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EARNINGS MANAGEMENT, TAX AVOIDANCE, AND PROFITABILITY AMONG MNC'S IN INDONESIA

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Abstract

The study examines the influence of earnings management and tax avoidance on the profitability of parent multinational companies in Indonesia, except the financial sector, actively listed on the Indonesia Stock Exchange during the research period. The research period used in this study starts from January 1, 2019, to December 31, 2022. The research results were processed using panel data regression, the best model regression was random effect model. One independent variable, earnings management, was found not to significantly affect profitability. However, the study found that the level of tax avoidance has a positive and significant impact on company profitability. The size of the board of commissioners' independence as a moderating variable did not strengthen or weaken the independent variables simultaneously or partially against company profitability, but independence board of commissioners could significantly affect on profitability as independent variables. This is a quantitative research with hypothesis testing. The implications of this study state that there is a high tax aggressiveness in Indonesia due to the actions of multinational companies in global transactions, thus recommending that the government further evaluate current international tax policies.

Keywords: *Earnings Management, Tax Avoidance, Profitability, Corporate Governance, Multinational Firm*

Introduction

Standard Statement of Financial Accounting (PSAK) No. 1, established by the Indonesian Institute of Accountants in 2014, explains the preparation of financial statements with the aim of providing clear information regarding the entity's balance sheet, cash flow, profit and loss, as well as financial performance that benefits users of the reports in making informed economic decisions. Additionally, it identifies management accountability in demonstrating the results of the trust bestowed upon them. The process of financial information recording is expected to be utilized by external parties needing information to assess a company's financial performance at a certain period for investment decision-making purposes. Not only crucial for external parties, financial statements are also necessary for internal stakeholders of the company, especially in designing business sustainability strategies.

According to Agency Theory, internal and external parties potentially have differing priority interests, leading to conflicts of interest between agents and principals (Jensen & Meckling 1976). Every investor expects company management to provide genuine information reflecting the company's financial condition to enable them to consider investment decisions in the company. On the other hand, company management focuses on devising strategies for the company's sustainability, thereby having a tendency to increase or decrease profits to manipulate the company's performance according to their interests. These differing interests result in losses for one party, and the government, as a principal party, may suffer losses due to business practices engaging in such manipulation.

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One of the world's largest accounting fraud scandals occurred at Enron Corporation, a US-based energy company (CNBC Indonesia 2021). Unethical practices occurred in the company by presenting unreal income information and modifying financial positions to portray a healthy financial condition. The credibility of companies in the Indonesian capital market is also being widely discussed, with cases of earnings management beginning to emerge and affecting companies with good reputations. One such case of earnings management occurred at Garuda Indonesia, where it manipulated its financial statements by recording transactions that should have been receivables but were recorded as profits, resulting in Garuda Indonesia being perceived to have significant profits in 2018, contrasting with 2017 when Garuda Indonesia incurred losses (CNN Indonesia 2019). Such situations constitute the root of declining trust levels among external parties regarding the attached financial reports. Trust in profit values can become more reliable and convincing when corporate governance is conducted with regular control and monitoring processes. According to Beuselinck et al. (2019), earnings management tends to occur in multinational companies as they exploit arbitrage opportunities arising from cross-country differences in institutional quality.

Based on the Tax Justice Network (TJN) report, there has been a 40% increase in potential lost revenue due to tax abuse by multinational companies (DDTCNews 2021). Multinational companies generally engage in transfer pricing in tax avoidance practices, due to the presence of subsidiary entities or related entities located in more than one country. Another issue stems from the numerous cases of tax avoidance with various modi operandi revealed in renowned companies in Indonesia. Information provided by the Directorate General of Taxes of the Ministry of Finance (DJP kemenkeu) reveals that about 2,000 multinational entities operating in Indonesia claim to have incurred losses as a reason to avoid tax payments.

At the G20 India meeting, there was an issue stating that developing countries tend to prioritize resolving domestic tax source issues rather than addressing the problem of income shifting practices of domestic entities to foreign countries with lower tax rates or even tax-free jurisdictions (Parjiono, 2018). Indonesia is projected to only achieve a tax ratio of 10.9% in 2021. If this tax ratio is compared with the 38 countries that are members of the Organization for Economic Co-operation and Development (OECD), with an average tax ratio in 2021 of 34.1% (OECD 2023), it can be seen that Indonesia's collected tax amount is very low compared to the national income at that time. Indonesia ranks fifth in the lowest tax ratio among other countries. Tax avoidance practices have the potential to suppress the tax ratio. Therefore, external factors are needed to minimize such practices. According Kurniasih & Suranta, (2017)if an entity has a well-structured corporate governance mechanism, it will directly impact the company's compliance with its tax obligations. The Indonesian government stipulates that all entities must have independent commissioners.

To address the aforementioned issues, this research is conducted to prove the root cause of the low tax ratio in Indonesia, determine whether earnings management practices by inflating and deflating income records can affect the financial performance of multinational companies. Additionally, Indonesia is a country that uses a two-tier board system, consisting of a board of directors and a board of commissioners, unlike some other countries previously studied such as Norway and South Africa which have a one-tier board system in their organizational structure, thus the implementation of corporate governance may differ from research conducted in other countries. The independence of the board of commissioners is expected to control the relationship between earnings management and tax avoidance practices on the entity's financial performance.

