Available online at: https://journals.researchsynergypress.com/index.php/jgrcs/index
Journal of Governance Risk Management Compliance and Sustainability (JGRCS)
ISSN 2776-9658 (online)
Volume 2 Number 1 (2022): 01-09

The Effect of Institutional Ownership, Managerial Ownership, and Deferred Tax Expense on Earnings Management

Indra Kusumawardhani[1], Sri Luna Murdianingrum[1]
[1]Department of Accounting, Faculty of Economics and Business, Universitas Pembangunan Nasional "Veteran" Yogyakarta

Abstract

Earnings are commonly used as one of the measuring instruments to determine firms' performance. Earnings numbers indicated firms' ability to manage resources and earnings information will be used by users to make decisions related to firms' performance and tax collection. Earnings management practices are mostly influenced by the conflict of interest between principals and agents, but they can be minimized with good corporate governance. The objective of this research is to determine the effect of Institutional Ownership, Managerial Ownership, and Deferred Tax Expense on Earnings Management. Research samples were taken from 383 nonfinancial firms listed on the Indonesia Stock Exchange from 2017 to 2019 by using the purposive sampling technique. The independent variables used in this research were Institutional Ownership, Managerial Ownership, and Deferred Tax Expense, while the dependent variable was Earnings Management. Research results suggested that Institutional Ownership and Managerial Ownership affected Earnings Management, while Deferred Tax Expenses have no effect on Earnings Management

Keywords: *Institutional Ownership, Managerial Ownership, Deferred Tax Expense, Earnings Management*

INTRODUCTION

The company must have a competitive advantage in order to maintain its business continuity (going concern). Kamran & Shah (2014) stated that financial statements are one way to provide information about a company's financial performance and how the company's management is responsible for its owner. Information concerning a company is contained in the financial statements so that financial statements become a medium of communication for the company manager and other stakeholders.

Earnings are one of the measuring instruments used to determine the company's performance. The greater the profit figures earned, indicating the better the company's ability to manage resources to earn profit. Earnings information from financial statements will be used by external parties as well as internally to make decisions related to compensation, bonuses, measures of achievement, management performance, and tax collection (Suputra, 2017).

Earnings management practices are influenced by conflicts of interest between principals and agents. Agency conflicts arise when both parties want to achieve prosperity (Scott, 2015). Management seeks to minimize the tax expense in accordance with the corridors of applicable rules by conducting tax planning and deferred tax expense. Earnings management is not a detrimental thing as long as it is done in the corridors of opportunity. It is not always interpreted by the process of manipulation of financial

Corresponding author
Indra Kusumawardhani, indra.kusumawardhani@upnyk.ac.id; Sri Luna Murdianingrum, sriluna@upnyk.ac.id
DOI: 10.31098/jgrcs.v2i1.801 Research Synergy Foundation

statements because there are several options of methods that can be used and not as a prohibition (Kusumawardhani, 2012).

The phenomenal case regarding financial statements engineering conducted by PT Asuransi Jiwasraya (AJS) was revealed by the Audit Board of Finance (BPK) through the assessment of preliminary investigations. Earnings manipulation of Rp 360,3 billion was found in 2006. As one of the state-owned enterprises, Jiwasraya submitted a request for bailout funds to the Government due to financial difficulties amounting to Rp 32.29 billion in September 2019. At the time of the audit by BPK, it was found that Jiwasraya misplaced investments and defaulted on customers Rp 802 billion which resulted in state losses and criminal acts of window dressing (Setiawan, 2020).

Information asymmetry between principal and agent can be reduced by good corporate governance. Earnings management practices can be minimized by supervisory mechanisms to align the interests of principals and agents. It could be conducted by adding a share of institutional and managerial ownership, and supervision by independent commissioners and audit committees.

There are many studies conducted to examine issues related to earnings management, especially regarding corporate governance and deferred tax expense, Wang & Siyu (2012); Suputra (2017); Mudjiyanti (2018); Achyani & Lestari (2019); Bunaca & Nurdyadi (2019) showed inconsistent results. Based on the background of the problem, the research objective was to determine the effect of Institutional Ownership, Managerial Ownership, and Deferred Tax Expense on Profit Management in Indonesia.

