



Business Strategy, Capital Intensity, Tax Avoidance: Good Corporate Governance as a Moderator

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Abstract: This research begins with phenomenon regarding the difference in interests between the government and taxpayers that can cause tax avoidance actions. This study aims to determine the influence of business strategy and capital intensity on tax avoidance with good corporate governance as a moderating variable. This research was conducted on companies listed on the Indonesia Stock Exchange from 2018 to 2022, using causality data. The sample was determined using purposive sampling, consisting of 36 companies. The data analysis techniques used are moderated and multiple regression analysis using e-views 13. The novelty research through the role of good corporate governance as moderation. The research results show that business strategy has no effect on tax avoidance while capital intensity has a significant effect. Good corporate governance cannot moderate this influence. The implementation of business strategies and good corporate governance has no influence in reducing tax avoidance, so it's necessary to consider other external factors.

Keywords: Strategy Business; Capital Intensity; Good Corporate Governance; Tax Avoidance.

Abstrak: Penelitian ini diawali dengan adanya fenomena mengenai perbedaan kepentingan antara pemerintah dengan wajib pajak yang dapat menimbulkan tindakan penghindaran pajak. Penelitian ini bertujuan untuk mengetahui pengaruh strategi bisnis dan capital intensity terhadap penghindaran pajak dengan good corporate governance sebagai variabel moderasi. Penelitian ini dilakukan pada perusahaan yang terdaftar di Bursa Efek Indonesia pada tahun 2018 sampai 2022, menggunakan jenis data kausalitas. Sampel ditentukan menggunakan teknik purposive sampling, terdiri dari 36 perusahaan sampel. Teknik analisis data yang digunakan adalah analisis regresi moderasi dan linear berganda menggunakan e-views 13. Penelitian ini menghadirkan kebaruan melalui peran good corporate governance sebagai moderasi. Hasil penelitian ini menunjukkan bahwa strategi bisnis tidak berpengaruh terhadap penghindaran pajak sementara capital intensity berpengaruh signifikan. Good corporate governance tidak dapat memoderasi pengaruh tersebut. Penerapan strategi bisnis dan good corporate governance tidak memiliki pengaruh dalam mengurangi penghindaran pajak, sehingga perlu mempertimbangkan faktor eksternal lain.

Kata Kunci: Strategi Bisnis; Capital Intensity; Good Corporate Governance; Penghindaran Pajak.

INTRODUCTION

One of the Indonesian government's efforts in developing a country is through infrastructure development which requires a large amount of money so that the government needs to get a large amount of revenue to support government needs. As of April 30, 2024, state revenue has reached Rp924.900 trillion (33.000 per cent) of the state budget target. This figure decreased compared to last year (7.600 per cent). This 31.380 per cent achievement is delayed compared to the 2024 State Budget target (Rp624.190 trillion) (Haspramudilla, 2024). As of May 2024, this revenue fell to Rp1,123.500 trillion (7.100



per cent) on an annual basis (yoy). Sri Mulyani revealed that there was a decrease in this revenue to reach Rp1,209.000 trillion compared to last year (Tim, 2024). Tax revenue is important in developing the country and creating public welfare (directly or indirectly) which ultimately requires government efforts to increase revenue from taxes.

In the self-assessment system adopted by Indonesia on income tax, taxpayers (WP) have the right to calculate, make payments, and report the tax due. In fact, tax collection, especially on corporate taxpayers, is not in accordance with government expectations. The government as a tax collector demands as much tax revenue as possible, while companies try to make as little payment as possible, one way is by tax avoidance. This is a complex and controversial issue because it has two conflicting sides. On the one hand, taxpayers have the right to minimize their tax obligations with legal steps. However, this tax avoidance action can harm the state because it minimizes state revenue from taxes. This action does not violate the law so it is considered legal, so in the context there is no violation of the law.

One of the impacts of tax avoidance practices is reduced state revenue. According to the Minister of Finance, global tax revenues could lose Rp3,360.000 trillion each year due to BEPS activities (Uli, 2021). According to Putu Oka (Acting Head of the BKF State Revenue Policy Center) revealed that there is an increase in the number of corporate taxpayers who claim to have lost money for years but continue to operate, indicating the occurrence of tax avoidance practices (Ardianto, 2021).

Some cases related to tax avoidance activities by a company include a coal company, PT Adaro Energy Tbk, which allegedly carried out this action through a subsidiary located in Singapore using a transfer pricing scheme. Director of Counseling, Service and Public Relations of DGT Hestu Yoga Saksama revealed that this allegation arose because of the Global Witness report which became input in order to ensure that Corporate Taxpayers comply with the rules (Friana, 2019). In addition, in Indonesia, there is tax avoidance implemented by tobacco companies through PT Bentoel Internasional Investama. BAT (British American Tobacco) is the owner of this tobacco company. Through the NGO Tax Justice Network Report, the Tax Justice Network brought attention to this issue. The country may lose \$14 million annually as a result of this case (Prima, 2019).

The Pandora Papers investigative journalism report reveals information about the political and financial schemes of global elites. The Pandora Papers disclose financial transaction documents spanning the last five decades, with the majority of transactions occurring between 1996 and 2020. This investigation provides a broad overview of global tax avoidance practices and the establishment of shell companies in tax haven countries to circumvent high tax rates in the jurisdiction of origin. The creation of shell companies is a legal activity. However, the confidentiality granted carries the risk of concealing practices such as bribery, money laundering, terrorism financing, and tax avoidance (Candra, 2021).

Tax avoidance is defined by (Mardiasmo, 2018) as an effort to reduce the tax burden without breaking the law. In order to evade their tax duties, taxpayers take advantage of the gaps in Indonesia's tax rules and regulations, which lowers the amount of tax that must be paid. According to the legislation, tax avoidance is acceptable. Although tax avoidance is legal, it is detrimental to the state because it decreases state revenue. Referring to cases that occurred in a number of countries, tax avoidance schemes are classified into acceptable tax avoidance and unacceptable tax avoidance. Acceptable tax avoidance is characterized by having a good purpose, not to avoid taxes, and not to make fake transactions. Meanwhile, unacceptable tax avoidance is characterized by not having a good



purpose, avoiding taxes, and creating fake transactions. Different nations may have different ideas on what kinds of tax avoidance are permissible and improper. Thus, a particular tax avoidance scheme may be permissible in one country, but not in another. In this case, one country's view with other countries for what schemes can be categorized as permissible tax avoidance and impermissible avoidance is not always the same.

