of the variables used in the analysis.

Table 1. Operationalization of variables

Variables	Role	Proxy / Measurement	Interpretation
Tax Management	Dependent	Cash Effective Tax Rate, measured as cash taxes paid divided by pre-tax income, adjusted for special items, then multiplied by −1	Higher values indicate stronger tax management
Transfer Pricing	Independent	Ratio of related-party sales to total company sales	Higher values indicate greater transfer pricing intensity

Real Earnings Management	Independent	Roychowdhury-based abnormal real activities estimated from abnormal CFO, abnormal production costs, and abnormal discretionary expenses, scaled by lagged total assets	Higher values indicate greater real activity manipulation
Thin Capitalization	Independent	Modified Asset-to-Debt ratio	Higher values indicate a more aggressive debt structure
CEO Overconfidence	Moderating	Abnormal asset growth relative to industry-adjusted benchmarks	Higher values indicate stronger overconfidence tendencies

3.1 Sample and Data Collection

The sample selection follows a systematic procedure and includes only publicly listed manufacturing firms on the Indonesia Stock Exchange that satisfy the following four criteria. First, firms published annual financial statements continuously from 2020 to 2023. Second, they reported financial data in Indonesian Rupiah. Third, they recorded a positive pre-tax income. Fourth, they provided complete data on all variables used in the study. After applying these criteria, the final eligible sample consisted of 22 firms. Across the four-year period, this yields 88 firm-year observations for the sample. After data cleaning and the removal of seven outlier observations, the final sample comprised 81 firm-year observations. Financial data were obtained from the IDX official website, company annual reports, and the Orbis database, as shown in Table 2.

Table 2. Sample selection process

No	Criteria	Excluded	Remaining
1	Manufacturing firms listed on the Indonesia Stock Exchange (IDX) that published financial statements during the 2020–2023 period	–	128
2	Firms that did not report financial statements in Indonesian Rupiah (IDR)	26	102
3	Firms that did not record positive pre-tax income	80	22
4	Firms with incomplete data for all variables used in the study	0	22

After applying all the selection criteria, the final eligible sample consisted of 22 manufacturing firms. The observation period covered four years, from 2020 to 2023, yielding an initial set of 88 firm-year observations (22 firms × four years). Following the detection of extreme values, seven outlier observations were removed using the winsorization method. Therefore, the final sample comprises 81 firm-year observations.

4. Results and Discussions

This section reports the study's empirical findings. The presentation follows the sequence of statistical tables to ensure that each set of results is clearly motivated and interpreted at the descriptive, non-theoretical level.

4.1 Descriptive Statistics

Table 3 presents the descriptive statistics for all the variables included in the analysis. The final sample comprises 81 firm-year observations from publicly listed manufacturing firms in Indonesia. Transfer pricing exhibits moderate dispersion across firms, indicating heterogeneity in the extent of related party transactions used in tax planning. Real earnings management shows a relatively narrow range, suggesting constrained operational discretion. Thin capitalization displays a wider variation, reflecting differences in firms' leverage positions. CEO overconfidence, proxied by abnormal asset growth, also varies substantially across observations, indicating heterogeneity in executive behavioral characteristics. Overall, the distribution of the variables suggests sufficient variation to support the panel regression analysis.

Table 3. Descriptive statistics

Variables	Obs.	Min.	Max.	Mean	Standard Deviation
Transfer Pricing	81	0,127	0,769	0,415	0,170
Real Earnings Management	81	0,010	0,153	0,069	0,027
Thin Capitalization	81	0,428	1,500	0,868	0,318
CEO Overconfidence	81	0,095	0,824	0,342	0,166

4.2 Panel Model Selection Tests

Before estimating the regression model, a series of panel data model selection tests was conducted to determine the appropriate specification. As reported in Table 4, the Chow test rejects the pooled ordinary least squares model in favor of the fixed-effects specification. The Lagrange Multiplier test suggests that the random effects model is preferable to the pooled one. However, the Hausman test indicates that the fixed-effects estimator is more appropriate. Based on these results, the fixed-effects model was selected for hypothesis testing, as it allows the analysis to focus on within-firm variation over time.

