American International Journal of Business Management (AIJBM)
ISSN- 2379-106X, www.aijbm.com Volume 9, Issue 08 (August - 2026), PP 18-27

When Tax Strategies Create or Destroy Value: The Mediating Role of Agency Conflict in Indonesian Listed Firms

Sutriyono Agus Eko[1], Mustaruddin[2], Wendy[3]
[1,2,3](Economic and Business Department, Tanjung Pura University, Indonesia)
*Corresponding Author: Sutriyono Agus Eko[1]

ABSTRACT: *This study examines whether transfer pricing and tax aggressiveness create or destroy firm value through the agency-conflict channel. A balanced panel of 205 companies listed on the Indonesia Stock Exchange during 2019-2024 produced 1,230 firm-year observations. Transfer pricing is proxied by related-party receivables relative to total receivables, tax aggressiveness by effective tax rates, agency conflict by free cash flow scaled by total assets, and firm value by Tobin's Q. Common-effect and random-effect estimators were selected through Chow, Hausman, and Breusch–Pagan Lagrange multiplier tests. Robust standard errors and Sobel tests were used for inference and mediation. Transfer pricing is negatively related to agency conflict at the 10% level and negatively related to firm value at the 1% level. Tax aggressiveness increases agency conflict but has a positive direct association with firm value. Agency conflict reduces firm value. The indirect transfer-pricing effect is small and positive, whereas the indirect tax-aggressiveness effect is small and negative; both constitute partial competitive mediation. Leverage is positively associated with firm value, while firm age and profitability are not statistically significant. The findings separate the tax-saving channel from the agency-cost channel and show that different tax strategies can generate opposing direct and indirect valuation effects in an emerging market with concentrated ownership*

KEYWORDS- *transfer pricing; tax aggressiveness; agency conflict; firm value; corporate tax strategy*

I. INTRODUCTION

Firm value reflects the market's assessment of a company's capacity to generate future cash flows after considering operating prospects, financing risk, governance quality, and the credibility of reported information. Classical finance explains value through productive assets and expected cash flows, but real capital markets also price agency frictions, information asymmetry, and taxes (Modigliani & Miller, 1958; Tobin, 1969). Corporate tax strategy therefore matters not only because it changes after-tax cash flow, but also because it can change the opacity of transactions and the distribution of benefits between managers, controlling shareholders, minority shareholders, and the state.

Two tax-related practices are especially relevant. Transfer pricing establishes prices for transactions between related parties and is legitimate when it follows the arm's-length principle, yet it can also facilitate income shifting or tunnelling when prices or transaction structures are not economically neutral (OECD, 2022; Rathke et al., 2021). Tax aggressiveness refers to deliberate efforts to reduce tax liabilities along a continuum from conventional planning to positions that exploit legal ambiguity (Hanlon & Heitzman, 2010). Both strategies may increase available cash and reported performance, but both may also create complexity that makes managerial actions more difficult to monitor (Balakrishnan et al., 2019; Frank et al., 2009).

This trade-off is central to agency theory. Separation of ownership and control allows managers to use information advantages and discretionary cash for private objectives, while concentrated ownership can shift the problem from manager–shareholder conflict to conflict between controlling and minority shareholders (Jensen & Meckling, 1976; Claessens et al., 2000). Tax structures can intensify either conflict because related-party arrangements and uncertain tax positions are hard for outside investors to verify. The same transaction that saves tax may conceal resource transfers, empire building, or selective benefits (Desai et al., 2007; Shams et al., 2022).

Prior evidence remains mixed. Some studies find that tax avoidance raises firm value when tax savings accrue to shareholders or when governance is effective (Desai & Dharmapala, 2009; Lv et al., 2025). Others find valuation discounts when aggressive tax positions create regulatory risk, opacity, or agency costs (Arora & Gill, 2022; Hanlon & Slemrod, 2009). Transfer-pricing evidence is similarly contingent: stronger governance and audit quality can restrain opportunistic related-party pricing, while weak monitoring permits earnings management and wealth transfers (Duho et al., 2024; Sari et al., 2023). Treating the relationship as a single direct effect may therefore obscure the mechanism that determines whether a tax strategy is beneficial or destructive.

This study addresses that problem by placing agency conflict between tax strategy and firm value. It jointly evaluates transfer pricing and tax aggressiveness in a balanced panel of Indonesian listed companies and

distinguishes direct valuation effects from indirect effects transmitted through free-cash-flow-based agency conflict. Indonesia provides a useful setting because ownership is often concentrated, corporate groups conduct substantial related-party transactions, and minority-investor protection and tax enforcement coexist with heterogeneous governance quality (Basheer et al., 2021; Falbo & Fletcher, 2025).