Agency Theory

According to Jensen and Meckling 1976 as cited in Boachie & Mensah, (2022), the agency theory describes shareholders who act as principals delegating responsibilities to managers as agents within the company. Agents are expected to act in the shareholders'

interests. However, in reality, conflicts of interest between managers and shareholders arise because managers as agents tend to act based on their own interests. Managers have more information than shareholders, which incentivizes them to exploit the information asymmetry to gain greater benefits. One example of this problem is manipulating financial statements to make the company's performance appear favorable.

Multinational Corporation (MNC)

Pananond,(2015) states, "A multinational corporation is a business entity involved in foreign direct investment (FDI) and possesses or, in some manner, oversees value-added operations in multiple countries." This statement indicates that multinational corporations are parent entities that invest their capital in foreign countries and conduct economic transactions in more than one country, thus demonstrating two characteristics of multinational corporation activities. Multinational corporations play a crucial role in cross-border economic transactions, including exports and imports. Additionally, multinational corporations engage in foreign direct investment in several target countries, one of which is by owning subsidiary entities in countries other than the parent company's domicile (Pangestuti, 2020). This reveals that multinational corporations have an influence on the economic conditions of a country.

Earnings Management

According to Walker (2013:446), earnings management is "the application of managerial policies within the framework of Generally Accepted Accounting Principles (GAAP), involving decisions related to accounting, profit reporting, and actual economic actions. The goal is to influence how underlying economic events are presented in one or more profit measures." This is done by utilizing the flexibility available in accounting policy alternatives, even by violating professional standards and ethical values.

Tax Avoidance

Siregar, Saputri, Nowindra, Farhanah, & Darmawati, (2022) explains that tax avoidance is a way for taxpayers to reject tax payments in a safe or low-risk manner and is lawful, without violating tax regulations. The methods usually used involve exploiting gaps or weaknesses (grey areas) in tax regulations to minimize the total tax to be paid. Dyreng et al. (2008) explain that tax avoidance is a company's effort to reduce its tax obligations. Tax avoidance is a method applied by management to reduce tax burdens and maximize net company profits

Independence of the Board of Commissioners

According to Jouber & Fakhfakh, (2012) independent commissioners are individuals who are not directly related to the company, either as shareholders or as holders of power from companies related to that company. Independent commissioners are a board that is not directly involved with the company and has a function in overseeing parties directly related to the issuer. The independence of the board of commissioners is measured by comparing the total number of independent commissioners and the total number of commissioners. The larger the size of the independent board of commissioners, the more effective and objective the role of the board of commissioners is expected to be (Latif & Abdullah, 2015).

Firm Size

Sukadana & Triaryati, (2018) reveal that the size of the company depicts the size of a company. According to Amertha, (2019) firm size is defined as the scale at which a company can be classified based on total assets, total sales, stock market value, and others. According to Heinrich & Dai, (2016) firm size refers to the size of the company indicated by the size of assets, the number of sales, the average level of sales, and the average total assets.

Leverage

According to Kasmir, (2014) leverage is defined as a ratio used to measure the extent to which a company's activities are financed by debt. Leverage is a ratio that shows the relationship between a company's debt to equity, where the ratio can assess the amount of a company financed by debt or external parties . Leverage is a comparison between the issuer's

obligations to equity, where the value can determine the extent to which the issuer is funded by loans or external parties to finance a company's capital activities.

Covid-19

According to the World Health Organization (WHO), the coronavirus disease 2019 (COVID-19) outbreak involves the global spread of a virus causing rapid transmission of infectious diseases, caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The impact of this pandemic is not limited to health aspects but also creates instability in the global economy and various entity sectors. Government measures to combat the pandemic involve mobility restrictions, stay-at-home orders, social distancing policies, and community closures (Khatib & Nour 2021). Government-imposed restrictions have led to a tendency for economic growth to decline (BPS 2023).

Hypothesis Development

Earnings Management and Profitability

According to Nguyen et al. (2023 cited in Healy & Wahlen 1999), managers misuse their judgment to manipulate transactions in financial statements to provide misinformation to stakeholders about the entity's actual performance and control contractual outcomes determined by reported information. Therefore, earnings management will impact the profitability of the company because of the potential for financial statement results to be non-concrete due to possible manipulation practices aimed at portraying financial conditions that do not reflect the actual state. The higher the intention of earnings management by increasing profits in the company's income statement, the higher the profitability. Conversely, if the intention of profit enhancement practices is low, profitability will be lower. The higher the intention of reducing profits in the company's income statement, the lower the profitability. Conversely, if the intention of profit reduction practices is low, profitability will be higher.

Tax Avoidance and Profitability

Khuong et al. (2020) explain that tax avoidance is a tactic that companies can use by transferring wealth in the hope of increasing the company's value. Tax avoidance is done by a company to minimize excessive tax costs. This can be done by company management by reducing the entity's profit value so that the taxes paid can be smaller, and some companies even create financial statements that show losses so they do not have to pay taxes. On the other hand, company management also needs to demonstrate good financial performance to attract the attention of investors. According to OECD (2013), multinational corporations generally apply aggressive tax policies, both through tax planning strategies and profit-shifting, which have the potential to harm tax revenue in the countries where the company operates. Therefore, opportunistic management behavior towards differences in cross-border tax regulations to manage the company's financial performance for the better. Tax avoidance is one of the earnings management tactics by reducing corporate profits. The higher the intention of tax avoidance practices, the company can allocate costs for other company needs, potentially driving future profitability. Conversely, the lower the practice of tax avoidance, the company needs to pay relatively high taxes, resulting in lower profitability.