LITERATURE REVIEW

Agency Theory

The owner and the manager have an agency connection, which produces an agency conflict because the mutualism symbiosis is not related to differences in interests. Profit management is explained using the agency theory method, which claims that conflicts of interest have an impact on profit management (Suputra, 2017). The principal and the agent have a contractual relationship in which the agent has the power to act on behalf of the principal and is compensated for doing so. The relationship between investors and management might be described as agency relations. When the principal is a shareholder or investor, and the agent is management, agency theory helps explain management behavior (Suwardjono, 2014). The importance of transferring over the company's operationality from the owner (principal) to a party who can better manage the organization is emphasized by agency theory (agent) (Sulistyanto, 2008).

Earnings Management

Earnings management is a managerial endeavor to make use of the freedom to employ accounting methods and judge the worth of accounting in dealing with financial statement information (Sulistyanto, 2008). Scott (2015) explained that earnings management is a management accounting policy that focuses on the process of generating external financial statements for the purpose of personal gain. Earnings management can influence financial data by employing accounting methods, accounting estimation values, or both at the same time (Sulistyanto, 2008). Earnings management practices are carried out by management due to several motivations, namely: (1) Motivation of bonus programs; (2) Tax motivation; (3) Political motivation; (4) CEO switching motivation; (5) Initial Public Offering (IPO) (6) Motivation of debt agreement.

ISSN 2776-9658 (online)

Good Corporate Governance

Corporate governance is a set of integrated systems for managing, guiding, and leading a company or a corporation to improve the firm's and the community's value. According to the OECD (The Organization for Economic Cooperation and Development) (2003) Good corporate governance is a structure where stakeholders, shareholders, commissioners, and managers draft the company's objectives in an integrated manner and contain the means to achieve these goals and oversee the performance of the company's management. Research conducted by Chhaochharia & Grinstein (2007) shows that corporate governance influences the information reported by companies indirectly.

Institutional Ownership

Institutional ownership is regarded to be capable of providing similar internal surveillance systems. The shares of corporations controlled by institutions or institutions are referred to as institutional ownership (insurance companies, banks, investment companies, and other institutional holdings). In order to achieve earning purposes, the management will probably be involved in earnings manipulation. The larger institutional ownership can reduce profit management practices, but a significant amount of ownership is required to oversee management, which has the effect of lowering managers' willingness to undertake earnings management. (Latif and Abdullah, 2015; Cornett et al, 2006; Hartzell and Starks, 2003; Balsam et al, 2002).
H1: Institutional ownership affects earnings management

Managerial Ownership

Because management owns such a large percentage of the company's stock, their mindset is that of someone who is invested in the company. As a result, management will be motivated to present accurate financial data since the contracting parties will scrutinize the management who owns the company's stock. This will lead to a better contract (Ball and Shivakumar, 2005). Therefore, it is likely that the managerial ownership level will be in the same direction to suppress the utilization of discretionary accruals (earnings management) by management.
H2: Managerial ownership affects earnings management.

Deferred Tax Expense

Expenses resulting from transient disparities between accounting profit (profit reported in financial statements for the benefit of third parties) and fiscal profit (profit used to calculate taxes) when accounting profit tends to be higher than fiscal profit (Suputra, 2017). Statement of Financial Accounting Standards/PSAK 46 (IAI, 2010) related to tax accounting states that company management has the discretion to determine accounting policies to determine how much deferred tax assets or deferred tax expenses are because they are used differently. Deferred taxes are caused by the higher taxable income than pre-tax financial income due to the positive impact due to temporary changes. Phillips et al (2003) in Suputra (2017) said that management discretion will be greater when the difference in fiscal profit with accounting profit. Yulianti (2005) mentioned the amount of management discretion contained in deferred tax expenses that can detect profit management practices in the company. Suputra (2017) showed that the deferred tax burden affects earnings management.
H3: Deferred tax expense affects earnings management.