One definition of tax avoidance is a tax planning strategy intended to obviously lower taxes. According to (Mardiasmo, 2018), tax avoidance is an effort to reduce the tax burden in a way that complies with the law. Tax evasion and tax avoidance are the two types of tax avoidance strategies used in Indonesia. In order to avoid paying taxes, taxpayers take advantage of the gaps in Indonesia's tax rules and regulations, which eventually reduces the amount of tax owed. According to the legislation, tax evasion is acceptable. Although it is legal, tax avoidance hurts the state since it reduces the amount of money the state receives from taxes.

Due to the volume of tax-avoiding instances, earlier researchers have examined the elements that contribute to tax avoidance. Business strategy is one element that may influence the avoidance of taxes. Business strategy, according to (Wheelen et al., 2018) focuses on enhancing the competitive position of the company's goods or services within a certain market or industry. Therefore, enhancing the competitive position of the company's goods or services in a specific market or industry is a key component of business strategy. Research by (Wahyuni et al., 2019), (Sadjiarto, 2020), and (Putri & Setiawan, 2023) has proven that business strategy affects tax avoidance. However, the findings of studies conducted by (Damayanti & Wulandari, 2021), (Heriana et al., 2022), and (Pertiwi & Masripah, 2023) argue that avoidance of taxes is unaffected by business strategy.

Reducing expenses that might be subtracted from profits in line with Law Number 36 of 2008 Article 6 concerning Income Tax is one strategy to lessen the company's tax liability. One of these is capital intensity, in which the business uses the quantity of fixed assets it owns to subtract the cost of depreciation from its earnings, resulting in a lower profit margin and lower tax obligations. Research conducted by (Mailia & Apollo, 2020), (Kalbuana et al., 2020), (Pattiasina et al., 2019), and (Hidayah & Ernandi, 2022) demonstrate how tax avoidance is impacted by capital intensity. However, research conducted by (Maulana et al., 2018), (Afrianti et al., 2021), (Ristanti, 2022), and (Putri & Setiawan, 2023), demonstrates that tax avoidance is unaffected by capital intensity.

The way businesses handle risk, compliance, and transparency is influenced by good corporate governance, and this can affect tax avoidance tactics. Monitoring and holding company management accountable are the main focuses of good corporate governance. The goal of putting good corporate governance into practice is to make sure that businesses operate without breaking any laws or rules. Corporate governance often focuses more on transparency, accountability, and risk management in general. Research conducted by (Anugerah et al., 2022) demonstrates how the impact of business strategy, as measured by capital intensity, on tax avoidance can be moderated by good corporate governance, as measured by management and institutional ownership. Meanwhile, different results were shown by (Afrianti et al., 2021) and (Rosalin & Chrismastuti, 2023) which revealed that good corporate governance cannot moderate the effect of business strategy through company growth and sales growth on tax avoidance. Research by (Anugerah et al., 2022) and (Hidayah & Ernandi, 2022) proves that good corporate governance proxied by managerial ownership and institutional ownership can moderate the effect of capital



intensity on tax avoidance. Meanwhile research conducted by (Sinaga & Suardhika, 2019), (Afrianti et al., 2021), (Ristanti, 2022), and (Ghozali, 2021) demonstrates different outcomes in which the impact of capital intensity on tax avoidance cannot be moderated by good corporate governance as measured by independent commissioners.

Taxpayers have the right to legally reduce their tax liability, making tax avoidance a complicated issue. However, tax avoidance can be problematic because it lowers state revenue from taxes. Given this background and the inconsistent results of previous studies, the objective of this study was to gather empirical data on how business strategy and capital intensity affect tax avoidance. This study also aimed to determine whether good corporate governance can serve as a moderating variable in the relationship between capital intensity and business strategy on tax avoidance. This study employs business strategy variables because a corporation may engage in tax avoidance to sustain high profits if it employs a good business plan and makes a sizable profit. The capital intensity variable is used to show that investing in fixed assets will boost production capacity, which will raise profits. With the existence of fixed assets, it will bring up costs which include depreciation costs, maintenance costs, insurance costs which can be a deduction of income in the calculation of corporate tax. Therefore, the present study uses corporate governance as a non-technical metric for evaluating the impact on practices of tax avoidance.

Manufacturing firms in the consumer non-cyclicals industrial category were the focus of the study. This sector procures basic goods needed by the community so that it becomes one of the industrial sectors needed by the wider community and this sector will continue to experience growth. In addition, British American Tobacco (BAT), one of the businesses that falls within the manufacturing category of the consumer non-cyclicals industry sector, has engaged in a case of tax avoidance.

This study offers novelty by combining three important variables on tax avoidance, namely business strategy, capital intensity, and good corporate governance. Research with a combination of the independent variable of business strategy with the moderating variable of good corporate governance is still very little. This study presents the latest analysis covering the period 2018 to 2022, thus providing the latest perspective on the impact of business strategy and capital intensity on tax avoidance which may show a shift or confirmation of the findings in previous studies. In previous studies, the interpretation of capital intensity variables only discussed depreciation expense as a tax deduction. This study presents other aspects beyond depreciation expense so that the interpretation in this study becomes more in-depth.

Understanding and addressing tax avoidance tactics that are now relevant and have an impact on decreased state revenue is what makes this research essential. This research is important because it has not been fully explained or addressed in the existing legal framework. This research presents an in-depth analysis of how tax laws can be adapted to respond to contemporary challenges. In the context of capital intensity, good corporate governance, tax avoidance, and business strategy, the findings of this study can help to clarify the theory, particularly agency theory and integrative negotiation theory. Practically, the current study is a contribution to the government in identifying and understanding the various factors that influence tax avoidance, as well as in formulating more effective policies and strategies to address the problem of tax avoidance.



