

MANAGERIAL ABILITIES, FINANCIAL REPORTING QUALITY, TAX AGGRESSIVENESS: DOES CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE MATTER IN AN EMERGING MARKET?

Bernadi Vito^{*}, Amrie Firmansyah^{**}, Resi Ariyasa Qadri^{*},
Agung Dinarjito^{*}, Zef Arfiansyah^{*}, Ferry Irawan^{***},
Suparna Wijaya^{***}

^{*} Department of Accounting, Polytechnic of State Finance STAN, Banten, Indonesia

^{**} Corresponding author, Department of Accounting, Polytechnic of State Finance STAN, Banten, Indonesia

Contact details: Polytechnic of State Finance STAN, Bintaro Main Street 5th Sector, Bintaro Jaya, South Tangerang, Banten 15222, Indonesia

^{***} Department of Tax, Polytechnic of State Finance STAN, Banten, Indonesia



Abstract

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This study empirically examines the association of managerial ability and financial reporting quality (represented by accrual earnings management and real earnings management) on tax aggressiveness. Besides, this study employs corporate social responsibility disclosure as a moderating variable. The analysis was conducted on 44 manufacturing companies listed on the Indonesia Stock Exchange (IDX) selected through purposive sampling from 2014 up to 2019 so that 264 observations were obtained. This study uses two multiple-linear regression models with panel data. This study finds that managerial ability is negatively associated with tax aggressiveness. Meanwhile, accrual earnings management is positively associated with tax aggressiveness, while real earnings management is not associated with tax aggressiveness. The results also suggest that corporate social responsibility disclosure strengthens the negative association between managerial abilities and tax aggressiveness but fails to moderate the association between real earnings management and accrual earnings management with tax aggressiveness. This study shows that the Indonesian Tax Authority should formulate tax policies and incentives to stimulate companies to be more involved in sustainable activities and make excessive social responsibility disclosure.

Keywords: Tax Aggressiveness, Managerial Ability, Accrual Earnings Management, Real Earnings Management, Corporate Social Responsibility Disclosure

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1. INTRODUCTION

A profit-oriented company aims to maximize profits (Husted & de Jesus Salazar, 2006) so that taxes are considered something that can prevent the company from achieving its goals. Landry, Deslandes, and Fortin (2013) stated that taxes are a significant business expense, and tax payments do not directly impact the payer can consider. Therefore, companies always intend to keep tax payments minimum (Hardika, 2007; Kurniasih & Sari, 2013). The company's efforts to reduce its tax contribution are manifested systematically in a tax planning framework by exploiting various loopholes in existing provisions or tax evasion, which tends to violate regulations (Frank, Lynch, & Rego, 2009). However, empirical studies often cannot separate the two practices (Wang, Xu, & Huang, 2019). Lietz (2013) placed tax aggressiveness as a subset of tax avoidance in the framework of tax planning. Previous research has linked tax aggressiveness intending to explicitly reduce taxes (Dyrenge, Hanlon, & Maydew, 2008; Hanlon & Heitzman, 2010) and the use of regulatory loopholes (Dyrenge et al., 2008; Lim, 2011; Butje & Tjondro, 2014). Therefore, tax aggressiveness can be defined as an activity that impacts reducing corporate tax obligations, emphasizing exploiting ambiguous areas in tax regulations.

Tax aggressiveness practices are applied globally. At the international level, the practice of tax aggressiveness is reported to be carried out by multinational corporations, such as Apple, Starbucks, and Amazon (Davis, Guenther, Krull, & Williams, 2016). Even though it benefits the company, tax aggressiveness should have a negative impact on national income. Cobham and Janský (2018) suggested that the annual global income loss due to tax avoidance activities carried out by companies reached USD 500 billion, with the most significant impact occurring in low-income and middle-income countries. Indonesia, as a middle-income country, is ranked 11th out of 30 countries regarding tax avoidance practices based on the International Center for Policy and Research (ICPR) and The International Center for Tax and Development (ICTD) with a loss per year reached USD 6.48 billion (Cobham & Janský, 2018). The Indonesian government implemented the tax amnesty program from June 28th, 2016, to March 31st, 2017 (<https://setkab.go.id>). The tax amnesty program, which generates a ransom of up to 129 trillion rupiahs, provides a significant additional state revenue (<https://setkab.go.id>).

On the other hand, there are still many tax aggressiveness practices carried out by companies in Indonesia. Tax avoidance is one-factor motivating companies to participate in tax amnesty programs (Pratama, 2018). The negative impact of tax aggressiveness on the government's national income and related tax amnesty and the level of tax avoidance in Indonesia show that tax aggressiveness is a relevant issue. It is essential to investigate more deeply related to tax aggressiveness.

Previous studies have attempted to explain various determinants that can indicate corporate tax aggressiveness. These determinants include firm size (Lisowsky, 2010), political connections (Wahab, Ariff, Marzuki, & Sanusi, 2017), corporate governance

structure (Halioui, Neifar, & Abdelaziz, 2016), ownership structure (Ying, Wright, & Huang, 2017; Sánchez-Marín, Portillo-Navarro, & Clavel, 2016; Mafrolla & D'Amico, 2016; Chen, Chen, Cheng, & Shevlin, 2010; Steijvers & Niskanen, 2014), as well as the composition of directors and commissioners (Richardson, Taylor, & Lanis, 2016; Lanis & Richardson, 2011; Richardson, Taylor, & Lanis, 2013). In Indonesia, various studies have attempted to find connections between tax aggressiveness and leverage (Suyanto & Supramono, 2012), independent commissioners (Novitasari, Ratnawati, & Silfi, 2017; Suyanto & Supramono, 2012), firm size (Tiaras & Wijaya, 2015), and ownership structure (Hadi & Mangoting, 2014). Although there have been many studies related to tax aggressiveness, it appears that previous research has focused more on firm-level characteristics or governance mechanisms. These ignored how managers as individuals influence corporate tax aggressiveness decisions (Chi, Huang, & Sanchez, 2017). These individuals make these individuals' decisions so that managers play an essential role in determining the company's strategic and operational decisions (Bertrand & Schoar, 2003). Augier and Teece (2009) stated that managers play an essential role in directing operations and allocating resources owned by the company. Therefore, it becomes rational to associate managers with tax aggressiveness — a form of corporate strategy. Holcomb, Holmes, and Connelly (2009) stated that a manager is equipped with diverse domain expertise and resource expertise so that these two dimensions are considered to shape a manager's skills. When associated with company management activities, the managerial ability is a managerial dimension of human capital that is crucial for companies to achieve success (Francis, Huang, Rajgopal, & Zang, 2008; Shavinina & Medvid, 2009). Managerial abilities are managers' skills to efficiently utilize company resources (Demerjian, Lev, Lewis, & McVay, 2013). Managerial ability significantly impacts various company decisions, including investment and accounting decisions (Bertrand & Schoar, 2003; Demerjian et al., 2013). Hanlon and Heitzman (2010) and Armstrong, Blouin, Jagolinzer, and Larcker (2015) stated that tax planning is an investment decision like investment decisions in general so managerial skills should play a role in corporate tax aggressiveness (Lee, Wang, Chiu, & Tien, 2018).

Research that links managerial ability to tax aggressiveness is still limited and suggested mixed results based on literature studies. Handayani (2013), Koester, Shevlin, and Wangerin (2017), and Huang and Zhang (2019) suggested that managerial ability is positively associated with tax aggressiveness, while Francis, Sun, Weng, and Wu (2013), Park, Ko, Jung, and Lee (2016), and Prakosa and Sari (2019) showed that managerial ability is negatively associated with tax aggressiveness. The lack of studies and the variety of results from previous studies motivates this study further to examine the association between managerial ability and tax aggressiveness.

Apart from managerial skills, this study also examines the effect of financial reporting quality on tax aggressiveness. The financial reporting quality is related to official information representing its performance during a specific period. It is also a tool

the company uses to communicate its expectations regarding its future performance (Kieso, Weygandt, & Warfield, 2017). Therefore, unqualified financial reporting can obscure its actual condition and lead stakeholders to take misleading economic actions. Previous research has shown that improvements in disclosure and financial reporting quality positively impact companies (Diamond & Verrecchia, 1991; Healy, Hutton, & Palepu, 1999; Demerjian et al., 2013). In various studies, the financial reporting quality is often represented by earnings quality (Muttakin, Khan, & Azim, 2015; Bozzolan, Fabrizi, Mallin, & Michelon, 2015), while it is closely related to earnings management, an activity that becomes a manager's discretion. In practice, earnings management is realized by increasing or decreasing the company's reported earnings so that the earnings information presented to external parties is under management's interests or individual goals that benefit the company (Scott, 2015).

Earnings management is manifested in two main activities, accrual earnings management (AEM) and real earnings management (REM). Dechow and Skinner (2000) explained that accrual earnings management chooses accounting standards to obscure or camouflage a firm's economic performance. Accrual earnings management emphasizes the company's discretion in choosing accounting methods or estimates that affect accrual earnings reported in the financial statements. Scott (2015) stated that one of the goals that companies want to achieve in managing earnings is tax objectives so that accrual earnings management can be linked to tax aggressiveness.

