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THE ROLE OF MANAGERIAL OWNERSHIP AS A MEDIATOR ON THE EFFECT OF AGGRESSIVE TAX ACTIONS ON EARNINGS QUALITY

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ABSTRACT

Purpose: The objectives of this study is to examine and analyze the effect of Aggressive Tax Actions on Earnings Quality in which mediated by Managerial Ownership.

Theoretical framework: The theoretical framework of this study is grounded in the examination of the interplay between aggressive tax actions, managerial ownership, and earnings quality. The study likely draws on existing theories in finance, taxation, and corporate governance to develop a conceptual basis for understanding how aggressive tax actions may affect both managerial ownership and, subsequently, earnings quality.

Design/Methodology/Approach: This study utilizes a sample of banking companies listed on the Indonesia Stock Exchange for the period 2019-2021 through purposive sampling method. As a result, 13 research samples were obtained for the three-year. Therefore, the total number of observations is 39. The analytical tool used is Eviews version 13 with a panel data regression approach.

Findings: Aggressive tax actions determine no significant effect on earnings quality. However, a negative and significant effect is observed on managerial ownership. Managerial ownership, in turn, does not affect significantly on earnings quality. The study also explores the indirect impact of aggressive tax actions on earnings quality through managerial ownership, finding no significant effect.

Research, Practical & Social implications: Practically, the findings offer guidance for financial decision-making and taxation policies in Indonesian banking companies. Socially, the study enhances transparency and accountability in the financial sector, benefiting stakeholders.

Originality/Value: The study's original contribution lies in empirical exploration of the relationships between aggressive tax actions, managerial ownership, and earnings quality in the specific context of Indonesian banking companies, adding valuable insights to the existing financial literature.

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O PAPEL DA PROPRIEDADE DOS GESTORES COMO MEDIADOR DO EFEITO DE ACÇÕES FISCAIS AGRESSIVAS NA QUALIDADE DOS RESULTADOS

RESUMO

Objetivo: O objetivo deste estudo é examinar e analisar o efeito das acções fiscais agressivas na qualidade dos resultados, mediado pela propriedade dos gestores.

Referencial teórico: O enquadramento teórico deste estudo baseia-se na análise da interação entre as acções fiscais agressivas, a propriedade dos gestores e a qualidade dos resultados. É provável que o estudo se baseie nas teorias existentes em matéria de finanças, fiscalidade e governo das sociedades para desenvolver uma base

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concetual que permita compreender como as medidas fiscais agressivas podem afetar a propriedade dos gestores e, subsequentemente, a qualidade dos resultados
Desenho/Metodologia/Abordagem: Este estudo utiliza uma amostra de empresas bancárias cotadas na Bolsa de Valores da Indonésia para o período de 2019-2021 através do método de amostragem intencional. Como resultado, foram obtidas 13 amostras de investigação para o período de três anos. Por conseguinte, o número total de observações é de 39. A ferramenta analítica utilizada é o Eviews versão 13 com uma abordagem de regressão de dados em painel.
Resultados: As acções fiscais agressivas não determinam qualquer efeito significativo na qualidade dos resultados. No entanto, observa-se um efeito negativo e significativo na propriedade dos gestores. A propriedade dos gestores, por sua vez, não afecta significativamente a qualidade dos resultados. O estudo explora igualmente o impacto indireto das medidas fiscais agressivas na qualidade dos resultados através da propriedade dos gestores, não tendo encontrado qualquer efeito significativo.
Pesquisa, Implicações práticas e Sociais: Na prática, os resultados oferecem orientações para a tomada de decisões financeiras e para as políticas fiscais das empresas bancárias indonésias. Socialmente, o estudo aumenta a transparência e a responsabilidade no sector financeiro, beneficiando as partes interessadas
Originalidade/Valor: A contribuição original do estudo reside na exploração empírica das relações entre as acções fiscais agressivas, a propriedade dos gestores e a qualidade dos resultados no contexto específico das empresas bancárias indonésias, acrescentando informações valiosas à literatura financeira existente.

Palavras-chave: Ação Fiscal Agressiva, Propriedade dos Gestores, Qualidade dos Resultados.