RESEARCH METHOD

Population and Samples

This study was conducted by using 811 observations from 383 samples of all nonfinancial listed firms in 2017-2019. The purposive sampling was used with criteria as follows: (1) Companies that have complete earnings management data; (2) Have institutional ownership, managerial ownership, and deferred tax expense data.

Research Variables

Independent Variables

Institutional Ownership

The ownership percentage held by other institutions from the total number of outstanding firm shares is used to calculate the institutional ownership variable in this study.

Managerial Ownership

The percentage of share ownership owned by the management of the total number of outstanding firm shares is used to proxy the managerial ownership variable.

Deferred Tax Expense

In this study, the deferred tax expense can be calculated by weighting the deferred tax expense by total assets (Phillips and Rego, 2003) as follows:

$$DTE = \frac{Deferred\ Tax\ Expense\ it}{total\ aset\ it - 1}$$

Dependent Variable

Earnings Management

Earnings management in this study is measured by Discretionary Accruals (DA) using the Modified Jones Model (Dechow et al, 1995) and calculated by Total Accrual (TA). Total Accrual (TA) is comprised of Discretionary Accrual (DA) and NonDiscretionary Accrual (NDA). Earnings management used Modification Jones Model, which is as follows:

$$\boldsymbol{TAC = NI_{it} - CFO_{it}}$$

The total accrual value (TAC) can be estimated using ordinary least squares (OLS) to obtain the regression coefficient, as follows:

$$\frac{\boldsymbol{TA_{it}}}{\boldsymbol{A_{i(t-1)}}} = \alpha_1 \left(\frac{\boldsymbol{1}}{\boldsymbol{A_{i(t-1)}}}\right) + \alpha_2 \left(\frac{\boldsymbol{\Delta REV_{it}}}{\boldsymbol{A_{i(t-1)}}}\right) + \alpha_3 \left(\frac{\boldsymbol{PPE_{it}}}{\boldsymbol{A_{i(t-1)}}}\right) + \text{å}$$

The value of non-discretionary accruals can be calculated by the formula:

$$\boldsymbol{NDA_{it}} = \alpha_1 \left(\frac{\boldsymbol{1}}{\boldsymbol{A_{i(t-1)}}}\right) + \alpha_1 \left(\frac{\boldsymbol{\Delta REV_{it}}}{\boldsymbol{A_{i(t-1)}}} - \frac{\boldsymbol{\Delta REC_{it}}}{\boldsymbol{A_{i(t-1)}}}\right) + \alpha_1 \left(\frac{\boldsymbol{PPE_{it}}}{\boldsymbol{A_{i(t-1)}}}\right)$$

Furthermore, discretionary accruals can be calculated by the formula:

$$\boldsymbol{DA_{it}} = \frac{\boldsymbol{TA_{it}}}{\boldsymbol{A_{i(t-1)}}} - \boldsymbol{NDA_{it}}$$

ISSN 2776-9658 (online)

Data Analysis

This research relied on secondary data. Multiple linear regression approaches were used to examine the data to see if institutional ownership, managerial ownership, and deferred tax expense had an impact on earnings management. Multiple regression analysis was used to evaluate hypotheses using the following model :

$$EM = \alpha + \beta InsOWn + \beta 2MOwn + \beta 3DTE + \varepsilon$$

Information :
Y = Earnings Management
α = Intercept
X1 = Institutional Ownership
X2 = Managerial Ownership
X3 = Deferred Tax Expense

Prior to testing the regression, the classical assumptions were conducted (normality, multicollinearity, autocorrelation, and heteroscedasticity tests).

FINDINGS AND DISCUSSION

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
EM	811	-.00108	.00381	.0003993	.00109686
InsOwn	811	.48041	.91862	.7173367	.12066546
Mown	811	.00000	.25683	.0295646	.05481500
DTE	811	.00000	.03905	.0047983	.00873216
Valid N (listwise)	811				

Source: 2021 Data Processing Results

The assumptions that must be met when using multiple linear regression models are met in this investigation. The Kolmogorov-Smirnov test was used to test sample normality, the Durbin Watson coefficient test was used to test autocorrelation, and the Variance Inflation Factor was used to test multicollinearity, and the Spearman Rho test was used to test heteroscedasticity.

