

EXAMINING THE MEDIATING ROLE OF TAX AVOIDANCE IN THE DETERMINANTS OF EARNINGS MANAGEMENT IN MANUFACTURE LISTED COMPANIES

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Abstract

This study examines the effect of managerial ownership, transfer pricing, and company size on earnings management, with tax avoidance as a mediating variable, in manufacturing companies listed on the Indonesia Stock Exchange during 2020-2023. This research uses a quantitative approach with a causal-comparative design. The purposive sampling method was used to select 42 companies, resulting in 168 company-year observations. The data were analyzed using panel data regression with Random Effect Model (REM) based on Chow, Hausman, and LM tests. The results show that only transfer pricing has a significant and positive effect on earnings management, while managerial ownership and firm size do not show a significant effect. In addition, tax avoidance significantly strengthens the relationship between transfer pricing and earnings management but weakens the relationship between managerial ownership and firm size. These results imply that firms tend to manipulate earnings through strategic transfer pricing, especially if accompanied by aggressive tax avoidance. The novelty of this study lies in integrating tax avoidance as a mediating factor in the agency theory framework to explain earnings management practices in emerging markets such as Indonesia.

Keywords: Earnings Management, Tax Avoidance, Transfer Pricing, Managerial Ownership, Company Size

INTRODUCTION

In the modern business world, the integrity of financial statements greatly determines the credibility and sustainability of a company. However, as pressure from shareholders increases, ambitious financial targets, and the complexity of tax regulations, many companies are stuck in the practice of earnings management as a strategy to improve financial performance that does not reflect real conditions. This earning management practice is often carried out through accounting manipulations such as accelerated income recognition, expense delays, and complex tax avoidance strategies (Elaiwu et al., 2024).

The phenomenon of earning management is back in the public spotlight after the emergence of a case at PT Indofarma Tbk which indicates serious irregularities in financial reporting. In the 2023 financial year, the state-owned pharmaceutical company recorded a drastic decrease in net profit of up to 99.65% compared to the previous year. This very significant decline in profit should be an early warning to auditors and stakeholders, given that such a large change usually indicates a fundamental problem in the operation or financial reporting system. However, surprisingly, Indofarma's financial statements actually received a "reasonable without exception" audit opinion from an independent auditor. This means that formally no material errors were found in the company's financial statements, even though in terms of substance there was an extraordinarily large and unusual decline in performance. This irregularity raises strong suspicions that the company may have carried out earning management practices, which are acts of accounting manipulation carried out by management to adjust profit figures for specific purposes, such as maintaining investor confidence, avoiding the spotlight of tax authorities, or maintaining managerial reputation (CNBC, 2024).

In addition, Indofarma is facing a serious financial crisis that began in early 2024, with employee salary reports overdue since March due to negative cash and even entangled in PKPU, while the BPK found a series of manipulations of financial statements including inventory inflating, transaction engineering, fictitious record-keeping, and sales funds worth Rp 470 billion in unpaid subsidiaries, resulting in potential state losses of around Rp 371.8 billion; The chief commissioner

resigned and the BPK's investigative report is now in the hands of the Attorney General's Office for further legal proceedings (BPK.go.id, 2024)

This phenomenon shows how important research on the determinants of earning management is in the context of manufacturing companies, particularly considering variables such as managerial ownership, transfer pricing, and company size, which are then mediated by tax avoidance practices. Through this kind of study, it is hoped that a clearer pattern can be found regarding how the combination of these factors affects the quality of financial statements and the extent to which tax avoidance strengthens or weakens the relationship. The Indofarma case not only reflects the crisis of transparency in financial reporting, but also serves as an alarm for investors, auditors, and regulators to be more vigilant against covert earnings management practices, but have the potential to be systematic and have a major impact on public confidence in the financial market (Ismaila et al., 2024).