The study contributes in three ways. First, it separates transfer pricing from broader tax aggressiveness instead of combining all tax behaviour into a single avoidance indicator. Second, it identifies competitive mediation: the sign of the indirect effect differs from the direct effect, revealing simultaneous value-creating and value-destroying channels. Third, it evaluates the focal relationships after controlling for firm age, profitability, and leverage, which capture lifecycle effects, operating performance, and financing structure. The resulting evidence is relevant for investors evaluating tax-based earnings, boards overseeing related-party transactions, and tax authorities seeking to distinguish efficient planning from opaque value diversion.

II. LITERATURE REVIEW AND HYPOTHESES

2.1 Agency theory and the dual nature of corporate tax strategy

Agency theory predicts that managers do not automatically allocate corporate resources in the best interests of shareholders. Monitoring, bonding, and residual losses arise because agents possess information and decision rights that principals cannot costlessly observe (Jensen & Meckling, 1976). The free-cash-flow problem is especially important when internally generated funds exceed profitable investment opportunities. Managers may retain or spend those funds on projects, perks, or organizational expansion that increase private utility without increasing shareholder wealth (Jensen, 1986). Accordingly, high discretionary free cash flow is used in this study as an observable manifestation of agency conflict.

Tax planning can reduce cash outflows and relax financing constraints, thereby increasing the funds available for investment. Long-run tax avoidance and tax shelters can function as alternative sources of financing (Dyreng et al., 2008; Graham & Tucker, 2006). However, complex tax structures also reduce transparency and may complement aggressive financial reporting (Balakrishnan et al., 2019; Frank et al., 2009). The valuation outcome depends on whether incremental cash is invested productively or captured through agency behaviour. This duality explains why empirical findings vary across governance environments (Bauer et al., 2018; Wongsinhirun et al., 2024).

2.2 Transfer pricing, agency conflict, and firm value

Transfer pricing is necessary for allocating revenues, costs, and risks within a corporate group. When related-party transactions follow economic substance and the arm's-length principle, they can support internal coordination and efficient resource allocation (OECD, 2022). In tightly controlled business groups, centralized related-party financing may also reduce the cash directly controlled by standalone managers and subject operating units to group-level monitoring. This coordination channel suggests a negative relationship between transfer-pricing intensity and free-cash-flow-based agency conflict.

The same mechanism can create a valuation discount. Related-party receivables are difficult for external investors to evaluate, particularly when ownership and control are concentrated. They may signal income shifting, delayed settlement, tunnelling, or non-arm's-length resource transfers. Evidence from emerging markets shows that tax avoidance and related-party structures can support tunnelling, while governance and audit quality determine whether transfer pricing remains efficient or opportunistic (Falbo & Fletcher, 2025; Duho et al., 2024; Sari et al., 2023). The market may therefore penalize transfer-pricing intensity even when intragroup coordination reduces a narrow free-cash-flow proxy for agency conflict.

H1. Transfer pricing has a negative effect on agency conflict.

H2. Transfer pricing has a negative effect on firm value.

2.3 Tax aggressiveness, agency conflict, and firm value

Tax aggressiveness can raise after-tax cash flow, but the additional cash increases managerial discretion when governance is weak. Aggressive tax positions also rely on complex transactions, estimates, and legal interpretations that widen information asymmetry. This combination can make it easier to conceal opportunistic decisions or build managerial empires (Desai et al., 2007; Shams et al., 2022). Studies that frame aggressive taxation as an unresolved agency problem accordingly predict a positive association with agency conflict (Alkausar et al., 2023; Bauer et al., 2018).

The direct valuation effect may nevertheless be positive. Lower current tax payments preserve cash and may increase distributable wealth, investment capacity, or debt-service ability. Desai and Dharmapala (2009) show that the value of tax avoidance depends on governance, while more recent evidence indicates that corporate governance conditions the valuation consequences of tax avoidance (Lv et al., 2025). The positive cash-flow channel is expected to dominate in the direct relation, although the agency channel may offset part of the gain. This formulation recognizes that tax aggressiveness can simultaneously create cash benefits and governance costs.

H3. Tax aggressiveness has a positive effect on agency conflict.
H4. Tax aggressiveness has a positive effect on firm value.

2.4 Agency conflict and firm value

Agency conflict destroys value when corporate resources are retained, transferred, or invested for objectives that do not maximize shareholder wealth. High free cash flow can encourage overinvestment and reduce discipline, while concentrated ownership can expose minority shareholders to private-benefit extraction (Jensen, 1986; Moolchandani & Kar, 2022). Empirical evidence also shows that agency costs condition the relation between tax avoidance and firm value (Yoon et al., 2024). A negative coefficient is therefore expected for the agency-conflict path.

