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Financial Pressures and Earnings Management: Evidence from Capital-Intensive Firms in Indonesia

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Abstract

This study examines how financial pressures, reflected through tax aggressiveness, capital intensity, leverage, and revenue growth on earnings management in capital-intensive industries, particularly those operating in Indonesia's basic materials sector. The basic materials sector is highly sensitive to fiscal pressure and commodity price volatility, making firms more vulnerable to earnings manipulation. Existing studies have examined, yet limited research analyzes within a capital-intensive context, especially in Indonesia. This study fills the gap by providing empirical evidence using 65 firms with 325 yearly observations from 2019 to 2023 through multiple linear regression. The findings reveal that capital intensity negatively affects earnings management in high-capital-intensity industries. In contrast, leverage and revenue growth positively affect earnings management. Our findings also reveal that aggressive tax strategies do not result in earnings management. These findings deepen the scholarly understanding of financial conduct within capital-intensive industries and highlight the critical role of underlying determinants in shaping earnings management practices, in the midst of regulatory oversight and corporate governance, in reducing financial reporting errors. Future research should add moderating and mediating factors, such as ownership and corporate governance variables, which might influence earnings management. Also, to enlarge the scope in other sectors across ASEAN countries to facilitate generalizability to a wider population.

Keywords: Tax Aggressiveness, Capital Intensity, Leverage, Revenue Growth, Earnings Management

Abstrak

Studi ini mengkaji tekanan keuangan, yang tercermin dari agresivitas pajak, intensitas modal, leverage, dan pertumbuhan pendapatan atas manajemen laba di industri padat modal, khususnya yang beroperasi di sektor bahan dasar Indonesia. Sektor bahan dasar sangat sensitif terhadap tekanan fiskal dan volatilitas harga komoditas, membuat perusahaan lebih rentan terhadap manipulasi pendapatan. Studi yang ada telah meneliti analisis penelitian dalam konteks padat modal, terutama di Indonesia. Studi ini mengisi kesenjangan dengan memberikan bukti empiris menggunakan 65 perusahaan dengan 325 pengamatan tahunan dari 2019 hingga 2023 melalui regresi linier berganda. Temuan ini mengungkapkan bahwa intensitas modal berdampak negatif pada manajemen pendapatan di industri dengan intensitas modal tinggi. Sebaliknya, leverage dan pertumbuhan pendapatan berdampak positif pada manajemen pendapatan. Temuan kami juga mengungkapkan bahwa strategi pajak yang agresif tidak menghasilkan manajemen pendapatan. Temuan ini memperdalam pemahaman ilmiah tentang perilaku keuangan dalam industri padat modal dan menyoroti peran penting penentu yang mendasari dalam membentuk praktik manajemen pendapatan, di tengah pengawasan peraturan dan tata kelola perusahaan, dalam mengurangi kesalahan pelaporan keuangan. Penelitian di masa depan harus menambahkan faktor moderasi dan mediasi, seperti variabel kepemilikan dan tata kelola perusahaan, yang dapat memengaruhi manajemen pendapatan. Juga, untuk memperluas cakupan di sektor lain di seluruh negara-negara ASEAN untuk memfasilitasi generalisasi ke populasi yang lebih luas.

Kata kunci: Agresivitas Pajak, Intensitas Modal, Leverage, Pertumbuhan Pendapatan, Manajemen Laba

INTRODUCTION

Indonesia's economic landscape in early 2025 reflects both industrial expansion and fiscal concerns. Bank Indonesia reported that the prompt manufacturing index (PMI-BI) reached 51.66 percent in Q3 2025, signalling continued growth (Bank Indonesia, 2025). However, fiscal challenges increased to 0.9 percent of GDP in Q2 2025, with revenue declining to 5.0 percent of GDP (World Bank, 2025). The fiscal pressure compels governments to intensify tax revenue from the corporate sector through a higher firms' tax burden. Such fiscal-induced pressures increase firms' earnings pressure. The heightened firm-level pressure induces managerial incentives for earnings management. Given these dynamics, understanding the impact of tax aggressiveness, capital intensity, leverage, and revenue growth on earnings management is crucial.