Table 4. Panel model selection tests

Test	Statistic	p-value	Selected Model
Chow Test	Cross-section F	0.000	Fixed Effects
Lagrange Multiplier Test	Breusch–Pagan	0.035	Random Effects
Hausman Test	Cross-section random	0.000	Fixed Effects

4.3 Regression Results

Table 5 reports the fixed-effects regression results examining the relationship between accounting-based tax strategies, CEO overconfidence, and tax management. The model exhibits strong explanatory power, as evidenced by a statistically significant F-statistic and high adjusted R-squared. Transfer pricing shows a positive and statistically significant association with tax management, indicating that firms with greater transfer pricing engagement tend to achieve more favorable tax outcomes. Real earnings management exhibits a negative and statistically significant relationship with tax management, suggesting that operational decisions that affect earnings are associated with lower tax burdens. Thin capitalization does not have a statistically significant relationship with tax management (Oranefo & Egbunike, 2022).

Consistent with H_1, transfer pricing has a positive and statistically significant association with tax management (coefficient = 0.489, $p < 0.05$). This indicates that a greater use of transfer pricing is linked to more effective tax management, as reflected in lower effective tax rates. In economic terms, this effect is also meaningful. A one-standard-deviation increase in transfer pricing, equal to 0.170, is associated with an increase of approximately 0.083 points in the tax-management score. In contrast, real earnings management exhibits a negative and significant relationship with tax management (coefficient = –1.441, $p < 0.05$). This supports H_2, suggesting that higher levels of real earnings management are associated with lower tax burdens. The magnitude of this impact remains economically relevant. A one-standard-deviation increase in real earnings management, equal to 0.027, is associated with an estimated 0.039-point change in the tax-management score.

For thin capitalization, the coefficient is positive but not statistically significant (coefficient = 0.017, $p = 0.530$). Thus, H_3 was not supported. Its economic significance is also limited. A one-standard-deviation increase in thin capitalization, equal to 0.318, changes the tax management score by only approximately 0.005 points, reinforcing the conclusion that its practical influence is weak in this setting. CEO overconfidence alone does not have a significant direct effect on tax management (coefficient = –0.159, $p = 0.488$). Regarding the moderating effects, the interaction between transfer pricing and CEO overconfidence is negative and significant (coefficient = –0.875, $p < 0.01$). This indicates that CEO overconfidence weakens the positive relationship between transfer pricing and tax management, thus supporting H_4. In economic terms, a one-standard-deviation increase in CEO overconfidence (0.166) changes the marginal effect of transfer pricing by approximately 0.145 points.

The interaction between real earnings management and CEO overconfidence is positive and significant (coefficient: 1.399, $p < 0.01$). This shows that CEO overconfidence strengthens the association between real earnings management and tax management, thus supporting H5. The economic magnitude is also substantial, as a one-standard-deviation increase in CEO overconfidence changes the marginal effect of real earnings management by approximately 0.232 points. Finally, the interaction between thin capitalization and CEO overconfidence is positive but insignificant (coefficient = 0.270, $p = 0.151$). Therefore, H6 is supported, indicating that CEO overconfidence does not significantly moderate the relationship between thin capitalization and tax management. The economic size of this interaction is also limited, with a one-standard-deviation increase in CEO overconfidence changing the marginal effect of thin capitalization by only approximately 0.045 points. The fixed-effects regression results examining the relationship between accounting-based tax strategies, CEO overconfidence, and tax management as shown in Table 5.

Table 5. Fixed effects regression results

No	Relationship	Coefficient	Significance	Finding
H_1	Transfer Pricing → Tax Management	+0.489	$p < 0.05$	Positive and significant
H_2	Real Earnings Management → Tax Management	–1.441	$p < 0.05$	Negative and significant
H_3	Thin Capitalization → Tax Management	+0.017	$p = 0.530$	Positive but not significant
H_4	TP × CEO Overconfidence	–0.875	$p < 0.01$	Negative and significant
H_5	REM × CEO Overconfidence	+1.399	$p < 0.01$	Positive and significant
H_6	ThinCap × CEO Overconfidence	+0.270	$p = 0.151$	Positive but not significant

4.4 Discussion

This study demonstrates that accounting-based tax strategies do not function as neutral technical instruments but as discretion-laden mechanisms whose effectiveness depends on how executives cognitively interpret control, complexity, and exposure. Consistent with the behavioral accounting perspective, the findings indicate that tax management outcomes reflect an interaction between institutional design and executive cognition, rather than a uniform response to regulatory incentives.