Initially, Shackelford and Shevlin (2001) showed a trade-off between accrual earnings management activities and tax aggressiveness, which is strengthened by the research of Erickson, Hanlon, and Maydew (2004). However, Frank et al. (2009) suggested that both can be conducted without creating trade-offs in the same period. It is supported by Wang et al. (2019), which showed the positive effect of accrual earnings management on tax aggressiveness. Research that links accrual earnings management with tax aggressiveness in Indonesia is carried out by Suyanto and Supramono (2012), Geraldina (2013), Hanna and Haryanto (2016), Nurhandono and Firmansyah (2017), Kusuma and Firmansyah (2018), and Machdar (2019) with mixed results. Suyanto and Supramono (2012), Nurhandono and Firmansyah (2017), Kusuma and Firmansyah (2018), and Machdar (2019) suggested the positive influence of accrual earnings management on tax aggressiveness. Meanwhile, Geraldina (2013) found a negative association between accrual earnings management and tax aggressiveness, and Hanna and Haryanto (2016) showed no relationship between accrual earnings management and tax aggressiveness.

Real earnings management is also included in this study due to companies' tendency to switch activities from accrual earnings management to real earnings management (Francis, Hasan, & Li, 2016). It is more subtle and tends not to attract auditors and regulators (García Lara, García Osma, & Mora, 2005). Also, changes in accounting regulations reduce management's flexibility to manage earnings on an accrual basis direct management to manage the company's real activities to achieve the desired goals, including in the context of tax aggressiveness.

Roychowdhury (2006) explained that three operating activities near-real earnings management are production regulation activities, sales prices, and discretionary expenses in practice.

Literature studies on previous studies show that research linking real earnings management with tax aggressiveness is still rare, both internationally and in Indonesia. Dridi and Boubaker (2015) found that the positive effect of real management on abnormal book-tax differences — a proxy for tax aggressiveness in various studies (Frank et al., 2009; Lanis & Richardson, 2012), while Kałdoński and Jewartowski (2019) showed that there are negative effect of real earnings management on tax aggressiveness. Nugroho and Firmansyah (2017) found the varying effects of each real earnings management activity on tax aggressiveness. Meanwhile, Ferdiawan and Firmansyah (2017) showed no association between real earnings management and tax aggressiveness. Various studies that show mixed results and the lack of research linking earnings management (both accrual earnings management and real earnings management) with tax aggressiveness leads to further testing interesting to do.

This study is different from previous studies because it includes corporate social responsibility disclosure as a variable that moderates the association of managerial ability and the financial reporting quality on tax aggressiveness. Social responsibility disclosure in this study refers to companies voluntarily conveying information to the public regarding the company's economic, social, and environmental activities that impact social life to meet public information needs. Based on the legitimacy theory, companies perform social responsibility disclosures to show that companies are doing what is considered legitimate by the community. Tax aggressiveness is considered irresponsible (Lanis & Richardson, 2013), while socially irresponsible behavior causes negative moral, emotional responses to companies (Grappi, Romani, & Bagozzi, 2013), threatening its existence. Therefore, the social responsibility disclosure has the opposite nuance to tax aggressiveness.

Lanis and Richardson (2012) supported this view by showing the negative effect of social responsibility disclosure on tax aggressiveness. Various Indonesian studies have also concluded similar things (Mulyani, Kusmuriyanto, & Suryarini, 2018; Fitri & Munandar, 2018; Ratmono & Julianto, 2019). Yuan, Tian, Lu, and Yu (2019) found a positive effect on social responsibility disclosure's managerial ability. Meanwhile, Scholtens and Kang (2013) found that earnings management has a negative effect on corporate social responsibility disclosure. Thus, research that places corporate social responsibility disclosure as a moderator for the association of managerial skills, accrual earnings management, and real earnings management on tax aggressiveness is still limited and constitutes a gap in the literature.

Various previous studies related to corporate social responsibility disclosure have shown a close relationship between social responsibility disclosure and ethical aspects (Stanaland, Lwin, & Murphy, 2011; Kolk, 2016; Zheng, Luo, & Wang, 2014). On the other hand, Ostay (2020) stated that ethical aspects could direct companies to avoid opportunistic

actions in interpreting existing tax provisions. Therefore, corporate social responsibility disclosure that promotes ethical behavior and is essential to demonstrate its legitimacy to the community is expected to inhibit and lead to reluctance to engage in tax aggressiveness.

This study also included various control variables to neutralize the effects of tax aggressiveness variability. The control variables used are firm size and leverage by considering the prevalence of their use in previous studies related to tax aggressiveness (Lanis & Richardson, 2012; Lanis & Richardson, 2015; Mulyani et al., 2018; Wijayanti, Wijayanti, & Chomsatu, 2017; Wardani & Khoiriyah, 2018). Pranata, Yasa, and Sujana (2018) concluded that high leverage leads to increase corporate tax aggressiveness. Meanwhile, in another study, Andy (2018) concluded that larger companies tend to have a higher tax aggressiveness level due to their superiority in political and financial terms.

This study consists of six sections. First, the introduction comprises the phenomena that occur, literature mapping related to the topic of study, the objective of the study. This study also compares the previous studies in order to decide variables that will be deployed. Second, the references that we used to build the research framework and establish hypotheses. The third section is the research methods, including the data observation and research model. The fourth section is the description of all results, both descriptive statistics and inferential statistics. The fifth section is the discussion, and this study put all of the research findings in this part. Lastly is the conclusion, which summarizes all parts of this paper, including the limitations and implications. Also, this part recommends some perspectives for future research.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Agency theory

The main principle of agency theory is a contract between the principal and the agent to provide services on behalf of the principal (Jensen & Meckling, 1976). The primary assumption that motivates agency theory is that every action is based on the interest to maximize each party's utility (Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2010) so that each party will take actions that are considered the most beneficial for themselves. This delegation of authority and motivation to maximize utility then raises what is known as the agency problem. It occurs when the agent's motivation is not in line with the principal's interests, who delegates authority so that the agent can act not in the principal's interests. Godfrey et al. (2010) explained that managers' representation as agents could cause three problems: risk-aversion, dividend-retention, and the horizon problem. Risk-aversion arises due to managers' inability to diversify human capital managers entirely invested in the company. High-risk projects are correlated with high failure rates (which can have a negative impact on managers), so managers prefer low-risk activities. Dividend-retention arises from managers' tendency to hold resources to remain in the business, which is then used to increase the company's size or pay

the manager's benefits and salaries. The horizon problem arises from managers interested in cash flow as long as the manager still intends to act as an agent of the company (not for an indefinite period). Agency problems can also lead to asymmetric information due to managers who have more information on the company than the principal. Managers have direct access to company information due to their authority, while the principal (who has delegated their authority) becomes very dependent on information generated by the manager as an agent. Agency costs appear to control agency problems that occur (Jensen & Meckling, 1976). Monitoring costs are costs borne by the principal to supervise the agent's behavior, and the agent bears engagement costs to harmonize the agent's actions according to the principal's interests.

In contrast, residual costs still arise even though monitoring costs and engagement costs already exist. Apart from agency costs, agency problems can be controlled in other ways, such as managerial share ownership, management compensation, and career guarantees for managers with better abilities (Byrd, Parrino, & Pritsch, 1998). Furthermore, concerning tax aggressiveness from the agency theory perspective, the marginal benefits of tax aggressiveness include more significant tax savings for the company, while marginal costs include potential tax penalties and penalties, implementation costs (including time, labor, and related transaction costs), reputation costs, and political costs (Slemrod, 2004; Scholes, Wolfson, Erickson, Maydew, & Shevlin, 2005; Hanlon & Slemrod, 2009; Chen et al., 2010). Lanis and Richardson (2011) stated that tax aggressiveness is not an absolute policy prescription for all companies from agency theory but will depend on the costs and benefits.

Agency theory can help explain the relationship between managers and managers' discretion and tax aggressiveness. Managers' existence as principal agents creates agency problems, in which managers tend to avoid risk. Due to various managerial skills, the decision to do or not take tax aggressiveness will significantly depend on the manager seeing the costs and benefits of tax aggressiveness. Actions of tax aggressiveness are only carried out if the manager views tax aggressiveness as an action that maximizes utility. Meanwhile, asymmetric information is also able to explain why companies can manage earnings through earnings management activities. The higher the information asymmetry, the more flexible the company is to carry out earnings management activities and tax aggressiveness.

2.2. Legitimacy theory

Suchman (1995) defined legitimacy as a general perception or assumption that the actions taken by an entity are appropriate and follow the norms, values, and beliefs that develop in social system construction. Legitimacy has a time-dependent and places dependent context. Something considered legitimate at a particular time or place may not be considered so at a different time or place (Deegan, 2018). Thus, as the expectations of the social environment change, entities must change and adapt to survive. Lindblom (1994) introduced the term legitimacy gap, which describes the mismatch between how the social environment believes

the organization should act and how it views its activities. Legitimacy gaps arise due to changing social expectations even though the company continues to operate in the same way or new information that has not been disclosed initially (Sethi, 1978).

Legitimacy is closely related to public perceptions; disclosing information (not just aligning company actions with public expectations) is essential in building social views regarding company legitimacy. Therefore, if social expectations change, companies must demonstrate that the organization is following these changes. The central concept in the legitimacy theory is a social contract that refers to an engagement between the company and individuals in a society where the community gives legal standing to the company to use natural resources and employ employees. Mathews (1995) explained that because legal standing comes from the community, the existence of the company should depend on the community so that people expect the benefits obtained from the company (in the form of goods and services) to exceed the costs that are indirectly borne by the community (resource input and processing waste inputs released to the environment by the company). Legitimacy theory — which developed from the bourgeois flow of political economy theory — is often used to explain the phenomenon of companies' disclosure of social responsibility (Fallan & Fallan, 2019; Lanis & Richardson, 2012; Cho & Patten, 2007). Burlea and Popa (2013) argued that voluntary social responsibility disclosure is a manifestation of legitimacy theory. Companies see it essential to fulfill their social contracts with the community, gain recognition, and guarantee existence in a dynamic environment. Thus, legitimacy theory can explain why companies carry out social responsibility activities and avoid tax aggressiveness. Social responsibility activities can be considered an important aspect to maintain the company's existence and sustainability.