If tax strategies alter agency conflict and agency conflict affects value, an indirect mechanism follows. The expected transfer-pricing path is positive in sign because both TP→AC and AC→FV are predicted to be negative. The expected tax-aggressiveness path is negative because TA→AC is positive while AC→FV is negative. Because the direct and indirect paths have opposing signs, the mediation is competitive rather than complementary.

H5. Agency conflict has a negative effect on firm value.
H6. Agency conflict mediates the relationship between transfer pricing and firm value.
H7. Agency conflict mediates the relationship between tax aggressiveness and firm value.

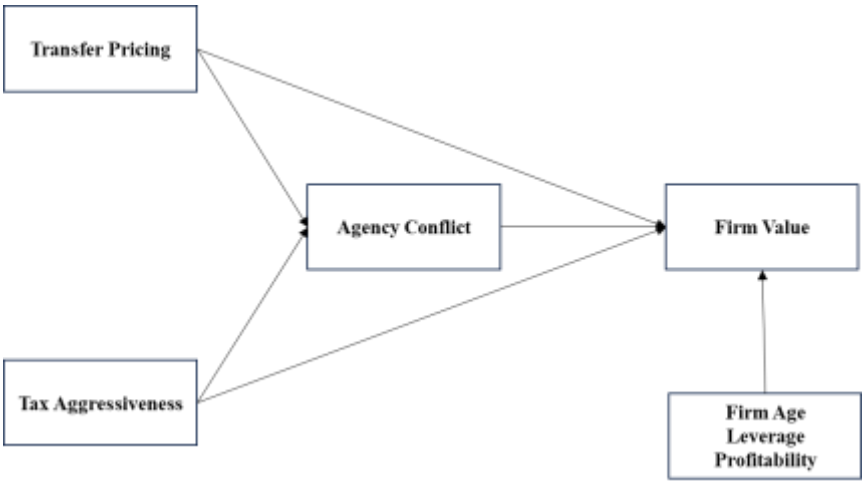


Figure 1. Focused conceptual model

III. METHODS

3.1 Research design, population, and sample

The study uses a quantitative explanatory design and secondary panel data from audited annual reports, sustainability reports, and market information for companies listed on the Indonesia Stock Exchange (IDX). The observation period is 2019–2024. Purposive sampling required companies to remain listed, publish the required reports consistently, and provide complete data for the focal variables. The resulting balanced panel consists of 205 firms observed for six years, or 1,230 firm-year observations.

The reporting requirement improves variable availability but may tilt the sample toward larger and more transparent firms. The inference therefore applies most directly to listed companies with relatively complete public disclosure rather than to all Indonesian companies.

Table 1. Sample selection

Selection step	Number
Initial IDX population	947 companies
Companies excluded because required sustainability disclosures were unavailable or incomplete	742 companies
Final sample	205 companies
Observation period	6 years (2019–2024)
Balanced panel observations	1,230 firm-years

3.2 Variable measurement

Firm value is measured with the Chung and Pruitt (1994) approximation of Tobin's Q, which relates the market value of equity and the book value of debt to the book value of total assets. Tobin's Q captures investors' forward-looking valuation relative to the recorded asset base (Tobin, 1969). Transfer pricing is proxied by related-party receivables divided by total receivables. This indicator captures the intensity of intra-group credit transactions that may embody pricing or settlement discretion. Tax aggressiveness is measured by book–tax differences, a common indicator of divergence between accounting income and estimated taxable income (Hanlon & Heitzman, 2010). Agency conflict is proxied by free cash flow scaled by total assets, consistent with Jensen's (1986) argument that discretionary cash creates agency problems when monitoring is incomplete.

The controls are firm age, profitability, and leverage. Firm age is transformed using the natural logarithm in the regression because organizational age can have nonlinear effects on routines, reputation, and adaptability (Coad et al., 2013). Profitability is return on assets. Leverage is the debt-to-equity ratio and controls for financing discipline and financial risk.

Table 2. Variable definitions and measurements

Type	Variable	Operational definition	Measurement
Dependent	Firm value (FV)	Market assessment of value creation	Tobin's Q = (market value of equity + book value of debt) / book value of total assets
Independent	Transfer pricing (TP)	Intensity of related-party receivables	Related-party receivables / total receivables
Independent	Tax aggressiveness (TA)	the proportion of a company's income before tax that is paid or recognised as income tax expense	ETR is measured by dividing the total income tax expense by income before tax, as presented in the company's annual financial statements
Mediator	Agency conflict (AC)	Discretionary free cash flow associated with agency problems	(Operating cash flow − capital expenditure) / total assets
Control	Firm age (FA)	Length of organizational existence	Natural logarithm of years since establishment
Control	Profitability (PRO)	Ability to generate earnings from assets	Net income / total assets (ROA)
Control	Leverage (LEV)	Debt intensity and financial risk	Total debt / total equity × 100%