THEORETICAL REVIEW

Agency Theory. Agency theory is the theoretical basis underlying corporate business practices so far. (Brealey et al., 2020) stated that a modern corporation is a team effort involving a number of players, such as managers, employees, shareholders, and bondholders. For a long time, economists used to assume without question that all these players acted for the common good, but in the last 30 years, they have had a lot more to say about the possible conflicts of interest and how companies attempt to overcome such conflicts.

The aforementioned concepts are collectively referred to as agency theory. According to (Henry, 2018), the agency problem results from the separation of an organization's ownership and its control. It is a fundamental aspect of the connection between the people who contribute capital, known as the principal, and the people who use that capital, known as the agent. Therefore, (Solomon, 2020) explained that the shareholder, who is the owner or 'principal' of the company, delegates day-to-day decision making in the company to the directors, who are the shareholder's 'agents'. The issue with this corporate ownership structure is that agents may not always act in the principal's best interests when making choices. The tension between the principal's and agent's goals is one of the main tenets of agency theory. A fundamental tenet of finance theory is that corporations' main goal is to maximize shareholder wealth.

Integrative Negotiation Theory. The integrative negotiation theory is defined by (Thompson, 2022) as an approach to negotiation that focuses on creating mutually beneficial (win-win) solutions for all parties involved. This theory emphasizes collaboration between the negotiating parties, with the goal of identifying shared interests and finding alternatives that can optimally satisfy the needs of both sides.

Tax Avoidance. (Gokten & Kucukkocaoglu, 2018) explained that "tax avoidance is a legitimate means of minimizing taxes." Tax avoidance, according to (Mardiasmo, 2018), is an attempt to lower the tax burden in ways that do not contravene the law. (Pohan, 2022) explains that tax avoidance is defined as the deliberate strategy of evading taxes that is both safe and legal for taxpayers, as it does not constitute a violation of any established tax laws. The strategies and tactics employed by these entities typically exploit the ambiguities (gray areas) in the tax laws and regulations to reduce the amount of tax owed. Tax avoidance enables management to minimize the tax burden and maximize profits for shareholders (De Vito & Grossetti 2024). (Suleman, 2022) stated that tax avoidance is a form of tax strategy aimed at legally reducing taxes.

Business Strategy. Strategy is a set of ideas, decisions, and actions that contribute to a company's success, according to (Dess et al., 2021). Business strategy, as described by (Wheelen et al., 2018) business strategy as focusing on improving the competitive position of a company's products or services within a specific industry or market segment. In addition, (Henry, 2018) stated that business strategy, also known as competitive strategy, relates to how an organization will compete in a certain market or industry. According to the history of management, strategy was created by the Greeks with the aim of achieving victory in a war. The essence of strategy is to effectively utilize available resources to achieve victory in a battle. The use of strategy in the world of trade aims to increase competitive advantage and maintain the existence of competitive advantage. (Yam, 2019) explains that strategy is an action plan that will be taken to achieve excellence



in a competition in the market or in an activity. The strategy describes a careful and effective action plan that will be taken in an activity.

Capital Intensity. Based on (Ross et al., 2019), capital intensity is a measure of a company's asset-based capital, which is represented in a ratio that compares operational assets to revenues during a specific time period. To put it another way, capital intensity is a ratio that compares operational assets to the amount of sales the company has made over a given time period. It indicates the amount of capital in the form of assets (including current and non-current assets). Fixed assets are tangible assets that are owned for use in the manufacturing or delivery of goods or services, for leasing to third parties, or for administrative purposes; they are anticipated to be utilized for a number of years, as stated by (Kartikahadi et al., 2019). Moreover, fixed assets are tangible, visible, and touchable resources stored for use in manufacturing or providing goods and services. They are not stored for resale and are utilized over the course of many accounting periods. The cost of purchasing fixed assets should be spread out over the time periods during which the assets' benefits can be realized. This is accomplished by applying periodic depreciation charges.

Good Corporate Governance. The Forum for Corporate Governance in Indonesia states that Good Corporate Governance (GCG) is a set of guidelines that define the rights and responsibilities of the government, employees, management, shareholders, creditors and other internal and external stakeholders. Stated differently, it is a system that supervises and manages the business. (Hitt et al., 2020) explained that corporate governance is a set of mechanisms used to manage relationships among stakeholders and to determine and control the strategic direction and performance of the organization. Corporate governance, as explained by (Solomon, 2020), corporate governance is the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity.

Business Strategy and Tax Avoidance. Companies will achieve large profits if they succeed in implementing their business strategies, large profits will result in higher tax obligations, creating the probability that companies will engage in tax avoidance to maintain those large profits. In the domain of business strategy, there are two contrasting approaches. One approach is called the defender strategy. The other approach is called the prospector strategy. (Pertiwi & Masripah, 2023) state that since the typical corporation is unable to establish a consistent competitive strategy year after year, business strategy has no bearing on tax avoidance. Study by (Wahyuni et al., 2019), (Sadjiarto et al., 2020), and (Putri & Setiawan, 2023) has proven that business strategy influences tax avoidance. However, different results were found by (Damayanti & Wulandari, 2021), (Heriana et al., 2022), and (Pertiwi & Masripah, 2023) who founded that business strategy does not affect tax avoidance.

H1: Business strategy has an effect on tax avoidance.

Capital Intensity and Tax Avoidance. Capital intensity, as defined by (Ross et al., 2019), capital intensity is a measure of a company's asset-based capital, which is represented in a ratio that compares operational assets to revenues during a specific time period. Companies use their fixed assets to control the expenses of depreciation, which lowers the company's profits and, consequently, its tax obligations. The composition of assets that will influence the effective tax rate is shown by capital intensity, particularly



fixed assets that will influence tax reduction through the ensuing depreciation expenditure. The amount of capital required by the business to turn a profit is reflected in its capital intensity, and this capital might come from either a reduction in fixed assets or an increase in the quantity of fixed assets.

