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Earnings Management and Tax Avoidance in Determining Firm Value in the Financial Sector

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ABSTRACT

This study explores the role of earnings management and tax avoidance in determining firm value within the financial sector in Indonesia. Employing a causal associative method with a quantitative approach, the research analyzes 68 observations from 41 financial companies listed on the Indonesia Stock Exchange (IDX) during 2020–2023. Earnings management is measured using the Modified Jones Model, tax avoidance through the Cash Effective Tax Rate, and firm value by Tobin's Q. Data were analyzed using multiple linear regression, supported by classical assumption tests. The findings indicate that neither earnings management nor tax avoidance has a significant impact on firm value, whether assessed individually or simultaneously. This may be attributed to strict regulatory oversight and the increasing investor focus on business fundamentals rather than accounting or tax strategies. The study highlights limitations, such as a short observation period and reduced sample size due to data cleaning. Future research is encouraged to include additional variables, extend the time frame, and consider sector-specific analyses to enhance understanding. The results provide practical insights for corporate stakeholders and contribute to academic discourse on financial reporting and firm valuation in regulated markets.

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Introduction

The primary goal of establishing a company is to maximize profits in order to enhance the welfare of its owners or shareholders, as well as to increase the overall value of the company. This value is often reflected in the company's stock market price (Ridwan & Gunardi, 2013). Therefore, maintaining strong performance and staying attractive in the eyes of investors is crucial. One key indicator of a company's performance is the profit information disclosed in its financial statements, which also serves as a measure of management's accountability. However, in practice, profit figures can be manipulated through earnings management, particularly when a company is not performing well financially.

A company's value represents investors' collective perception of its success and future prospects. It is often linked to the stock price when stock prices rise, it signals market confidence and high return expectations (Rahayu & Sari, 2018; Indrarini, 2019). Yet, stock prices do not always follow a consistent upward trend. Instead, they frequently fluctuate in response to various internal and external factors (Diatmika & Sukartha, 2019).

Data from the Indonesia Stock Exchange (IDX) shows that companies in the financial sector experienced noticeable stock price fluctuations during the 2020–2023 period. For example, ASDM's stock price declined steadily since 2021, while BSIM, BFIN, BBRI, and ADMF all exhibited fluctuating price patterns. These trends suggest that the corporate value of financial sector companies remains suboptimal and continues to face economic pressures.

One of the main contributing factors to this instability was the COVID-19 pandemic, which emerged in early 2020. The pandemic triggered a liquidity crisis and increased credit risks. In response, the Indonesian government introduced economic stimulus packages, and Bank Indonesia lowered interest rates to ease financial pressure. However, new challenges arose in 2022 and 2023, particularly from rising global interest rates driven by the U.S. Federal Reserve. These hikes prompted capital outflows, weakened the Indonesian rupiah, and increased volatility in the domestic stock market (Pratama, 2022; Saumi, 2023). Higher interest rates also led to more expensive loans, which reduced credit demand and consumer spending.

In times of uncertainty like this, companies often turn to earnings management and tax avoidance strategies to maintain financial performance and attract investors. While earnings management may help

present a stable financial outlook, it can undermine investor trust if perceived as manipulative. Similarly, tax avoidance can improve net profits by reducing tax expenses, but it also introduces legal risks and long-term uncertainty. Both practices can significantly influence investor perception and, in turn, affect a company's stock price and overall value.

Despite growing attention to this issue, research gaps remain. Most previous studies have examined the impact of either earnings management or tax avoidance in isolation and have primarily focused on the manufacturing sector. For instance, research by Lestari and Meini (2024) found that both earnings management and tax avoidance positively influenced firm value in the manufacturing industry. On the other hand, a study by Sambo and Rahma (2022) on non-financial firms concluded that neither factor had a significant impact on firm value.

This study aims to contribute empirical evidence to the growing body of literature on the relationship between earnings management, tax avoidance, and firm value—specifically within the financial sector. The findings are expected to help investors make more informed decisions and support corporate management in developing financial strategies that are both transparent and sustainable. Additionally, this research can serve as a valuable reference for policymakers and regulators in crafting policies that discourage manipulative practices and promote better corporate governance.