Independence of the Board of Commissioners and Profitability

According to Islam (2022), corporate governance instruments can function efficiently by appointing independence to the board because an independent board can ensure that the highest authority's activities in a company are designed to protect the interests of shareholders. A company can be said to have good corporate governance when monitoring mechanisms are effectively implemented so that the company's performance can be more effective in increasing its value (Veronica & Bachtiar, 2005) Therefore, with corporate governance focusing on providing honest and timely financial reporting and strict supervision in the reporting process, earnings management actions can be reduced, thus not causing losses to anyone. The size of the

board of commissioners is responsible for managing internal risks and ensuring the integrity and reliability of financial reporting processes (Naimah & Hamidah 2017).

Moderating Role of the Board of Commissioners' Independence in Earnings Management and Profitability

Based on Agency Theory, the role of the supervisory board is crucial in minimizing conflicts of interest. Therefore, the presence of independent members on the board of commissioners is essential in enhancing oversight efficiency as part of optimal corporate governance. With independent board members, management will be encouraged to improve their performance, thereby enabling the company to achieve more optimal results. Independent commissioners have no direct or indirect affiliations with the company, so when making decisions and actions that have both short-term and long-term impacts on the company, they tend to avoid conflicts of interest. Oversight becomes more effective with the presence of independent commissioners, thereby reducing the occurrence of opportunistic management behavior such as earnings management. Management tends to engage in earnings management by increasing profits so that financial statements show good financial performance in the eyes of investors. To prevent manipulation practices, the responsible role of independent board commissioners in oversight is necessary.

This theory contradicts previous research conducted in Oslo. According to Kjaerland et al. (2020), the proportion of independent commissioners has a positive effect on earnings management, so the larger the proportion, the potential for increased earnings management by entities. Previous research was conducted in Oslo, a country that implements a one-tier board system. Therefore, these findings cannot serve as a benchmark for research conducted in a country with a two-tier board system. In general, if oversight functions are effectively carried out, the company's management will have difficulty manipulating entity financial performance. This will minimize the occurrence of earnings management practices. Conversely, if oversight functions from the independence of the board of commissioners are not carried out or are not effective, management is highly likely to engage in earnings management actions. The larger the proportion of independent board commissioners, the greater the potential for effective oversight functions to be implemented.

Moderating Role of the Board of Commissioners' Independence in Tax Avoidance and Profitability

According to Prastiwi (2020), the independence aspect of the board of commissioners can significantly strengthen the influence of earnings management and tax aggressiveness. High earnings management will lead to an increase in tax aggressiveness. The higher the tax aggressiveness, the more tax avoidance practices are likely to be carried out. The greater the proportion of independence of the board of commissioners, the higher the potential for tax avoidance practices. The independence of the board of commissioners is one of the measures to prevent conflicts of interest, but research results show that the size of the board of commissioners has a positive relationship with tax avoidance by entities (Armstrong et al., 2015). In contrast to previous studies, Sartori (2009) argues that implementing GCG with a focus on transparency has a positive effect on corporate compliance with tax obligations and reduces the risk of involvement in aggressive tax planning strategies.

This statement explains that independent board commissioners have the potential to minimize management to avoid penalties arising from tax avoidance activities. According to Widiiswa and Baskoro (2020), multinational corporations with better implementation of GCG show a significant positive correlation with the potential for tax avoidance practices, especially regarding the independence of the board of commissioners indicator. The statement above indicates that the larger the proportion of independent board commissioners, the higher the potential for corporate management to engage in tax avoidance. This may be due to conflicts of interest, where this action benefits corporations and investors but harms the local government.

Additionally, the greater the proportion of independent board commissioners, the more differences of opinion among each member will affect decision-making in carrying out their functions.

Based on the research to be conducted, the framework regarding the influence of independent variables and moderation on dependent variables can be depicted in Figure 1 with the following hypotheses:

H_1: Earnings management has a significant positive effect on company profitability.
H_2: Tax avoidance has a significant positive effect on company profitability.
H_3: The independence of the board of commissioners can significantly weaken the effect of earnings management on company profitability.
H_4: The independence of the board of commissioners can significantly strengthen or weaken effect of tax avoidance on company profitability.

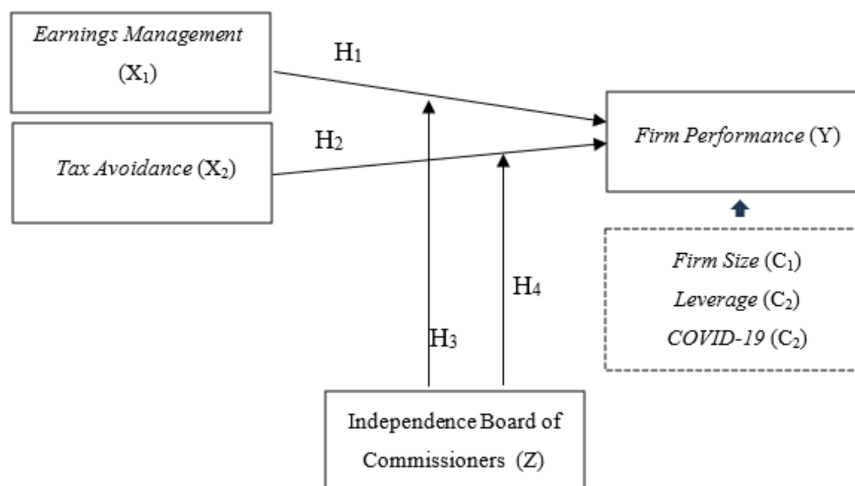

Figure 1. Research Conceptual Framework
Source: Researcher's data analysis results (2024)