Table 2. Multiple Regression Analysis Result Summary

	Coefficients
Constant	0.001
InsOwn	-0.001
Mown	0.001
DTE	-0.003
F	5.908
R^2	0.021
Adj R^2	0.018

Source: 2021 Data Processing Results

Table 3. Result Test Effect of Factors on Earnings Management

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.001	0.000		4.963	0.000
	InsOwn	-0.001	0.000	-0.127	-3.568	0.000
	Mown	0.001	0.001	0.070	2.000	0.046
	DTE	-0.003	0.004	-0.028	-0.786	0.432
a. Dependent Variable: EM						

Source: 2021 Data Processing Results

Results shown in Table 2 indicated that the Institutional Ownership and Managerial Ownership have an impact on Earnings Management, while the Deferred Tax Expense variable has no effect. The R2 and Adjusted R2 coefficients of determination are 0.021 and 0.018, respectively. This value indicates that the independent variables used in the model (Institutional Ownership, Managerial Ownership, and Deferred Tax Expense) could only explain 1.8 percent of the variation in the value of the dependent variable (Earnings Management), with the remaining 98.2% influenced by factors not studied. It can be concluded that the study's independent variable has a limited ability to explain the study's dependent variable. The significance of the F test results in the research model is less than the set threshold (0.05). These findings show that the model (Model Fit) utilized in this investigation is appropriate. Based on Table 4.3, only Institutional Ownership and Managerial Ownership significantly affect Earnings Management. Deferred Tax Expenses did not affect significantly.

Discussion

Institutional Ownership and Earnings Management

Institutional shareholders with a high ownership value will encourage more optimal information enhancement and management supervision, potentially reducing managers' opportunistic behavior and allowing institutional owners to receive information comparable to managers and reduce earnings management (Cornett et al., 2006; Sari and Nur, 2013; Latif and Abdullah, 2015). The first hypothesis test result indicated that Institutional Ownership has a negative impact on Earnings Management. This study is consistent with Astari & Suryanawa (2017) who showed the importance of institutional ownership in monitoring management because Increased oversight will be encouraged as a result of institutional ownership. The welfare of shareholders will undoubtedly be improved as a result of this supervision. The impact of Institutional ownership as a supervisory agent will be reduced due to their substantial capital market investment.

Managerial Ownership and Earnings Management

Offering managers stock options, often known as stock-based pay, is one strategy used to try to decrease friction generated by the separation of ownership and control between managers and stakeholders. There are cases where the manager owns a portion of the firm, the manager will naturally behave as an external shareholder. The manager will ensure the financial statements are presented properly and accurately reflect the company's current state Purnama (2017).

 ISSN 2776-9658 (online)

The second hypothesis test result showed that Managerial Ownership positively affected Earnings Management. This research is consistent with Aryanti & Kristanti (2017) which shows the results that managerial ownership affects earnings management due to institutional ownership. Management oversight will be better controlled, resulting in more accurate information, and reducing the information asymmetry caused by control. The power of institutional owners will have an impact on how profits are reported.

Deferred Tax Expense and Earnings Management

The third hypothesis is rejected with a significant value of 0.432 (above 0.05). Results showed that Deferred Tax Expense has no effect on Earnings Management. Using deferred tax expense to identify earnings management in the company is ineffective because it cannot demonstrate that the company is undertaking earnings management. Our result did not support Philip et al (2003); Yulianti (2005); Fitriany (2016). This research is in line with those of Satwika and Damayanti (2005), Timuriana and Muhamad (2015) which demonstrates the existence of taxation legislation in Indonesia that places severe limitations on tax computations. The research stated that the basis for calculating fiscal profit or loss is to acknowledge the amount of income and costs when they are received or issued. In other words, tax computations solely account for current-period tax expenses and ignore expenses and deferred tax. The company has complied with applicable regulations relating to published financial statements. Enforcement of regulations regarding financial reporting by the Financial Services Authority (OJK) has restricted management to manage earnings. Financial statement users also have extensive knowledge in analyzing the financial statements of the issuer's company and easier to detect the existence of earnings management.