3.3 Empirical models and estimation

The empirical analysis uses three panel equations. The first estimates the agency-conflict channel. The second estimates total associations with firm value before the mediator is introduced. The third adds agency conflict and provides the direct coefficients required for mediation analysis. Firm age, profitability, and leverage enter the two firm-value equations. To reproduce the verified dissertation coefficients, managerial ownership (MO) is retained as an auxiliary covariate in all equations. It is not included in the article's hypotheses, conceptual model, or substantive discussion.

$$AC_{it} = \alpha_0 + \beta_1 TP_{it} + \beta_2 TA_{it} + \theta MO_{it} + \varepsilon_{it} \quad (1)$$

$$FV_{it} = \alpha_0 + \beta_1 TP_{it} + \beta_2 TA_{it} + \gamma Controls_{it} + \theta MO_{it} + \varepsilon_{it} \quad (2)$$

$$FV_{it} = \alpha_0 + \beta_1 TP_{it} + \beta_2 TA_{it} + \beta_3 AC_{it} + \gamma Controls_{it} + \theta MO_{it} + \varepsilon_{it} \quad (3)$$

Panel-model selection follows the sequential Chow, Hausman, and Breusch–Pagan Lagrange multiplier procedures. Equation (1) uses the common-effect model, whereas Equations (2) and (3) use random effects. This approach is appropriate when the unobserved firm component is modeled as random and is uncorrelated with the included regressors (Baltagi, 2021; Wooldridge, 2010). Because the variable distributions and residuals are non-normal and heteroskedasticity is present, inference is based on robust standard errors. Pairwise correlations are also examined to identify multicollinearity.

Mediation is evaluated through the product of coefficients a×b and the Sobel statistic (Sobel, 1982). Equation (1) provides path a from each tax strategy to agency conflict, while Equation (3) provides path b from agency conflict to firm value. The indirect-effect standard error uses the conventional delta-method expression. The analysis also compares the focal coefficients before and after the mediator is introduced. This follows the logic of Baron and Kenny (1986), while recognizing that a statistically significant indirect effect is the central criterion (Preacher & Hayes, 2008).

IV. RESULTS

4.1 Descriptive statistics

Table 3 shows substantial cross-sectional dispersion. Firm value has a mean of 15.42 but a median of 1.44, indicating strong right skewness. Transfer pricing also has a high standard deviation relative to its median, which reflects major differences in related-party receivable intensity. Agency conflict is the most dispersed variable, with a maximum far above the median. These distributions justify robust inference and caution against interpreting the coefficients as effects for a "typical" firm without considering heterogeneity.

Table 3. Descriptive statistics (N = 1,230)

Variable	Mean	Median	Maximum	Minimum	Std. dev.
Firm value (FV)	15.42	1.44	67.62	0.232	26.55
Transfer pricing (TP)	14.92	0.68	100.00	0.001	27.13
Tax aggressiveness (TA)	0.17	0.22	0.97	−15.697	0.73
Agency conflict (AC)	0.59	0.08	423.97	0.010	12.15
Firm age (years)	49.47	47.00	127.00	1.000	24.89
Profitability (PRO)	0.05	0.03	0.60	−0.580	0.10
Leverage (LEV)	48.89	46.94	189.77	12.642	22.53

4.2 Model selection and diagnostics

The Chow test does not reject pooled estimation for Equation (1), and the Lagrange multiplier test confirms the common-effect model. For Equations (2) and (3), the Chow tests reject pooled estimation, the Hausman tests do not reject random effects, and the Lagrange multiplier tests favor random effects over pooled OLS. The largest absolute pairwise correlation among the explanatory variables is 0.117, well below conventional warning thresholds. Residual normality is rejected and heteroskedasticity is detected; robust standard errors are therefore used. These choices are summarized in Table 4.

Table 4. Panel-model selection and diagnostic summary

Equation / test	Statistic	p-value	Decision
Equation 1: Chow	233.3383	.0777	Common effect not rejected
Equation 1: Hausman	0.5557	.9065	Random effect not rejected
Equation 1: LM	0.6964	.6851	Common effect selected
Equation 2: Chow	1,269.9531	< .001	Firm effects present
Equation 2: Hausman	11.2633	.0806	Random effect selected
Equation 2: LM	reported as 0.0000	< .001	Random effect selected
Equation 3: Chow	1,075.6751	< .001	Firm effects present
Equation 3: Hausman	12.3586	.0894	Random effect selected
Equation 3: LM	reported as 0.0000	< .001	Random effect selected
Maximum absolute predictor correlation	0.117	—	No multicollinearity concern
Residual normality	Rejected	< .001	Use robust inference
Heteroskedasticity	Detected	—	Robust standard errors

4.3 Panel regression results

The focal regression results are presented in Table 5. Transfer pricing is negatively associated with agency conflict ($\beta = -0.046705$, $p = .0733$). The evidence supports H1 only at the 10% level and should therefore be regarded as marginal rather than strong. Tax aggressiveness increases agency conflict ($\beta = 0.013693$, $p = .0040$), supporting H3. These paths indicate that the two tax strategies have different relationships with the free-cash-flow manifestation of agency conflict.