EL PAPEL DE LA PROPIEDAD DE LOS DIRECTIVOS COMO MEDIADOR EN EL EFECTO DE LAS MEDIDAS FISCALES AGRESIVAS SOBRE LA CALIDAD DE LOS BENEFICIOS

RESUMEN
Propósito: El objetivo de este estudio es examinar y analizar el efecto de las Acciones Fiscales Agresivas sobre la Calidad de los Beneficios en el que media la Propiedad Gerencial.
Marco teórico: El marco teórico de este estudio se basa en el examen de la interacción entre las medidas fiscales agresivas, la propiedad de los directivos y la calidad de los beneficios. Es probable que el estudio se base en las teorías existentes sobre finanzas, fiscalidad y gobierno corporativo para desarrollar una base conceptual que permita comprender cómo las medidas fiscales agresivas pueden afectar tanto a la propiedad de los directivos como, posteriormente, a la calidad de los beneficios.
Diseño/Metodología/Enfoque: Este estudio utiliza una muestra de empresas bancarias que cotizan en la Bolsa de Indonesia para el período 2019-2021 a través del método de muestreo intencional. Como resultado, se obtuvieron 13 muestras de investigación para el trienio. Por lo tanto, el número total de observaciones es de 39. La herramienta analítica utilizada es Eviews versión 13 con un enfoque de regresión de datos de panel.
Conclusiones: Las acciones fiscales agresivas no determinan ningún efecto significativo sobre la calidad de los beneficios. Sin embargo, se observa un efecto negativo y significativo sobre la propiedad de los directivos. A su vez, la propiedad de los directivos no afecta significativamente a la calidad de los beneficios. El estudio también explora el impacto indirecto de las medidas fiscales agresivas sobre la calidad de los beneficios a través de la propiedad de los directivos, sin encontrar ningún efecto significativo.
Investigación, Implicaciones prácticas y Sociales: Desde el punto de vista práctico, las conclusiones ofrecen orientaciones para la toma de decisiones financieras y las políticas fiscales de las empresas bancarias indonesias. Desde el punto de vista social, el estudio mejora la transparencia y la rendición de cuentas en el sector financiero, lo que beneficia a las partes interesadas.
Originalidad/Valor: La contribución original del estudio radica en la exploración empírica de las relaciones entre las acciones fiscales agresivas, la propiedad de los directivos y la calidad de los beneficios en el contexto específico de las empresas bancarias indonesias, añadiendo valiosas ideas a la literatura financiera existente.

Palabras clave: Acción Fiscal Agresiva, Propiedad de los Directivos, Calidad de los Beneficios.

INTRODUCTION

Profit is defined as one of various performance measures for managers and is of significant concern to various stakeholders. This is because profit serves as a benchmark for evaluating company performance. Therefore, profit information must provide quality information to meet the interests of these stakeholders. Dechow & Dichev (2002) posit that high quality earnings must embody three crucial characteristics: (1) reflecting the current operational performance of the company accurately, (2) providing relevant information regarding future performance indicators, and (3) serving as a precise metric for evaluating overall company performance. By utilizing earnings information that can encapsulate these three aspects, the information asymmetry between managers and other stakeholders can be reduced.

Ifurueze et al (2018) elaborate that earnings quality has become a compelling issue for analysts, shareholders, and managers. Furthermore, Ifurueze et al (2018) expound that the managers express concern in meeting analysts' estimates by sustaining the company's growth as a means of self-protection. On the other hand, several prior studies indicate that companies with high profits tend to have a low effective tax rate, highlighting a strategic inclination on aggressive corporate tax actions. This suggests that corporate managers employ aggressive tax strategies to mitigate the tax liability borne by the company.

The lack of quality in earnings information can be influenced by aggressive tax action. This aggressive tax action is a part of tax planning strategies employed by managers to reduce the corporate tax liabilities effectively. Aggressive tax actions taken by managers can reduce earnings quality because earning information becomes inaccurate. One phenomenon of aggressive tax actions that can affect the earning quality is the tax actions taken by PT. Adaro. Sugianto (2019) explains that PT. Adaro is suspected of engaging in aggressive tax actions through its subsidiary, Coal trade Services International, in Singapore from 2009 to 2017, with a tax aggressiveness amounting to USD 25 million.