CONCLUSION & FURTHER RESEARCH

Based on the result discussion, it can be concluded that Institutional Ownership and Managerial Ownership affected Earnings Management, whereas Deferred Tax Expense did not affect Earnings Management. Institutional ownership negatively affects earnings management. The existence of institutional ownership will induce managers to engage in earnings management to avoid negative earnings and deliver higher and consistent earnings. Managerial ownership positively affects earnings management. Management ownership creates a controllable oversight, more accurate information, and reduces information asymmetry. Deferred tax expense has no significant effect on earnings management practices. If the firms conducted deferred tax expenses to manipulate earnings, it would be easily detected by the firms' internal auditors and corrections will be made by management.

This research suggestion for future research could include other corporate governance mechanisms other than institutional ownership and managerial ownership, namely independent commissioners, audit committees, and frequency of board meetings. In addition, current tax expenses and deferred tax assets could potentially affect earnings management. Earnings management could be tested using different models. Adding the longer and the most recent observation year is supposed to be used to characterize the current state of the observed company.

REFERENCES

Achyani, F. and Lestari, S. (2019) 'Pengaruh Perencanaan Pajak Terhadap Manajemen Laba (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2015-2017)', Riset Akuntansi dan Keuangan Indonesia, 4(1), pp. 77–88. doi: 10.23917/reaksi.v4i1.8063.

Aryanti, I. and Kristanti, F. T. (2017) 'Kepemilikan institusional, kepemilikan manajerial, dan kualitas audit terhadap manajemen laba', Jurnal Riset Akuntansi Kontemporer (JRAK), 9(2), pp. 66–70.

Astari, A. A. M. R. and Suryanawa, I. K. (2017) 'Faktor-Faktor Yang Mempengaruhi Manajemen Laba', E-Jurnal Akuntansi Universitas Udayana, 20(1), pp. 290–319.

Ball, B. and Shivakumar, L. (2005) 'Earnings Quality in UK Private Firms: Comparative Loss Recognition Timeliness', Journal of Accounting and Economics, 39(1), pp. 31–128.

Balsam, S., E. Bartov and C. Marquardt. (2002). aAccrual Management, Investor Sophisticated, and Equity Valuation: Evidence from 10-Q Fillings. Journal of Accounting Research. March, 4 Bo. 4. Pp 987-1012.

Bunaca, R. A. and Nurdyadi (2019) 'The Impact of Deferred Tax Expense and Tax Planning Toward Earnings Management and Profitability', Jurnal Bisnis dan Akuntansi, 21(2), pp. 215–236. doi: 10.34208/jba.v21i2.625.

Chhaochharia, V. and Grinstein, Y. (2007) 'Corporate governance and firm value: The impact of the 2002 governance rules', Journal of Finance, 62(4), pp. 1789–1825. doi: 10.1111/j.1540-6261.2007.01257.x.

Cornett, M. M., Marcus, A. J., Saunders, A., & Tehranian, H. (2006). Earnings management, corporate governance, and true financial performance. Unpublished manuscript. Retrieved from (http://www.researchgate.net/profile/Hassan_Tehranian/publication/228238263_Earnings_Management_Corporate_Governance_and True_Financial_Performance/links/0c960535f9236ee94f000000.pdf).

Dechow, P.M., Sloan, R.G. and Sweeney, A.P. (1995), "Detecting earnings management", The Accounting Review, Vol. 70 No. 2, pp. 193-225.

Fitriany, L. C. (2016) 'Pengaruh aset pajak tangguhan, beban pajak tangguhan, dan perencanaan pajak terhadap manajemen laba', JOM Fekon, 3(1), pp. 1150–1163.

