



## Agency Theory Perspective on Managers' Dual Role and Tax Avoidance Determinants

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### ABSTRACT

This study aims to analyze how managerial ownership moderates the relationship between key financial factors and tax avoidance among manufacturing firms listed on the Indonesia Stock Exchange during 2019–2023. The research uses panel data regression with EViews 13 on 76 firms, representing 380 firm-year observations, and includes diagnostic and specification tests to ensure the accuracy of the results. The findings show that earnings management and fiscal loss compensation significantly increase tax avoidance only in firms without managerial ownership. This suggests that when managers do not hold ownership stakes, they tend to act opportunistically and prioritize their own interests. In firms with managerial ownership, transfer pricing has a significant effect on tax avoidance, indicating that managers use tax strategies more deliberately when their interests align with shareholders. Meanwhile, sales growth does not significantly affect tax avoidance in any ownership condition, while firm size consistently shows a significant influence, indicating that larger firms have more resources and opportunities to reduce their tax burden. These results support agency theory by showing that ownership structure shapes managers' behavior in tax-related decisions. Practically, the findings provide useful guidance for regulators to design better tax compliance policies that consider different ownership structures. This study adds new evidence on how managerial ownership affects corporate tax avoidance in emerging markets.

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## 1. INTRODUCTION

Based on Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (UU HPP), Article 1 defines tax as a mandatory contribution imposed on individuals and entities in accordance with prevailing legal provisions. Taxes are compulsory and do not provide direct reciprocal benefits to taxpayers; instead, they function as a key instrument for mobilizing state revenue to support national development and improve public welfare. At the macro level, tax revenue plays a critical role in maintaining fiscal stability, financing essential public services, and sustaining long-term economic growth. The manufacturing sector has long been a strategic pillar of Indonesia's economy and a major contributor to national tax revenue due to its high value-added activities and broad production base. However, recent fiscal data indicate a declining trend in its tax contribution. Based on APBN reports processed, (2025), the manufacturing sector contributed 28.9% of total tax revenue in 2020 and increased to 29.9% in 2021, marking the highest level during the 2020 – 2024 period. This improvement was not sustained, as contributions declined to 29.1% in 2022, fell further to 27.3% in 2023, and dropped to 26.2% in 2024. The cumulative decrease of 3.7 percentage points from 2021 to 2024 suggests a weakening capacity of the manufacturing industry to generate tax revenue, potentially reflecting reduced profitability, structural adjustments, increased tax planning activities, or challenges in tax compliance.

Earnings management is widely recognized as a key determinant of tax avoidance, reflecting managerial efforts to shape reported performance for specific objectives (Paulus et al., 2025). Firms may deliberately reduce reported profits to lower tax liabilities (Ambarwati et al., 2024), and several studies document a significant positive relationship between earnings management and tax avoidance (Delgado et al., 2023; Irawan et al., 2020; Tang, 2020). However, other research finds no significant association (Indriani and Ramli, 2024; Indriyani and Handayani, 2025; Sholikhah and Sari, 2023), indicating inconsistent empirical evidence. These mixed findings are often attributed to differences in sample characteristics, measurement approaches, and limited consideration of governance mechanisms, particularly ownership structure, which may moderate managerial discretion in tax-related decisions.

Transfer pricing also plays an important role in corporate tax avoidance, especially for firms engaging in intra-group transactions across jurisdictions (Sholikhah and Sari, 2023). Prior studies report a significant positive impact of transfer pricing on tax avoidance (Alexander, 2024; Astrina et al., 2022; Ramdhani et al., 2021), yet other evidence suggests no significant effect (Adiguna and Ritonga, 2024; Yino, 2025; Yoshida, 2023). Similarly, sales growth and fiscal loss compensation present inconsistent results across studies. High sales growth may increase opportunities for aggressive tax planning (Wulandari and Zainal, 2023; Handayani et al., 2025), while some studies find insignificant effects (Al-Hanief and Putra, 2024; Prastiawati and Tumirin, 2022; Umar et al., 2021). Fiscal loss compensation may facilitate tax minimization through loss carryforwards (Rinaldi et al., 2023; Ardillah and Halim, 2022), although other research reports mixed outcomes (Fitriyah and Saputra, 2024; Yanida et al., 2020; Zufar and Arianti, 2023). These inconsistencies highlight the need to incorporate moderating factors such as managerial ownership.