2.3. Hypothesis development

Based on agency theory, managers as agents benefit from a better position to access the company's information. The advantages of information combined with managers' ability to manage resources make managers crucial in directing various company policies, including tax aggressiveness policies. Koester et al. (2017) and Huang and Zhang (2019) found a positive effect of managerial ability on tax aggressiveness. Koester et al. (2017) argued that there are at least three reasons why managers who have high skills will be more involved with tax avoidance activities. First, managers with high skills can better align business decisions with the company's tax strategy. They can better identify and exploit tax planning opportunities due to their superior understanding of its environment. Second, capable managers can create a tone at the top that emphasizes the importance of minimizing costs. Cutting marketing costs can reduce sales, cutting research and development costs can hinder innovation, but reducing tax costs does not directly impact its operations. Third, managers who are proficient in managing company resources are

expected to make business decisions that reduce tax-related cash outflows because every cash outflow is a resource that cannot be reinvested in the company. When tax payments do not immediately impact, tax savings can be allocated for operational activities, ultimately impacting company revenues.

On the other hand, Koester et al. (2017) explained that although every manager has an incentive to maximize profit after tax by reducing income tax, not all managers have the same opportunity. Various company characteristics may differ due to managers' strategic decisions in the past. For example, moving operations, changing research and development strategies, and changing the company's business composition in the industry solely to avoid taxes could be considered by managers as not cost beneficial. On the other hand, the skills required to manage company resources and efficiently identify and implement tax strategies may differ. Furthermore, tax avoidance benefits can be presumed not to exceed the associated direct or indirect costs. This last view is reinforced by Francis et al. (2013), who concluded that capable managers would tend not to engage in tax avoidance activities due to significant costs associated with tax avoidance. Direct costs related to tax aggressiveness can be in the form of tax planning, litigation, or sanctions costs (Balakrishnan, Blouin, & Guay, 2019), while indirect costs include agency, capital, and reputation costs (Bankman, 2004; Desai & Dharmapala, 2006; Hanlon & Slemrod, 2009). This last view also shows how tax aggressiveness has costs according to agency theory.

Managerial abilities are closely related to reputation issues (Fee & Hadlock, 2003; Francis et al., 2008) and media coverage (Rajgopal, Shevlin, & Zamora, 2006). Hirshleifer (1993) emphasized that managers with high skills see it crucial to maintain their reputation when making corporate business decisions. Francis et al. (2013) stated that capable managers are also more to lose the position and have a higher chance of getting a job. It has an impact on reducing managers' incentives to take tax aggressiveness. Hanlon and Slemrod (2009) found that tax aggressiveness is something that investors perceive negatively. It can be viewed from how the stock market reacts negatively to news about its relationship to tax avoidance activities. Although managers have an incentive to reduce the income tax burden, the act of tax aggressiveness should incur high costs according to the manager's judgment. Furthermore, managers who invest all of their human capital in the company will be increasingly reluctant to take tax aggressiveness, which managers see as actions that can affect their reputation.

H1: Managerial ability is negatively associated with tax aggressiveness.

Agency theory describes that the agency problem causes asymmetric information between principals and managers as agents. Financial statements are official information representing the company's performance during a specific period and a tool to communicate its activities to external parties during that period. Kerr (2012) stated that company transparency impacts external parties and benefits internal parties by selecting investments and managing company assets more efficiently.

The quality and transparency of financial reports submitted to external parties can reflect the quality of activities carried out within the company, including how company activities manage their tax obligations. If the company's fundamental activities, operations, and business's quality and choice of the company's accrual method is questionable, tax aggressiveness can be expected to develop behind the resulting information's uncertainty.

From the agency theory point of view, the authority delegation to agents to manage the company results in managers having complete access to company activities compared to principals. When there is asymmetric information, the principal does not always have adequate resources, incentives, or access to information to monitor managers and company activities, so the principal becomes dependent on the manager's information. Managers who can access information provide flexibility and flexibility for managers to apply various earnings management practices and summarize company activities in a financial report under the objectives to be achieved, including tax purposes. It results in the withdrawal of a relationship between earnings management and tax aggressiveness.

Accrual earnings management is a form of earnings management carried out by management. Initially, Shackelford and Shevlin (2001) showed a trade-off between tax aggressiveness and earnings management. However, Frank et al. (2009) found that tax aggressiveness and earnings management can be carried out simultaneously so that the trade-off does not always occur. It is supported by a tax gap that companies can exploit due to differences (non-conformity) between accrual accounting principles and tax regulations. Therefore, accrual earnings management is carried out by choosing an accrual accounting policy that still promotes earnings without incurring additional tax burdens. Accrual earnings management activities can be carried out in line with the company's tax aggressiveness objectives.

H2: Accrual earnings management is positively associated with tax aggressiveness.

Based on agency theory and accrual earnings management, real earnings management is also an approach taken by companies to manage corporate earnings. The company chose this approach because it is considered more subtle (Graham, Harvey, & Rajgopal, 2005), offers lower litigation, and has less detection risk than auditors and regulators (García Lara et al., 2005). A company performs real earnings management primarily through three company operational activities: sales, production, and discretionary expenses. Furthermore, Roychowdhury (2006) and Cohen, Dey, and Lys (2008) described the three activities. First, sales manipulation is carried out by accelerating sales through high sales discounts or softer sales credit terms. It will temporarily increase the sales value but will disappear when prices return to normal. Additional sales will increase current earnings and reduce current cash flows. Second, production management is carried out by reporting a lower cost of goods sold (COGS) caused by increased production, which reduces each unit's fixed cost, thus decreasing each unit's total cost and increasing product margins. However, the company will incur more expenses related to inventory, such

as an enormous holding cost and reduced operating cash flows. Third, discretionary cost manipulation reduces discretionary expenses, such as marketing, research and development, and selling, general and administrative expenses. It will increase current earnings and current cash flows.

In terms of earnings management for tax purposes, Frank et al. (2009) stated that companies could choose accounting methods and estimates that can cause temporary differences in deductible expenses or carry out transactions that are not deductible (nondeductible expense) or are not subject to income tax, which is called permanent differences. Concerning real earnings management, due to temporary and permanent differences and deductible expenses, and nondeductible expenses, companies can choose a specific combination of mechanisms, which can increase company profits on the one hand without causing a tax increase on the other. For example, an increase in sales and overproduction, from an accounting point of view, can increase sales and decrease the cost of goods manufactured for the period, increasing accounting profit. In contrast, from a tax perspective, an increase in sales that has the potential to increase taxes payable can be neutralized by additional costs due to inventory and additional costs. Discretionary expenses that are tax-deductible. Therefore, an increase in accounting income can be conducted without impacting the increase in taxes payable. Real earnings management activities can be carried out while remaining in line with the objectives of tax aggressiveness.

H3: Real earnings management is positively associated with tax aggressiveness.

According to agency theory, managers will take actions that maximize their utility. Managers invest all of their human capital in the company, considering its bonding cost. The act of tax aggressiveness can lead to marginal costs, such as potential tax penalties, implementation costs (including time, energy, and related transaction costs), reputation costs, and political costs (Slemrod, 2004; Scholes et al., 2005; Hanlon & Slemrod, 2009; Chen et al., 2010). Therefore, for managers, carrying out tax aggressiveness activities can impact the emergence of indirect costs in the form of reputational costs. The manager's efforts to maximize their utility and negatively affect all human capital investment managers.

Social responsibility disclosure results in reputation being considered significant. With the need to maintain reputation, the cost of reputation considerations increases for managers. Thus, managers will increasingly avoid any activity that can cause reputational costs, including tax aggressiveness. Yuan et al. (2019) concluded that managerial skills positively affect social responsibility disclosure, indicating that managerial skills tend to move in the same direction as social responsibility disclosure. This view is reinforced by reviewing the ethical aspect, where social responsibility activities that promote ethics (Lanis & Richardson, 2015) should encourage capable managers to increasingly put forward and choose ethical business strategies (Zheng et al., 2014). Social responsibility disclosure can be assumed as a manager's strategy to communicate to external parties that the company

prioritizes suitable business activities and practices and avoids activities such as tax aggressiveness that can cause dispute with the tax authorities (Graham, Hanlon, Shevlin, & Shroff, 2014).

H4: Corporate social responsibility disclosure strengthens managerial ability on tax aggressiveness in companies with a high tax aggressiveness

Agency theory stated that asymmetric information makes managers more flexible in carrying out earnings management practices, positively affecting tax aggressiveness. Corporate social responsibility disclosure can be considered a tool to overcome information asymmetry, with the more information obtained by the principal, the narrower the flexibility of management to manage accrual earnings. The company's number of disclosures that must be made causes more disclosure that the company must do regarding the company's policies. Related to accrual earnings management, companies must explain why an accounting policy is taken.

Based on the legitimacy theory, social responsibility disclosure prioritizes ethical behavior. Thus, if policies are taken solely for tax purposes, accrual earnings management does not generate cash directly. It becomes difficult for companies to justify choosing without attracting attention from other parties, such as investors, auditors, and regulators. Hong and Andersen (2011) and Ricardo and Faisal (2015) found a negative influence between social responsibility disclosure and accrual earnings management. It suggests that social responsibility disclosure can reduce its capability to engage in accrual earnings management activities. Besides, corporate social responsibility disclosure, which is closely related to ethical behavior, is expected to direct companies not to engage in opportunistic behavior in accrual earnings management when interpreting different provisions (Ostas, 2020), including differences between accounting and tax provisions. Accrual earnings management activities can attract the attention of auditors and regulators (Cohen et al., 2008). It could jeopardize the credibility and reputation of the company.