Trisanti (2019) and Dyreng et al (2022), demonstrates that companies with high profit growth tend to have high corporate tax liabilities. Despite managers employing various strategies to meet profit targets, engaging in tax aggressive action can result in lower profits compared to companies that avoid such practices, thereby compromising the earnings quality. This condition indicates that managers engaging in tax aggressiveness have a tendency to produce lower the earnings quality for the company. Herusetya & Stefani (2020), demonstrates that tax aggressiveness will increase accrual-based earnings management. This condition suggests that managers engaging in tax aggressiveness aim to manipulate their earnings. However, it negatively impacts on earnings quality as the generated profit does not reflect accurate earnings.

The study by Christabelle et al (2021) contradicts Trisanti (2019), Dyreng et al (2022), and Herusetya & Stefani (2020). Their findings proved that the Aggressive Tax Actions taken by managers do not have effect on earnings quality. This is attributed to the fact that companies have already implemented tax planning, rendering earnings management actions unnecessary in their tax planning processes. It aligns with the findings of the study by Wijaya (2022), indicating that the Aggressive Tax Actions taken by managers do not have effect on the quality of earnings as measured through earnings persistence.

Many companies in Indonesia seem to have not fully implemented the basic principles of corporate governance, especially in terms of fairness and transparency of information. The aggressive tax actions taken by some companies indicate this. The basic principles of corporate governance should reduce conflicts of interest between managers and company owners. Companies with a high level of corporate governance tend to avoid engaging in aggressive tax actions (Hidayanti & Laksito, 2013). Managerial ownership is defined as a manifestation of the application of corporate governance principles. It involves the management share ownership within a company. Based on studies results by Prasetyo & Pramuka (2018), Amelia et al (2017), Kalbuana et al (2017), and Zahirah et al (2017), indicate that managerial ownership does not have a significant effect on aggressive tax actions. On the contrary, the study by Atari et al (2016) indicate that managerial ownership has a positive and significant effect on aggressive tax actions. However, the results of the study by Sunarsih & Handayani (2018) demonstrates that managerial ownership has a negative and significant effect on aggressive tax actions.

Based on description above, the objectives of this study is to examine and analyse the effect of aggressive tax actions on earnings quality mediated by managerial ownership.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is a contractual relationship involving one or more personnel referred to as the principal involving the shareholders and company management (Jensen & Meckling, 1976). Shareholders delegate certain authorities to the management to oversee the company. However, management has different interests from the shareholders, leading to conflicts of interest between the two parties. The agency theory is generally divided into three assumptions, namely (1) self-interest, allows an individual is more inclined to prioritize oneself, (2) bounded rationality, allows an individual has limited abilities in perceiving the future, and (3) risk aversion, allows an individual constantly strives to avoid risks (Eisenhardt, 1989). Based on these assumptions, stated that a manager acts as an agent, and this is due to their opportunistic nature in fulfilling their own interests (Pratana & Margunani, 2019).

Aggressive Tax Actions

Frank et al (2009) defines Aggressive Tax Actions as an effort to manipulate the tax liability through tax planning that includes elements of tax avoidance. Dyreng et al (2022) assert that Aggressive Tax Actions strategies encompass uncertainty and incur costs for company and managers. Consequently, managers must be incentivized to address Aggressive Tax Actions that pose risks to the company. Aggressive Tax Actions will have a negative effect on earnings quality because the earnings generated do not reflect accurate profits.

Managerial Ownership

Managerial ownership is defined as a mechanism aimed at mitigating conflicts of interest between shareholders and managers. According to Kusumawati & Setiawan (2019), managerial ownership serves to curb excessive managerial actions in the company. Managerial ownership reflects the involvement of a manager in owning shares of a company. The larger their share ownership, the more it will influence the manager's actions in aligning with the interests of the shareholders

Earnings Quality

Earnings quality is important and crucial information for shareholders and other stakeholders. Alvin & Susanto (2022) assert that the earnings quality reflects how effectively a company's profits can provide valuable and useful information to the public. This quality significantly influences decision-making and aids shareholders in evaluating the company's performance. Razani & Xia (2017) state that high profit quality can reflects company performance, financial health, and performance assessment.