Research Method

This research employs a quantitative research design using data panel regression. In this study, there is one dependent variable, two independent variables, one moderating variable, and three control variables. The dependent variable in this research is profitability, while the independent variables are earnings management and tax avoidance. The moderating variable used is the independence of the board of commissioners (Sugiono, 2019). The subjects studied in this research are multinational parent companies in Indonesia. The population data used in this study are multinational companies from the non-banking sector listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The sampling technique used in this study is purposive sampling. The following is a summary of the operational definitions of the variables used in the study.

Table 1. Summary of Operationalization of Variables

Variables	Proxy	References
***Profitability* (Y)**	$ROA = \frac{Net\ Income}{Total\ Assets}$	Alqatan (2019), Nguyen *et al.* (2019)

Variables	Proxy	References
***Earnings Management* (X1)**	Step 1: $TAC_{i,t} = (NI_{i,t} - CFO_{i,t})$ Step 2: $\frac{TAC_{i,t}}{TAi,t-1} = \beta_0 + \beta_1\left(\frac{1}{TA_{i,t-1}}\right) + \beta_2\left(\frac{\Delta REV_{i,t}}{TA_{i,t-1}}\right) + \beta_3\left(\frac{PPE_{i,t}}{TA_{i,t-1}}\right) + \beta_4 ROA_{i,t-1} + \varepsilon_{i,t}$ Step 3: $NDAC_{i,t} = a_0 + a_1\left(\frac{1}{TA_{i,t-1}}\right) + a_2\left(\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{TA_{i,t-1}}\right) + a_3\left(\frac{PPE_{i,t}}{TA_{i,t-1}}\right) + a_4 ROA_{i,t-1}$ Step 4: $DAC_{i,t} = TAC_{i,t} - NDAC_{i,t}$	Kothari *et al.* (2005); Audrey (2020)
***Tax Avoidance* (X2)**	$DBTD = \frac{EBIT - Earning After Tax}{Total Asset}$ $CETR = \frac{Cash Taxes Paid}{Pre - Tax Income}$	Widiiswa and Baskoro (2020), Cho *et al.* (2023)
Independence Board of Commissioners (Z1)	$DIBOC = \frac{number\ of\ independent\ commissioners}{total\ board\ of\ commissioners}$	Rahayu *et al.* (2021)
***Firm Size* (C_1)**	$SIZE = \ln(total\ asset)$	Boachie and Mensah (2022)
***Leverage* (C_2)**	$DAR = \frac{Total Debt}{Total Asset}$	Ajina *et al.* (2019)
***COVID-19* (C_3)**	By employing a dummy variable, if a multinational company issues reports within the COVID-19 period (2020 and 2021), the variable is set to 1; otherwise, it is set to 0.	Aqabna *et al.* (2023)

Source: Researcher's data analysis results (2024)

This research employs panel data regression analysis in answering the research questions. The regression model equation used in this research is as follows:

Regression Model 1 Using DBTD

$ROA_{i,t} = c + \beta_1 DAC_{i,t} + \beta_2 DTBD_{i,t} + \beta_3 DIBOC_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 COV_{i,t} + \varepsilon$……..…......(1)

$ROA_{i,t} = c + \beta_1 DAC_{i,t} + \beta_2 DTBD_{i,t} + \beta_3 DIBOC_{i,t} + \beta_4 DAC * DIBOC_{i,t} + \beta_5 DTBD * DIBOC_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 LEV_{i,t} + \beta_8 COV_{i,t} + \varepsilon$………...…………………….....……………………………….……..….(2)

Regression Model 2 Using CETR

$ROA_{i,t} = c + \beta_1\ DAC_{i,t} + \beta_2\ CETR_{i,t} + \beta_3\ DIBOC_{i,t} + \beta_4\ SIZE_{i,t} + \beta_5\ LEV_{i,t} + \beta_6\ COV_{i,t} + \varepsilon$ ....(3)

$ROA_{i,t} = c + \beta_1\ DAC_{i,t} + \beta_2\ CETR_{i,t} + \beta_3\ DIBOC_{i,t} + \beta_4\ DAC * DIBOC_{i,t} + \beta_5\ DTBD * DIBOC_{i,t} + \beta_6\ SIZE_{i,t} + \beta_7\ LEV_{i,t} + \beta_8\ COV_{i,t} + \varepsilon$..(4)

Where ROA represents profitability, c is the constant, β1 – β8 are the regression coefficients for each variable, DAC, DTBD, CETR are independent variables, DIBOC is the moderating variable, SIZE, LEV, COV are control variables, and Ɛ is the error term. Furthermore, this research will conduct the following tests: (6) Coefficient of Determination (R2), and (7) Parcial Test. Testing in this research is conducted on all sample data that meet the criteria. These tests are carried out to verify hypotheses one to four.