The cost of fixed asset depreciation is an additional expense for the business. Reducing expenses that can be subtracted from profits in line with Article 6 of Law of the Republic of Indonesia Number 36 of 2008 concerning Income Tax is one strategy to lessen the company's tax liability. One of these is capital intensity, in which the business uses the quantity of fixed assets it has to subtract the cost of maintaining those assets from its profit, resulting in a lower profit margin and lower tax payments. Research by (Anggraini et al., 2020), (Mailia & Apollo, 2020), (Kalbuana et al., 2020), (Pattiasina et al., 2019), (Hidayah & Ernandi, 2022) and (Sinaga & Suardhika, 2019) has demonstrated that tax avoidance is influenced by capital intensity. However, different results were found by (Maulana et al., 2018), (Afrianti et al., 2021), (Ristanti, 2022) and (Putri & Setiawan, 2023) who came to the conclusion that avoidance of taxes is unaffected by capital intensity.

H2: *Capital intensity* has an effect on tax avoidance.

Good Corporate Governance as a Moderating Variable. A strategy is a plan that will be used in an effort to improve and help achieve goals. In competition, a good strategy will greatly help achieve goals more efficiently. Business includes all business activities for profit that provide goods and services needed in an economic system. So, in simple terms, a business strategy can be interpreted as a plan that will be used by companies in an effort to achieve business goals and compete in certain segments or markets in order to seize market positions, and strategies to get large sales and increase company profitability. Corporate governance emerges as an effort to control or overcome opportunistic management actions by creating a system and control tools to create efficiency for companies that will benefit all parties. Good governance practices guarantee that management has the interests of shareholders at the forefront of their minds. This entails rules for boards of directors, standards for accounting and investor disclosure, well-crafted incentives for managers, and legal repercussions for management self-dealing. Scandals indicate a breakdown in corporate governance. Governance is functioning correctly when businesses compete successfully and ethically to provide value to shareholders (Brealey et al., 2020). Good corporate governance, as measured by management and institutional ownership, influences the moderating effect of business strategy (measured by capital intensity) on tax avoidance, according to research by (Anugerah et al., 2022). In contrast, different findings were reported by (Afrianti et al., 2021), and (Rosalin & Christmastuti, 2023), who discovered that the impact of business strategy through company growth and sales growth on tax avoidance cannot be moderated by good corporate governance.

Capital intensity explains the size of assets that a business unit invests in as fixed assets. One component of the business unit that is in charge of monitoring the agent's administration of the company in accordance with the laws and regulations is the independent board of commissioners. The business unit's efforts to raise investments in fixed assets that decrease profits are anticipated to be lessened by independent commissioners, which will ultimately result in lower tax liabilities. The supervisor's ability to present financial statements is in the realm of conducting supervision so as not to violate the provisions and support the best decision making to maximize company operations.



Research by (Anugerah et al., 2022) and (Hidayah & Ernandi, 2022) confirms that the impact of capital intensity on avoidance of taxes can be moderated by good corporate governance. However, different results were shown by (Sinaga & Suardhika, 2019), (Afrianti et al., 2021), (Ristanti, 2022), and (Ghozali, 2021), who revealed that the impact of capital intensity on avoidance of taxes cannot be moderated by independent commissioners as a proxy for good corporate governance.

H3: Good corporate governance moderates the effect of business strategy on tax avoidance.

H4: Good corporate governance moderates the effect of capital intensity on tax avoidance.

Based on the theoretical review and research findings, the research model is shown in the diagram below:

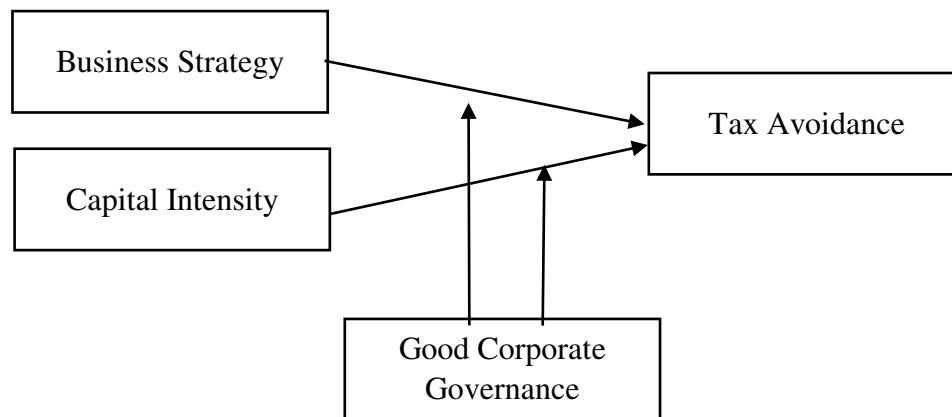


Figure 1. Research Model
Source: Processed by Researcher

METHODS

The research method used in the current study is quantitative. In accordance with the stated issues and objectives, this study is categorized as causal research. The population comprises 114 manufacturing businesses in the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2018 to 2022. The sample technique employed in this study is purposive sampling. A sample of 36 companies was selected, resulting in 180 data samples.

The criteria used include (1) The Indonesia Stock Exchange listed companies that manufacture in the consumer non-cyclicals sector from 2018 to 2022; (2) The company publishes financial reports consistently during the observation period; (3) Complete data according to the research variables is accessible in the company's financial accounts; (4) The company did not experience losses during 2018 to 2022; (5) The company was not delisted during the observation period; (6) Companies that use rupiah in issuing financial reports.

This study utilizes panel data, and Eviews 13 software is used for statistical computations. The analysis steps include Descriptive Statistical Analysis, Panel Data

Regression Analysis, Panel Data Regression Estimation Methods, Classical Assumption Tests, F Test, Coefficient of Determination (R^2) Test, t Test, Moderated Regression Analysis, and Multiple Regression Analysis. Each variable's operationalization is shown in **Table 1**.