Meanwhile, according to the legitimacy theory, reputation is an essential aspect of the company. Therefore, proper social responsibility is expected to reduce the incentives to carry out accrual earnings management activities. As a result, social responsibility, which can reduce accrual earnings management activities, can further reduce managers' tax aggressiveness choices in the company's business. Social responsibility disclosure is expected to inhibit accrual earnings management's positive effect on tax aggressiveness.

H5: Corporate social responsibility weakens accrual earnings management in companies with a high tax aggressiveness.

In agency theory, delegating authority to agents makes them manage their operational activities by achieving the objectives. One form of company operational management activities is through real earnings management. Real earnings management can have a negative effect on the company's performance in the future (Cohen & Zarowin, 2010; Roychowdhury, 2006) so that it can lead to costs for the principal, the monitoring cost. The corporate social responsibility disclosure can be viewed as a form of monitoring costs that are willing to be

taken by the principal to reduce the opportunistic behavior of managers in carrying out real earnings management activities and tax aggressiveness. Real earnings management activities and tax aggressiveness should not have a positive long-term impact on the company.

Liao, Chen, and Zheng (2019) found that companies increasingly involved with social responsibility disclosure are more reluctant to take earnings management actions. Besides, Zheng et al. (2014) stated that proactive social responsibility disclosure could impact solid financial performance, good reputation, and greater social legitimacy. Social responsibility disclosure is expected to reduce corporate incentives to take opportunistic as real earnings management actions. Social responsibility activities are closely related to ethics. Besides, social responsibility disclosure is related to activities related to environmental issues and economic and social activities. Therefore, social responsibility disclosure is expected to encourage companies to be more involved in ethical operational activities and indicate their reluctance to take real earnings management actions and tax aggressiveness. Bozzolan et al. (2015) supported this view by providing empirical evidence that positively oriented companies towards social responsibility disclosure activities are less involved with real earnings management activities.

Based on the theory of legitimacy, the company realizes the importance of maintaining the company's reputation. Cho and Chun (2016) stated that real earnings management activities through company sales regulation could damage the company's brand image due to unstable prices, excessive production can impact the quality of goods, and discretionary expenses can hinder company innovation. Furthermore, acts of aggressiveness can lead to a dispute with the authorities (Graham et al., 2014), affecting the company's reputation and perception. Implementing corporate social responsibility can encourage companies to be more ethical so that real earnings management activities to reduce the company's tax burden are reduced. Implementing good social responsibility can harmonize the company's business decisions that are more strategic in maintaining its existence today and in the future. Therefore, real earnings management activities that conflict with ethical behavior and alignment of future business operations for tax aggressiveness can be reduced by applying social responsibility disclosures.

H6: Corporate social responsibility disclosure weakens real earnings management in companies with a high tax aggressiveness.

3. RESEARCH METHODOLOGY

This study employs a quantitative approach to examine the effect of managerial ability, accrual earnings management, real earnings management, and moderation of social responsibility disclosures on tax aggressiveness. The data used in this research is secondary data from financial reports, annual reports, and sustainability reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Data is obtained from the official IDX website or the official website of the company concerned. The period analyzed is 2014–2019, resulting in panel

data in a cross-sectional data collection of companies in a time series. To obtain data related to population parameters (in companies listed on the IDX), this study uses a non-probability sampling

approach in purposive sampling, namely determining the sample based on specific criteria to achieve the expected goals. The criteria established for the sample data are as follows.

Table 1. Research sample

| <i>Criteria</i> | <i>Amount</i> |
|---|---------------|
| The number of companies listed on the IDX as of 30 June 2020 | 702 |
| Deducted: | |
| Listed companies engaged in a sector other than manufacturing | 526 |
| Companies listed on the IDX after January 1, 2015 | 55 |
| Companies that were delisted and relisted from 2014 to 2019 | 1 |
| Companies that have negative pre-tax income within the scoping period | 54 |
| Companies with a fiscal year period not ending on December 31st | 1 |
| Companies that are excluded from the data cleansing process (incomplete data) | 21 |
| Number of companies for sample | 44 |
| Number of the observation period | 6 |
| Total sample | 264 |

Source: Authors' elaboration.

Tax aggressiveness is the dependent variable in this study. Meanwhile, managerial efficiency, accrual earnings management, and real earnings management are independent variables that attempt to explain tax aggressiveness variability, while social responsibility disclosure becomes the moderator variable. In this study, company size and leverage were also used as control variables to neutralize the variability of tax aggressiveness associated with these control variables.

As the main objective of tax aggressiveness activities, the company's tax reduction is reviewed and quantified differently in various studies. Wang et al. (2019) conducted a literature review and concluded that two proxies are most often used, namely effective tax rates (ETR) — both generally accepted accounting principles (GAAP), effective tax rates (ETR), and cash ETR — and book-tax differences (BTD). GAAP ETR is intuitively most comfortable to understand, whereas cash ETR can describe the tax rate based on its cash. However, the accrual-based GAAP ETR measurement raises the possibility of not including potential tax savings from tax avoidance activities, such as accelerated reduction of expenses or delay in revenue recognition. Simultaneously, cash ETR allows measurement errors because the basis is annual, creating limitations if there are differences in tax rates between years.

Hanlon and Heitzman (2010) suggested that the proxy for the book-tax difference (BTD) is an indicator capable of increasing the probability of detecting tax aggressiveness. BTD describes the difference between accounting income and taxable income so that the greater the BTD indicates the company is increasingly aggressive in terms of taxation. BTD can be measured in various ways, such as discretionary BTD (Desai & Dharmapala, 2006) or abnormal permanent difference or DTAX (Frank et al., 2009). According to Frank et al. (2009), the use of abnormal permanent differences can better measure tax aggressiveness. Although the use of DTAX has weaknesses when selecting the sample because it has to exclude companies that have negative profit before tax, the use of abnormal permanent differences can capture tax aggressiveness that does not come from temporary differences because temporary differences do not necessarily reflect tax avoidance (Phillips, Pincus, & Rego, 2003; Hanlon, 2005).

The abnormal permanent difference is the residual value of the total regression of the permanent difference to the non-discretionary component, which causes a permanent difference between accounting and tax (Frank et al., 2009). During its development, Rachmawati and Martani (2017) have adjusted the DTAX size according to conditions in Indonesia by adapting the time series model of Frank et al. (2009) as follows:

$$PERMDIFF_{it} = \beta_0 + \beta_1 INTANG_{it} + \beta_2 \Delta NOL_{it} + \beta_3 LAGPERM_{it} + \varepsilon_{it} \tag{1}$$

where:

PERMDIFF = permanent difference between accounting and tax, namely the total book-tax difference minus the temporary difference, or $[BI_{it} - (CTE_{it} / STR_t) - (DTE_{it} / STR_t)]$, which is scaled to total assets $t-1$;

BI = accounting pretax income;

CTE = current tax expense;

DTE = deferred tax expense;

STR = statutory tax rate (corporate income tax rates following the income tax law);

INTANG = comparison of goodwill and other intangible assets to total assets $t-1$;

ΔNOL = change in net operating loss (deferred tax asset) that can be compensated for the company i in year t , scaled against total assets $t-1$;

LAGPERM = *PERMDIFF* one year earlier for the company i in year t , scaled to total assets $t-1$;

ε = abnormal/discretionary fixed difference for the company i in year t (DTAX).

Furthermore, various proxies are used in research to analyze the dimensions of managerial ability. Some of the proxies in the study include abnormal returns (Fee & Hadlock, 2003), performance (Carter, Lonial, & Raju, 2010), tenure (Milbourn, 2003), media coverage (Rajgopal et al., 2006), and data envelopment analysis (DEA) which is combined with the Tobit regression (Demerjian, Lev, & McVay, 2012). In this study, the variable managerial ability was quantified following the approach used by Demerjian et al. (2012). The approach presents a comprehensive validity test that shows the superiority of the method over other measures.

This approach is also used by Park et al. (2016) for companies in South Korea. According to Demerjian et al. (2012), the managerial ability is described as a manager's ability to manage resources efficiently. The more efficiently the manager manages the resources owned, the higher the value assigned to the manager. Two-tier algorithms are used to assess this efficiency level, using statistical data envelopment analysis (DEA) procedures followed by Tobit regression (Demerjian et al., 2012). Data envelopment analysis (DEA) is a benchmarking technique that compares decision-making units (DMUs) in a particular cluster with similar characteristics. The most efficient unit in the cluster

is assigned a value of 1 and is then referred to as the frontier, while the other units are assigned a value based on the relative efficiency of the DMU to the frontier. In this study, DMU represents the companies that are the samples. The first stage for the DEA procedure in Demerjian et al. (2012), also used in Park et al. (2016), is that manufacturing companies are divided into subgroups based on sub-sectors so that each subgroup has similar characteristics be compared.

Furthermore, an efficiency maximization program is carried out for each company using data in the same subgroup. The efficiency maximization problem is:

$$\max \theta = \frac{Sales}{v_1 COGS + v_2 SG\&A + v_3 PPE + v_4 INTAN} \quad (2)$$

where:

Sales = sales;

COGS = cost of goods sold;

SG&A = selling, administrative and general expenses;

PPE = fixed assets;

INTAN = other intangible assets;

v = specific weight given to each firm whose value is obtained from the efficiency maximization program results.