Firm size has also been extensively examined as a determinant of tax avoidance. Larger firms typically possess superior resources, expertise, and organizational capacity to implement structured tax planning strategies (Swandi and Prasetyo, 2024). Several studies confirm a significant relationship between firm size and tax avoidance (Hossain et al., 2024; Sianipar et al., 2020; Sopiyan, 2022), while others find no effect (Fadillah et al., 2021; Prabowo, 2020; Ulfa

et al., 2021). These mixed results suggest that firm size alone may be insufficient to explain tax avoidance behavior without considering internal governance mechanisms. Managerial ownership, in particular, may influence whether firm size strengthens or constrains incentives for aggressive tax planning.

This study is grounded in agency theory (Meckling and Jensen, 1976), which explains tax avoidance as a consequence of conflicting interests between shareholders and managers (Nguyen et al., 2020; Beer et al., 2020). Tax avoidance represents a legally permissible managerial strategy to minimize tax burdens (Lucky, 2022; Triadi and Apriyanti, 2025), influenced by earnings management, transfer pricing, sales growth, fiscal loss compensation, and firm size (Ambarwati et al., 2024; Alexander, 2024; Wulandari and Zainal, 2023; Rinaldi et al., 2023; Swandi and Prasetyo, 2024). Managerial ownership moderates these relationships by aligning managerial and shareholder interests, encouraging more prudent and sustainable tax strategies (Ahmed et al., 2022; Dakhli, 2022; Susanti and Hinasah, 2025). Conversely, weak ownership alignment may increase opportunistic tax behavior driven by short-term incentives (Velte, 2024; Wongsinhirun et al., 2024), underscoring the relevance of agency theory in explaining heterogeneity in corporate tax avoidance behavior.

## 2. METHODS

This study employs a causal research design, which aims to explain the relationship between two or more variables through hypothesis testing to identify and analyze causal effects. The data utilized are quantitative in nature, expressed in measurable numerical form, and derived from secondary sources that have been previously published. Specifically, the data consist of financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period.

The research population includes all manufacturing companies listed on the Indonesia Stock Exchange (IDX) up to 2023, totaling 124 companies. A purposive sampling approach was applied with the criterion that companies must publish financial reports consistently throughout the 2019–2023 period. Based on this criterion, 48 companies were excluded due to incomplete reporting, resulting in a final sample of 76 companies. With a five-year observation period (2019–2023), the total number of research observations amounted to 380 firm-year data points. The table is shown as **Table 1**.

**Table 1.** Determination of research samples

No	Sample Criteria	Amount
1	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) until 2023	124
2	Manufacturing companies that do not publish their financial reports consistently in the 2019-2023 period	-47
Total Company Sample		76
Observation Year (2019 – 2023)		5
Research Data Amount		380

Source: Indonesia Stock Exchange Data Processed, (2025)

The dependent variable, tax avoidance, is measured using the Effective Tax Rate (ETR), where a lower ETR indicates higher avoidance (Nguyen et al., 2020; Beer et al., 2020). The independent variables include earnings management, measured by discretionary accruals using

the Modified Jones Model (Ambarwati et al., 2024; Tarmidi et al., 2023); transfer pricing, proxied by related-party transactions (Sholikhah and Sari, 2023; Rachmad and Yusmita, 2023); sales growth, calculated from the annual increase in net sales (Wulandari and Zainal, 2023); fiscal loss compensation, represented by a dummy variable for firms with prior losses (Rinaldi et al., 2023); and firm size, measured by the natural logarithm of total assets (Swandi and Prasetyo, 2024; Saragih and Hendrawan, 2021). The moderating variable, managerial ownership, is the proportion of shares held by management, which may align managerial and shareholder interests to influence tax avoidance intensity (Ahmed et al., 2022; Velte, 2024).