Table 1. The Operationalization Variable

Variable	Dimensions	Indicator	Scale
Business Strategy (Higgins et al., 2011)	a. Production capability and goods and services efficiency	$EMP/Sales = \frac{\text{Total Employees}}{\text{Sales}}$	Ratio
	b. Company Growth Rate	$MtoB = \frac{\text{Stock Market Price}}{\text{Total Capital}}$	Ratio
	c. Marketing and Sales	$Market = \frac{\text{Advertising Expenses}}{\text{Total Sales}}$	Ratio
	d. Capital Intensity	$Capital Intensity = \frac{\text{Fixed Assets}}{\text{Total Assets}}$	Ratio
Capital Intensity (Ross et al., 2019)	Capital Intensity	$Capital Intensity = \frac{\text{Total Fixed Assets}}{\text{Sales}}$	Ratio
Tax Avoidance (Dyrenge & et al., 2010)	Effective Tax Rate	$ETR = \frac{\text{Current Tax Expenses}}{\text{Profit Before Income Tax}}$	Ratio
Good Corporate Governance (Sugiyanto S & Fitria 2019)	Institutional Ownership	$KI = \frac{\text{Number of shares held by Institutions}}{\text{Total Outstanding Shares}}$	Ratio
	Managerial Ownership	$KM = \frac{\text{Number of shares held by Manager}}{\text{Total Outstanding Shares}}$	Ratio
	Independent Commissioner	$KDKI = \frac{\text{Number of Independent Commissioners}}{\text{Number of Board of Commissioners Members}}$	Ratio
	Audit Committee	$\frac{\text{Number of Audit Committee}}{\text{Number of Board of Commissioners Members}}$	Ratio

Source: Processed by Researcher

Variable business strategy in **Table 1** shows the measurement of variable using four proxies. The sample of companies in the top quintile receives a score of 5, the sample of companies in the lower quintile receives a score of 4, and so on (for capital intensity using reverse order). In addition, the first three proxies are Market, EMP/SALES, and MtoB. Based on these scores, the scores of each company for the four measures per year are summed up, resulting in a maximum score of 20 which is an indicator of the prospector strategy type (score 13 to 20) and a minimum score of 4 which is an indicator of the defender strategy type (score 4 to 12).

RESULTS

Descriptive Statistical Analysis Results. Therefore, **Table 2** displays the findings of this study's descriptive statistical analysis.



Table 2. Descriptive Statistical Analysis

	Business Strategy	Capital Intensity	Tax Avoidance	Good Corporate Governance
Mean	0.378	0.633	0.285	1.080
Median	0.000	0.502	0.231	1.078
Maximum	1.000	2.890	2.191	1.643
Minimum	0.000	0.021	0.000	0.763
Std. Dev.	0.486	0.496	0.263	0.151
Observations	180	180	180	180

Source: Data processed with Eviews 13, 2024

Table 2 shows business strategy has a minimum value of 0 per cent in 28 companies and a maximum value of 100 per cent in 17 companies. Since some companies maintain a consistent strategy year after year while others adapt theirs, and since more companies employ defender strategies than prospectors, the mean value, which is smaller than the standard deviation value, suggests that business strategy levels do not vary among competing manufacturing companies.

Capital intensity has a minimum value of 2.100 per cent at PT Millennium Pharmacon International Tbk for the 2022 financial year and a maximum value of 28.900 per cent at PT PP London Sumatra Indonesia Tbk per 2020 financial year. Since the subject of the study is a manufacturing company, it is thought to base its investment decisions more on fixed assets. Investments in fixed assets, such as buildings, machinery, equipment, and vehicles, can support operational activities. The capital intensity data using the fixed asset intensity ratio shows a significant amount of variance, as evidenced by the fact that the mean value is higher than the standard deviation value.

For the 2019 fiscal year, tax avoidance has a low of 0.020 per cent at PT Smart Tbk and a maximum of 219.140 per cent at PT Buyung Poetra Sembada Tbk. The minimum value at PT Smart Tbk for the 2019 financial year is thought to be due to fiscal losses in 2015, 2016, and 2017 so that it is suspected that the company utilized the fiscal loss compensation in the 2019 tax calculation. Consequently, there is a significant degree of variation in the tax avoidance data utilizing ETR since the mean value is higher than the standard deviation value.

Good corporate governance has a minimum value of 7.630 per cent at PT Mustika Ratu Tbk in 2022, which means that Good Corporate Governance has not been implemented optimally. In addition, PT Malindo Feedmill Tbk's 2020 maximum value of 164.290 per cent indicates that the business has fully adopted good corporate governance. As a result, the mean value exceeds the standard deviation value, suggesting that there is significant variation in the data on effective corporate governance as measured by institutional ownership, management ownership, an independent board of commissioners, and an audit committee.

Panel Data Regression Model Analysis Results. The Chow and Hausman tests are used in the model selection process to test the regression equation that has to be estimated.

Following the Chow results, H1 is accepted and H0 is denied, since the cross section chi square probability value of 0.000 is less than the alpha value of 0.050. This indicates that the fixed effect model is the proper data regression estimate, based on the Chow test results.



The study's Hausman test results indicate the acceptance of H1 and rejection of H0, as the cross-section random probability value of 0.011 is less than the alpha value of 0.050. This finding suggests that the fixed effect model is the most appropriate data regression estimation based on the results of the Hausman test.

Multicollinearity Test Results. Therefore, **Table 3** displays the findings of this study's multicollinearity test.

Table 3. Multicollinearity Test Result

	Business Strategy	Capital Intensity	Tax Avoidance	Good Corporate Governance
Business Strategy	1.000	0.017	0.064	-0.185
Capital Intensity	0.017	1.000	0.013	-0.225
Tax Avoidance	0.064	0.013	1.000	0.093
Good Corporate Governance	-0.185	-0.225	0.093	1.000

Source: Data processed with Eviews 13, 2024

The correlation test results from the regression in **Table 3** shows that none of the values in the matrix exceed 0.800. Therefore, the model formed is free from violations. **Heteroscedasticity Test Results.** The results of the heteroscedasticity test in this study are shown in the **Table 4**.