Chemmaa & Ibrahimi (2025) conducted a bibliometric review on earnings management with the importance of financial reporting integrity in Scopus-indexed articles from 2002 to 2024. Chandren (2016) found that efficient earnings management can raise firm value and benefit shareholders, while opportunistic practices mainly serve managers and harm the company. Purba et al. (2022) found out that business strategy plays an important role in earnings management and supports contingency theory, which states that strategic choices influence how earnings management is carried out. Previous research has shown that business strategy affects earnings management. Cohen et al. (2008) noted that firms apply earning management of real basis and an accrual basis with different intensities. Cohen & Zarowin (2010) noted that earnings management occurred more towards the seasoned equity offerings. Zang (2012) found that firms use both real and accrual-based earnings management, depending on the relative costs, and adjust the accrual level based on the real activities.

As firms navigate performance expectations amid fiscal and regulatory pressures, their financial strategies may evolve in response to these challenges. Earnings management is an important aspect in accounting that becomes the main concern for stakeholders due to its importance, which may affect the quality and credibility of financial statements (Aljifri & Elrazaz, 2024). Earnings management refers to the opportunistic behaviour of managers in manipulating financial statements either through discretionary accruals or actual operating activities to create an artificially more favourable financial picture (Awuye & Aubert, 2022).

Although this practice is meant to avoid debt covenant violations and improve financing opportunities, the application of earnings management eventually could be harmful to the real firm value. Accrual-based methods for identifying earnings manipulation frequently rely on the Jones framework and its later refinements. Among these, the modified version is widely regarded as more effective, as it performs better in practical settings - particularly when firms exhibit unusual operating results or adjust their credit sales (Ronen & Yaari, 2008). Using the Jones model and its variations are robust in determining the earnings management (Fiqriansyah et al., 2024).

The basic materials sector is one of the largest industries in Indonesia, with a market capitalization of approximately $188 billion as of December 2024. This sector is characterized by high capital intensity, fluctuating commodity prices, and dynamic regulatory exposure (Löfgren et al., 2024). Firms in this sector often faced pressure to hit the earnings benchmark and give a financial stability signal amid fluctuating market conditions, which encourages the manipulation of reported earnings. Moreover, the strategic importance of the basic material industry for Indonesia's economic growth and resources-based export portfolio highlighted how earnings management practices can affect not only the valuation of a firm but also broader economic and governance outcomes.

Tax aggressiveness, leverage, and capital intensity affect earnings management. Hamza & Zaatir (2021) noted that earnings management is upward to manage lenders and downward for tax avoidance. Tax avoidance is a strategy used to reduce tax payments, which may provide an incentive for management to manipulate financial statements to maintain the expected return (Supriyati & Hapsari, 2021). Capital intensity shows the amount of investment in a firm's property, plant, and equipment, which affects management flexibility in administering financial statements (Djojo & Astuti, 2024). Moreover, leverage reflects the use of debt in a firm's capital structure, affecting management decisions to manage earnings and fulfill its interest payment obligations or maintain a good relationship with creditors.

This study provides both theoretical and practical contributions. On the theoretical side, this study adds to the earnings management literature by incorporating the concepts of tax aggressiveness, capital

intensity, leverage, and revenue growth in one analytical model in the basic materials sector, which has rarely been examined simultaneously. This approach offers a more comprehensive understanding of managerial behavior under financial and regulatory pressures. On the practical side, the findings of this study can be considered useful in understanding the implications of the results in the context of developing countries, particularly Indonesia, which has different institutional and industrial characteristics compared to developed countries.