Managerial ownership, which is the proportion of company shares owned by management, is believed to affect management's tendency to manage profits (Saona et al., 2020). Agency theory states that when managers have financial interests in the company, they tend to be more aligned with the interests of shareholders, thus reducing opportunistic actions that are detrimental to the quality of profits. However, too large managerial ownership can also give rise to the entrenchment effect, which is a condition in which managers feel too powerful internally and tend to hide true information from shareholders (Sari & Khafid, 2020). The study (Kusumawardhani & Murdianingrum, 2021; Ningrum, 2021; Rahman et al., 2021) concluded that managerial ownership had an effect on earning management, while the study (Bawono, 2021; Mwangi & Nasieku, 2022; Sumantri et al., 2021) concluded that managerial ownership had no effect on earning management.

Transfer pricing is the pricing of transactions between entities within a corporate group, often used in earnings management to move profits between subsidiaries, especially to areas with low tax rates (tax havens) (Fonseca et al., 2024). This practice is not only used for internal efficiency, but also as a strategic tool in tax avoidance that directly reduces the quality of reported earnings because the earnings figures do not reflect the company's real economic performance. This aggressive transfer pricing makes it easier for management to manage profits manipulatively in order to meet certain targets, while reducing the tax burden that must be paid (Alawiyah & Wulandari, 2024). Research (Alawiyah & Wulandari, 2024; Duho et al., 2024; Robin et al., 2021) concluded that transfer pricing affects earnings management, while research (Kramarova, 2021; Nadhifah & Arif, 2020; Sebele-Mpofu et al., 2021) concluded that transfer pricing has no effect on earnings management.

The size of the company also affects earning management. Large companies usually have better internal control systems and stricter oversight from auditors and regulators, which can limit the scope for the practice of manipulating financial statements. However, the complexity of large structures and resources also allows large companies to carry out earning management in a more covert manner, including through complex transfer pricing and tax avoidance schemes (Tamaela et al., 2025).

Tax avoidance as a mediating variable in this study is a strategy commonly used by companies to reduce the tax burden legally. While not directly unlawful, these strategies often involve complex and aggressive schemes that negatively impact the transparency of financial statements. High tax avoidance can weaken the positive relationship between managerial ownership, transfer pricing, and company size and profit quality, as reported profits do not reflect the company's true economic performance (Nugroho et al., 2023).

This study aims to examine the influence of managerial ownership, transfer pricing, and company size on earning management, considering the mediating role of tax avoidance practices in manufacturing companies listed on the Indonesia Stock Exchange. The main objective of this study is to identify the extent to which internal factors of the company drive profit manipulation, as well as how tax avoidance can be a mechanism between those that strengthen or weaken the relationship between these variables. The selection of the manufacturing sector is based on the higher

complexity of the production chain and affiliate transactions, making it vulnerable to manipulative practices both in terms of accounting and taxation.

The theoretical contribution of this study is to enrich the literature on earning management with an integrative approach that combines the three main determinants of managerial ownership, transfer pricing, and company size in one empirical model, as well as adding a mediation dimension through tax avoidance that has been more often studied separately. This research also makes a practical contribution to regulators, auditors, and investors, as the results can be a reference in detecting early indicators of earning management practices that are hidden behind financial statements that are formally seem reasonable. On the other hand, for company management, the findings of this study can be an important reflection in developing more transparent and accountable governance policies.

The novelty of this study lies in the integration of tax avoidance as a mediating variable in the relationship between the company's internal determinants and earning management, something that is still rarely empirically raised in the context of emerging markets such as Indonesia. In addition, this study uses an actual case-based approach, namely the financial reporting scandal of PT Indofarma Tbk as a relevant and up-to-date contextual footing. With this approach, research not only contributes to the conceptual aspect of theory development, but also answers the need for data and models that are able to explain the phenomenon of profit manipulation in real practice in a more precise and measurable manner.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Agency Theory

Agency theory describes the relationship between the owner of the company (principal) and the manager or manager of the company (agent), where the agent is appointed to carry out the principal's interests. However, due to differences in interests and asymmetrical information, agents sometimes act in their own personal interests, not the owners' interests. This condition creates potential conflicts and risks that agents will make decisions that are not optimal for the principal, such as manipulating financial statements or managing profits for personal gain. Therefore, agency theory emphasizes the importance of supervision and incentive mechanisms so that the interests of the agency are aligned with the principal objectives (Meckling & Jensen, 1976).