The data were analyzed using EViews 13, a statistical software widely used in quantitative research for time-series, cross-sectional, and panel data analysis. EViews 13 provides comprehensive econometric tools, including linear regression, classical assumption tests (multicollinearity, heteroscedasticity), and advanced models such as Fixed Effects (FE), Random Effects (RE), and the Generalized Method of Moments (GMM). The analytical process began with data input into the EViews workfile format, followed by descriptive statistics and normality testing to understand data distribution. Subsequently, model estimation was conducted using Ordinary Least Squares (OLS) or panel regression techniques, depending on the data structure. After the model estimation, regression coefficients were interpreted, and hypothesis testing was performed using probability values (p-values) and the coefficient of determination ( $R^2$ ) to evaluate model significance and explanatory power. EViews 13 also facilitates visualization of estimation outputs through graphs and structured tables, allowing systematic interpretation of empirical results to support valid and evidence based conclusions.

### 3. RESULTS AND DISCUSSION

#### 3.1. Model Selection Result

**Table 2.** Panel regression model

Test Description	Prob Value	Model Conclusion
Chow	0.000	FEM
Hausman	0.381	REM
Lagrange Multiplier	0.000	REM

Source: Data processed with Eviews 13, (2025)

Model selection was conducted using the Chow, Hausman, and Lagrange Multiplier tests. Results indicate that FEM is preferred over CEM ( $p = 0.000$ ), while REM is more appropriate than FEM ( $p = 0.381$ ). The LM test ( $p = 0.000$ ) further confirms REM as the most suitable model for this study. The table is shown as **Table 2**.

#### 3.2. Classical Assumption Test

**Table 3.** Diagnostic testing outcomes

Test Description	Prob	Conclusion
Normality	0.921	Data is normally distributed
Multicollinearity	1,048 - 1,375	All VIF values < 10 so there is no multicollinearity.
Heteroscedasticity	0.815	Prob > 0.05 so there are no symptoms of heteroscedasticity

Source: Data processed with Eviews 13, (2025)

The results of the diagnostic tests including normality, multicollinearity, and heteroscedasticity indicate that the data satisfy the assumptions required for regression analysis. The normality test yields a probability value of 0.921 ( $>0.05$ ), confirming that the residuals are normally distributed. The multicollinearity test shows VIF values ranging from 1.048 to 1.375, all below the threshold of 10, indicating no multicollinearity among the independent variables. Furthermore, the heteroscedasticity test produces a probability value of 0.815 ( $>0.05$ ), suggesting homoscedastic residuals. Hence, the dataset meets all econometric assumptions, ensuring the reliability of the subsequent regression estimates. The table is shown as **Table 3**.

### 3.3. Hypothesis Testing

**Table 4.** Hypothesis test result

Variables	With Managerial		Without Managerial		Conclusion
	Coefficient	Prob	Coefficient	Prob	
C	0.0316	0.0625	-5.7034	0.5057	
EM	-0.2378	0.1253	-0.3438	0.0159	Hypothesis Accepted
TP	-0.1580	0.0200	0.0360	0.4902	Hypothesis Accepted
SG	0.1429	0.0764	-0.1000	0.7165	Hypothesis Rejected
FL	0.2928	0.0002	0.0311	0.1400	Hypothesis Accepted
FS	0.1069	0.0080	1.8588	0.0250	Hypothesis Rejected
R-squared	0.8247		0.7421		
F test	0.0000		0.0000		

Source: Data processed with Eviews 13, (2025)