Looking at this complex condition, it is important to analyse these internal factors, such as tax aggressiveness, capital intensity, and leverage, affecting the likelihood of earnings management practices in basic materials sector firms. Previous research examined these factors separately, or focused on the manufacturing sector in general and developed countries; These studies have not captured the unique characteristics of capital-intensive industries in developing countries. In addition, the relationship between tax aggressiveness and earnings management still shows inconsistent results. , so this study seeks to provide additional empirical evidence from the Indonesian context. This study seeks to provide empirical evidence from the Indonesian context. Hence, the research questions are (1) to analyse the tax aggressiveness effect on earnings management, (2) to analyse the capital intensity effect on earnings management, (3) to analyse leverage on earnings management, and (4) to analyse revenue growth on earnings management.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signalling Theory and Earnings Management

Signalling theory explains how companies use financial information to give signals to external parties regarding the actual economic condition of a firm, especially when there is asymmetrical information between a manager and an investor. In this theory, a manager has an incentive to present favourable signals to maintain or increase the firm's value. Earnings management is a tool to provide a signal, whether a manager manipulates earnings to achieve a targeted financial ratio to fulfill market expectations (Healy & Wahlen, 1999). Although the usage of earnings management may initially help reduce asymmetrical information, this practice might mislead stakeholders if the signal sent does not reflect the actual condition. Scott & Mary Ann (2015) emphasizes that in high-pressure situations, such as when the market is volatile oh when a company needs external financing, managers' motivation to manage earnings as a positive signal will be stronger. Therefore, from a signalling theory perspective, earnings management is both a strategic communication tool and a potential source of distortion to the quality of financial reporting. When used efficiently, it can serve as a credible signal of privileged information and a predictor of stronger future performance. However, the opportunistic use of earnings management risks distorting financial reports and misleading stakeholders (Simamora, 2019).

Tax Aggressiveness and Earnings Management

Tax aggressiveness is a business policy aimed at reducing corporate tax burden, ranging from legal tax planning to policy approaching tax evasion. Even though these policies increase the effectiveness of a firm's finances, they carry compliance and reputational risk with them. Firms engaging in aggressive tax practices will exhibit aggressive financial reporting conduct (Frank et al., 2009; Hassoun & Hadrich, 2023). However, Susanto et al. (2019) find that a positive relationship exists with higher tax aggressiveness, demonstrated by lower effective tax rates with earnings management. While others report negative correlation or insignificant relationships depending on oversight strength and book–tax conformity (Sánchez-Ballesta & Yagüe, 2021; Kałdoński & Jewartowski, 2020). In settings with heightened monitoring, managers may separate tax planning decisions from earnings reporting to manage enforcement risk. Evidencing this, Jatiningrum (2024) found that Good Corporate Governance (GCG) reduces tax aggressiveness. Sánchez-Ballesta & Yagüe (2021) found a negative correlation between earnings management and tax avoidance. Chyz et al.(2023) noted that employees prefer less tax aggressiveness and lower earnings management.

In parallel, earnings management refers to the efforts made by managers to influence reported accounting numbers to achieve market expectations or income smoothing goals. Kałdoński & Jewartowski (2020) discovered that firms that engage in real earnings manipulation tend to be more reluctant to pursue aggressive tax planning strategies. Tax aggressiveness influences earnings management as firms strategically manipulate discretionary accruals and financial reporting to lower

taxable income, reducing tax burdens while maintaining favourable financial metrics, shaping their financial position to meet regulatory and market expectations. Rahayu et al. (2023) found that earnings management positively correlated with tax aggressiveness, while capital intensity did not correlate with tax aggressiveness.

H1: Tax Aggressiveness positively affects earnings management.

Capital Intensity and Earnings Management

Capital intensity refers to the degree to which a company is investing in fixed assets versus inputs aside from fixed assets in its business. These companies are highly capital-intensive and operate within asset-intensive industries such as manufacturing, utilities, or transportation, where investment in property, plant, and equipment is large. Capital intensity has the potential to influence the financial reporting behaviour of a company, particularly earnings management. High capital intensity, according to Gul et al. (2011), is likely to decrease managerial discretion in financial reporting since there are more physical assets that are subject to tighter accounting and valuation standards. Hence, high capital intensity is normally associated with reduced accrual-based earnings management since the level of earnings manipulation through non-cash accounting adjustments is lower.