Managerial Ownership on Earning Management

Managerial ownership refers to the conditions under which company management such as directors and managers own shares in the company they manage. In the context of agency theory, managerial ownership plays an important role in reducing conflicts of interest between managers (agents) and owners (principals). When managers also become partial owners of the company, they will be encouraged to make decisions that are more aligned with the shareholders' goals, including maintaining the accuracy and integrity of financial statements. This can reduce the tendency of earning management, which is the act of manipulating accounting to improve the image of financial performance in a pseudo-manner (Wardana et al., 2024).

However, agency theory also shows that if the proportion of managerial ownership is too large, there can be an entrenchment effect, which is a condition when managers feel too powerful internally and tend to act arbitrarily without fear of dismissal. In this situation, managers can actually be more free to carry out hidden earnings management for personal interests, such as maintaining reputation or achieving bonus targets. Therefore, the effect of managerial ownership on earnings management practices can be two-sided: it can reduce or increase earnings manipulation depending on the level of ownership and the supervisory system in place. Research (Novrica et al., 2024; Wijaya et al., 2024; Wulandari & Kusumawati, 2024) concluded that managerial ownership affects earnings management.

H1: Managerial ownership affects earning management

Transfer Pricing on Earning Management

Transfer pricing is the practice of pricing transactions of goods, services, or intangible assets between companies that are still in a group or affiliated entity. In the context of earning management, transfer pricing is often used by management as a tool to regulate the amount of profit reported by an entity within a group of companies (Sitanggang & Firmansyah, 2021).

Companies can use transfer pricing to shift profits from entities with high tax rates to other entities in countries with lower tax rates (tax havens), thus making the overall group tax burden lighter. This practice can be done by setting transfer prices that are unreasonable or not in accordance with market value, for example selling goods to subsidiaries abroad at below-market prices to reduce profits at home and increase profits abroad (Novira et al., 2020).

In relation to earning management, transfer pricing is one of the strategies used by management to manipulate financial statements legally but unethically, with the aim of displaying more stable financial performance, meeting profit targets, or avoiding the attention of tax authorities and investors. In other words, aggressive transfer pricing has the potential to reduce the quality of profits because the reported profit figures do not reflect actual economic conditions. Therefore, regulators and auditors pay close attention to transfer pricing transactions as an early indication of covert earning management practices (Arizah et al., 2024).

Transfer pricing is closely related to agency theory, as this practice may reflect the conflict of interest between managers (agents) and owners (principals). In a situation of information asymmetry, managers who have control over financial statements can use transfer pricing to manage profits, for example by moving profits to subsidiaries in low-tax countries to reduce tax burden or to achieve certain targets. Research (Hidayanto & Amrania, 2024; Margaretha & Handayani, 2023; Rahmanda & Prabowo, 2024) concluded that transfer pricing affects earnings management.

H2: Transfer pricing affects earning management

Company Size on Earning Management

The size of a company influences earning management practices in two ways. Large companies tend to be more closely supervised by the public, regulators, and auditors, and have better internal control systems, which can suppress profit manipulation. However, because they have a complex structure and larger resources, large companies are also more able to carry out hidden earning management, for example through transfer pricing or tax avoidance. Therefore, the size of the company can strengthen or weaken management's tendency to manipulate financial statements, depending on the context of supervision and managerial motivation (Maisaroh & Ariani, 2024).

In the perspective of agency theory, the large size of a company increases the distance between the owner (principal) and the manager (agent), thereby increasing the potential for a conflict of interest. Although large companies usually have stricter supervisory systems, managers still have the opportunity to perform earning management due to operational complexity and asymmetrical information. Managers can take advantage of these gaps to achieve personal goals, such as maintaining a reputation or earning bonuses. Thus, the agency theory explains that the size of the company creates challenges in the supervision of agents, which can open up space for the practice of manipulating financial statements. Research concludes that company size has an effect on earning management. (Paramitha & Idayati, 2020; Pramana & Setyadi, 2021; Setiowati et al., 2023).