From the efficiency score obtained in stage 2, all efficiency scores in a subgroup are divided by the efficiency score of the most efficient company in that subgroup, so that it is found that the frontier company will have one efficiency value, and

the other companies will be less or equal to one in a company ordinal scale. After obtaining the company's efficiency value from the DEA method, this value must be neutralized from the variability caused by each company's various characteristics. The goal is that the value representing managerial ability is not overstated or understated due to this effect. The managerial ability value is obtained from the Tobit regression residue, which implicitly illustrates that managerial ability is the cause of the variability in efficiency values that cannot be explained by firm-level characteristics in the Tobit regression model. The Tobit regression model used is as follows:

$$Firm\ Efficiency_{it} = \alpha + \beta_1 \ln(Total\ Assets)_{it} + \beta_2 Market\ Share_{it} + \beta_3 Free\ Cash\ Flow\ Indicator_{it} + \beta_4 \ln(Age)_{it} + \beta_5 Business\ Segment\ Concentration_{it} + \beta_6 Foreign\ Currency\ Indicator_{it} + Year_{it} + \varepsilon_{it} \quad (3)$$

where:

Firm Efficiency = company efficiency score according to DEA;

Total Assets = total assets of the company;

Market Share = company revenue divided by total industry revenue at *t*;

Free Cash Flow Indicator = dummy variable with a score of 1 if free cash flow is greater than 0 and 0 if free cash flow is not more than 0;

Age = number of years the company is listed on the IDX at the end of year *t* plus 1;

Business Segment Concentration = number of company business segments;

Foreign Currency Indicator = absolute value of profit/loss ratio of foreign currency exchange rate with total income;

ε = managerial ability (MA) value.

Accrual earnings management is often proxied by non-discretionary accruals (NDA) or total accrual value (Healy, 1985). Jones (1991) formed a non-constant NDA model for each year, later modified by various subsequent researchers (Dechow, Sloan, & Sweeney, 1995; Kothari, Leone, & Wasley, 2005; Frank et al., 2009; Cohen & Zarowin, 2010). This study proxy accrual earnings management following the model of Kothari et al. (2005). The value of accrual earnings management for the financial year (*t*) and company (*i*) is obtained in several stages. Total accruals (*TA*) are calculated from the value of earnings before extraordinary items and discontinued operations (*EBXI*) less cash flows from operating activities (*CFO*).

$$TA_{it} = EBXI_{it} - CFO_{it} \quad (4)$$

An ordinary least square (OLS) model is made to obtain the estimated value of the model's

coefficient (*k*). The OLS model formed for this purpose is as follows:

$$\frac{TA_{it}}{Assets_{i,t-1}} = a_{it} + k_1 \frac{1}{Assets_{i,t-1}} + k_2 \frac{(\Delta SALES_{it} - \Delta REC_{it})}{Assets_{i,t-1}} + k_3 \frac{PPE_{it}}{Assets_{i,t-1}} + k_4 ROA_{it-1} + \varepsilon_{it} \quad (5)$$

where:

TA = total accruals;

Assets = total assets;

$\Delta SALES$ = the difference between sales and the

previous year;

ΔREC = change in net receivables;

PPE = fixed assets;

ROA = net income divided by lagged total assets.

The k_1 , k_2 , and k_3 values obtained in step 2 are used to estimate the firm-specific normal accruals (NA) value for the sample of firms using the following model:

$$NA_{it} = \widehat{\alpha}_{it} + \widehat{k}_1 \frac{1}{Assets_{i,t-1}} + \widehat{k}_2 \frac{(\Delta SALES_{it} - \Delta REC_{it})}{Assets_{i,t-1}} + \widehat{k}_3 \frac{PPE_{it}}{Assets_{i,t-1}} + \widehat{k}_4 ROA_{it-1} \quad (6)$$

The value of discretionary accruals (AEM) is the difference between the values in stage 2 and stage 3. This AEM value is used as a value that represents accrual earnings management.

$$AEM_{it} = \left(\frac{TA_{it}}{Assets_{i,t-1}} \right) - NA_{it} \quad (7)$$

Real earnings management proxy was developed by Dechow, Kothari, and Watts (1998) and implemented by Roychowdhury (2006) by considering three indicators, abnormalities in cash flow from operations (CFO), production ($COGS$), and discretionary expenses. Zang (2012) provided empirical evidence regarding the validity of this proxy. Therefore, the Roychowdhury (2006) model,

$$\frac{CFO_{it}}{Assets_{i,t-1}} = \alpha_{0i} + \alpha_1 \frac{1}{Assets_{i,t-1}} + \beta_1 \frac{SALES_{it}}{Assets_{i,t-1}} + \beta_2 \frac{\Delta SALES_{it}}{Assets_{i,t-1}} + \varepsilon_{it} \quad (8)$$

The CFO abnormality (R_CFO) is obtained from the actual CFO minus the normal CFO value obtained from the calculation model in stage 1.

$$\frac{COGS_{it}}{Assets_{i,t-1}} = \alpha_{0i} + \alpha_1 \frac{1}{Assets_{i,t-1}} + \beta \frac{SALES_{it}}{Assets_{i,t-1}} + \varepsilon_{it} \quad (9)$$

Stage 3, create a linear model for normal inventory growth (ΔINV) as a function of sales divided by total lagged assets (equation (10)).

$$\frac{\Delta INV_{it}}{Assets_{i,t-1}} = \alpha_{0i} + \alpha_1 \frac{1}{Assets_{i,t-1}} + \beta_1 \frac{\Delta SALES_{it}}{Assets_{i,t-1}} + \beta_2 \frac{\Delta SALES_{i,t-1}}{Assets_{i,t-1}} + \varepsilon_{it} \quad (10)$$

$$\frac{PROD_{it}}{Assets_{i,t-1}} = \alpha_{0i} + \alpha_1 \frac{1}{Assets_{i,t-1}} + \beta_1 \frac{SALES_{it}}{Assets_{i,t-1}} + \beta_2 \frac{\Delta SALES_{it}}{Assets_{i,t-1}} + \beta_3 \frac{\Delta SALES_{i,t-1}}{Assets_{i,t-1}} + \varepsilon_{it} \quad (11)$$

Calculates the actual production cost as a result of actual $COGS$ cost plus actual inventory growth. Production abnormalities (R_PROD) are obtained from actual production minus the normal production cost values.

$$\frac{DISX_{it}}{Assets_{i,t-1}} = \alpha_{0i} + \alpha_1 \frac{1}{Assets_{i,t-1}} + \beta \frac{SALES_{i,t-1}}{Assets_{i,t-1}} + \varepsilon_{it} \quad (12)$$

Discretionary expenses ($DISX$) are advertising and marketing, research and development (R&D) expenses, sales, administration, and general expenses. Discretionary expenses (R_DISX) abnormalities are obtained from the actual discretionary expenses

as in Kałdoński and Jewartowski (2019), is used in this study to proximate real earnings management. The stages for obtaining a company's real earnings management value (i) in a certain period (t).

The first stage, create a linear model for normal cash flow from normal operating activities (CFO) as a function of sales and sales changes divided by total lagged assets.

Stage 2, create a linear model for the normal cost of goods sold ($COGS$) as a function of sales divided by total lagged assets.

From the stage 2 and 3 models, a linear model for normal production costs ($PROD$) is formed as sales divided by total lagged assets (equation (11)).

Stage 4 creates a linear model for normal discretionary expenses ($DISX$) as a function of lagged sales, divided by total lagged assets.

minus the normal discretionary expenses obtained from the calculation using the model in stage 4. The abnormality value as a proxy for real earnings management (REM) is obtained from the combination of R_CFO , R_PROD , and R_DISX .

$$REM_{it} = R_PROD_{it} + (-1)R_CFO_{it} + (-1)R_DISX_{it} \quad (13)$$

This study's corporate social responsibility disclosure measurement is based on the Global Reporting Initiatives (GRI). The use of this GRI indicator follows the research of Bednářová, Klimko, and Rievajová (2019) and Yaya, Wibowo, and Ulfaturrahmah (2018), which uses $n = 91$ indicators of corporate social responsibility disclosure in GRI. Based on content analysis, an index (X) was developed in Lee (2017) for each disclosure indicator. This measurement is also employed by Firmansyah and Estutik (2020). Index 0 for

undisclosed indicators; index 1 for minimum or briefly stated disclosure; index 2 for descriptive disclosures, namely there are disclosures related to impacts or clear policies; index 3 for quantitative disclosures, namely impacts can be presented in a monetary or physical quantity; and index 4 for truly extraordinary disclosures. The maximum number of indexes is 364 (91×4) so that the proxy for disclosure of social responsibility (CSR) of a company (i) for a period (t) has a maximum value of 4 and is calculated as follows:

$$CSR_{it} = \frac{\sum_{j=1}^{j=91} X_j}{n} \tag{14}$$

Furthermore, company size represents the amount of ownership of the company's assets as a whole. Previous research has shown that larger companies tend to be more aggressive in taxation (Zimmerman, 1983; Andy, 2018) due to having greater political and economic power than smaller

companies, resulting in a lower tax burden. This study transforms the total asset value into a natural logarithm of total assets, under Lanis and Richardson (2015), to minor data fluctuations from this company's size.

$$SIZE_{it} = \ln(Total Assets_{it}) \tag{15}$$

Leverage (LEV) is a value that reflects the company's risk due to the company's financing activities through liability instruments. Previous research (Gupta & Newberry, 1997; Pranata et al.,

2018) shows that leverage is positively related to tax aggressiveness. Following Lanis and Richardson (2015), leverage is measured by its long-term liabilities divided by total assets.

$$LEV_{it} = \frac{Long\ Term\ Liabilities_{it}}{Total\ Assets_{it}} \tag{16}$$

The linear regression model without moderation is called Model 1, while the linear regression model with moderation is called Model 2.