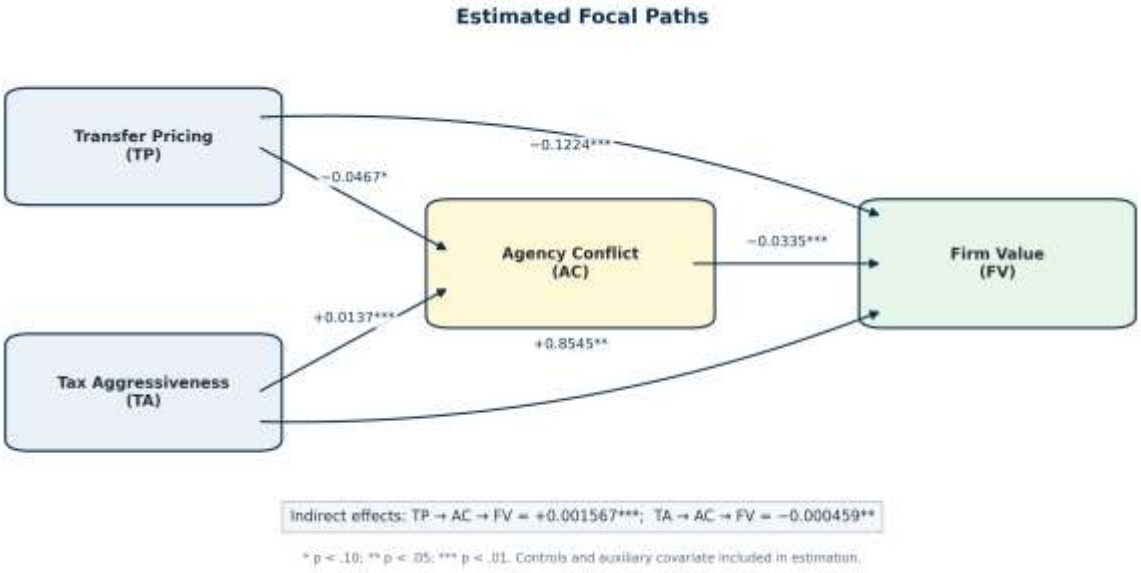
In the total-effect firm-value model, transfer pricing has a negative coefficient ($\beta = -0.122481$, $p = .0006$), supporting H2. Tax aggressiveness has a positive coefficient ($\beta = 0.852466$, $p = .0139$), supporting H4. After agency conflict is included, both coefficients remain statistically significant and almost unchanged. Agency conflict itself has a negative coefficient ($\beta = -0.033542$, $p = .0001$), supporting H5. Among the controls, leverage is positive and significant, while firm age and profitability are not significant.

Table 5. Panel regression estimates

Variable	Model 1: AC (CEM)	Model 2: FV total effect (REM)	Model 3: FV with AC (REM)
Transfer pricing (TP)	−0.046705* (0.002595)	−0.122481*** (0.035248)	−0.122446*** (0.035222)
Tax aggressiveness (TA)	0.013693*** (0.004706)	0.852466** (0.343599)	0.854461** (0.343810)
Agency conflict (AC)	—	—	−0.033542*** (0.008388)
Firm age (FA)	—	−0.060402 (0.047690)	−0.058252 (0.047845)
Profitability (PRO)	—	−3.081423 (6.258028)	−3.102396 (6.259798)
Leverage (LEV)	—	0.053939*** (0.018515)	0.053546*** (0.018474)
Auxiliary managerial-ownership covariate	Included	Included	Included
Panel estimator	Common effect	Random effect	Random effect
Observations	1,230	1,230	1,230

*Note. * p < .10; ** p < .05; *** p < .01.*

Figure 2. Estimated focal paths and indirect effects



4.4 Mediation analysis

The transfer-pricing indirect effect is positive: (−0.046705) × (−0.033542) = 0.001567. The Sobel statistic is 3.9036 ($p < .01$), which supports H6. Because the direct transfer-pricing coefficient remains negative and significant, the pattern is partial competitive mediation. The agency path offsets only a very small portion of the negative direct valuation effect. In substantive terms, higher transfer-pricing intensity is associated with a lower level of the free-cash-flow proxy, which is favorable for value, but the market's negative assessment of transfer pricing remains dominant.