H3: Company size affects earning management

Managerial Ownership on Earnings Management Mediated by Tax Avoidance

Managerial ownership can generally suppress earnings management practices because managers who are also owners tend to maintain the quality of financial statements according to agency theory. However, if the company implements an aggressive tax avoidance strategy, this positive effect can be weakened. Tax avoidance provides a loophole for managers to hide earnings manipulation, so managerial ownership loses supervisory power. Thus, tax avoidance as a mediating variable can weaken the effect of managerial ownership on earnings management control (Sari & Chairunisa, 2025). Research (Paramitha & Idayati, 2020; Pramana & Setyadi, 2021; Setiowati et al.,

2023) concluded that tax avoidance strengthens the relationship between managerial ownership and earnings management.

H4: Tax avoidance strengthens the relationship between managerial ownership and earning management

Transfer Pricing on Earnings Management Mediated by Tax Avoidance

Transfer pricing can be used by companies to manage profits by manipulating transaction prices between related entities, thus potentially increasing earnings management practices. However, when tax avoidance is applied aggressively, this strategy becomes more complex because tax avoidance provides a legal mechanism to reduce the tax burden that can also be used to hide earnings manipulation. Thus, tax avoidance can strengthen or weaken the effect of transfer pricing on earnings management, depending on how aggressive the tax avoidance practice is. Research (Margaretha & Handayani, 2023; Kurniawan, 2024; Permani et al., 2023) concluded that tax avoidance strengthens the relationship between transfer pricing and earnings management.

H5: Tax avoidance strengthens the relationship between transfer pricing and earning management

Company Size on Earnings Management Mediated by Tax Avoidance

Company size usually affects earnings management practices, where large companies tend to have more resources and incentives to manipulate earnings to achieve certain goals. However, when tax avoidance is applied as a strategy, the effect of firm size on earnings management may change. Tax avoidance provides additional opportunities for companies to manage profits legally, so that tax avoidance mediation can strengthen or weaken the relationship between company size and earnings management depending on the level of aggressiveness of tax avoidance carried out. Research (Nurlis et al., 2021; Saragih & Hendrawan, 2021; Thalita et al., 2022) concluded that tax avoidance strengthens the relationship between firm size and earnings management.

H6: Tax avoidance strengthens the relationship between company size and earning management

RESEARCH METHODS

Research Design

This study uses a quantitative approach with a causal-comparative design, which aims to test the influence of managerial ownership, transfer pricing, and company size on earning management with tax avoidance as a mediating variable. This design was chosen because it is able to explain the cause-and-effect relationship between variables based on measurable historical data. This study is explanatory, where hypothesis testing is carried out to determine how much influence independent variables have on dependent variables either directly or through mediation. The data used is secondary data sourced from the financial statements of public companies listed on the Indonesia Stock Exchange (IDX) for the period 2020 to 2023.

Population and Sample

The population in this study is all non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The selection of this population was made because non-financial companies generally have a more stable financial statement structure and are not subject to specific regulations of the financial sector. Samples are determined using the purposive sampling method, which is a sampling technique based on certain criteria. The sample criteria in this study are: (1) companies that consistently publish audited annual financial statements during 2020–2023; (2) the company has managerial ownership and (3) the company has complete and measurable data for all research variables, including information on managerial ownership, related party transactions, total assets, and effective tax rates.

Table 1. Sample Selection Techniques

Yes	Sample Criteria	Sum
1	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) until 2023	124
2	Companies that do not have managerial ownership until 2023	-82
Total Company Sample		42
Observation Year (2020 – 2023)		4
Amount of Research Data		168

Source: IDX data processed, 2025

Data Collection Techniques and Instrument Development

The data used in this study is secondary data obtained through the documentation of the company's annual financial statements available on the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official website of each company. Data collection is done manually by recording the required information into a data coding sheet. The variable of managerial ownership is measured based on the percentage of shares owned by the management to the total outstanding shares. Transfer pricing is proxied through the ratio of transactions with related parties to the company's total receivables. The size of a company is measured using the natural logarithm of total assets. Earning management is measured using the Modified Jones Model approach as a discretionary accrual proxy. Meanwhile, tax avoidance is proxied by the Effective Tax Rate (ETR), which is the ratio of income tax burden to profit before tax.