4.4.1 Transfer Pricing and Tax Management (H_1)

The analysis reveals that transfer pricing significantly and positively influences tax management (coefficient = 0.489, $p < 0.05$). This finding confirms that firms that engage more intensively in transfer pricing achieve more favorable tax outcomes, as reflected in lower effective tax rates. Transfer pricing enables profit allocation across organizational units and jurisdictions while shaping internal performance evaluation and resource allocation. From a theoretical perspective, these findings align with managerial accounting theory, which treats transfer pricing not merely as a cost allocation mechanism but also as a strategic tax planning instrument (Fonseca, Jucá, & Vieito, 2024).

This positive relationship also corroborates the selective cognition framework, suggesting that when managers perceive transfer pricing as sufficiently controllable, they deploy it to achieve tax objectives. The existing literature likewise supports this relationship, with studies documenting clear linkages between transfer pricing intensity and reduced tax burdens (Rathke, Rezende, & Watrin, 2021). The current findings extend this pattern to the Indonesian manufacturing context and indicate that transfer pricing remains practically meaningful, as a one-standard-deviation increase is associated with an increase of approximately 0.083 points in the tax management score. This reinforces the notion that transfer pricing, when implemented strategically, can operate as an effective tax management instrument in settings characterized by interpretive latitude and uneven enforcement (Kriswanti & Indriani 2025; Michael 2025; Ramadana, Phang & Karina 2025; Hartati, Gunawan & Evrita 2024; Pratiwi, Khairunnisa, Ramadhandy & Savitri 2024).

4.4.2 *Real Earnings Management and Tax Management (H_2)*

The analysis demonstrates that real earnings management has a significantly negative influence on tax management (coefficient = –1.441, $p < 0.05$). This finding highlights that operational decisions affecting earnings, such as changes in cash flows, production costs, and discretionary expenditures, are associated with lower tax burdens, even when tax minimization is not the primary objective. The result is consistent with the earnings management literature, which suggests that real activities manipulation often generates tax effects as secondary consequences rather than as primary aims (Boujelben, Khemakhem-Feki, & Alqatan, 2020). It also supports the view that real earnings management is embedded in routine operational control, where accounting discretion simultaneously serves multiple managerial purposes. Prior empirical evidence has documented the tax consequences of real earnings management in other contexts (Delgado, Fernández-Rodríguez, García-Fernández, Landajo, & Martínez-Arias, 2023; Lou, Wang, & Wright, 2026). The present findings strengthen this evidence by showing that, in Indonesian manufacturing firms, higher levels of real earnings management are associated with lower Effective Tax Burdens (ETR). The effect is also economically relevant, as a one-standard-deviation increase in real earnings management corresponds to an estimated 0.039-point change in the tax-management score. This result confirms that operational decisions, even when not explicitly tax-driven, can shape corporate tax outcomes.

4.4.3 *Thin Capitalization and Tax Management (H_3)*

The analysis reveals that thin capitalization is not exhibit a statistically significantly related to tax management (coefficient = 0.017, $p = 0.530$). Thus, H_3 was not supported. This finding indicates that, within the Indonesian manufacturing context, leverage-based tax strategies through interest deductibility do not translate into measurable tax savings for firms. From a theoretical perspective, this finding reinforces the argument that institutional constraints delimit the scope of managerial discretion. Prior studies emphasize that thin capitalization strategies are highly sensitive to explicit regulatory thresholds, such as debt-to-equity ratios, which reduce managerial flexibility and weaken their association with observed tax outcomes (De Mooij & Liu, 2021; Goyvaerts & Roggeman, 2020). The existing literature also reports mixed evidence, with positive effects more likely in lightly regulated environments and null effects more common where interest deduction limits are binding (Dangl & Zechner, 2021; Hanlon & Heitzman, 2022). The current findings contribute to the literature by showing that, in the Indonesian regulatory context, thin capitalization does not serve as an effective tax management instrument. This interpretation is reinforced by the small economic magnitude of the coefficient, as a one-standard-deviation increase in thin capitalization changes the tax management score by only approximately 0.005 points. Therefore, the results underscore the importance of the institutional context in determining the effectiveness of accounting-based tax strategies.