Result and Discussion

Results

Based on the results in Table 2 below, it is known that the ROA variable has a mean value of 0.089, with a median value of 0.0604, a maximum value of 0.6163, a minimum value of 0.0022, and a standard deviation of 0.1013. This indicates that Golden Energy Mines Tbk. (GEMS) has the highest profitability at 0.6163, while Bhuwanatala Indah Permai Tbk. (BIPP) has the lowest profitability ratio at 0.0022 compared to other multinational companies. The ROE variable has a mean value of 0.1597, with a maximum value of 1.2466 held by Golden Energy Mines Tbk and a minimum value of 0.0043 at Bhuwanatala Indah Permai Tbk. The DAC variable has a mean value of 3.59E-05, with a maximum value of 0.1287 held by Erajaya Swasembada Tbk (ERAA) and a minimum value of -0.2277 at PT Merdeka Copper Gold Tbk. The DBTD variable has a mean value of 0.0376, with a maximum value of 0.1848 held by Golden Energy Mines Tbk. (GEMS) and a minimum value of -0.0009 at PT Pakuwon Jati Tbk. (PWON). The DIBOC variable has a mean value of 0.4272, with a maximum value of 1 at Pan Brothers Tbk and a minimum value of 0.2 at PT. MNC Asia Holding Tbk. The mean value of the CETR variable is 0.2244, with Pan Brothers Tbk holding the maximum CETR value of 1.1548 and Argha Karya Prima Ind Tbk having the minimum value of -0.4209.

Company size is one controlled aspect as the research sample comprises companies of various sizes, as evidenced by the relatively high standard deviation of 1.2029. The highest company size falls to Indofood Sukses Makmur Tbk with a SIZE value of 32.8264, while Ekadharma International Tbk is the smallest multinational company compared to others. Financial leverage indicates how much a company uses debt for expenditures. Tower Bersama Infrastructure Tbk has the highest leverage level, indicating higher financial distress risks compared to other multinational companies. The research sample companies have leverage values below 1, indicating a low risk of financial distress. Ekadharma International Tbk has the lowest leverage level, potentially avoiding financial difficulties. Covid-19, a pandemic affecting many companies at the time, is evaluated in this study using a dummy variable. Therefore, the period of 2020 and 2021, when the pandemic was ongoing, is assigned a value of 1, while 2019 is considered the year before the pandemic, and 2022 is the year after the pandemic. The pre and post-pandemic conditions are assessed at 0.

Table 2. Descriptive Analysis

	ROA	DAC	DBTD	CETR	DIBOC	SIZE	LEV	COV
Mean	0.0890	3.59E-05	0.0376	0.2244	0.4272	30.5340	0.4419	0.5
Median	0.0604	0.0058	0.0339	0.2219	0.4000	30.6872	0.4681	0.5
Maximum	0.6163	0.1287	0.1848	1.1548	1.0000	32.8264	0.8211	1.0

	ROA	DAC	DBTD	CETR	DIBOC	SIZE	LEV	COV
Minimum	0.0022	-0.2277	-0.0009	-0.4209	0.2000	27.5987	0.0888	0.0
Std. Dev.	0.1013	0.0659	0.0280	0.1886	0.1172	1.2029	0.1575	0.5
Observations				128				

Source: Researcher's data analysis results using E-views 12 (2024)

Based on the results of the best model regression panel data test, it can be concluded that the random effect model is the most appropriate model to use in this study. This is evident from the Chow test results with a probability value of less than 5% and the Hausman test results with a probability value above 5%, further testing using the LM test yielded significance in either one-way cross-section or two-way between cross-section and time series due to having a probability below 5%. Below are the results of the panel data regression test using the random effect model with Data Panel Regression Analysis in Table 3.

Table 3. Results of Data Panel Regression Model

Variables	ROA					
	Model 1			Model 2		
	Coeff.	t-stat.	Prob.	Coeff.	t-stat.	Prob.
C	-1.5289	-9.8635	0.0000	1.5458	8.0673	0.0000
DAC	0.0108	0.2499	0.8030	0.0143	0.1441	0.8857
DBTD	2.7766	23.5674	0.0000	-	-	-
CETR	-	-	-	-0.0830	-1.9968	0.0481
DIBOC	-0.0591	-1.3925	0.1663	0.0327	0.3321	0.7404
SIZE	0.0203	2.4122	0.0174	0.0420	2.3425	0.0208
LEV	-0.1638	-4.3165	0.0000	-0.2656	-3.2309	0.0016
COV	0.0072	1.4824	0.1408	-0.0125	-1.1154	0.2669
Adjusted R-square		81.25%			9.4%	

Source: Researcher's data analysis results using E-views 12 (2024)

Based on the regression test results presented in Table 3, the resulting regression equation is:

ROA = – 1,5289 + 0,0108 ***DAC*** + 2,7766 ***DBTD*** – 0,0591 ***DIBOC*** + 0,0203 ***SIZE*** – 0,1638 ***LEV*** + 0,0072 ***COV*** ……………………………………………………………………………(1)

ROA = 1,5458 + 0,0143 ***DAC*** – 0,0830 ***CETR*** + 0,0327 ***DIBOC*** + 0,0420 ***SIZE*** – 0,2656 ***LEV*** – 0,0125 ***COV*** …………………………………………………………………………(3)

Based on the multiple regression results presented in Table 3, earnings management has a positive relationship and probability values greater than the 5% and 10% significance levels in both regression models. However, it can be concluded that earnings management is unable to influence profitability. This suggests that such practices cannot improve the financial performance of multinational companies in Indonesia based on the sample used. These companies tend to increase their earnings, but the significant disruption caused by COVID-19 to industry growth results in the inability of profit increases to sustain the company's profitability during that time.