The tax-aggressiveness indirect effect is negative: (0.013693) × (−0.033542) = −0.000459. The Sobel statistic is −2.3528 ($p < .05$), supporting H7. The direct coefficient remains positive and significant, so the mediation is again partial and competitive. Tax aggressiveness appears to provide a direct cash-flow or reported-performance benefit, while the additional agency conflict erodes a small portion of that benefit.

Table 6. Agency-conflict mediation results

Indirect path	a path	b path	Indirect effect (a×b)	Sobel z	Inference
TP → AC → FV	−0.046705*	−0.033542***	+0.001567	+3.9036***	Partial competitive mediation; H6 supported
TA → AC → FV	+0.013693***	−0.033542***	−0.000459	−2.3528**	Partial competitive mediation; H7 supported

Note. * p < .10; ** p < .05; *** p < .01

4.5 Robustness and sensitivity

Alternative estimators provide asymmetric support. The negative transfer-pricing coefficient remains significant in both the lag-instrument 2SLS specification and the dynamic-panel specification. By contrast, tax aggressiveness and agency conflict lose significance in those alternatives. The main transfer-pricing conclusion is therefore comparatively robust, whereas the positive tax-aggressiveness effect and the agency-conflict coefficient are more sensitive to specification and should not be interpreted as universal causal effects. This sensitivity is consistent with the literature's emphasis on governance conditions and measurement choices (Arora & Gill, 2022; Lv et al., 2025).

Table 7. Sensitivity of focal coefficients to alternative estimators

Variable	Main REM / CEM result	2SLS / lag-IV	Dynamic panel IV	Assessment
Transfer pricing	−0.1224***	−0.4584***	−0.0971***	Negative association is robust
Tax aggressiveness	+0.8545**	−0.0183 (n.s.)	+0.8391 (n.s.)	Direction/significance is specification-sensitive
Agency conflict	−0.0335***	−0.0157 (n.s.)	−0.0150 (n.s.)	Negative sign persists; significance is sensitive
Firm age	−0.0583 (n.s.)	−0.0789 (n.s.)	−0.0650 (n.s.)	Consistently non-significant
Profitability	−3.1024 (n.s.)	+0.0462 (n.s.)	−1.6813 (n.s.)	Consistently non-significant
Leverage	+0.0535***	+0.0222 (n.s.)	+0.0211 (n.s.)	Positive but not robustly significant

Note. The alternative models reproduce the dissertation robustness outputs and retain the original auxiliary covariates. n.s. = not significant.

V. DISCUSSION

5.1 Transfer pricing: coordination benefit versus market discount

The negative transfer-pricing coefficient in the firm-value models is economically and statistically clearer than the marginal negative coefficient in the agency-conflict model. Investors appear to discount firms with higher related-party receivables even after firm age, profitability, leverage, and the auxiliary governance covariate are considered. This result is consistent with the view that related-party transactions are difficult to verify and may expose minority shareholders to delayed settlement, income shifting, or tunnelling. It aligns with evidence that the governance of transfer pricing and related-party transactions is critical in emerging markets (Duho et al., 2024; Falbo & Fletcher, 2025).

The positive indirect effect does not contradict the negative total assessment. The free-cash-flow proxy captures only one dimension of agency conflict. Intragroup receivables may centralize cash management and reduce cash retained by standalone managers, thereby lowering measured free cash flow. Yet investors may still price a larger, unmeasured risk of expropriation, tax dispute, or opacity. The competitive mediation result therefore reveals why a single governance proxy cannot fully characterize transfer-pricing risk. It also cautions against interpreting lower free cash flow as proof that related-party transactions are benign.

5.2 Tax aggressiveness: tax savings partly offset by agency costs

Tax aggressiveness has a positive direct association with firm value, which supports the cash-saving view. Lower tax payments can increase internal financing and distributable resources, particularly where external finance is costly. This is consistent with evidence that investors may value tax avoidance when the

benefits are expected to accrue to shareholders (Desai & Dharmapala, 2009). However, the positive result is not robust across all alternative estimators and should be interpreted as conditional rather than unconditional.

The agency path clarifies the condition. Tax aggressiveness increases free-cash-flow-based conflict, and that conflict reduces value. Complex tax positions can widen information asymmetry, hide managerial discretion, and combine with aggressive reporting (Balakrishnan et al., 2019; Frank et al., 2009). The negative indirect effect is small relative to the positive direct coefficient, but its statistical significance supports the argument that tax savings are not free of governance costs. Boards and investors should therefore assess the destination and control of tax savings, not merely the effective reduction in tax expense.

5.3 Agency conflict and the control variables

The negative agency-conflict coefficient supports the free-cash-flow theory of Jensen (1986). Discretionary cash can be valuable when firms face positive-net-present-value opportunities, but it can destroy value when investment discipline and monitoring are weak. The result also complements evidence that agency costs shape how tax avoidance affects shareholder wealth (Yoon et al., 2024).