4.4.4 *The Moderating Effect of CEO Overconfidence on Transfer Pricing and Tax Management (H_4)*

The analysis confirms the significant negative moderating role of CEO overconfidence in the relationship between transfer pricing and tax management (coefficient = –0.875, $p < 0.01$). This finding reveals that the effectiveness of transfer pricing is not uniform across executives but is weakened when the CEOs exhibits greater overconfidence. Under the selective cognition framework, CEO overconfidence shapes how managers evaluate the feasibility of transfer pricing as a tax strategy (Hsu & Lee, 2025; Lee, Park, & Chen, 2023). Given its complexity and regulatory exposure, overconfident executives may perceive transfer pricing as less controllable, thereby reducing its implementation. This negative moderation challenges the assumption that overconfidence uniformly amplifies aggressive tax behavior and instead suggests that executive cognition filters which strategies are perceived as viable (Herianti, Paulus, Sueb, & Tanzil, 2021). This effect is also economically meaningful, as a one-standard-deviation increase in CEO overconfidence changes the marginal effect of transfer pricing by approximately 0.145 points. These findings highlight the importance of understanding executive cognition in designing and monitoring transfer pricing practices.

4.4.5 *The Moderating Effect of CEO Overconfidence on Real Earnings Management and Tax Management (H_5)*

The analysis confirms the significant positive moderating role of CEO overconfidence in the relationship between real earnings management and tax management (coefficient = 1.399, $p < 0.01$).

This finding reveals that the effectiveness of real earnings management in reducing tax burdens is enhanced when the CEOs exhibits overconfidence. Real earnings management operates through internal operational decisions that executives perceive as highly controllable (Wali & Masmoudi, 2020). Prior studies indicate that overconfident managers are more inclined to manipulate earnings and make performance-driven operational changes (Sanghyun & Sangbong 2025). In line with this logic, overconfidence strengthens the association between real earnings management and tax management because it channels managerial discretion toward domains that appear to be operationally familiar and directly manageable (Salehi, Lari DashtBayaz, Hassanpour, & Tarighi, 2020). The present findings extend this argument by showing that executive cognition shapes not only whether discretion is exercised but also which accounting strategy is most likely to be used in pursuit of tax outcomes. Moderation is also economically substantial, as a one-standard-deviation increase in CEO overconfidence changes the marginal effect of real earnings management by approximately 0.232 points.

4.4.6 The Moderating Effect of CEO Overconfidence on Thin Capitalization and Tax Management (H_6)

The analysis reveals that CEO overconfidence does not significantly moderate the relationship between thin capitalization and tax management (coefficient = 0.270, p = 0.151). Thus, H_6 is supported. This finding indicates that the absence of a main effect for thin capitalization extends to its moderated relationship, meaning that even when CEOs are overconfident, thin capitalization does not become a more effective tax management instrument. This non-moderation is theoretically consistent with the bounded discretion argument. Thin capitalization decisions are frequently subject to explicit regulatory constraints that limit managerial discretion (Cortes & Kiss, 2023). When discretion is structurally constrained by regulations, the influence of individual cognitive traits on strategic outcomes is correspondingly reduced (Jain, Zaman, & Harjoto, 2024; Zolotoy, O'Sullivan, & Martin, 2022). Under such conditions, executive cognition has a limited scope for altering the effectiveness of leverage-based tax strategies.

Therefore, this result reinforces the view that behavioral traits matter less when managerial discretion is restricted by formal institutional boundaries. In economic terms, the effect also remains limited, as a one-standard-deviation increase in CEO overconfidence changes the marginal effect of thin capitalization by only approximately 0.045 points. The absence of moderation, together with the non-significant main effect, suggests that thin capitalization in this setting is shaped more by regulatory compliance than by executive cognition. This finding also strengthens the broader argument of this study that behavioral influences on tax management vary according to the degree of discretion embedded in each accounting-based strategy.