Aggressive Tax Actions and Earnings Quality

Conflicting interests between management and shareholders may lead to opportunistic behaviour by management, such as engaging in aggressive tax actions. This can involve by exploiting loopholes in tax regulations to minimize the tax expense without compromising corporate profit, thus meeting profit target and enhancing overall company performance. While shareholders may perceive these manoeuvres as profit manipulation, this aggressive tax actions have the potential to influence their assessment and impact on stock price of a company

Trisanti (2019) and Dyreng et al (2022) assert that companies with high profit growth tend to have high tax expense. In order to achieve profit targets, managers can employ various strategies. However, companies implementing this aggressive tax action may yield lower profits compared to those that do not, thereby compromising the earnings quality can be produced. This aligns with the findings of the study conducted by Herusetya & Stefani (2020), demonstrating that the implementation of aggressive tax actions can result in an increase in accrual-based earnings management. This, in turn, has a detrimental effect on earnings quality.

According to the finding of study by Christabelle et al (2021) and Wijaya (2022), the aggressive tax action implemented by managers do not effect in earnings quality. This is attributed to companies proactively incorporating tax planning strategies in advance. Consequently, managers abstain from engaging in earnings management practices during their tax planning processes. Based on the description provided, the research hypothesis is as follows;

H_1: Aggressive Tax Action has an effect on Earnings Quality

Aggressive Tax Actions and Managerial Ownership

The conflict of interest between shareholders and company management leads to corporate governance. It serves as a monitoring and control system to mitigate aggressive tax actions, which, in turn, can impact on the company's performance (Sari et al., 2016). Desai & Dharmapala (2009) emphasizes that the effect of shareholders on aggressive tax actions depends on their ability to control company management. Management holding shares in the company can curb aggressive tax action. Their dual role as shareholders and managers assists them in controlling the tendency for opportunistic actions to fulfil personal interests.

Based on studies results by Prasetyo & Pramuka (2018), Amelia et al (2017), Kalbuana et al (2017), and Zahirah et al (2017), indicate that managerial ownership does not have a significant effect on aggressive tax actions. On the contrary, the study by Atari et al (2016) indicate that managerial ownership has a positive and significant effect on aggressive tax actions. However, the results of the study by Sunarsih & Handayani (2018) demonstrate that managerial ownership has a negative and significant effect on aggressive tax actions. Based on the description provided, the research hypothesis is as follows;

H_2: Aggressive Tax Action has an effect on Managerial Ownership

Managerial Ownership and Earnings Quality

Agency theory expounds on the existence of agency conflict between company management and shareholders. This agency conflict drives the formulation of corporate governance as an effort to reduce tension and enhance a balanced relationship between the two parties. The implementation of corporate governance is expected to enhance transparency and the quality of financial reports. One aspect of implementing this governance involves regulations concerning Managerial stock ownership. Managerial stock ownership involves management's participation in the ownership of company shares with the aim of aligning the interests between management and shareholders.

Managerial ownership signals to the market and shareholders that management's actions in running the company will align with shareholder interests. This stems from the dual role of management as both company managers and shareholders, implying an enhancement to the earnings quality. High corporate profits signal to the market and shareholders that the company's performance has been achieved or met. As a result, these corporate profits will influence an increase in stock prices Based on the description provided, the research hypothesis is as follows.

H_3: Managerial Ownership has an effect on Earnings Quality

Aggressive Tax Actions, Managerial Ownership and Earnings Quality

High earnings quality is characterized by its ability to accurately reflect the sustainability of future profits, provide precise information for stakeholders, and support accurate decision-making. According to Desai & Dharmapala (2009), shareholders have the potential to curb aggressive tax actions by company management, contingent on their ability to control management. Therefore, the effectiveness of shareholders in addressing opportunistic behavior by management can be enhanced through managerial stock ownership in the company.