Table 4. Heteroscedasticity Test Results

Variable	Probability
C	0.729
Business Strategy (SB)	0.356
Capital Intensity (CI)	0.477
SB*GCG	0.370
CI*GCG	0.152

Source: Data processed with Eviews 13, 2024

The heteroscedasticity test in **Table 4** findings demonstrate that there is no evidence of heteroscedasticity because all variable probability values are over 0.050. **F-Test Results.** According to the study's f test results, the F-statistic probability value is 0.000, which is below the 0.050 significance level. This indicates that either the regression model is considered feasible or the equation model in this investigation is valid. **Coefficient of Determination Test Result.** With an Adjusted R-squared value of 0.284, the study's coefficient of determination test results suggest that changes in business strategy, capital intensity, and the application of good corporate governance account for 28.410 per cent of the variation in tax avoidance. Other factors not covered in this study have an impact on the remaining 71.590 per cent. **t Test Result.** In addition, **Table 5** displays the findings of the t test used in this study.

Table 5. t Test Result

Variable	Coefficient	t-Statistic	Prob.
C	0.086	0.971	0.333
Business Strategy (SB)	0.012	0.166	0.869
Capital Intensity (CI)	0.307	2.336	0.021

Source: Data processed with Eviews 13, 2024

With a value of 0.869, the t-test findings in **Table 5** demonstrate that the probability value for the Business Strategy variable is higher than the significance level (α is equal to 0.050). This shows that H_0 is accepted and H_1 is rejected, proving that business strategy doesn't effect on tax avoidance. The probability value for the Capital Intensity variable is less than the significance level (α is defined as 0.050), with a value of 0.021. This indicates that H_1 is accepted and H_0 is rejected, meaning that capital intensity does have an effect on tax avoidance.

Moderation Regression Analysis Test Results. Thus, **Table 6** displays the findings of this study's moderation regression analysis test.

Table 6. Moderation Regression Analysis Test Results

Variable	Coefficient	t-Statistic	Prob.
C	0.110	1.190	0.236
Business Strategy (SB)	0.145	0.209	0.835
Capital Intensity (CI)	-0.355	-0.709	0.480
SB*GCG	-0.114	-0.177	0.860
CI*GCG	0.585	1.360	0.176

Source: Data processed with Eviews 13, 2024

The results of the moderated regression analysis in **Table 6** show that the probability value for the business strategy variable, moderated by the Good Corporate Governance variable, is greater than the significance level (α is defined as 0.050), with a value of 0.860. This indicates that H_1 is rejected and H_0 is accepted, meaning that the good corporate governance variable does not have the ability to moderate the effect of business strategy on tax avoidance. The probability value for the capital intensity variable, moderated by the good corporate governance variable, is also greater than the significance level (α is defined as 0.050), with a value of 0.176. This indicates that the good corporate governance variable is unable to moderate the impact of capital intensity on tax avoidance, as H_1 is rejected and H_0 is accepted.

Multiple Regression Analysis Results. The following equation, which uses good corporate governance as a moderating variable, shows the relationship between the capital intensity and business strategy factors on tax avoidance based on the regression results in **Table 6**:

$$TA = 0.110 + 0.145*SB - 0.355*CI - 0.114*SB(GCG) + 0.585*CI(GCG)..... (1)$$

The interpretation of the first equation is that the level of tax avoidance would be 0.110 if capital intensity, business strategy, and good corporate governance were all zero. This is shown by the constant (c) value of 0.110. The business strategy coefficient of 0.145 shows that for every 1 per cent increase in tax avoidance, business strategy will increase

by 14.520 per cent. The capital intensity coefficient of -0.355 indicates that for every 1 per cent decrease in tax avoidance, capital intensity will increase by 35.450 per cent. As a moderating variable of business strategy, good corporate governance has a coefficient of -0.114 , which means that for every 1 per cent reduction in tax avoidance, good corporate governance will increase the moderating influence of business strategy on tax avoidance by 11.420 per cent. Good corporate governance as a moderating variable of capital intensity, with a coefficient of 0.585 , shows that for every 1 per cent increase in tax avoidance, good corporate governance significantly amplifies the moderating impact of capital intensity on tax avoidance by 58.510 per cent.

DISCUSSION

Business Strategy and Tax Avoidance. The results of the hypothesis demonstrate that business strategy has no impact on tax avoidance. This result occurs because the average company is still unable to establish a consistent competitive strategy pattern from year to year. As a result of the inconsistent implementation of the strategy, whatever strategy is used has no impact on the degree of tax avoidance. Companies are more focused on business strategies that prioritize market growth, cost efficiency, and product innovation rather than strategies that are explicitly designed for tax avoidance. Inconsistencies in the implementation or execution of business strategies can cause a weak influence. Research conducted by (Pertiwi & Masripah, 2023) discovered that there is no significant impact between business strategy and tax avoidance, with the findings of the analysis showing that sales growth and transfer pricing are more influential in that context.

The use of defender strategies by the majority of companies in the non-cyclical consumer industry sector also influences the results of this study. Because their products don't follow trends, companies that adopt a defender strategy choose to concentrate on a small but robust market, maintain stable technology, and minimize risk pressure and uncertainty. They also prioritize low employee turnover, organizational and operational stability, and don't aggressively seek out new opportunities. These companies tend to maintain the stability of the company by not engaging in high tax avoidance activities that will potentially damage the company's reputation.

Companies can adjust their strategic focus to favor tax compliance and operational stability. They can choose to reduce tax avoidance activities that can damage the company's reputation and focus more on strategies that support sustainable growth and efficient cost management. The study's findings imply that outside variables, like transfer pricing regulations or tax breaks, may have a greater impact on tax avoidance than the internal business plan of the company. As a result, tax officials might think about better ways to combat tax avoidance.

This study's advantages stem from the adoption of a suitable research design, which ensures that the research methodologies employed align with the study's goals. In the other hand, weaknesses of this study lie in the non-use of analyzer strategies and reactor strategies as well as limited research time so that research data collection is limited. The research sample, measurement characteristics, and research time are valid and the findings of this study can be applied to other things. Compared to other studies, such as those written by (Wahyuni et al., 2019) and (Sadjiarto et al., 2020) who discovered a significant correlation between avoidance of taxes and business strategy, this study indicates different results, which are due to differences in the method approach and samples used.