The panel regression results, distinguishing firms with and without managerial ownership, reveal notable differences in the influence of each independent variable on tax avoidance. In firms with managerial ownership, Earnings Management (EM) exhibits a negative but insignificant effect ( $\beta = -0.2378$ ;  $p = 0.1253$ ), while Transfer Pricing (TP) has a significant negative impact ( $\beta = -0.1580$ ;  $p = 0.0200$ ). Sales Growth (SG) shows a positive yet insignificant relationship ( $\beta = 0.1429$ ;  $p = 0.0764$ ). Fiscal Loss (FL) demonstrates a strong positive and highly significant effect ( $\beta = 0.2928$ ;  $p = 0.0002$ ), and Firm Size (FS) also exhibits a significant positive influence ( $\beta = 0.1069$ ;  $p = 0.0080$ ). Conversely, in firms without managerial ownership, EM exerts a significant negative effect ( $\beta = -0.3438$ ;  $p = 0.0159$ ), whereas TP shows a positive but insignificant coefficient ( $\beta = 0.0360$ ;  $p = 0.4902$ ). SG has an insignificant negative relationship ( $\beta = -0.1000$ ;  $p = 0.7165$ ), and FL, though positive, remains statistically insignificant ( $\beta = 0.0311$ ;  $p = 0.1400$ ). FS displays a highly significant coefficient ( $\beta = 1.8588$ ;  $p = 0.0250$ ), yet the hypothesis is rejected due to the direction of the relationship being inconsistent with theoretical expectations. The  $R^2$  values of 0.8247 (managerial ownership) and 0.7421 (non-managerial ownership) suggest that the model incorporating managerial ownership explains a greater proportion of the variation in tax avoidance. Both models demonstrate overall significance, as indicated by the F-statistic ( $p = 0.0000$ ), confirming the robustness of the regression estimation. The table is shown as **Table 4**.

### 3.4. Discussion

The findings show that earnings management has effects on tax avoidance depending on the presence of managerial ownership. In firms with managerial ownership, the influence of earnings management on tax avoidance is negative but not statistically significant, indicating

that owner-managers tend to act more cautiously and avoid using earnings manipulation as a tool for tax reduction. This suggests that the alignment of interests between owners and managers reduces incentives for opportunistic financial reporting. Conversely, in firms without managerial ownership, earnings management demonstrates a significantly negative effect on tax avoidance, implying that managers who do not hold ownership stakes are more likely to manipulate earnings downward to reduce tax burdens. This divergence reflects the core proposition of agency theory, which argues that the separation of ownership and control creates agency conflicts that may lead managers to prioritize personal incentives such as performance-based compensation or job security over shareholders' long-term value. When ownership and managerial roles are unified, monitoring effectiveness increases and managerial opportunism decreases, thereby limiting the use of earnings management for tax-motivated purposes. . The findings are aligned with those reported by [Indriani and Ramli, \(2024\)](#), [Indriyani and Handayani, \(2025\)](#), [Sholikhah and Sari, \(2023\)](#), who similarly observed that managerial ownership can mitigate opportunistic reporting behaviors. However, the results contradict studies by [Dakhli, \(2022\)](#), [Velte, \(2024\)](#), and [Wongsinhirun et al., \(2024\)](#), which concluded that managerial ownership exerts a direct and significant influence on tax avoidance. These inconsistencies highlight the importance of contextual factors, such as institutional environments and governance quality, in understanding the role of ownership structures in corporate tax behavior.