Through managerial stock ownership, their responsibilities extend beyond mere company management to encompass the role of proprietors. Managerial behaviour in overseeing the operational activities of a company can be influenced by the extent of managers' significant stock ownership. If managerial stock ownership is low and managers do not derive substantial benefits from it, the likelihood of opportunistic behaviour in managerial roles may increase. Conversely, if managerial stock ownership has a significant effect, it can reduce the tendency for opportunistic behaviour in managing the company. Based on the description provided, the research hypothesis is as follows.

H_4: Aggressive Tax Actions has an effect on Earnings Quality through Managerial Ownership

RESEARCH METHOD

This study utilizes financial statement obtained from the www.idx.co.id website. The study focuses on banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2021, employing purposive sampling techniques in the selection of the research sample, as outlined below;

Table 1. Sample Size Determination

No.	Criteria	Not Meeting the Criteria	Number
1.	Banking companies that submitted complete financial reports for the period 2019-2021		43
2.	Banking companies that submitted complete financial statement for the period 2019-2021	5	38
3.	Banking companies that did not incur losses for the period 2019-2021	14	24
4.	Banking companies that post-tax benefit	3	21
5.	Banking companies that do not have managerial stock ownership	8	13
6.	Financial statement have been reported in foreign currency (USD)	0	13
Number of samples		13	
Observation year		3 years	
The Number of Sample Observations		39	

Source: secondary data processed by researchers

This study utilizes the operational definitions in order to measure three variables; aggressive tax actions, managerial ownership, and earnings quality. The operational definitions for these three variables are as follows;

1. Aggressive Tax Actions

Aggressive tax actions refer to strategies or measures employed by a company to minimize its tax liability to the greatest extent possible. These actions can include legal, illegal, or a combination of both methods to reduce the amount of taxes that a company has to pay (Yoehana & Harto, 2013). The following are forms of reduction in aggressive tax actions (Darmadi & Zulaikha, 2013);

$$Effective\ Tax\ Rate = \frac{Tax\ Expense}{Income\ Before\ Tax}$$

2. Managerial Ownership

Managerial ownership refers to the extent to which individuals within a company, particularly its managers and executives, own shares or equity in that company. Managerial ownership is a form of the company's involvement in the ownership of the company's stock. Here is a measurement of managerial ownership;

$$Managerial\ Ownership = \frac{\text{Number of Shares Owned by Managers}}{Total\ Company\ Shares}$$

3. Earnings Quality

Earnings quality refers to the ability of a company's reported earnings to accurately reflect its underlying financial performance and economic reality. In other words, it assesses how well a company's reported profits represent the actual profitability and financial health of the business. Earnings per share (EPS) is a financial metric that indicates the portion of a company's profit attributable to each outstanding share of its common stock. It is calculated by dividing the net income of the company by the total number of outstanding shares. The formula is:

$$\text{Earnings per share (EPS)} = \frac{\text{Net Income}}{Number\ of\ Outstanding\ Shares}$$

This study applies a panel data approach, a method that integrates or combines information from both time-series and cross-sectional data. As Wahyu Winarno (2015) posits, panel data essentially combines or integrates aspects of time-series and cross-sectional data. Moroever, Nachrowi & Usman (2006) highlight that relevant assumption tests in the panel data approach include multicollinearity and heteroskedasticity tests. The function of this multicollinearity tests is to detect the presence of multicollinearity in a set of independent variables. Multicollinearity is a situation where two or more predictors are highly linearly related. In general, an absolute correlation coefficient of >0.7 among two or more predictors indicates the presence of multicollinearity. Heteroscedasticity refers to residuals for a regression model that do not have a constant variance (Ekananda, 2015). Ghozali & Ratmono (2017) possit that *White's cross-section* heteroscedasticity method can possibly enhance or improve parameter estimates derived from Ordinary Least Squares (OLS), making it a viable output for hypothesis testing in a study.

In testing hypotheses using the panel data approach, three are commonly employed testing methods. First, the Common Effect method integrates time-series data and cross-sectional without accounting for variations across time and individuals. Second, the Fixed Effect method integrates the individuality of each company or cross-sectional unit by allowing varying intercepts for each company while assuming constant coefficients (Ghozali & Ratmono, 2017). Third, the Random Effect method posits that the disturbance variable comprises two components: an overall disturbance variable and an individual one (Widarjono, 2016).