Nonetheless, this study makes a new contribution by highlighting that the defender strategy, which emphasizes stability, does not show tax avoidance tendencies, a finding that has not been widely explored in previous studies.

The implication for integrative negotiation theory is that in the event of a tax avoidance conflict and no agreement between the organization and the fiscal authority, the company generally negotiate with the fiscal authority and focus on achieving a mutually beneficial solution for all parties. Companies can involve adjusting business and tax strategies to achieve a more harmonious outcome between tax compliance and business profits, taking into account existing incentives and regulations. In this study, the findings indicate that business strategy has no impact on tax avoidance. This could be because of external factors not covered by the model, like the degree of internal compliance with business strategy implementation.

The conclusions of this investigation are consistent with what was found by (Damayanti & Wulandari, 2021), (Heriana et al., 2022), and (Pertiwi & Masripah, 2023). However, they do not align with the findings reported by (Wahyuni et al., 2019), (Sadjiarto et al., 2020), and (Putri & Setiawan, 2023).

Capital Intensity and Tax Avoidance. The hypothesis testing indicates that capital intensity significantly influences tax avoidance in a positive direction. This explains why there is more tax avoidance when the capital intensity ratio is higher. A business unit's efforts to evade taxes may be impacted by a high or low capital intensity ratio. The research was conducted in a manufacturing company which is one of the companies that focuses on fixed assets with the aim of supporting the company's operational activities. Capital intensity in manufacturing companies is a necessity for the company. Therefore, the company's great production capacity and numerous fixed assets have an effect on both the company's considerable profits and the taxes that it must pay.

The conclusions of the current study explained using agency theory, which claims that managers can use fixed asset-related expenses to reduce tax liabilities and increase corporate profits. There will be a conflict where the manager utilize the investment in the form of fixed assets in order to gain profits such as the utilization of depreciation costs and fixed asset management costs that can be utilized in reducing the amount of tax so that there is a tax avoidance action by the company. Capital intensity can be utilized as a tax avoidance effort, among others, through depreciation costs, fixed asset maintenance costs, and fixed asset insurance costs that can be expensed in the calculation of corporate income tax so that the tax payable becomes lower. This finding is in line with the findings by (Kalbuana et al., 2020) who also noted that companies with high capital intensity can reduce taxes paid through depreciation of fixed assets. The study demonstrates that businesses with higher fixed asset investments typically employ more aggressive avoidance of taxes tactics. On the impact of capital intensity on tax avoidance, however, different studies have differing opinions. According to (Sinaga & Suardhika, 2019), tax avoidance is actually negatively impacted by capital intensity. These findings suggest that a company's level of tax avoidance decreases with the amount of capital invested in fixed assets. This research highlights that companies may prefer to comply with their tax obligations when they have significant investments in fixed assets, because this will enhance the company's stability and reputation among stakeholders.

Companies can use high capital intensity for tax avoidance tactics, according to the study's findings, but it's also critical to preserve the company's financial health and reputation. Therefore, companies should be careful in managing fixed assets and consider



the long-term impact on reputation and relationships with tax authorities. Tax authorities can also use these findings to tighten supervision of companies with high capital intensity, especially those that use aggressive tax avoidance through depreciation and fixed asset-related expenses.

This study demonstrates that firms with higher capital intensity ratios are more likely to engage in tax avoidance strategies, particularly by utilizing depreciation and other fixed asset-related expenses to lower tax obligations. Other similar studies only discuss limited to depreciation costs, without paying attention to other aspects such as maintenance and insurance costs of fixed assets. Other elements that can influence tax avoidance, such as internal compliance or government tax incentives, are not taken into consideration in this study. Furthermore, this study only looks at manufacturing companies, which restricts how broadly the results may be applied to other industries.

In a company with a high capital intensity ratio, decisions related to capital investment, financing structure, and fixed asset management can be a significant point of conflict and supervision. Managing capital intensity well requires appropriate monitoring mechanisms and incentives to ensure that managerial decisions are aligned with shareholder objectives and minimize the problems identified by agency theory.

The findings of this study are consistent with those reported by (Mailia & Apollo, 2020), (Kalbuana et al., 2020), (Pattiasina et al., 2019), (Hidayah & Ernandi, 2022) and (Sinaga & Suardhika, 2019). However, the findings do not align with the findings reported by (Maulana et al., 2018), (Afrianti et al., 2021), (Dewi & Oktaviani, 2021), (Apriani & Sunarto, 2022), (Ristanti, 2022), and (Putri & Setiawan, 2023).

Good Corporate Governance as a Moderating Variable. The findings of the hypothesis demonstrate that good corporate governance cannot moderate the impact of business strategy on tax avoidance. Homological moderation is the type of moderation. The implementation of good corporate governance aims to ensure that companies conduct their business activities in compliance with applicable laws and regulations. Corporate governance often focuses more on transparency, accountability, and risk management in general, while business strategies related to tax avoidance focus more on tax optimization and cost efficiency. If the focus or purpose of corporate governance is not directly related to tax avoidance, then the moderating impact is minimal. In addition, the implementation of business strategies in manufacturing companies in the non-cyclical consumer industry sector that have not been consistent from time to time has resulted in the performance of supervisors in controlling the performance of management being suboptimal. Supervisors cannot determine what business strategies need to be implemented because the determination of business strategies is entirely the authority of management.

For companies, the results of this study inform that while good corporate governance implementation is important to improve transparency and accountability, companies need to further integrate tax compliance into their internal culture and policies so that good corporate governance can function more effectively in controlling tax avoidance. For tax authorities, the findings of the current investigation can provide insights to strengthen supervision of companies, especially those that have good corporate governance policies, but do not have strong internal support in terms of tax compliance. Tax authorities can design policies to encourage companies to be more proactive in ensuring synergy between tax avoidance and good corporate governance strategies.