Furthermore, the regression results also show that tax avoidance has a positive relationship and probability values below 5% and 10% in both regression models, indicating a significant positive influence of tax avoidance on company profitability. This suggests that reducing earnings through significant tax avoidance can enhance the financial performance of companies during the pandemic. However, different findings were reported by Nguyen et al.

(2020), stating that the Cash Effective Tax Rate (ETR) has a positive correlation with accounting measures of firm performance, and by (Jamaludin, 2020) who mentioned that profitability does not affect tax avoidance. This discrepancy in research findings is due to previous studies being conducted before the pandemic period.

Additionally, in line with the results of the first regression model, there is a significant role played by the independence of the board of commissioners in influencing the financial performance of companies. Independent commissioners can effectively oversee operations to minimize management manipulation aimed at increasing profitability. These aspects of corporate governance are expected to moderate the relationship between manipulative practices such as earnings management and tax avoidance and profitability indirectly. However, the second model shows that the independence of the board of commissioners is unable to influence financial performance. The varied results are due to differences in measurement focus, where CETR only focuses on the amount of tax paid, while DBTD focuses on creating optimal strategies in utilizing deferred taxes. Below are the results of the panel data regression test using the random effect model with Multiple Regression Analysis in Table 4.

Table 4. Results of Data Panel Moderated Regression Model

Variables	ROA					
	Model 1			Model 2		
	Coeff.	t-stat.	Prob.	Coeff.	t-stat.	Prob.
C	-1.6156	-2.5951	0.0106	1.9000	2.7789	0.0063
DAC	-0.1919	-0.9125	0.3633	0.2743	0.5536	0.5809
DBTD	2.9510	6.2582	0.0000	-	-	-
CETR	-	-	-	-0.0801	-0.8401	0.4025
DIBOC	-0.0387	-0.5738	0.5672	0.0399	0.3127	0.7550
DAC_DIBOC	0.4661	0.9680	0.3350	-0.6036	-0.5343	0.5941
DBTD_DIBOC	-0.3758	-0.3589	0.7203	-	-	-
CETR_DIBOC	-	-	-	-0.0121	-0.0761	0.9394
SIZE	0.0179	2.2216	0.0282	0.0443	2.3903	0.0184
LEV	-0.1662	-4.5235	0.0000	-0.2677	-3.1545	0.0020
COV	0.0071	1.4634	0.1460	-0.0123	-1.0927	0.2767
Adjusted R-square	81.6%			7.04%		

Source: Researcher's data analysis results using E-views 12 (2024)

Based on the regression test results presented in Table 4, the resulting regression equation is:

ROA = – 1.6156 – 0.1919 **DAC** + 2.9510**DBTD** – 0.0387 **DIBOC** + 0.4661 **DAC_DIBOC** – 0.3758**DBTD_DIBOC** + 0.0179 **SIZE** – 0.1662 **LEV** + 0.0071 **COV** ……………..…..(2)

ROA = 1.9000 + 0.2743 **DAC** – 0.0801**CETR** – 0.0399 **DIBOC** – 0.6036 **DAC_DIBOC** – 0.0121 **CETR_DIBOC** + 0.0443 **SIZE** – 0.2677 **LEV** – 0.0123 **COV**…….….........……(4)

Based on the regression test results with moderation presented in Table 4, the DAC variable has a negative direction of influence and a probability value of 0.3633 on first model regression, which is greater than the significance level of 5%. This test indicates that earnings management does not significantly affect company profitability. However, the regression results before the moderator indicates a non-significant negative relationship with profitability at a one-tailed significance level of 10%. This is inconsistent with (Wang et al., 2020) study, which found that earnings management has a significant negative effect on entity financial performance. The DBTD variable has a positive direction of influence and a probability value of

0.0000 on the first model regression, meaning that tax avoidance has a significant positive effect on profitability because it has a significance level below 5%. These results are supported by the CETR variable, which also reflects the level of tax avoidance, where CETR has no significant relationship when analyzed simultaneously with the moderator variable. However, in the partial regression results, CETR has a significant negative relationship with profitability at a 10% significance level.

The DIBOC variable shows a negative direction of influence and a probability value of 0.5672 on the first model regression and 0.755 on the second model regression, indicating that the independence of the board of commissioners does not significantly affect profitability. Nevertheless, DIBOC can significantly affect profitability in parcial ways as independent variable. Furthermore, the DAC_DIBOC, DBTD_DIBOC, and CETR_DIBOC variables show that the independence of the board of commissioners could not strengthen nor weaken the influence of earnings management on profitability and weaken the influence of discretionary book tax difference and cash effective tax rate on profitability, but the independence of the board of commissioners cannot significantly moderate. Additionally, the SIZE variable has a positive coefficient and a probability value of 0.0184 and 0.0282, indicating that company size has a significant positive effect on profitability.

The LEV variable shows a coefficient value of -0.1662 and -0.2677 and a probability value of 0 and 0.02 on the first and second regression model, meaning that leverage negatively and significantly affects profitability. This explains that the higher the company's debt ratio, the lower the financial performance of the company. The COV variable shows a probability value of 0.1460, meaning that COVID-19 could significantly affect entity profitability with one-tailed on 10% significant level using the first model simultaneously, the same results for parcial ways, but on the second regression, COVID-19 insignificantly affect on entity's profitability. The results of this study indicate that COVID-19 could positive significantly impact the financial performance of multinational companies in Indonesia. Based on the results of the Multiple Coefficient of Determination (R2) test, the adjusted R-square value for the first regression is 0.8160. This indicates that the influence of all independent variables on the dependent variable in this study is 81.6%, and 18.4% is influenced by variables outside of this study. Meanwhile, the second model shows that the influence of all independent variables is only 7.04%, leaving the remaining 92.96 % influenced by other variables. From both models, it can be concluded that the first model is able to clearly explain the influence of independent variables on the dependent variable compared to the second model.