Hartzell, J.C and Starks L.T. (2003) Institutional Investors and Executive Compensation. Journal of Finance, 58(6), 2351-2374.

Kamran, K. and Shah, A. (2014) 'The impact of corporate governance and ownership structure on earnings management practices: Evidence from Listed Companies in Pakistan.', The Lahore Journal of Economics, 19(2), pp. 27–70.

Kusumawardhani, I. (2012) 'Pengaruh Corporate Governance, Struktur Kepemilikan dan Ukuran Perusahaan Terhadap Manajemen Laba. . E-journal Unisri Vol 9, No 1. Oktober 2012: 41-54', Jurnal Akuntansi dan Sistem Teknologi Informasi. E-journal Unisri, 9(1), pp. 41–54.

Latif, Aysha S., and Fahad Abdullah. (2015). The Effectiveness of Corporate Governance in Constraining Earnings Management in Pakistan. The Lahore Journal of Economics 20:1 (Summer 2015) p 135-155.

Mudjiyanti, R. (2018) 'The Effect of Tax Planning, Ownership Structure, and Deferred Tax Expense on Earning Management', 231(Amca), pp. 379–381. DOI: 10.2991/amca-18.2018.104.

Phillips, J. and Rego, S. O. (2003) 'Earnings Management : Tax Expense', the Accounting Review, 78(2), pp. 491–521.

Purnama, D. (2017) 'Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Kepemilikan Institusional Dan Kepemilikan Manajerial Terhadap Manajemen Laba', Jurnal Riset Keuangan dan Akuntansi, 3(1), pp. 1–14.

Roychowdhury, S. (2006), "Earnings management through real activities manipulation", Journal of Accounting and Economics, Vol. 42 No. 3, pp. 335-370.

ISSN 2776-9658 (online)

Sari, S. R. and Nur, F. A. (2013) 'Pengaruh leverage dan mekanisme good corporate governance terhadap manajemen laba', Jurnal Ilmu Riset Akuntansi, 2(6).

Satwika, Anisa dan Theresia Woro Damayanti. 2005. Deteksi Manajemen Laba Melalui Beban Pajak Tangguhan. Jurnal Ekonomi dan Bisnis. Vol. XI, No. 2, 2005, hlm. 101-118

Scott, W. R. (2015) Financial Accounting Theory. 7th Edition, University o Waterloo.

Setiawan, Indra. (2020) ' Bedah Kasus Gagal Bayar dan Kerugian PT Asuransi Jiwasraya (Persero)', Jurnal Akuntansi dan Bisnis Indonesia, Vol 1 No 1, April 2020

Siregar, S. V. N. . and Utama, S. (2005) 'Pengaruh Struktur Kepemilikan, Ukuran Perusahaan, dan Praktek Corporate Governance terhadap Pengelolaan Laba (Earnings Management)', Simposium Nasional Akuntansi VIII, (September), pp. 475–490.

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

Suputra, I. D. G. D. (2017) 'Pengaruh Perencanaan Pajak Dan Beban Pajak Tangguhan Terhadap Manajemen Laba', E-Jurnal Akuntansi, 20, pp. 2045–2072.

Suwardjono (2014) Teori Akuntansi Perekayasaan Laporan Keuangan. Edisi Ketiga. Yogyakarta: BPFE-Yogyakarta.

Timuriana, T. and Muhamad, R. R. (2015) 'Pengaruh Aset Pajak Tangguhan Dan Beban Pajak Tangguhan Terhadap Manajemen Laba', Jurnal Ilmiah Akuntansi Fakultas Ekonomi, 1(2), pp. 12–20.

Wang, S. and Siyu, C. (2012) 'The Motivation for Tax Avoidance in Earnings Management', International Conference on Engineering and Business Management. DOI: 10.1142/S0218127417500973.

Yulianti. (2005) 'Kemampuan Pajak Tangguhan dalam Mendeteksi Manajemen Laba', Jurnal Akuntansi dan Keuangan Indonesia Vol 2 No.1 2005 pp 107-129.