In selecting among these three models, three analytical approaches are employed. Firstly, the *Chow test* determines whether the *common effect* or *fixed effect* method is more appropriate. The criterion is that if the significance value of the cross-section F is < 0.05, then the appropriate method is *fixed effect*, and vice versa. Secondly, the Lagrange Multiplier test is utilized to choose between the *common effect* and *random effect* method. The criterion is if the Breusch Pagan value is < 0.05, then the appropriate method is *random effect*, and vice versa. Thirdly, the Hausman test is employed to determine whether the *fixed effect* or *random effect* method is more appropriate. The criterion is that if the significance value of the cross-section random is < 0.05, then the appropriate method is *fixed effect*, and vice versa. Subsequently, hypothesis testing is conducted by considering both the main effects and mediation effects. Mediation effects are evaluated using the Variance Accounted Factor (VAF) method.

RESULTS AND DISCUSSIONS

This study employs descriptive statistical analysis to provide a concise overview of the measurement of research variables. Table 2 presents the descriptive statistics for each variable in this study.

Table 2. Descriptive Statistical Analysis

Variable	Obs.	Min.	Max.	Mean	Std.dev
TPA	39	0,025	0,364	0,239	0,049
KPM	39	1,97E-05	64,605	1,661	10,344
KAL	39	0,005	945,899	179,929	258,231
Information: TPA: Aggressive Tax Actions, KPM: Managerial Ownership, KAL: Earnings Quality					

Source: Secondary Data Processed by Researchers

Table 2 indicates that the mean score for the aggressive tax planning, managerial ownership, and earnings quality are 0.239, 1.661, and 179.929, respectively. Meanwhile, the standard deviations for aggressive tax planning, managerial ownership, and earnings quality are 0.049, 10.344, and 258.231, respectively.

This study employs classical assumptions tests for assessing multicollinearity and heteroskedasticity to estimate the effect of aggressive tax actions on earnings quality through managerial ownership. For testing the *main effects*, multicollinearity tests are not used. Meanwhile, mediation effects will involve multicollinearity tests since there are two variables, the independent variable, and the mediating variable.

The first hypothesis (H1) focuses on the main effect—specifically, the effect of aggressive tax actions on earnings quality. This study employ three paired panel data regression methods to determine the most appropriate approach for testing this hypothesis. The details of these three paired tests will be elucidated as follows.

Table 3. Result of Panel Data Regression Main Effect (The Effect of Aggressive Tax Actions on Earnings Quality)

Chow Test Result	
Cross- Section F (sig.)	0,000
Information	*Fixed Effect*
Lagrange Multiplier Test	
Breusch-Pagan (sig.)	0,000
Information	*Random Effect*
Hausman Test	
Cross- Section Random	0,252
Information	*Random Effect*
Conclusion	*Random Effect*

Source: Secondary Data Processed by Researchers

Based on the analysis of Paired Sample T-Test conducted, it is concluded that the most appropriate model for testing the effect of aggressive tax actions on earnings quality is the *random effects* model. Therefore, the results of the hypothesis test can be presented as follows:

Table 4. Result of Hypothesis Testing Main Effect (The Effect of Aggressive Tax Actions on Earnings Quality)

Independent Variable	Dependent Variable: KAL *Random Effect Model*		
	Coef.	t-stat.	Sig.
Constanta	146,184	1,556	0,128
TPA	140,819	1,387	0,173
R^2	0,009		
F-stat.	0,349		
Sig.	0,557		
Obs.	39		
Information: TPA: Aggressive Tax Actions; KAL: Earnings Quality			

Source: Secondary Data Processed by Researchers

Table 4 indicates that the effect of aggressive tax actions on earnings quality has a coefficient of 140.819, a t-statistic of 1.387, and a significance level of 0.173. The significance value (0.173 > 0.05) indicates that the estimate of the main effect, namely, aggressive tax actions, does not have a significant effect on earnings quality. Thus, **hypothesis (H1) is not supported**.