Higher capital intensity tends to encourage managers to manipulate reported earnings (Pradipta & Lisnawati, 2025). Fixed assets are more transparent and less flexible to adjust However, the relationship may not necessarily be linear. Capital-intensive firms can continue to manipulate earnings, particularly via real activities manipulation. Luo (2020) found out that earnings management was done through real activities manipulation such as sales acceleration, shipment schedule changes, R&D delay, and maintenance expenditures delay. Roychowdhury (2006) suggests that managers can alter operating decisions, such as production levels or discretionary expenditures, to meet earnings goals. In capital-intensive firms, where asset-related expenses and depreciation dominate, managers can alter investment timing or asset write-downs to influence earnings. Besides, firms with high fixed costs may be under greater pressure to maintain stable earnings to assuage creditors and investors, which can motivate earnings management behaviour. Djojo & Astuti (2024) shows that a higher capital intensity ratio reduces the likelihood of a company engaging in earnings management practices.

H2: Capital Intensity negatively affects earnings management.

Leverage and Earnings Management

Leverage, which reflects how a company finances its operations through debt and equity, plays an important role in shaping earnings management behavior. Leverage, as generally measured by the debt-to-assets ratio, lies at the heart of accounting for a company's financial behaviour, particularly earnings manipulation. Companies with higher leverage have more pressure in adhering to debt covenants and investor expectations, causing managers to manipulate earnings. Gusnita & Taqwa (2019) show that leverage is associated with earnings persistence, implying that higher debt levels may affect the consistency and credibility of reported profits over time. In a related study, Fionita & Fitra (2021) find that leverage significantly influences earnings management, suggesting that firms with greater debt exposure face stronger incentives to adjust reported earnings. Hoang & Phung (2019) finds that leverage impacts positively on earnings management, supporting the debt hypothesis, with highly leveraged firms have more real earnings management compared to accrual-based earnings management, while substitution exists.

Hussain et al. (2022) find out that leverage is positively correlated with real earnings management, in line with predictions from positive accounting theory. Short-term leverage, rather than long-term leverage, exerts a stronger influence on real earnings management. Susanto et al. (2019) find that leverage has a significant positive relationship with earnings management. Firms with higher leverage are more inclined to engage in earnings management. Faisal et al. (2024) found that leverage significantly influences earnings management by manufacturing firms listed on the Indonesia Stock Exchange, whereas Mohammad-Alizadeh (2024) found that there is a positive relationship between financial leverage and earnings manipulation by Iranian public companies. Similarly, Tulcanaza-Prieto et al. (2020) found that highly leveraged Korean firms tend to engage in real earnings management and suspected financial misreporting. These findings suggest that firms with high debt levels may resort to earnings management to maintain a favourable appearance and avoid covenant violation.

Gregova et al. (2021) points out that leverage decreases earnings management with creditors putting strong limits on monitoring, and that both tax shield and earnings management behaviors play interconnected positions in the capital structure. This is aligned with Muhtaseb et al. (2024), who showed a significant negative relationship between earnings management and long-term debt in firms listed in Palestine, indicating that long-term leverage is a suppressing force against manipulation. Alsaadi (2024) pointed out that in certain markets, such as in the Saudi market, which is heavily influenced by the Islamic religion, leverage is less practiced, hence less impact on earnings management. Pradipta & Lisnawati (2025) also finds out that leverage has a negative effect on earnings management, and leverage can indirectly create room for earnings management through profitability. Awuye & Aubert (2022) established that leverage can constrain accrual-based earnings management but lead firms to resort to real earnings manipulation, indicating a trade-off in techniques.

H3: Leverage positively affects earnings management.

Revenue Growth and Earnings Management

Hassan & Farouk (2014) noted that the firms' growth has produced varied outcomes over time, which they partly linked to the intangible nature of the concept of growth. Likewise, Nissim & Penman (2001). discovered that firms with rapid growth tend to exhibit less stable profitability. Because growth dynamics continually shift, fluctuations in earnings and overall performance are inevitable, shaping financial disclosure practices. Such variability may drive executives to adjust accounts to display steady results to shareholders, projecting a desired image rather than actual figures. This tendency becomes stronger when investors rely on present and anticipated earnings for decision-making and when managerial compensation is tied to revenue increases. Firms with higher revenue growth have more earnings management (Parulian et al., 2024).