The method used to evaluate the moderating effect of good corporate governance on business strategy and tax avoidance, which integrates integrative negotiation theory, is the



current research's key strength. In the contemporary setting, where tax avoidance is frequently a difficult issue, this research offers a greater understanding of the significance of alignment between company tax strategies and good corporate governance objectives. One of the study's weaknesses is its dependence on sectoral data that only includes manufacturing firms in the non-cyclical consumer sector, which restricts the applicability of the results to other industries or businesses with distinct features.

The implication for integrative negotiation theory is that integrative negotiation theory prioritizes the alignment of goals and interests between negotiating parties. Reassessment and alignment of the objectives of good corporate governance with business strategy by the company will make tax planning and corporate business objectives go hand in hand. Due to a number of external factors that are not taken into account by the model, such as organizational culture and corporate practices, the results of this study indicate that good corporate governance is cannot moderate the effect of business strategy on tax avoidance. Despite the company's implementation of good corporate governance, its moderating effects may be undermined if internal business practices and corporate culture do not encourage tax compliance.

The findings of this study are consistent with what was found by (Afrianti et al., 2021) and (Rosalin & Chrismastuti, 2023). However, the findings do not align with the findings reported by (Anugerah et al., 2022).

Good corporate governance cannot moderate the impact of capital intensity on tax avoidance. This is according to the hypothesis's findings. The type of moderation is Homologizer Moderation. Good Corporate Governance generally focuses on transparency, accountability, and risk management, rather than specific aspects of tax planning, such as monitoring how capital intensity affects tax avoidance. In addition, the supervisors in the research are not directly involved in financial decision-making or tax strategy but focus on compliance and operational efficiency. Furthermore, the company culture and internal practices, which can either support or hinder tax compliance, were not sufficiently integrated into the model, resulting in GCG's diminished capacity to moderate the impact of capital intensity on avoidance of taxes.

The company supervisors are unable to prohibit investments in fixed assets. The supervisors are aware that the purpose of manufacturing companies investing in fixed assets is to support operational activities and in order to fulfill the company's objective of increasing earnings. The role of company supervisors regarding fixed assets is limited to handling conflicts of interest when they arise. Therefore, the ability of the supervisors in financial reporting is focused on ensuring compliance with regulations and supporting the best decision-making to optimize the company's operational activities.

Good corporate governance does not specifically focus attention on tax avoidance practices and does not specifically regulate policies related to capital intensity. The use of capital intensity in tax avoidance activities involves accounting decisions that are not always controlled or influenced by good corporate governance policies. For companies, the research show that good corporate governance should include more specific provisions related to tax compliance and policies regarding the management of capital intensity. Companies should ensure that their internal practices and organizational culture actively encourage tax compliance. For tax authorities, the results imply the need for closer monitoring of companies with high capital intensity, particularly those whose good corporate governance frameworks may not directly regulate tax avoidance strategies.



The study's strength lies in its examination of the connection between capital intensity, tax avoidance, and good corporate governance. This contribution extends the existing body of literature by demonstrating that, within this specific context, good corporate governance does not inherently serve as a effective moderator. This is in line with the findings from (Sinaga & Suardhika, 2019) and (Afrianti et al., 2021), which demonstrate that while good corporate governance is crucial for maintaining corporate transparency, tax avoidance strategies are not always impacted by it as measured by independent commissioners. Nonetheless, this study's shortcomings are comparable to those of other research, such as that conducted by (Anugerah et al., 2022), which revealed that good corporate governance can minimize the impact of capital intensity on tax avoidance. This difference may arise from variations in the sample used or factors external to the model not considered in this study, such as firm-specific tax policies, practices, and broader organizational culture that may influence how tax avoidance is viewed and managed.

The study's findings suggest that good corporate governance is unable in moderate the impact of capital intensity on tax avoidance, which may be caused by several external factors not covered in the model, such as company practices and organizational culture. A business with good corporate governance may still have compromised moderating effects if its internal procedures and culture do not encourage tax compliance.

The findings of this study are consistent with what was found by (Sinaga & Suardhika, 2019), (Afrianti et al., 2021), (Ristanti, 2022), and (Ghozali, 2021). However, the findings do not align with the findings reported by (Anugerah et al., 2022) and (Hidayah & Ernandi, 2022).

CONCLUSION

It has been established that the practice of tax avoidance is not influenced by business strategy. The implementation of a particular business strategy in the manufacturing companies studied did not show any impact on tax avoidance. Inconsistencies in business strategy implementation can reduce the expected effect, and other external factors need to be considered in future research models.

Capital intensity has a significant positive effect on tax avoidance, indicating that an increase in the capital intensity ratio raises the likelihood of a company engaging in tax avoidance practices. This occurs because costs associated with fixed assets can serve as a means for firms to lower their tax obligations.

Good corporate governance is unable to moderate the effect of business strategy on tax avoidance with Homologizer Moderation framework. Although good corporate governance is well implemented, its effectiveness as a moderator of the effect of business strategy on tax avoidance is limited. Other external factors, such as company practices and organizational culture that do not support tax compliance, can reduce the effectiveness of good corporate governance, so these factors need to be considered in future research models.

Good corporate governance is not effective in moderating the influence of capital intensity on tax avoidance within the Homologizer Moderation framework. This is because good corporate governance does not explicitly regulate capital intensity policies or directly address tax avoidance practices. In addition, inconsistencies between governance



mechanisms and internal company practices may weaken its moderating role. Therefore, future research should consider the inclusion of other external factors.

The study's findings indicate that the variables under investigation have a small impact and cannot be utilized to support the agency theory. Therefore, future researchers studying tax avoidance are expected to consider using integrative negotiation theory in their research. For the government, this research can serve as an evaluation to understand that capital intensity can be used by companies as a way to avoid taxes, thus increasing supervision over companies with high capital intensity ratios and reconsidering the closure of loopholes in legal provisions. For companies, it is anticipated that management in manufacturing companies will take the study's findings into account when making decisions about tax avoidance strategies and will apply good corporate governance practices to guarantee that tax procedures are carried out in an accountable and transparent manner.

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