5. Conclusions

5.1 Conclusion

This study reconsiders corporate tax management by showing that accounting-based tax strategies do not operate as neutral or interchangeable instruments. Transfer pricing and real earnings management affect tax outcomes in distinct ways. However, thin capitalization appears to be largely constrained by regulatory boundaries in Indonesia. A central insight lies in the role of the executive cognition. CEO overconfidence does not uniformly intensify aggressive tax behaviors. Instead, it selectively redirects managerial discretion toward strategies perceived as more controllable and operationally familiar while reducing reliance on complex, externally scrutinized mechanisms. Therefore, discretion in tax planning is not merely exercised or restricted but is cognitively filtered.

These findings contribute to the accounting and governance literature by refining our understanding of managerial discretion and extending behavioral perspectives on strategic selectivity. Practical implications: First, regulators should design oversight mechanisms that account for behavioral heterogeneity. For example, tax audits could prioritize firms with overconfident CEOs when real earnings management is prevalent while applying different scrutiny levels for transfer pricing. Second, firms should strengthen internal governance by separating tax planning responsibilities from financial reporting. Audit committees may also consider executives' cognitive traits when evaluating tax risk exposure.

5.2 Research Limitations

This study has several limitations that should be considered when interpreting the findings. First, the sample is limited to manufacturing firms listed on the Indonesia Stock Exchange during 2020–2023, which may restrict the generalizability of the results to other sectors and institutional contexts. Second, CEO overconfidence is measured using abnormal asset growth as a proxy, which may not fully represent the psychological complexity of executive behavior. Third, the study examines only three accounting-based tax strategies (transfer pricing, real earnings management, and thin capitalization), while other tax management mechanisms remain unexplored. Fourth, although fixed-effects estimation was applied, potential endogeneity issues from omitted variables and reverse causality cannot be entirely eliminated. Finally, the study period overlaps with post-COVID-19 economic recovery, which may have affected corporate tax behavior and limited the applicability of findings to more stable economic conditions.

5.3 Suggestions and Directions for Future Research

Future research should address the limitations of this study by expanding samples across sectors and countries, particularly in ASEAN emerging markets, to improve generalizability and examine whether the effects of CEO overconfidence remain consistent across different institutional contexts. Future studies should also develop more direct measures of CEO overconfidence by combining financial proxies with psychological assessments or textual analysis. In addition, broader tax strategies and stronger causal methods, such as dynamic panel estimation, should be considered to capture more comprehensive tax management behavior and address endogeneity issues. Further research may also examine the role of corporate governance mechanisms and qualitative approaches to provide deeper insights into managerial decision-making in tax planning.

Acknowledgments

The authors wish to express their sincere gratitude to Bina Nusantara University, Universitas Muhammadiyah Jakarta, Universitas Dirgantara Marsekal Suryadarma, and Universitas Negeri Padang for providing institutional support and research facilities for this study. We extend our appreciation to our colleagues in the accounting department for their constructive feedback during the development of this manuscript. Special thanks are due to the anonymous reviewers, whose insightful comments and suggestions substantially improved the quality and clarity of this work. We also acknowledge the Indonesia Stock Exchange (IDX) for making corporate financial data publicly accessible, which enabled this study. Finally, we are grateful to the broader academic community, whose foundational contributions to behavioral accounting, tax management, and corporate governance literature provided the theoretical grounding for this study.

Author Contributions

HH was responsible for conceptualization, methodology, formal analysis, investigation, writing the original draft, review, editing, and visualization. EH contributed to conceptualization, methodology, formal analysis, investigation, writing the original draft, review, editing, and visualization. AM contributed to conceptualization, resources, writing the original draft, review, editing, and visualization. RDP contributed to formal analysis, investigation, resources, writing the original draft, review, editing, and visualization. HH and EH were responsible for supervision, project administration, and validation, while HH also provided overall guidance for the study. All authors have read and approved the final version of the manuscript and agree to be fully responsible for its content.

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