Organizations experiencing growth often aim to sustain a positive trajectory and deliver uniform outcomes to stakeholders, which can lead to income smoothing. Furthermore, the pressure to achieve performance targets may foster manipulative actions. When expansion slows, companies may encounter additional pressure to present financial strength to investors, even if this involves distortion—a strategy that could ultimately harm the firm in the long term. Enakirerhi & Ighosewe (2024) finds that reduced revenue growth tended to coincide with greater use of earnings management, likely because firms sought to preserve the appearance of stable performance before IFRS adoption. However, in the post-IFRS period, declining revenue growth was instead associated with strategies that reduced reported income. The study also finds that the adoption of global standards or changing standards might not limit the earnings management, and is unlikely to prevent or deter it, while it may affect the nature.

H4: Revenue Growth positively affects earnings management.

The conceptual framework is presented in Figure 1.

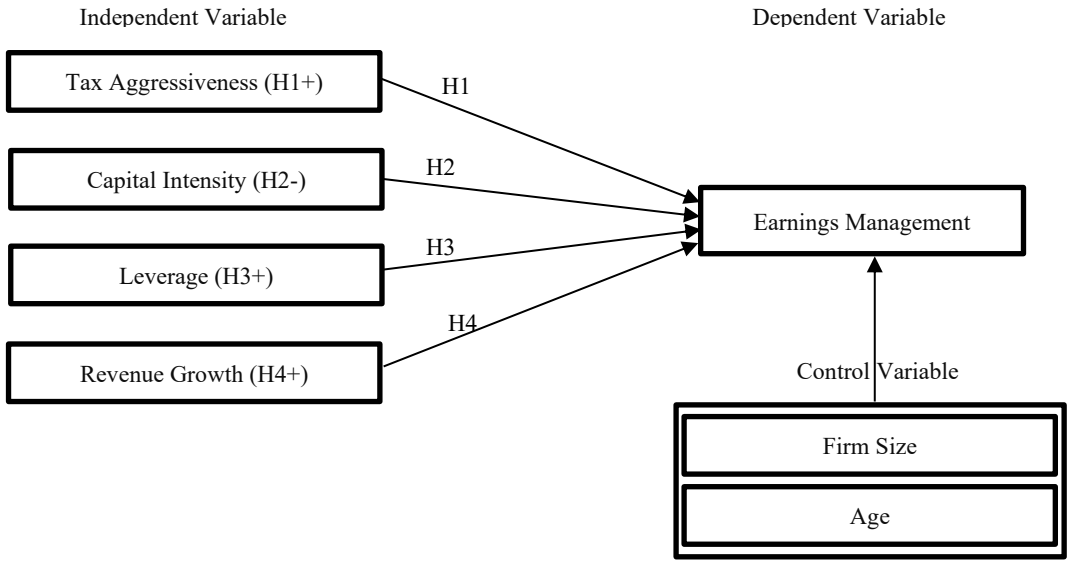

Figure 1. Research Model

RESEARCH METHOD

The research employs a quantitative approach. The research is using secondary data taken from audited financial statements retrieved from the Indonesia Stock Exchange's website. The population of this research is firms listed in the Basic Materials Sector at the Indonesia Stock Exchange from 2019 to 2023 consist of 103 firms. This research used balanced purposive sampling with the following criteria: firms are listed in the Basic Materials sector at the Indonesia Stock Exchange from the period 2019-2023, and firms must have published audited financial statements from 2019-2023. Based on the criteria above, the sample used in this research is sixty-five firms. The observed research sample is sixty-five firms over 5 years, resulting in 325 observations. The summary of purposive sampling results is shown in Table 2.

Table 2. Purposive Sampling Result

Description	No.
Firms listed in IDX as of 31 December 2023	103
Firms not listed on the IDX consecutively	(21)
Firms not published the latest financial report	(5)
Firms not provide the data needed for research	(11)
Outlier	(1)
Number of firms meeting that fulfill the criteria	65
Number of years	5
Number of observations	**325**

To assess the research hypotheses and analyse the effect of tax aggressiveness, capital intensity, leverage, and revenue growth on earnings management, this study employs a multiple linear regression model using SPSS. The research model is as follows:

$$EMit = \propto + \beta 1TAit + \beta 2CIit + \beta 3LEVit + \beta 4GROWTHit + \beta 5FSit + \beta 6AGEit + \varepsilon$$

EM indicates earnings management, TA indicates tax aggressiveness, CI indicates capital intensity, LEV indicates leverage, GROWTH indicates revenue growth, FS indicates firm size, and age indicates firm age since establishment, $\propto$ indicates constant value, ε indicates error terms, and $\beta 1\text{-}6$ indicates coefficient value. Table 3 shows the variable measurement of each variable and its corresponding source.