Data Analysis Techniques

The data analysis in this study was carried out using EViews 13 software through a panel data regression approach. The initial stage includes descriptive statistical analysis and tests of classical assumptions such as normality, multicollinearity, heteroscedasticity, and autocorrelation. The selection of the panel regression model was carried out with the Chow test to compare the Pooled Least Square (PLS) and Fixed Effect Model (FEM) models, followed by the Hausman test to choose between FEM and the Random Effect Model (REM), and the Lagrange Multiplier (LM) to compare PLS with REM. After the best model was determined, multiple regression analysis was performed to test the influence of managerial ownership, transfer pricing, and company size on earning management, as well as interaction analysis to test the mediating role of tax avoidance. The t-test, the F-test, and the coefficient of determination (R^2) are used to measure the significance and strength of the model.

RESULTS AND DISCUSSION

Model Selection Testing

Table 2. Model Selection Testing

Testing	Prob	Model Conclusion
Chow	0.9997	CEM
Hausman	0.8939	REM
LM	0.0003	REM

Source: Data processed with EViews 13, 2025

Based on the results of the panel data regression model test, the Chow test produced a probability value of 0.9997, which is greater than 0.05, so it was concluded that the Common Effect Model (CEM) model is more accurate than the Fixed Effect Model. Furthermore, the Hausman test shows a probability value of 0.8939, which is also greater than 0.05, so the Random Effect Model (REM) model is more suitable than the Fixed Effect Model. However, the Lagrange Multiplier (LM) test yielded a probability of 0.0003, which is smaller than 0.05, suggesting that the Random Effect

Model model is better than the Common Effect. Considering the three test results, the best model used in this study is the Random Effect Model (REM).

Classic Assumption Testing

Table 3. Classic Assumption Testing

Testing	Result	Conclusion
Normality	0.6548	Normal distributed data
Multicollinearity	The value indicates an overall correlation level below 0.8	Multicollinearity does not occur
Heteroscedasticity	0.3170	Heteroscedasticity does not occur

Source: Data processed with EViews 13, 2025

The normality test yielded a value of 0.6548, which indicates that the data is distributed normally. Furthermore, the multicollinearity test showed that all correlation values between independent variables were below the threshold of 0.8, so it can be concluded that multicollinearity did not occur in the regression model. Finally, the heteroscedasticity test showed a value of 0.317, which was above the significance level of 0.05, so it can be concluded that heteroscedasticity did not occur. Thus, the data were declared to meet classical assumptions and were suitable for further regression analysis.

Table 4. Hypothesis Testing

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Conclusion
C	-3.0032	1.2766	-2.3524	0.0211	
MO	-1.9707	1.6212	-1.2156	0.2277	Hypothesis Rejected
TP	2.3688	1.1506	2.0588	0.0428	Hypothesis Accepted
FS	0.3261	0.4509	0.7232	0.4717	Hypothesis Rejected
TA*MO	6.5944	9.2869	0.7101	0.4797	Hypothesis Rejected
TA*TP	11.1688	5.4091	2.0648	0.0422	Hypothesis Accepted
TA*FS	-0.1424	0.1896	-0.7509	0.4549	Hypothesis Rejected
R-squared	0.6833				
Prob(F-statistic)	0.0000				

Source: Data processed with EViews 13, 2025

Based on the regression output results shown, the research model has an R-squared value of 0.6833, which means that about 68.33% of the variation in the dependent variable can be explained by the independent variables and their interactions in this model. The Prob(F-statistic) value of 0.0000 indicates that simultaneously, all variables in the model have a significant effect on the dependent variable.