With respect to transfer pricing, the findings also reveal divergent outcomes across ownership structures. In firms with managerial ownership, transfer pricing exerts a significant influence on tax avoidance, suggesting that owner-managers intentionally utilize intra group pricing policies as a strategic tool for enhancing tax efficiency. This indicates that when managers hold equity stakes, they are more motivated to adopt sophisticated tax planning mechanisms that directly contribute to maximizing firm value. Conversely, in firms without managerial ownership, the effect of transfer pricing on tax avoidance is statistically insignificant, implying that non owner managers may be less inclined or less empowered to engage in complex tax arrangements. Such managers may exhibit greater risk aversion or lack incentives to navigate intricate transfer pricing schemes, especially when the potential benefits do not translate into personal financial gains. This contrasting pattern reinforces the predictions of agency theory, which posits that the alignment or misalignment of interests between owners and managers shapes managerial decision making. Owner managers, whose financial interests converge with those of the firm, are more likely to pursue aggressive yet legitimate tax strategies, whereas non-owner managers may avoid such actions due to limited control, heightened scrutiny, or the absence of direct rewards. Accordingly, the results confirm that managerial ownership moderates the relationship between transfer pricing and tax avoidance, supporting the study's second hypothesis. These findings align with prior research by [Deviansyah et al., \(2024\)](#), [Laili and Tjaraka \(2024\)](#), and [Rizki and Nugroho \(2024\)](#), but contrast with studies by [Bernice et al., \(2024\)](#), [Salehi et al., \(2024\)](#), and [Widyastuti et al., \(2024\)](#), which reported no significant moderating effect of managerial ownership. The discrepancies underscore the influence of contextual factors such as regulatory enforcement, corporate governance quality, and organizational complexity on the effectiveness of ownership structures in shaping transfer pricing behavior.

The empirical findings reveal that sales growth does not exhibit a statistically significant relationship with tax avoidance across firms with varying ownership structures. This outcome suggests that increases in sales performance do not motivate managers whether acting as principals through ownership or as agents employed by shareholders to engage in tax minimizing behavior. Within the framework of agency theory, sales growth does not appear to

intensify information asymmetry or trigger principal agent conflicts related to tax planning decisions. Managers in both owner-controlled and agent-controlled firms demonstrate similar patterns of tax-related decision making, indicating that improvements in topline performance are insufficient to prompt opportunistic actions such as aggressive tax avoidance or earnings manipulation. Furthermore, sales growth is likely interpreted by managers as an operational performance indicator rather than a direct pressure point for tax planning, particularly because rising sales do not necessarily translate into higher taxable income due to differing cost structures, reinvestment strategies, and margin variations. Firms experiencing growth may instead prioritize market expansion and operational scaling over the risks associated with tax avoidance, which often invites regulatory scrutiny and increases compliance burdens. The neutrality of sales growth toward tax avoidance across ownership structures also implies that internal governance mechanisms, managerial risk preferences, and firm specific tax policies exert a stronger influence on tax behavior than revenue fluctuations. Based on these considerations, the third hypothesis is rejected. These results align with the empirical evidence documented by [Al-Hanief and Putra \(2024\)](#), [Prastiawati and Tumirin \(2022\)](#), and [Umar et al., \(2021\)](#), concluded that sales growth does not significantly affect corporate tax avoidance. Collectively, this consistency strengthens the argument that tax avoidance is shaped more by governance quality, regulatory pressures, and managerial incentives than by variations in firm growth performance.

The analysis of fiscal loss compensation shows a significant positive effect on tax avoidance in firms with managerial ownership, whereas no such effect is observed in firms without managerial ownership. This finding indicates that owner-managers are more proactive in leveraging fiscal loss incentives to reduce tax burdens. Within the framework of agency theory, this behavior reflects stronger goal alignment between owners and managers; when managers hold equity stakes, the financial benefits of tax savings directly enhance their residual claims, thereby motivating them to optimize tax planning strategies, including the utilization of fiscal loss carryforwards. By contrast, managers in firms without ownership stakes operate solely as agents whose personal utility is less directly tied to after-tax profits. As a result, non-owner managers may be less motivated to employ fiscal loss compensation aggressively due to weaker financial incentives, higher perceived risks, or adherence to more conservative corporate tax policies. These differences in managerial incentives and discretion explain why fiscal loss compensation influences tax avoidance only in firms where ownership and managerial interests are integrated. Overall, the findings support the fourth hypothesis and underscore the moderating role of ownership structure in shaping tax planning behavior. They also highlight that fiscal incentives alone are insufficient to drive tax avoidance; instead, the effectiveness of such incentives depends on governance dynamics and managerial motivation. The results are consistent with the empirical evidence provided by [Fitriyah and Saputra, \(2024\)](#), [Yanida et al., \(2020\)](#), and [Zufar and Arianti, \(2023\)](#), who similarly documented that firms with managerial ownership are more inclined to exploit fiscal loss mechanisms for tax minimization purposes. However, findings from [Nofianti et al., \(2022\)](#), [Olanisebe et al. \(2023\)](#), and [Ridhawati and Mulyani, \(2022\)](#), conclude that no significant influence of managerial ownership on tax avoidance. Such inconsistencies across studies suggest that contextual factors such as regulatory environments, managerial risk preferences, and internal control strength may play an important role in determining how fiscal loss compensation is utilized in corporate tax planning.