Model 1

$$DTAX_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 AEM_{it} + \beta_3 REM_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it} \tag{17}$$

Model 2

$$DTAX_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 AEM_{it} + \beta_3 REM_{it} + \beta_4 CSR_{it} + \beta_5 (MA_{it} * CSR_{it}) + \beta_6 (AEM_{it} * CSR_{it}) + \beta_7 (REM_{it} * CSR_{it}) + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \varepsilon_{it} \tag{18}$$

4. RESULTS

The summary of descriptive statistical analysis as contained in Table 2 shows the tendency of the concentration and distribution of sample data related to each variable in the study (both independent variables, dependent variables, moderating variables, and control variables). The measure of data centering can be seen from the mean/median (the comparison value between the total values of all observations related to a certain variable and the number of observations). The median (a certain value that causes half the value of

the observations related to a variable to be smaller or equal to that particular value and the remaining half is larger). or equal to that particular value). In contrast, the size of the data spread is represented by the minimum value (the smallest extreme value from a set of observational data related to a variable), the maximum value (the largest extreme value from a set of observation data related to a variable), and standard deviation (absolute value of the deviation of observation data to the measure of concentration related to a variable).

In this study, descriptive statistical analysis is as follows:

Table 2. Summary of descriptive statistics

| Variable | Mean | Median | Std. Dev. | Min. | Max. |
|----------|-----------|---------|-----------|---------|---------|
| DTAX | -2.30e-18 | -0.0008 | 0.0255 | -0.0871 | 0.2334 |
| MA | -2.65e-09 | 0.0028 | 0.1609 | -0.2955 | 0.8146 |
| AEM | 7.74e-18 | -0.0055 | 0.1039 | -0.3666 | 0.5854 |
| REM | 7.06e-16 | 0.0921 | 0.4662 | -1.7488 | 1.0272 |
| CSR | 0.4893 | 0.3956 | 0.3380 | 0.0000 | 1.8681 |
| SIZE | 29.2142 | 28.9708 | 1.6993 | 25.7957 | 33.4945 |
| LEV | 0.1307 | 0.0969 | 0.1193 | 0.0013 | 0.5766 |
| n | 264 | | | | |

Source: Authors' elaboration.

The resulting multiple linear regression is presented in Table 2. Model 1 is a model that aims to see how the interaction and influence of the independent variable on the dependent variable,

while Model 2 aims to examine the role of social responsibility disclosure in moderating the independent variable's effect on the dependent variable.

Table 3. Hypothesis tests result

| Variable | Expected sign | Model 1 | | Model 2 | |
|-----------|---------------|-----------|-------------------|----------|-------------------|
| | | Coeff. | (Prob. > t) | Coeff. | (Prob. > t) |
| Constant | | -0.0708 | -2.77 (0.0030)*** | -0.0782 | -2.54 (0.0060)*** |
| MA | - | -0.0229 | -1.78 (0.0380)** | -0.0008 | -0.04 (0.4830) |
| AEM | + | 0.0565 | 2.20 (0.0145)** | 0.0828 | 2.37 (0.0095)*** |
| REM | + | -0.0026 | -0.63 (0.2630) | -0.0046 | -0.64 (0.2620) |
| SIZE | | 0.0024 | 2.77 (0.0030)*** | 0.0027 | 2.50 (0.0065)*** |
| LEV | | -0.0029 | -0.24 (0.4060) | -0.0043 | -0.35 (0.3620) |
| CSR | | | | -0.0021 | -0.43 (0.3345) |
| MA * CSR | - | | | -0.0522 | -1.29 (0.0990)* |
| AEM * CSR | - | | | -0.0561 | -1.18 (0.1185) |
| REM * CSR | - | | | 0.0014 | 0.20 (0.4205) |
| R-squared | | 0.0811 | | 0.0893 | |
| Stat. F | | 3.12 | | 1.96 | |
| Prob. > F | | 0.0095*** | | 0.0448** | |

Source: Authors' elaboration.

Notes: * Significant at $\alpha = 0.1$; ** Significant at $\alpha = 0.05$; *** Significant at $\alpha = 0.01$.

5. DISCUSSION

5.1. The association between managerial abilities and tax aggressiveness

The results of hypothesis testing indicate that managerial ability is negatively associated with corporate tax aggressiveness. The result is in line with Francis et al. (2013), Park et al. (2016), and Prakosa and Sari (2019). Meanwhile, this study is not in line with the research of Handayani (2013), Koester et al. (2017), and Huang and Zhang (2019). In carrying out its role as an agent who gets delegation of authority from the principal, this study concludes that the managerial ability factor can influence the decision to do or not carry out tax aggressiveness as a form of corporate investment decisions like investment decisions in general (Hanlon & Heitzman, 2010; Armstrong et al., 2015). In the agency theory view, every party, including managers, will attempt to take various actions to maximize utility or take various actions that are considered the most beneficial for themselves (Godfrey et al., 2010). Unlike the principal, managers cannot diversify their human capital but instead invest them into the company. Therefore, in carrying out its role as the principal's agent, the manager will select activities that can protect the human capital investment that the manager places in the company and maintain the maximization of its utility. Investment in human capital managers in companies and the negative influence of managerial ability on tax aggressiveness confirm two agency relationship problems: risk-aversion and problem horizon. Risk-aversion is an agency problem where managers tend to choose low-risk activities due to the correlation between high-risk activities and high failure rates. Based on this finding, tax aggressiveness is seen as an activity with a high risk of investing in human capital managers in companies to be more reluctant to engage in high-risk tax aggressiveness activities. The high risk of tax aggressiveness considered by a capable manager can be caused by various significant costs associated with tax aggressiveness, both direct costs, tax planning costs, litigation, and sanctions (Balakrishnan et al., 2019), as well as indirect costs, in the form of agency, capital, and reputation costs (Bankman, 2004; Desai & Dharmapala, 2006; Hanlon & Slemrod, 2009).

The decrease in tax aggressiveness in line with managers' increasing ability shows that the benefits obtained from carrying out tax aggressiveness activities are not proportional to the various costs. Besides, the abilities required to manage company resources and identify and implement tax strategies efficiently may differ, so capable managers tend to view choosing a not acceptable strategy as risky. Meanwhile, the horizon problem is an agency problem that arises due to managers prioritizing decision-making that maximizes utility following the manager's time frame. Although tax aggressiveness can result in reduced tax payments for the company, as long as the manager still intends to act as an agent of the company, capable managers are reluctant to engage in tax aggressiveness, which is assumed as a high-risk act and can jeopardize his position as an agent of the principal. It is related to domain expertise and resource expertise from the manager's ability dimensions (Holcomb et al., 2009). Domain expertise shapes the manager's knowledge and experience related to its industrial situation and the best strategies, opportunities, and business alternatives that need to be run. Meanwhile, resource expertise refers to a manager's ability to select, configure, and combine resources to produce value for the company. A capable manager is equipped with better domain expertise and resource expertise to face various opportunities and alternative strategies that less competent managers cannot anticipate.

Therefore, the tax aggressiveness strategy is not always an alternative priority strategy preferred by a capable manager. With better abilities, capable managers are thought to be more confident and able to identify various strategic options other than tax aggressiveness, producing more or less similar economic impacts according to the manager's considerations. The incentive for tax aggressiveness is reduced. A capable manager prioritizes whether or not company resources can be maintained and considers various other factors according to the manager's understanding and abilities. The company's characteristics that may differ due to the manager's strategic decisions in the past can influence a capable manager's decisions. For example, the decision to move operations, change research and development strategies, and change the company's business composition in the industry solely to avoid taxes can be considered a capable manager as a decision that does not cost-beneficial (Koester et al., 2017). A manager's time and effort

are limited (Simon, 1973). Furthermore, tax aggressiveness has the risk of causing a dispute with the tax authorities (Graham et al., 2014). In Indonesia, various tax disputes can be resolved in various mechanisms — such as objections, appeals, lawsuits, or reconsiderations — which in practice can take a long time. The results of research that show the negative effect of managerial ability on tax aggressiveness indicate that capable managers are thought to prefer to comply with existing tax regulations, compared to resolving litigation issues with tax authorities, which can take up the manager's focus and limited time which should be directed to activities — other activities that are more productive. This study's results can also be the basis for explaining the importance of reputation aspects for a manager (Fee & Hadlock, 2003; Francis et al., 2008; Rajgopal et al., 2006). Managers with high skills see it essential to maintain their reputation when making company business decisions (Hirshleifer, 1993). Tax aggressiveness is a form of corporate business decisions, so managers will consider how tax aggressiveness affects the manager's reputation. On the other hand, tax aggressiveness is something that investors perceive negatively (Hanlon & Slemrod, 2009). Therefore, investors' negative sentiment towards tax aggressiveness makes capable managers view tax aggressiveness as a strategy that can harm the manager's reputation. Thus, managerial proficiency reflects the high investment in human capital, which impacts an increasingly losing position than a manager (Francis et al., 2013). Reputation considerations become higher as a manager's skills increase, implying a decreased incentive to engage in tax aggressiveness.

5.2. The association between accrual earnings management and tax aggressiveness

The hypothesis testing results conclude that accrual earnings management is positively associated with corporate tax aggressiveness. The result of this study is in line with Frank et al. (2009), Suyanto and Supramono (2012), Nurhandono and Firmansyah (2017), Wang et al. (2019), Kusuma and Firmansyah (2018), and Machdar (2019). The result confirms that accrual earnings management activities should be carried out in conjunction with a tax aggressiveness strategy without having a trade-off between them (Frank et al., 2009). Shackelford and Shevlin (2001), Erickson et al. (2004), and Geraldina (2013) suggested that there is a choice that companies must make between doing accrual earnings management or tax aggressiveness. These studies conclude that both of them can be conducted altogether without sacrificing one another.