Table 5. Results of Parcial Test

Parcial Regression Test				
Variables	**ROA**			**Adjusted R-square**
	Coeff.	**t-stat.**	**Prob.**	
DAC	-0,0296	-0,2639	0,7923	-0,74%
DBTD	3,0621	21,2169	0,0000	78,09%
CETR	-0,0638	-1,7246	0,0871	1,55%
DIBOC	0,0008	0,0080	0,9936	-0,79%
DAC_DIBOC	-0,0969	-0,3654	0,7154	-0,69%
DBTD_DIBOC	5.9979	15.2143	0,0000	64,65%
CETR_DIBOC	-0,0814	-1,4134	0,1600	0,8%
SIZE	0,0212	1,8141	0,0720	1,63%
LEV	-0,2178	-2,7708	0,0064	4,98%
COV	-0,0080	-0,6998	0,4854	-0,4%

Source: Researcher's data analysis results using E-views 12 (2024)

Based on the T-test results shown in Table 5, it can be concluded that there is no relationship between earnings management and profitability on a partial basis, as it has a probability value above the 5% or 10% significance level, specifically at 0.7923. Furthermore, the variable measuring tax avoidance using DBTD indicates a significant positive relationship between DBTD and ROA partially. This relationship is evident from the probability value below the 5% significance level, which is 0.0000. Additionally, the regression results of DBTD on ROA support the results of the regression of CETR on ROA. The partial regression results show a probability value below the 10% significance level, specifically at 0.0871. This indicates a significant negative relationship between CETR and ROA. The higher the CETR, the lower the tax avoidance, and the financial performance of the company will decrease.

On a partial basis, the size of the board of commissioners' independence does not show a significant relationship with profitability, with probability values above both the 5% and 10% significance levels. The size of the board of commissioners' independence can strengthen the relationship between tax avoidance and profitability, as seen from the probability values of DBTD and CETR below the 5% and 10% significance levels, respectively. However, the independence of the board of commissioners is unable to weaken the influence of management on profitability, as indicated by its probability value of 0.7154. Size and leverage have a significant relationship with profitability on a partial basis. However, the COVID-19 pandemic is considered to have no relationship with profitability on a partial basis because it has a probability value above the 10% significance level.

Discussion

The testing conducted on the first hypothesis (H1) to examine the influence of earnings management on entity financial performance in the regression equation yielded results indicating that the negative influence of earnings management does not have a significant effect on profitability simultaneous with the moderating variable. The negative value suggests that higher earnings management practices in an entity lead to a decrease in entity financial performance, while lower earnings management practices tend to enhance entity financial performance. These research findings differ from previous studies, considering Indonesia's status as a developing country where global economic downturns significantly impact businesses. Hence, earnings management practices do not bring about significant changes, especially in entity profitability.

However, based on other equations, earnings management shows a insignificant positive relationship with profitability partially. This finding is unsupported by (Boachie & Mensah, 2022) study, stating that earnings management has a positive influence on entity fundamentals. Multinational companies in Indonesia tend to increase earnings, but they do so within the framework of their respective accounting standards, including accrual accounting. The increase in earnings during the research period is due to the global economic downturn, which simultaneously affects entity performance. To maintain consistency in entity fundamentals, management tends to increase earnings to avoid high investor sentiment. The findings suggest that while earnings management does not have a significant simultaneous impact on profitability, it does not have a partial positive relationship with profitability, especially in the context of global economic downturns affecting entity performance and management's efforts to maintain fundamental consistency and manage investor sentiment. Yet, that strategy was unable to improve the company's profitability at the time. There were several other factors at play, such as a decrease in funding from investors affected by the pandemic, as well as widespread social restrictions that could significantly reduce the entity's revenue.

The testing conducted on the second hypothesis (H2) to examine the impact of tax avoidance practices on entity financial performance revealed that tax avoidance has a positive and significant effect. This is evidenced by the probability values generated from the testing,

which are smaller than the significance level of 0.05 in both multiple regression equations before and after including the moderator indicator. Based on the test results, tax avoidance significantly influences entity financial performance in a positive direction. The research results also show a positive relationship between tax avoidance and profitability on a partial basis. The positive coefficient values indicate that the higher the intensity of tax avoidance practices, the better the entity's financial performance, and conversely, lower tax avoidance practices lead to decreased entity financial performance. From these findings, it can be concluded that the tax avoidance strategy adopted by multinational companies in Indonesia to enhance their entity performance has been successful. These companies leverage tax regulations in Indonesia related to transfer pricing and profit shifting to countries with lower tax rates. In summary, the research findings support the notion that tax avoidance practices have a positive and significant impact on entity financial performance in Indonesia, as multinational companies strategically utilize tax regulations to optimize their tax burdens and improve overall financial performance.