Table 3. Variable Measurement

Variable	Variable Name	Variable Measurement	Measurement Scale	Source
EM	Earnings Management	Discretionary accruals with Modified Jones Model	Ratio	Dechow et al. (1995)
TA	Tax Aggressiveness	Tax Expense/ Earnings Before Tax	Ratio	Hassoun & Hadrich (2023)
CI	Capital Intensity	Total Fixed Assets/ Total Assets	Ratio	Djojo & Astuti (2024)
LEV	Leverage	Total Liabilities/ Total Assets	Ratio	Mohammad-Alizadeh (2024)
GROWTH	Revenue Growth	(Revenue-Revenue (t-1)/Revenue (t-1)	Ratio	Naue et al. (2023)
FS	Firm Size	Ln(Total Assets)	Ratio	Kalbuana et al. (2021)
AGE	Firm Age	Firm age since establishment	Nominal	Hamzah et al. (2022)

Source: Research Data, 2025

RESULT AND DISCUSSION

A statistical summary of the variables in the model is presented in Table 4. The data comprises sixty-five basic material industry companies listed on the Indonesia Stock Exchange from 2019 to 2023. Earnings Management, with a mean of 0.004 and a standard deviation of 0.088, ranging from -0.300 to 0.304. This shows that, on average, earnings management is quite low, with variation across firms. Tax Aggressiveness has a mean of 0.222 and a standard deviation of 0.780, with a range of values between -2.523 and 12.691, showing large dispersion and the presence of conservative and aggressive tax strategies across firms.

Table 4. Descriptive Statistics

Variable	Earnings Management	Tax Aggressiveness	Capital Intensity	Leverage	Growth	Firm Size	Age
Minimum	-0.300	-2.523	0.009	0.033	-0.737	6.575	13.000
Maximum	0.304	12.691	0.814	1.213	29.443	17.873	73.000
Mean	0.004	0.222	0.408	0.451	0.125	13.673	39.569
Std. Dev.	0.088	0.780	0.215	0.232	1.655	2.222	12.011

Source: Research Data, 2025

Descriptive Statistics

Capital Intensity reflects a modest fixed asset investment to total assets, with 0.408 on average and a standard deviation of 0.215, ranging from 0.009 to 0.814. Leverage is on average 0.451 with a standard deviation of 0.232, indicating that, on average, firms finance around 45% of their assets via debt, although certain firms are more leveraged (up to 121.3%). Firm Size, being the natural logarithm of the overall assets, is 13.673 with the values ranging from 6.575 to 17.873 and reflecting differences among firm sizes.

Growth, as a percentage change in revenue growth, is 0.125 on average and varies with a standard deviation of 1.655 and a range of -0.737 to 29.443, which means the growth rates of firms vary from shrinking to growing strongly. Finally, the average age is 39.569 years, with a range of 13 to 73 years, which indicates that the sample includes comparatively young firms as well as older ones.

Regression Result

Table 5. Regression Result

Variable	Coefficient	Probability	
C	0.0193		
TA	-0.0103	0.1194	
CI	-0.0107	0.0000	*
LEV	0.0038	0.0003	*
GROWTH	0.0001	0.0225	**
FS	-0.0010	0.0212	**
AGE	0.0010	0.0094	*
F-Statistic		0.0000	
Adjusted R^2		0.2020	