Companies can increase the value of accounting income presented in their financial statements without increasing the tax expenses or decreasing their taxable profit (Kamila, 2017). When companies attempt to increase corporate income through the accrual earnings management mechanism, the company's tax liabilities will increase, which increases cash outflows caused by the tax expenses. This situation conflicts with the original purpose of accrual earnings management. Therefore, the company takes tax-aggressive behavior to reduce cash outflows to achieve a dual

goal — high accounting profit and low tax expense cash flow (Wang et al., 2019). The absence of a trade-off between accrual earnings management and tax aggressiveness is supported by a situation where the company can exploit a tax gap due to differences (non-conformity) between accrual accounting principles and tax regulations. Dechow and Skinner (2000) stated that accrual earnings management is an activity of choosing accounting standards to obscure or camouflage a company's economic performance, emphasizing its discretion in choosing accounting methods estimates affect accrual earnings reported in financial statements. When the condition of conformity between accounting provisions and taxation provisions can cause the company to be unable to simultaneously increase accounting profit while reducing taxable profit (Frank et al., 2009), with the non-conformity of accounting and tax provisions, the company becomes more flexible in choosing policies that can promote profits without impacting the increase in the tax burden that the company must bear. The non-conformity between accounting and tax can be caused by adopting accounting standards based on International Financial Reporting Standards (IFRS), which have many differences with Indonesia's taxation system (Kamila, 2017). This difference causes many differences between accounting income and fiscal income, both permanent and temporary. Tax provisions have various principles substantially different from generally accepted accounting principles, so the IFRS convergence financial accounting standard statement (PSAK) cannot be fully implemented in the taxation system (Kamila, 2017). Thus, the changes that occur in a financial accounting standard in effect in Indonesia are not always simultaneously followed by changes in the corresponding tax provisions (or vice versa) — either due to differences in principles or differences in timing in implementing changes — which then creates gaps between both provisions that companies can use in carrying out accrual earnings management activities. The existence of a gap between the provisions governing commercial accounting and the provisions governing tax accounting can help explain the spike in descriptive statistics of accrual earnings management variables in 2017, where there were several financial accounting standard regulations (both new standards, amendments, and annual adjustments) that become effective around the year concerned which may result in differences with taxation provisions. Research results related to accrual earnings management's negative effect on tax aggressiveness also confirm the asymmetric information due to agency problems. With the principal delegating authority's condition to the agent, the manager has more complete information on its activities than the principal. The principal becomes dependent on the information submitted by the manager. Managers can apply various accrual earnings management practices with managers who can access information, coupled with a gap between accounting and tax provisions, and present its activities in a financial report. Therefore, this study's results indicate that management's information to external parties follows management's interests or individual goals that benefit the company (Scott, 2015).

5.3. The association between real earnings management and tax aggressiveness

The results of hypothesis testing indicate that real earnings management has no significant effect on tax aggressiveness. It is in line with Ferdiawan and Firmansyah (2017), also conducted on Indonesian companies. Meanwhile, this study is not in line with Dridi and Boubaker (2015) and Kaldowski and Jewartowski (2019). Descriptive statistical analysis shows that the real earnings management variable's aggregate mean and median are positive, which indicates the company's real earnings management activities. It may real earnings management activities carried out by companies are not carried out for tax purposes. Although real earnings management activities are considered to be more subtle (Graham et al., 2005) and tend not to attract the attention of auditors and regulators (García Lara et al., 2005), as well as descriptive statistics showing the existence of real earnings management activities carried out by companies. Scott (2015) stated that although companies' motivations to practice earnings management, tax objectives are not the only purpose of companies' judgments and forming certain transactions to manage the profit reported to stakeholders regarding its economic performance. The purpose of the company for earnings management, in addition to tax purposes, includes the purpose of the bonus scheme, fulfilling long-term debt contracts, influencing the results of engagements and investments that depend on reported accounting figures, political motivation, and the result of management changes. Other more specific reasons related to the company's goals for earnings management include attracting external funding at a lower cost level (Richardson, Tuna, & Wu, 2002), fulfilling negotiations with individual trade unions (Liberty & Zimmerman, 1986), or achieving the target and obtaining a bonus (Bergstresser & Philippon, 2006).

Companies' real earnings management practices are thought to be primarily for purposes other than to reduce corporate tax obligations to the government. The previous hypothesis testing indicates that companies in Indonesia prefer to use accrual earnings management other than real earnings management for tax purposes. Despite the need to avoid detection of accrual earnings management in the era of open financial reporting, it encourages management to move towards earnings management through real activities (Cohen et al., 2008) as well as convergence and changes in various accounting standards, which are expected to reduce the flexibility of companies to practice accrual management. The gaps in accounting and tax regulations that companies can still exploit in Indonesia causes accrual earnings management practices to remain a priority choice of companies in managing corporate tax obligations compared to real earnings management practices.

Companies view accrual earnings management as more convenient than real earnings management practices for tax purposes. Real earnings management regulates company profits through the management of the company's operational activities. It requires comprehensive planning and a more complex application than merely choosing the accounting standard policies or estimates used

in accrual earnings management. Besides, descriptive statistics show that companies tend to implement real earnings management strategies by regulating and controlling company production, impacting the value of the cost of goods sold reported by the company. Although it can drive down the cost of goods sold and push up the reported accounting profit, this strategy's implementation indirectly increases the company's taxable profit. For the effect of the increase in taxable profit to be neutralized, companies must take advantage of and combine provisions related to temporary differences and permanent differences and provisions related to deductible expenses and nondeductible expenses. It is much more complicated than accrual earnings management, which is more straightforward and emphasizes management's judgment in choosing accounting standards. Besides, real earnings management activities should not have a long-term positive impact on the company due to deviations from the company's regular business operating practices, which can be in the form of sales manipulation, decreased discretionary expenses (such as advertising and marketing expenses, research and development expenses, and selling, administration, and general expenses), and overproduction (Roychowdhury, 2006). Thus, accrual earnings management is much more convenient for companies in Indonesia than real earnings management practices for tax purposes.

One reason for the shift from accrual earnings management to real earnings management in developed countries is increased supervision from authorities and auditors regarding companies' accrual earnings management practices (Cohen et al., 2008). Therefore, oversight from regulators and auditors is suspected of playing a role. However, the immense level of supervision carried out by regulators and auditors in developing countries, such as Indonesia, is thought to have not eliminated the company's motivation to implement an accrual earnings management strategy in managing corporate tax expenses. Hence, companies still prefer to use accrual earnings management to achieve tax purposes. It ultimately leads to no shifting from accrual earnings management to real earnings management to achieve corporate tax objectives. Concerning the company's business activities, the manufacturing company used as the sample of this study has a long production chain and complex business processes. The application of real earnings management in the manufacturing sector requires much more comprehensive planning in managing the manufacturing company's complex business chain, especially to achieve tax objectives. This strategy formulation's complexity is thought to reduce the company's incentives to implement real earnings management strategies for tax purposes.

5.4. The role of corporate social responsibility disclosure in the association between managerial ability and tax aggressiveness

Based on the results of hypothesis testing, it is known that corporate social responsibility disclosure strengthens the negative effect of managerial ability on tax aggressiveness. From the descriptive statistical analysis, the range of the tax aggressiveness variable (DTAX) tends to decline from

year to year in the aggregate. Simultaneously, the mean, median, and minimum values for corporate social responsibility (CSR) disclosure have an increasing trend every year. The results of hypothesis testing related to the effect of disclosure of corporate social responsibility in moderating the effect of managerial ability on tax aggressiveness then confirm the indirect effect of CSR on the DTAX variable, where the CSR variable affects the DTAX variable through its interaction with the managerial ability (MA) variable. The skills and individual characteristics influence decision-making, including its level of transparency and voluntary disclosure (Bamber, Jiang, & Wang, 2010).

The choices, motives will influence the companies disclosure of social responsibility and the manager's values (Healy & Palepu, 2001; Maak, Pless, & Voegtlin, 2016). Therefore, the company's social responsibility disclosure level illustrates the values and views held by company managers who make these disclosures. Following the legitimacy theory concept, the company considers it necessary to fulfill its social contract with the community and stakeholders and receive recognition and guarantees of a dynamic environment. If external parties believe that the company is engaged in socially or environmentally unethical behavior, this can result in salary cuts or job losses for managers. Ethical aspects can direct companies to avoid opportunistic actions (Ostas, 2020), such as tax aggressiveness. Therefore, corporate social responsibility activities that promote ethical behavior and are crucial to gaining legitimacy from the community then inhibit various factors related to tax aggressiveness and encourage managers to choose ethical business strategies (Zheng et al., 2014). Including the corporate social responsibility, aspect provides internal guidance for the company to select ethical business practices, which creates a reluctance to engage in tax aggressiveness. In addition to the internal impact, strengthening the negative effect of managerial ability on tax aggressiveness by corporate social responsibility disclosure can also explain its reputation. Legitimacy is closely related to public perceptions, so disclosing information by companies (not just aligning company actions with public expectations) is essential to building social views regarding company legitimacy. The company believes it is essential to show external parties that align with what the community considers legitimate. Companies that carry out social responsibility disclosures attempt not to carry out activities that can damage their image in the eyes of the community (Ratmono & Juliarto, 2019), including acts of tax aggressiveness — which are seen by the public as irresponsible (Lanis & Richardson, 2013; Payne & Raiborn, 2018). Therefore, the comprehensive company's disclosure indicates the image and reputation aspects level, both for managers and companies. In agency theory, the act of tax aggressiveness can impact the emergence of indirect costs in the form of reputational costs. Reputation costs are essential for managers because they impact managers' efforts to maximize their utility and negatively affect all human capital investment managers.