The result of this study indicates that aggressive tax actions has no significant effect on earnings quality. Aggressive tax actions refer to strategies or measures employed by a company to minimize its tax liability to the greatest extent possible, it can be conducted by exploiting legal loopholes explicitly (Rachmawati & Fitriana, 2021). Aggressive tax actions often do not provide clear signals to the market or shareholders due to the existence of information asymmetry between company management and shareholders. This asymmetry is exploited by management to conceal the fact that the financial health of the company is not aligned with the interests of shareholders. Consequently, opportunistic actions in implementing aggressive tax strategies are difficult for the market or shareholders to respond to.

The second hypothesis (H2) focuses on—specifically, the effect of aggressive tax actions on managerial ownership. This study employ three paired panel data regression methods to determine the most appropriate approach for testing this hypothesis. The details of these three paired tests will be elucidated as follows;

Table 5. Results of Paired Sample T-Test Mediation Effect (The Effect of Aggressive Tax Actions on Managerial Ownership)

Chow Test Result	
Cross- Section F (sig.)	0,001
Information	*Fixed Effect*
Lagrange Multiplier Test	
Breusch-Pagan (sig.)	0,027
Information	*Random Effect*
Hausman Test	
Cross- Section Random	0,008
Information	*Fixed Effect*
Conclusion	*Fixed Effect*

Source: Secondary Data Processed by Researchers

Based on the analysis of Paired Sample T-Test conducted, it is concluded that the most appropriate model for testing the effect of aggressive tax actions on managerial ownership is the *fixed effects* model. Therefore, the results of the hypothesis test can be presented as follows:

Table 6. Result of Hypothesis Testing Mediation Effect (The Effect of Aggressive Tax Actions on Managerial Ownership)

Independent Variable	Dependent Variable: KAL *Fixed Effect Model*		
	Coef.	t-stat.	Sig.
Constanta	31,412	2,980	0,006
TPA	-124,156	-2,815	0,009
R^2	0,624		
F-stat.	3,203		
Sig.	0,006		
Obs.	39		
Information: TPA: Aggressive Tax Actions; KAL: Earnings Quality			

Source: Secondary Data Processed by Researchers

Table 6 indicates that the effect of aggressive tax actions on managerial ownership has a coefficient of -124,156, a t-statistic of -2,815, and a significance level of 0,009. The significance value (0,009 < 0,05) indicates that the estimate of the mediation effect, namely, aggressive tax actions has a significant effect on earnings quality. Thus, **hypothesis (H2) is supported**.

The result of this study indicates that Aggressive Tax Actions has negative and significant effect on managerial ownership. Managerial ownership arises as a result of the conflict of interest between shareholders and company management. It serves as a monitoring and control system to mitigate aggressive tax actions, which, in turn, can impact on the company's performance (Sari et al., 2016). Desai & Dharmapala (2009) emphasizes that the effect of shareholders on aggressive tax actions depends on their ability to control company management. Management holding shares in the company can curb aggressive tax action. Their dual role as shareholders and managers assist them in controlling the tendency for opportunistic actions to fulfil personal interests.

The third hypothesis (H3) focuses on—specifically, the effect of managerial ownership on earnings quality. This study employ three paired panel data regression methods to determine the most appropriate approach for testing this hypothesis. The details of these three paired tests will be elucidated as follows;

Table 7. Result of Multicollinearity Test

	TPA	KPM
TPA	1,000	-0,710
KPM	-0,710	1,000

Source: Secondary Data Processed by Researchers

Table 7 indicates that the correlation between independent variables, specifically aggressive tax actions and managerial ownership, is less than 0.80. The test results affirm the absence of multicollinearity issues among the study variables. Following this, the researcher conducted paired testing as outlined below;

Table 8. Results of Paired Sample T-Test Mediation Effect (The Effect of Managerial Ownership on Earnings Quality)

Chow Test Result	
Cross- Section F (sig.)	0,000
Information	*Fixed Effect*
Lagrange Multiplier Test	
Breusch-Pagan (sig.)	0,000
Information	*Random Effect*
Hausman Test	
Cross- Section Random	0,227
Information	*Random Effect*
Conclusion	*Random Effect*

Source: Secondary Data Processed by Researchers

Based on the analysis of Paired Sample T-Test conducted, it is concluded that the most appropriate model for testing the effect of managerial ownership on earnings quality is the *random effects* model. Therefore, the results of the hypothesis test can be presented as follows:

Table 9. Result of Hypothesis Testing Mediation Effect (The Effect of Managerial Ownership on Earnings Quality)

Independent Variable	Dependent Variable: KAL *Random Effect Model*		
	Coef.	t-stat.	Sig.
Constanta	220,469	1,094	0,281
TPA	-159,471	-0,358	0,721
KPM	-1,399	-0,793	0,432
R^2	0,022		
F-stat.	0,408		
Sig.	0,667		
Obs.	39		
Information: TPA: Aggressive Tax Actions; KPM: Managerial Ownership; KAL: Earnings Quality.			