Testing has been conducted on the third hypothesis (H3) to examine whether board size can moderate the influence of earnings management on entity financial performance. The results of hypothesis testing for the DAC_DIBOC variable show a positive coefficient direction. The positive coefficient values indicate that the size of the independent board of commissioners strengthens the influence of institutional ownership on accounting conservatism. However, the probability values for the DAC_DIBOC variable are greater than the significance level of 0.05. This defines that board size cannot significantly strengthen the influence of earnings management on entity financial performance. Therefore, the size of the independent board of commissioners, which is an aspect of corporate governance, cannot either strengthen or weaken the influence of earnings management on entity financial performance. Multinational companies tend to have a significant percentage of independent board of commissioners, which can potentially lead to differences in opinions among independent commissioners, resulting in debates and varied decision outcomes.

This statement is supported by (Tonia & Syafruddin, 2023), who suggest that the independence of the board of commissioners can negatively moderate the relationship between corporate governance mechanisms, corporate social responsibility practices, and company performance. This aligns with agency theory, which states that a high representation of outsiders can lead to conflicts of interest between shareholders and management. These findings also suggest that too much intervention from independent directors in daily organizational affairs can negatively restrict managerial performance. Additionally, independent boards of commissioners tend to focus on aspects of corporate governance, including risk management oversight, compliance with regulations, and internal policies. Therefore, independent boards are not directly involved in day-to-day activities related to earnings management, such as selecting accounting methods or operational decisions that can impact financial reports, making it difficult to detect management manipulation.

Testing has been conducted on the fourth hypothesis (H4) to examine whether the size of the independent board of commissioners can moderate the influence of tax avoidance on entity financial performance. The coefficient of the DBTD_DIBOC and CETR_DIBOC variable shows a negative direction, indicating that the presence of an independent board of commissioners can deter management from engaging in tax avoidance practices to enhance entity's profitability. The probability value for the DBTD_DIBOC and CETR_DIBOC variables is higher than the significance level of 0.05. This indicates that the size of the independent board of commissioners cannot significantly strengthen or weaken the influence of tax avoidance on entity financial performance. But, in parcial ways DBTD_DIBOC and CETR_DIBOC could significantly strengthen the relationship between tax avoidance and profitability. This suggests that the role of independent boards of commissioners in overseeing tax issues within companies

has not been effectively implemented, and it's likely that independent boards of commissioners are more focused on overseeing other issues, especially those related to stakeholders' interests.

Members of independent boards of commissioners generally prioritize long-term value and sustainable growth for the company. Meanwhile, tax avoidance strategies can impact short-term financial performance. As a result, independent boards of commissioners do not view tax avoidance as a crucial factor affecting profitability in their oversight role. Additionally, independent boards of commissioners may lack expertise or deep understanding of complex tax planning strategies, especially concerning international taxation. Due to these limitations, members of independent boards of commissioners ultimately rely on management and external tax advisors to assess the implications of tax avoidance strategies on profitability. This statement contradicts previous research by Ridwan & Achmad Sodik, (2023), which stated that the independence of the board of commissioners has a strong relationship with a decrease in tax avoidance levels, suggesting that independent boards of commissioners already have effective oversight functions. However, that research was conducted only within the mining sector, leading to differences in research outcomes.

From the regression results in Table 4, it can be concluded that the regression outcomes lack robustness as they fail to achieve consistent results between measuring the book-tax difference and the effective tax rate paid. This is attributed to CETR having a lower correlation with profitability compared to DBTD's correlation with profitability. Based on the book-tax difference measurement, the DBTD variable exhibits a significant positive relationship with profitability, implying that an increase in the book-tax difference can enhance profitability. Conversely, the effective tax rate paid shows a non-significant negative relationship with profitability. However, the study also compares results when the regression model involve the independence of the board of independent commissioners as independent variable, aligning with the findings in Table 3.

In that table, consistent outcomes are observed between the two models, where the book-tax difference has a significant positive relationship with profitability, indicating that higher tax avoidance leads to greater financial performance of the entity. Conversely, the effective tax rate has a significant negative relationship with profitability, signifying that a higher effective tax rate indicates lower tax avoidance levels, lower tax avoidance intentions lead to lower financial performance. Consequently, these research results can be considered robust as they achieve consistent outcomes despite the inclusion of the independent board of commissioners' independence as a moderator and the differences in correlation between independent and dependent variables resulting in variations between the two models. The primary regression model serving as the benchmark for this research's outcomes is the first regression model using the discretionary book-tax difference measurement due to its consistent outcomes from each regression equation investigated.

Conclusion

This study examines the impact of earnings management and tax avoidance on profitability, moderated by the size of the independent board of commissioners, using data from 32 multinational corporations listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The findings reveal that while earnings management does not significantly affect profitability, tax avoidance has a positive impact, highlighting cost efficiency's critical role in financial performance. However, the size of the independent board of commissioners does not significantly moderate the relationship between earnings management and profitability but can strengthen the relationship between tax avoidance and profitability in partial ways. The study underscores the ineffective oversight functions of the board, suggesting that multinational corporations' tax avoidance practices contribute to Indonesia's low tax-to-GDP ratio. The results suggest that tax regulations are effectively leveraged by multinational corporations to enhance

profitability, reflecting a need for improved governance mechanisms to mitigate tax aggressiveness and its implications on national revenue. Based on the above conclusions, Indonesia's low tax ratio is due to high tax aggressiveness, as evidenced by the level of tax avoidance by multinational corporations in Indonesia. Tax avoidance by multinational corporations is conducted to enhance entity financial performance to survive during the ongoing pandemic and in the future.

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