Partially, the Transfer Pricing (TP) variable has a significant effect on the dependent variable with a probability value of 0.0428 ($p < 0.05$). Likewise, the interaction between Tax Avoidance and Transfer Pricing (TA*TP) also shows a significant effect with a probability value of 0.0422. Meanwhile, the variables of Managerial Ownership (MO), Firm Size (FS), as well as the interaction between Tax Avoidance with MO and FS (TA*MO, TA*FS) have no significant effect because the probability value is above 0.05. Based on the table above, a research regression model can also be formed, namely:

$$EM = -3.0032 - 1.9707MO + 2.3688TP + 0.3261FS + 6.5944TA*MO + 11.1688TA*TP - 0.1424TA*FS$$

The model describes a constant value of -3.0032 indicating that when all independent variables are zero, the earning management value is negative. The MO coefficient of -1.9707 indicates that the higher the managerial ownership, the lower the earning management practice. In contrast, a TP coefficient of 2.3688 indicates that transfer pricing practices improve earning management. The size of the company has a positive but relatively small influence on earning

management, with a coefficient of 0.3261. The interaction of tax avoidance with managerial ownership (TA*MO) was positive at 6.5944, which shows that tax avoidance strengthens the influence of MO on EM. Similarly, the interaction (TA*TP) of 11.1688 shows that tax avoidance strengthens the influence of TP on earning management. However, the interaction (TA*FS) of -0.1424 shows that tax avoidance actually weakens the influence of company size on earning management. Thus, tax avoidance acts as a mediating variable that strengthens or weakens the influence of independent variables on earning management practices.

The results show that managerial ownership has no effect on earning management. This means that even if a portion of the company's shares are owned by managers, it does not automatically encourage them to refrain from the practice of manipulating financial statements. These results are not entirely in line with agency theory, which states that managerial ownership can align interests between managers (agents) and owners (principals), so it should be able to suppress agency conflicts, including earning management practices. This discrepancy indicates that in practice, the manager's shareholding may not be large enough to provide a strong economic incentive to maintain the integrity of financial reporting, or it may be due to other factors such as performance pressures, company culture, or weak oversight mechanisms that keep managers motivated to perform earning management despite having partial ownership. Research concludes that managerial ownership has no effect on earning management (Karuniawati & Purwatiningsih, 2024; Pardosi et al., 2024; Sari et al., 2024).

The results show that transfer pricing has a positive and significant effect on earning management. This means that the higher the intensity of transfer pricing practices carried out by the company, the more likely the company is to carry out earning management. This indicates that the company utilizes the price transfer mechanism between entities in a business group as a means to regulate the amount of reported profit, both for tax avoidance purposes and to meet certain targets. These findings are in line with agency theory, where managers as agents have an incentive to maximize their own interests, including by engaging in manipulative practices such as earning management through transfer pricing, especially when supervision from principals (owners) or regulators is not optimal. Transfer pricing is a strategic instrument in moving profits between entities to hide the company's true performance. The study concluded that transfer pricing has an effect on earning management (Kalsum et al., 2025; Mardjono et al., 2025; Situmorang & Setiabudi, 2025).

The results show that the size of the company has no effect on earning management. This means that the size or size of the company is not a factor that determines whether the company will carry out earning management practices or not. These findings suggest that even large companies are not necessarily more transparent or have better internal controls in preventing manipulation of financial statements, and conversely, small companies are not necessarily more vulnerable to such practices. In the context of agency theory, these results indicate that the size of the company is not a guarantee of effective oversight of the manager's behavior as an agent. Although large companies are generally assumed to have stronger good corporate governance mechanisms, other factors such as ownership structures, performance pressures, or managers' personal motivations may play a greater role in encouraging or holding back earning management practices. Research concludes that company size has no effect on earning management (Chair, 2024; Registiany et al., 2024; Sukoharsono & Fachriyah, 2024).