Source: Secondary Data Processed by Researchers

Table 9 indicates that the effect of managerial ownership on earnings quality has a coefficient of -1,399, a t-statistic of -0,793, and a significance level of 0,432. The significance value (0,432 > 0,05) indicates that the estimate of the mediation effect, namely, managerial ownership, does not have a significant effect on earnings quality. Thus, **hypothesis (H3) is not supported**.

The result of this study demonstrates that managerial ownership has no significant effect on earnings quality. Managerial ownership, as a corporate strategy, aims to reduce or minimize the potential for unethical behaviour in a management. This can be achieved through managers' active involvement in owning company shares. However, it should be noted that managerial ownership in small amounts may not convey strong signals regarding the quality in earnings information to the market. When the shares owned by managers are still limited, the impact on improving the earnings quality may not be optimal.

The fourth hypothesis (H4) focuses on—specifically, the effect of aggressive tax actions on earnings quality through managerial ownership. Based on main effect testing, it demonstrates that the aggressive tax actions has no significant effect on earnings quality. Based on variance Accounted For (VAF) method for testing mediating effects, it is recommended to conduct mediating effect tests only when the main effect is significant. Thus, **hypothesis (H4) is not supported**.

The result of this study demonstrates that aggressive tax actions has no significant effect on earnings quality through managerial ownership. Given the current weak capital market conditions in Indonesia, it appears that the market and shareholders are unable to fully integrate or absorb all the information disclosed by companies. This information encompasses the aggressive tax actions implemented by management to sustain the company's earnings performance. The weak capital market in Indonesia results in a lack of responsiveness from the market and shareholders to the introduction of managerial ownership, thereby not influencing market or shareholder reactions. Additionally, low managerial share ownership may impede managers' ability to optimally enhance earnings quality.

CONCLUSIONS

The objectives of this study is to examine and analyse the effect of Aggressive Tax Actions on Earnings Quality in which mediated by Managerial Ownership. This study utilizes a sample of banking companies listed on the Indonesia Stock Exchange for the period 2019-2021 through purposive sampling method. As a result, 13 research samples were obtained for the three-year. Therefore, the total number of observations is 39. The analytical tool used is Eviews version 13 with a panel data regression approach. The result of this study demonstrated that (1) aggressive tax action has no significant effect on earnings quality, (2) aggressive tax action has negative and significant effect on managerial ownership, (3) managerial ownership has no significant effect on earnings quality and (4) aggressive tax action has no significant effect on earnings quality through managerial ownership.

This study holds significant implications for agency theory, particularly concerning the information asymmetry between company management and shareholders. This imbalance prevents the market and shareholders from fully comprehending the fundamental information disclosed by the company. Moreover, the fragile conditions of the Indonesian capital market negatively affects on the process of information absorption by companies. In conclusion, it can be inferred that the market fails to fully integrate the conveyed information, leading to challenges for shareholders and the market in making accurate decisions. In this context, effective communication strategies are imperative for company management to convey information to the market and shareholders. Given the suboptimal ability of the capital market to absorb information, additional efforts in information dissemination are crucial to ensure maximum understanding and facilitate accurate decision-making.

This study has focused on using the effective tax rate to gauge aggressive tax actions and earnings per share to assess earnings quality. To enhance comprehensiveness, future research might explore metrics like book tax differences to measure aggressive tax actions. Similarly, for a more holistic evaluation of earnings quality, considering alternatives like book value per share or discretionary accruals could be insightful. Diversifying these measurement methods could offer a deeper and more accurate understanding of corporate tax practices and earnings quality.

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