** Significant at 1%*
*** Significant at 5%*
Source: Research Data, 2025

The regression result shown in Table 5 reflects the relationship between earnings management (EM) as the dependent variable and four independent variables: tax aggressiveness (TA), capital intensity (CI), leverage (LEV), and revenue growth (GROWTH). Tax aggressiveness (TA), with a probability value of 0.1194 and a coefficient of -0.0103, shows a negative but statistically insignificant correlation

between TA and earnings management. This implies that tax aggressiveness has no discernible effect on earnings management practices within this sample. Capital intensity (CI) with a probability value of 0.0000 and a negative coefficient of-0.0107, is statistically significant at the 1% level. The higher capital intensity is typically engages in less earnings management. This suggests that firms with substantial fixed assets are less flexible in earnings management. LEV with a coefficient of 0.0038 and a probability value of 0.0003, which are statistically significant at 1%. This suggests that more leveraged firms are likely to engage in earnings management, due to debt covenant compliance pressures or creditor expectations. Revenue Growth (Growth) with a positive coefficient of 0.0001 with the probability value of 0.0225, meaning a statistically significant (at 5%) but weak positive relationship with earnings management. This may indicate that firms experiencing growth have stronger incentives or motives for managing earnings.

Firm size (FS) has a negative coefficient of -0.0010 with a probability of 0.0212, being significant at 5%. It indicates that larger firms are less likely to engage in earnings management, maybe because they receive greater scrutiny by regulators and stakeholders. Firm age (AGE) with a p-value of 0.0094 at the 1% level and a coefficient of 0.0010. This shows that age firms are more likely to engage in earnings management due to more ingrained managerial traditions or more advanced financial architectures. The F-statistic for the overall regression model is 0.0000, and therefore, the overall regression model is statistically significant. The Adjusted R^2 is equal to 0.2020, so the model accounts for approximately 20.2% of the variance in earnings management. This suggests that while the model accounts for the most critical determinants of earnings management, there are other unobserved determinants.

DISCUSSION

Tax Aggressiveness and Earnings Management

This study found no statistically significant correlation between tax aggressiveness and earnings management. This contrasts with the findings of (Frank et al., 2009), who contend that aggressive tax planning and aggressive financial reporting are frequently related. This finding might suggest that tax strategies operate apart from financial reporting goals, or that companies that engage in tax planning do not always use the same degree of discretion in their earnings reporting. However, the findings of this current study are similar to the findings of (Sánchez-Ballesta & Yagüe, 2021) and (Kałdoński & Jewartowski, 2020), which indicates that companies may not necessarily engage in the conjunction of tax aggressiveness and earnings manipulation, particularly in jurisdictions that have stronger tax oversight and reporting regulations. The findings of this study are also important to companies as they emphasize the need to distinguish between tax planning and financial reporting policies to avoid the erosion of financial reporting credibility due to tax management.

Capital Intensity and Earnings Management

Second, capital intensity does play a significant role in earnings management. Firms that invest more in fixed assets are less likely to manipulate earnings, according to a statistically significant negative relationship between capital intensity and earnings management. This result is in line with Gul et al. (2011), who contend that managers' ability to manipulate accruals is limited by high capital intensity. It also lends credence to the idea that opportunistic financial reporting is limited by physical asset intensity. This finding should be weighed against (Roychowdhury, 2006) assertion that businesses may still manipulate earnings through actual operations, particularly in capital-intensive sectors. Therefore, even though capital intensity lessens accrual-based manipulation, there may still be other ways to manage earnings.

Leverage and Earnings Management

Leverage has a positive impact on earnings management, an implication that increased levels of debt correspond to lower earnings manipulation. This result is consistent with the findings of Hoang & Phung (2019), Hussain et al. (2022), and Tulcanaza-Prieto et al. (2020), which argue that firms with high leverage are more vulnerable to earnings management, but it is different from the findings of Gregova et al. (2021), which argue that creditor monitoring can reduce earnings management. This implies that the use of debt as a disciplinary device is highly dependent on the quality of monitoring and debt structure. Hence, firms must be more cautious in managing their capital structure, enhance the transparency of financial reporting, and improve the internal control function and the role of the audit

committee to avoid debt pressure that can trigger earnings management behavior, which can impair the integrity of financial reporting.