The results show that tax avoidance weakens the relationship between managerial ownership and earning management. This means that the existence of tax avoidance does not strengthen or weaken the influence of managerial ownership on earning management practices in the company. These findings indicate that managers' decisions to do or not to do earning management are not influenced by the level of tax avoidance that companies do, even if they own shares in them. In the context of agency theory, this reflects that managerial ownership has not been effective in aligning the interests of agents and principals, even when associated with tax avoidance incentives. It could be that the portion of managerial ownership is still too small to have a significant influence on financial reporting behavior, or tax avoidance and earning management are carried out

on the basis of considerations of the company's strategy that are separate from the manager's internal ownership structure. The study concluded that tax avoidance weakens the relationship between managerial ownership and earning management (Dinata & Asqolani, 2024; Dinata & Asqolani, 2024; Hanifah et al., 2025).

The results show that tax avoidance strengthens the relationship between transfer pricing and earning management. This means that the higher the level of tax avoidance carried out by the company, the stronger the influence of transfer pricing on earning management practices. This indicates that companies tend to utilize transfer pricing not only for internal earning management purposes, but also as a strategy to aggressively minimize tax burdens. In the context of agency theory, these findings reinforce the view that managers as agents have a tendency to pursue their own interests, including manipulating profits through price transfer mechanisms and exploiting loopholes in tax regulation. Thus, tax avoidance acts as a tool that increases the opportunity for managers to optimize transfer pricing practices in the context of earning management, especially when supervision from the principal or tax authorities is less effective. The study concluded that tax avoidance strengthens the relationship between transfer pricing and earning management (Delgado et al., 2023; Karjalainen et al., 2023; Maqsood et al., 2024).

The results show that tax avoidance weakens the relationship between company size and earning management. This means that the level of tax avoidance carried out by the company does not strengthen or weaken the influence of the size of the company on earning management practices. In other words, both large and small companies, their tendency to do earning management does not depend on the tax avoidance strategy implemented. In the perspective of agency theory, these findings suggest that company size is not a major factor in determining the extent to which tax avoidance can influence managers' behavior in manipulating financial statements. Although large companies are typically assumed to have more complex oversight and governance structures, tax avoidance is not necessarily a variable that changes the relationship, as the decision to undertake earning management may be more influenced by other internal factors such as performance pressures, organizational culture, or ownership structures. The study concluded that tax avoidance weakens the relationship between company size and earning management (Kuncahyo, 2023; Registiany et al., 2024; Ridho & Djamil, 2023).

CONCLUSION

The study concluded that of the three independent variables analyzed, only transfer pricing was shown to have a positive and significant effect on earning management, while managerial ownership and company size had no significant influence. This shows that the practice of profit manipulation tends to be carried out through the mechanism of price transfer between entities in one business group, not through the influence of internal ownership or the size of the company. In terms of mediation, tax avoidance has been proven to be able to strengthen the influence of transfer pricing on earning management, but weakens the relationship between managerial ownership and company size on earning management. These results suggest that tax avoidance plays a greater role in maximizing the opportunities of earning management practices when associated with transfer pricing strategies, compared to ownership structures or company scale.

Theoretically, these findings enrich the literature on agency theory, particularly in understanding the role of ownership structures and tax strategies on managerial behavior in financial reporting. Practically, this result serves as a warning to regulators and investors that transfer pricing coupled with tax avoidance is a combination that has high potential for earning management practices, so it needs to be more closely monitored. Meanwhile, the assumption that managerial ownership and company size can control manipulative practices was not proven in this study.

This research has several limitations. First, the portion of managerial ownership in the company sample may still be too small to show a significant effect on earning management. Second, the use of secondary data from the financial statements for the 2020–2023 period may not fully capture managerial conditions and internal policies that are qualitative. Third, the variable tax

avoidance is measured quantitatively, whereas in practice tax avoidance strategies can vary substantially depending on the industry context and tax law jurisdiction.

Researchers are further advised to consider other factors such as the quality of corporate governance, organizational culture, or management performance pressures as additional variables to explain earning management tendencies. It is also recommended to extend the scope of the sample to different industry sectors, or extend the observation period to make the results more generalizable. In addition, a qualitative or mixed-method approach can be used to delve deeper into the managerial motivation behind transfer pricing and tax avoidance practices that are not reflected in the financial statement figures.

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