Leverage is positive in the main models. Debt may discipline managers by committing cash to fixed payments, although it also increases financial risk. Firm age is not significant, suggesting that organizational maturity alone does not determine valuation once tax strategy and financing are considered. Profitability is also non-significant in this specification, possibly because Tobin's Q reflects expectations and governance risks that are not captured by current ROA. The lack of robustness of the leverage coefficient in alternative models reinforces the need for cautious interpretation.

VI. CONCLUSION

This study investigates how transfer pricing and tax aggressiveness relate to firm value through agency conflict in 205 Indonesian listed firms over 2019–2024. Transfer pricing is negatively associated with firm value and shows a marginal negative relationship with agency conflict. Tax aggressiveness increases agency conflict but is positively associated with firm value in the main random-effects model. Agency conflict reduces value. The resulting indirect effects have signs opposite to the direct effects: transfer pricing produces a small positive indirect effect, while tax aggressiveness produces a small negative indirect effect. Both are partial competitive mediations.

The principal conclusion is that tax strategy cannot be judged solely by the amount of tax saved. Transfer pricing may generate internal coordination benefits while still receiving a market discount for opacity and expropriation risk. Tax aggressiveness may preserve cash while simultaneously increasing agency costs. Governance determines which channel dominates.

Three limitations define the boundaries of the findings. First, the sample is limited to firms with consistent public reporting, which may underrepresent less transparent companies. Second, related-party receivables, book–tax differences, and free cash flow are proxies rather than direct observations of managerial intent. Third, the main evidence is associative, and the sensitivity tests show that some coefficients are not stable across alternative estimators. Future research should use transaction-level transfer-pricing data, multiple agency-cost measures, stronger quasi-experimental identification, and bootstrap confidence intervals for indirect effects. Cross-country comparison would also clarify how investor protection and tax enforcement change the balance between tax savings and agency costs.

REFERENCES

[1]. Alkausar, B., Nugroho, Y., Qomariyah, A., & Prasetyo, A. (2023). Corporate tax aggressiveness: Evidence unresolved agency problem captured by theory agency type 3. *Cogent Business & Management, 10(2), Article 2218685*. https://doi.org/10.1080/23311975.2023.2218685

[2]. Arora, T. S., & Gill, S. (2022). Impact of corporate tax aggressiveness on firm value: Evidence from India. *Managerial Finance, 48(2), 313–333*. https://doi.org/10.1108/MF-01-2021-0033

[3]. Balakrishnan, K., Blouin, J. L., & Guay, W. R. (2019). Tax aggressiveness and corporate transparency. *The Accounting Review, 94(1), 45–69*. https://doi.org/10.2308/accr-52130

[4]. Baltagi, B. H. (2021). Econometric analysis of panel data (6th ed.). *Springer*

[5]. Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology, 51(6), 1173–1182*. https://doi.org/10.1037/0022-3514.51.6.1173

[6]. Basheer, M. F., Gupta, S., Raoof, R., & Waemustafa, W. (2021). Revisiting agency conflicts in family-owned pyramidal business structures: A case of an emerging market. *Cogent Economics & Finance, 9(1), Article 1926617*. https://doi.org/10.1080/23322039.2021.1926617

[7]. Bauer, T., Kourouxous, T., & Krenn, P. (2018). Taxation and agency conflicts between firm owners and managers: A review. *Business Research, 11(1), 33–76*. https://doi.org/10.1007/s40685-017-0054-y

[8]. Chung, K. H., & Pruitt, S. W. (1994). A simple approximation of Tobin's q. *Financial Management, 23(3), 70–74*. https://doi.org/10.2307/3665623

[9]. Claessens, S., Djankov, S., & Lang, L. H. P. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics, 58(1–2), 81–112*. https://doi.org/10.1016/S0304-405X(00)00067-2

[10]. Coad, A., Segarra, A., & Teruel, M. (2013). Like milk or wine: Does firm performance improve with age?. *Structural Change and Economic Dynamics, 24, 173–189.* https://doi.org/10.1016/j.strueco.2012.07.002

[11]. Desai, M. A., & Dharmapala, D. (2009). Corporate tax avoidance and firm value. *The Review of Economics and Statistics, 91(3), 537–546*. https://doi.org/10.1162/rest.91.3.537

[12]. Desai, M. A., Dyck, A., & Zingales, L. (2007). Theft and taxes. *Journal of Financial Economics, 84(3), 591–623*. https://doi.org/10.1016/j.jfineco.2006.05.005

[13]. Duho, K. C. T., Asare, E. T., Glover, A., & Duho, D. M. (2024). Transfer pricing, earnings management and corporate governance among listed firms: Evidence from Ghana. *Corporate Governance, 24(7), 1663–1694*. https://doi.org/10.1108/CG-12-2022-0519