Therefore, the increasing need to maintain reputation causes managers to be more reluctant and avoid tax-aggressive activities. In particular,

companies with better corporate social responsibility performance use voluntary disclosure of corporate social responsibility as a means to gain a competitive advantage (García-Sánchez, Aibar-Guzmán, Aibar-Guzmán, & Azevedo, 2020). Competent managers consider ethical corporate social responsibility behavior a voluntary action that companies need to take to disclose information related to company performance (García-Sánchez et al., 2020) and as a tool to maintain good relations with stakeholders (Li, Gong, Zhang, & Koh, 2018). Social responsibility disclosure is used as a strategy to communicate to external parties that companies prioritize suitable business activities and practices and stay away from tax aggressiveness that can lead to a dispute with the tax authorities (Graham et al., 2014). Thus, the corporate social responsibility dimension can direct capable managers to avoid tax aggressiveness increasingly.

5.5. The role of corporate social responsibility disclosure in the association between accrual earnings management and tax aggressiveness

Referring to the hypothesis testing result, corporate social responsibility disclosure cannot inhibit accrual earnings management's positive effect on tax aggressiveness. In an international context, this study's results implicitly support Moratis and van Egmond (2018), which concluded that there is no effect of accrual earnings management on corporate social responsibility disclosure. Accrual earnings management essentially has a negative impact on the quality of information presented in the financial statements due to a distorted picture of its financial performance (Prior, Surroca, & Tribó, 2008). Corporate social responsibility activities should prioritize ethical and voluntary behavior — the contradiction like accrual earnings management and social responsibility disclosure results in little interaction between the two. Managers are often faced with situations and pressures to meet certain economic performance expectations and financial goals, including reducing their tax burden. Due to the pressure to meet these expectations and targets, management is often trapped in managerial myopia (Zhao, Chen, Zhang, & Davis, 2012), where managers focus more on short-term obligations and choose strategies that can meet these short-term targets. Thus, the priority to achieve goals, including reducing the tax burden, is more the main focus of managers. Accrual earnings management activities emphasize how management manages the accrual portion of earnings reported by the company and selects specific accounting estimates or standards that should not have real economic consequences (Dechow, Ge, & Schrand, 2010). Although corporate social responsibility shows ethical behavior and it is expected that the company can choose not to adopt an accrual earnings management strategy that spiritually does not have a real economic impact, the research results show that when faced with a predetermined goal achieve (including for tax purposes). It is suspected that ethical factors from corporate social responsibility activities do not significantly suppress the company's drive to achieve these short-term goals and engage in accrual earnings management activities. The ethical aspect of corporate social responsibility activities is

expected to prevent companies from engaging in opportunistic behavior in accrual earnings management when interpreting different provisions (Ostas, 2020). However, this cannot be confirmed by the test results in this study, which indicate that the aspects of the situation and pressures that encourage companies to practice accrual earnings management, as described above, play a far more significant role than the considerations of whether accrual earnings management actions are actions that are morally questionable (Moratis & van Egmond, 2018).

The corporate social responsibility disclosure is long-term oriented and sustainability-related to its economy, society, and environment. Meanwhile, accrual earnings management focuses more on policy selection activities oriented towards a shorter time frame. The difference in orientation and context between social responsibility disclosure and accrual earnings management is thought to cause the importance of the sustainability aspects of corporate social responsibility to reduce the positive effect of accrual earnings management on tax aggressiveness.

5.6. The role of corporate social responsibility disclosure in the association between real earnings management and tax aggressiveness

The hypothesis testing results indicate that social responsibility disclosure has failed to moderate real earnings management's tax aggressiveness. Based on the previous test results, the corporate social responsibility disclosure could not moderate real earnings management, presumably due to the effect of real earnings management, which was not significant to tax aggressiveness.

The interaction between real earnings management and corporate social responsibility disclosure should not be reflected in a decrease or increase in tax aggressiveness. The result aligns with the previous hypothesis test results regarding real earnings management's effect on tax aggressiveness. Ethics is an essential part of corporate social responsibility activities, whereas earnings management is generally seen as unethical (Kaplan, 2001). Real earnings management is related to the regulation of the company's business activities at the operational level, both sales management, production, or discretionary costs, where this action is seen as a value-destroying activity and has a negative impact on the company's performance in the future (Cohen & Zarowin, 2010; Roychowdhury, 2006). As with accrual earnings management, this characteristic difference is thought to cause the moderating impact of social responsibility disclosure on real earnings management to be insignificant. Objectives such as bonus compensation can also be a factor in the company's real earnings management activities. Bonus compensation should be able to motivate managers to take risky policies (Coles, Hertz, & Kalpathy, 2006) so that in the case of real earnings, management goals are to obtain bonuses, plus the urge to maximize manager utility as in agency theory, corporate incentives to perform earnings management real increase.

Furthermore, management is often under conditions that pressure companies to carry out real earnings management activities. For example,

management is often in limited financial resources (financially constrained), making it necessary for managers to manage their operational activities to obtain cash inflows. The company may also be in an unhealthy financial condition, making the company prefer a real earnings management strategy to overcome default (default). The urgency to address these conditions is thought to make ethical considerations whether real earnings management action is irrelevant.

6. CONCLUSION

For managers, tax aggressiveness is viewed as an activity with a high risk due to a variety of high costs — both direct and indirect costs — that are associated, so that the more competent managers will be more reluctant to engage in high-risk tax aggressiveness activities. On the other hand, the more competent a manager invests, the more significant the company's human capital, which results in the manager being in a more to lose position. Therefore, the reputation risk becomes higher, so managers' incentive to engage in tax aggressiveness decreases. Accrual earnings management activities can be carried out in conjunction with a tax aggressiveness strategy without a trade-off between them. The absence of a trade-off between accrual earnings management and tax aggressiveness is supported by a situation where the company can exploit a gap due to the difference (non-conformity) between accrual accounting principles and tax regulations. Supported by asymmetric information conditions, managers become more flexible and flexible in applying various accrual earnings management practices and tax aggressiveness simultaneously. Accordingly, the company's real earnings management goal is not limited to tax purposes, so the insignificant effect of real earnings management on tax aggressiveness is thought to be due to the company's real earnings management objectives being more for other purposes than tax purposes. Companies view accrual earnings management as more convenient than real earnings management practices for tax purposes.

The aspect of managerial skills and disclosure of social responsibility puts forward the importance of reputation issues. Therefore, with the increasing need to maintain reputation, the interaction between the two leads to increased reputation considerations, making managers more reluctant to engage in aggressive tax activities. Besides, corporate social responsibility promotes ethical behavior and is crucial to gaining legitimacy from society, inhibits various factors related to tax aggressiveness, and encourages managers to choose ethical business strategies. In essence, accrual earnings management has a negative impact on the quality of the information presented in the financial statements, while the disclosure of corporate social responsibility prioritizes ethical and voluntary behavior. The contradiction of the characteristics of the two causes the interaction of the two variables to be insignificant. Differences in orientation and context between social responsibility disclosure and accrual earnings management and managerial myopia problems cause corporate social responsibility disclosure

to be unable to interact with accrual earnings management and inhibit the effect of accrual earnings management on tax aggressiveness. Real earnings management activities are allegedly carried out by companies, not for tax purposes but other purposes outside of tax. Therefore, the interaction between real earnings management and corporate social responsibility disclosure is not reflected in a decrease or increase in tax aggressiveness. Management often faces conditions and situations that lead the company to engage in real earnings management activities. In such situations, the ethical considerations prompted by the disclosure of social responsibility are irrelevant.

This study still has limitations; the corporate social responsibility disclosure index's measurement is based on its disclosures through annual reports, sustainability reports, or company websites using the content analysis method. The use of this method cannot be separated from the researcher's subjectivity (Lanis & Richardson, 2013). This study uses a sample of companies in the manufacturing sector and a limited period. Therefore, this study's results cannot generalize all companies' behavior in Indonesia, so any conclusions from this study must be carefully interpreted. Further research can use a more extended period, other sectors, and other countries to compare this study's results. In this study, financial reporting quality is represented by accrual earnings management and real earnings management. Further research can use other indicators to represent financial reporting quality, such as forecast management (Goodman, Neamtiu, Shroff, & White, 2014) or disclosure frequency (Jo & Kim, 2007; Van Buskirk, 2012).

This study indicates that companies should use this study's results as material in considering company management, selecting accounting policies and business practices, ethical considerations in disclosing corporate social responsibility, and planning business activities and corporate taxes. For potential investors, the company's financial performance reflected in the financial statements is an essential source of information for investors to consider before deciding to invest in a company. The Indonesian tax authority can also employ this study to carry out profiling that includes its management information. This institution is expected to be more proactive in responding to the dynamics of changes in financial accounting standards in effect in Indonesia, preparing tax regulations following changes in accounting regulations, or anticipating possible impacts and follow-up actions that need to be taken if changes in tax provisions are not the best solution. This institution can also collaborate with the Indonesian Accounting Standard Setter as a party related to preparing financial accounting standards in Indonesia so that accounting and tax provisions can run in harmony. Therefore, the Indonesian Tax Authority can formulate tax policies and incentives to stimulate companies to be more involved in sustainable activities and disclose more excessive social responsibility. Besides, the Indonesian Tax Authority can use corporate social responsibility disclosures as a reference in making tax provisions. It can also collaborate with related institutions to promote and increase awareness of companies on the importance of sustainability issues, positively impacting state tax revenues.

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