Revenue Growth and Earnings Management

Revenue growth has a positive impact on earnings management. This suggests that firms experiencing higher growth may have stronger incentives or greater opportunities to manage earnings, possibly to meet market expectations or sustain investor confidence. This result supports Parulian et al. (2024) and Hassan & Farouk (2014), who argued that companies with high growth are subject to income smoothing practices. However, this result differs from the result of Enakirerhi & Ighosewe (2024), where declining revenue growth was argued to influence the company to practice earnings management, contrary to the result of this study, where revenue growth has a positive effect on earnings management, meaning that companies with declining revenue growth are subject to performance pressure. Therefore, companies with high revenue growth need to improve corporate governance, transparency in revenue recognition, and board of commissioners and audit committee oversight to ensure that the performance reflects the actual economic conditions and does not reduce the quality of the reports.

CONCLUSION

This study examined the effect of tax aggressiveness, capital intensity, leverage, and revenue growth on earnings management for sixty-five basic material firms with 325 yearly observations listed on the Indonesia Stock Exchange from 2019 to 2023. The study's findings offer detailed insights into the variables affecting earnings management in Indonesian basic materials companies. Although tax aggressiveness did not have a significant impact, indicating that tax planning and financial reporting strategies may be distinct in the Indonesian market.

Capital intensity, leverage, and revenue growth demonstrated strong correlations with earnings management. Higher capital intensity seems to function as a restraint on earnings management because of stricter asset valuation standards. Higher leverage is related to more earnings management because of the need to satisfy debt-related obligations and preserve creditor confidence. Higher revenue growth entails higher earnings management due to high revenue growth. These results demonstrate the complex relationship between managerial financial reporting practices and firm characteristics, highlighting the significance of pressures in earnings management practices.

This study has limitations. First, the sample is restricted to the basic materials sector, so generalisability to other industries should be made cautiously. Second, earnings management is proxied by discretionary accruals (Modified Jones Model), which may not fully capture real activities manipulation. Third, the study focuses on firm-level financial determinants and does not incorporate governance and ownership structures that may moderate or mediate managerial incentives. Finally, the 2019–2023 period includes the COVID-19 shock, which may have altered reporting incentives and operating conditions in ways that are difficult to fully control. The findings suggest that earnings management is primarily driven by high-leverage and high-revenue-growth firms. indicating the need for enhanced governance and monitoring mechanisms. Regulators and audit committees should enhance their oversight in earnings management of such firms.

PRACTICAL SUGGESTIONS

The findings have important implications for regulators, investors, and corporate governance bodies. The relationship between leverage and earnings management offers evidence for the disciplining effect of debt, implying that creditor monitoring can lead to increased financial transparency. For policymakers, these findings highlight the benefits of enhancing disclosure requirements, such as internal control over financial reporting on revenue policies and key estimates, and improving market discipline. norms and fostering more robust corporate governance structures to constrain managerial opportunism. For regulators and standard setters, strengthening disclosure requirements on debt covenants, revenue policies, and key estimates can improve market discipline. For investors, combining leverage and growth indicators with accrual-quality metrics can improve screening for reporting risk.

To the practitioners, firms should enhance their corporate governance processes by strengthening the estimates governance, such as provisions, and align tax planning with ethical values to prevent

reputational and regulatory menaces. Also, to have the audit committees review quarter-end financials. For high-leverage firms, implementing covenant dashboards. For high-growth firms, enhancing revenue recognition controls. For capital-intensive firms, maintain robust fixed-asset registers and impairment testing to reduce judgemental discretion. For firms, especially those with high leverage, to implement covenant dashboards.

THEORETICAL SUGGESTIONS

Subsequent research might evaluate moderating and mediating factors, such as ownership and corporate governance variables, to explain when financial pressure influences earnings management. Ownership differences may affect the effectiveness of monitoring, thereby influencing managerial reporting incentives. Strong governance, such as board independence and audit committee expertise, enhances oversight, limits managerial discretion, and reduces the likelihood that financial pressure leads to earnings management. Governance may operate not only as a moderator, determining when financial pressure translates into earnings management, but also as a mediator, explaining how financial pressure alters oversight intensity and reporting outcomes.Future studies should enlarge the scope in other sectors across ASEAN countries to facilitate generalizability to a wider population, as differences in country-specific factors may alter the linkage.

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