[14]. Dyreng, S. D., Hanlon, M., & Maydew, E. L. (2008). Long-run corporate tax avoidance. *The Accounting Review, 83(1), 61–82*. https://doi.org/10.2308/accr.2008.83.1.61

[15]. Falbo, T. D., & Fletcher, M. M. (2025). The role of outside directors in tunnelling-related tax avoidance: Evidence from Indonesia. *Asia-Pacific Journal of Accounting & Economics, advance online publication*. https://doi.org/10.1080/16081625.2025.2521302

[16]. Frank, M. M., Lynch, L. J., & Rego, S. O. (2009). Tax reporting aggressiveness and its relation to aggressive financial reporting. *The Accounting Review, 84(2), 467–496.* https://doi.org/10.2308/accr.2009.84.2.467

[17]. Graham, J. R., & Tucker, A. L. (2006). Tax shelters and corporate debt policy. *Journal of Financial Economics, 81(3), 563–594*. https://doi.org/10.1016/j.jfineco.2005.09.002

[18]. Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics, 50(2–3), 127–178*. https://doi.org/10.1016/j.jacceco.2010.09.002

[19]. Hanlon, M., & Slemrod, J. (2009). What does tax aggressiveness signal? Evidence from stock price reactions to news about tax shelter involvement. *Journal of Public Economics, 93(1–2), 126–141*. https://doi.org/10.1016/j.jpubeco.2008.09.004

[20]. Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review, 76(2), 323–329*

[21]. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3(4), 305–360*. https://doi.org/10.1016/0304-405X(76)90026-X

[22]. Lv, W., Meng, Q., Cao, Y., & Liu, J. (2025). Impact and moderating mechanism of corporate tax avoidance on firm value from the perspective of corporate governance. *International Review of Financial Analysis, 99, Article 103926*. https://doi.org/10.1016/j.irfa.2025.103926

[23]. Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance and the theory of investment. *American Economic Review, 48(3), 261–297*

[24]. Moolchandani, R., & Kar, S. (2022). Family control, agency conflicts, corporate cash holdings and firm value. *International Journal of Emerging Markets, 17(10), 2636–2654*. https://doi.org/10.1108/IJOEM-07-2020-0828

[25]. Organisation for Economic Co-operation and Development. (2022). OECD transfer pricing guidelines for multinational enterprises and tax administrations 2022. *OECD Publishing*. https://doi.org/10.1787/0e655865-en

[26]. Preacher, K. J., & Hayes, A. F. (2008). Asymptotic and resampling strategies for assessing and comparing indirect effects in multiple mediator models. *Behavior Research Methods, 40(3), 879–891*. https://doi.org/10.3758/BRM.40.3.879

[27]. Rathke, A. A. T., Rezende, A. J., & Watrin, C. (2021). The impact of countries' transfer pricing rules on profit shifting. *Journal of Applied Accounting Research, 22(1), 22–49*. https://doi.org/10.1108/JAAR-03-2020-0034

[28]. Sari, D. K., Siregar, S. V., Martani, D., & Wondabio, L. S. (2023). The effect of audit quality on transfer pricing aggressiveness and firm risk: Evidence from Southeast Asian countries. *Cogent Business & Management, 10(2), Article 2224151*. https://doi.org/10.1080/23311975.2023.2224151

[29]. Shams, S., Bose, S., & Gunasekarage, A. (2022). Does corporate tax avoidance promote managerial empire building?. *Journal of Contemporary Accounting & Economics, 18(1), Article 100293*. https://doi.org/10.1016/j.jcae.2021.100293

[30]. Sobel, M. E. (1982). Asymptotic confidence intervals for indirect effects in structural equation models. *Sociological Methodology, 13, 290–312*. https://doi.org/10.2307/270723
[31]. Tobin, J. (1969). A general equilibrium approach to monetary theory. *Journal of Money, Credit and Banking, 1(1), 15–29*. https://doi.org/10.2307/1991374
[32]. Wongsinhirun, N., Chatjuthamard, P., Chintrakarn, P., & Jiraporn, P. (2024). Tax avoidance, managerial ownership, and agency conflicts. *Finance Research Letters, 61, Article 104937*. https://doi.org/10.1016/j.frl.2023.104937
[33]. Wooldridge, J. M. (2010). Econometric analysis of cross section and panel data (2nd ed.). *MIT Press*
[34]. Yoon, S., Xin, J., & Cui, Y. (2024). Effects of agency costs on the relationship between tax avoidance and firm value: A case of Chinese companies. *Journal of Social Economics Research, 11(1), 12–22*. https://doi.org/10.18488/35.v11i1.3606

***Corresponding Author: Sutriyono Agus Eko[1]*
[1,2,3](Economic and Business Department, Tanjung Pura University, Indonesia)