The analysis further demonstrates that firm size exerts a significant influence on tax avoidance in both firms with managerial ownership and those without it, indicating that larger firms consistently engage in more effective tax planning irrespective of ownership structure.

This pattern suggests that firm size functions as an external determinant that transcends internal governance dynamics and ownership alignment. Larger firms typically possess greater financial and human resources, more advanced information systems, and access to specialized tax advisors, all of which enhance their capacity to manage complex tax regulations and exploit available tax planning opportunities. Moreover, the scale and diversity of large firms' operations often provide greater flexibility in structuring transactions, managing income streams, and optimizing tax positions across different jurisdictions or business segments. These structural advantages reduce the relative importance of managerial ownership in shaping tax avoidance behavior, as the drivers of tax planning become more closely tied to organizational capabilities than to managerial incentives. Given this context, managerial ownership does not moderate the relationship between firm size and tax avoidance, leading to the rejection of the fifth hypothesis. This outcome reinforces the view that the influence of firm size on tax avoidance is robust across varying governance settings and is not contingent upon the degree of alignment between owners and managers. The findings are consistent with those of [Hossain et al., \(2024\)](#), [Sianipar et al., \(2020\)](#), and [Sopiyana, \(2022\)](#), who similarly concluded that firm size is positively associated with tax avoidance. However, the results diverge from studies by [Malik and Rachmat \(2023\)](#), [Olanisebe et al., \(2023\)](#), and [Prihastiwi, \(2023\)](#), who found that managerial ownership affects tax avoidance behavior. These discrepancies highlight the possibility that contextual factors such as industry characteristics, regulatory environments, or variations in managerial discretion may influence whether ownership structure plays a meaningful role in moderating tax avoidance outcomes.

#### **4. CONCLUSION**

This study concludes that managerial ownership is a crucial governance mechanism that shapes how firm-specific characteristics influence corporate tax avoidance behavior. The findings reveal that earnings management significantly increases tax avoidance only in firms without managerial ownership, indicating that unresolved agency conflicts intensify opportunistic managerial behavior in tax-related decisions. In contrast, transfer pricing significantly affects tax avoidance in firms with managerial ownership, suggesting that aligned ownership structures encourage managers to engage in more strategic and deliberate tax planning rather than opportunistic manipulation. Fiscal loss compensation also positively influences tax avoidance exclusively in firms with managerial ownership, reinforcing the view that incentive alignment motivates managers to optimally utilize legitimate tax benefits. Meanwhile, sales growth shows no significant impact on tax avoidance across ownership structures, implying that operational expansion does not necessarily translate into aggressive tax behavior. Firm size remains a consistent determinant, confirming that larger firms possess superior resources and technical capabilities to implement effective tax strategies regardless of ownership structure.

Despite these contributions, this study has several limitations. The reliance on secondary financial data restricts the ability to capture managerial intent and qualitative dimensions of tax planning. In addition, the analysis focuses on a limited set of explanatory variables and accounting-based proxies for tax avoidance, which may not fully reflect the complexity of firms' tax strategies. The findings are also situated within a specific industry and regulatory context, which may limit their generalizability. Future research is therefore encouraged to incorporate broader corporate governance variables, adopt mixed or qualitative methods to explore managerial decision-making, and conduct cross-industry or cross-country analyses. Further studies may also consider alternative tax avoidance measures, longer observation periods, or the role of evolving tax regulations in shaping corporate tax behavior.

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