Literature Review

Agency theory

Agency theory explains the relationship between two economic actors with differing interests—principals and agents. This theory was first introduced by Jensen and Meckling in 1976, who defined it as a contractual relationship in which shareholders (principals) appoint managers (agents) to perform tasks on their behalf, including delegating certain decision-making authority. Ideally, both shareholders and managers should have aligned goals, particularly the goal of increasing firm value to benefit the shareholders. However, in practice, managers may have their own interests that do not always align with those of the shareholders (Mayangsari, 2001).

These differing interests often give rise to agency conflicts, where managers act in ways that are not necessarily in line with shareholder expectations. Shareholders generally aim for the highest possible returns in the shortest time frame, while managers may prioritize actions that maximize their own benefits, such as bonuses, job security, or personal prestige. This misalignment can lead agents to make decisions that enhance their own welfare at the expense of shareholder value (Winanto & Widayat, 2013).

In the context of this study, agency theory is used to explain the dynamics between firm value, earnings management, and tax avoidance. Regarding firm value, managers, as agents, are driven to present the company in a favorable light to maintain or increase its perceived worth among shareholders. This can lead to earnings management practices, where reported profits are strategically adjusted to appeal to investors. Similarly, in terms of tax avoidance, managers may adopt certain tax strategies to reduce the company's tax burden. While this may increase short-term profitability, it can also create risks and ethical concerns, especially if such actions are perceived as lacking transparency or breaching regulations (Widodo & Yazid, 2024). Through the lens of agency theory, these practices are understood as part of a broader tension between managerial discretion and shareholder interests, highlighting the importance of good corporate governance to align goals and reduce potential conflicts.

Firm value

Firm value is a crucial measure that reflects the overall quality of a company and its significance in the eyes of stakeholders, particularly shareholders and investors. According to Harmono (2011), firm value serves as an indicator of how important a company is to its customers and shareholders. At its core, it represents the goal of maximizing shareholder wealth, which is typically achieved by maximizing the company's present value. As the firm's stock price rises, so too does the wealth of its shareholders. Thus, a high firm value not only indicates strong company performance but also contributes directly to increased shareholder prosperity (Sambo & Rahma, 2022).

From an investor's perspective, firm value is a collective assessment of the company's current performance and its future prospects. It is often closely tied to stock prices, particularly those traded on public exchanges such as the Indonesia Stock Exchange. When a company's stock price goes up, it signals growing confidence from the market and a general expectation of high returns. This rise in stock price reflects the belief that the company is performing well and has strong growth potential. For the owners, or principals, an

increase in firm value is a highly desirable outcome, and achieving it becomes a primary responsibility for the company's management, who act as agents entrusted to run the business effectively (Indrarini, 2019).

There are several concepts used to understand firm value, each offering a different perspective. Nominal value refers to the value stated in a company's founding documents, explicitly shown in financial reports and printed on share certificates. Market value is determined through supply and demand in the stock market—it's the price at which the company's shares are currently trading. Intrinsic value goes deeper, estimating the true worth of a company by considering not only its current assets but also its future earning potential. Book value is calculated using accounting principles, reflecting the net value of assets after liabilities. Lastly, liquidation value is the amount shareholders would receive if all company assets were sold and all debts settled—this figure is especially relevant in cases where the company is winding down operations (Ningrum, 2022). Altogether, these different interpretations of firm value provide a comprehensive picture of how a business is evaluated, both from a market standpoint and in terms of its actual financial strength and potential.

Earnings management

Earnings management is a concept that sparks differing opinions among scholars and practitioners. Some view it as a manipulative and misleading practice carried out by managers to deceive stakeholders. Others, however, see it as a reasonable and acceptable action as long as it is conducted within the boundaries of generally accepted accounting principles (GAAP). The broad spectrum of interpretations arises precisely because earnings management exists in a gray area—between strategic financial decision-making and ethical concern (Sulistyanto, 2008).

Broadly speaking, earnings management refers to the intentional efforts of corporate managers to influence or intervene in financial reporting processes. The goal is often to confuse or mislead stakeholders who rely on financial statements to assess a company's performance and condition. While the term "intervention" might carry a negative connotation, not all forms of earnings management are considered fraudulent. In fact, many argue that as long as the practices adhere to accepted accounting standards and methods, they are legitimate and permissible (Sulistyanto, 2008).

The relationship between earnings management and agency theory further highlights the dual nature of this practice. In the framework of agency theory, managers (agents) are appointed by shareholders (principals) to run the company in their best interest. However, conflicts of interest can arise when agents act in ways that prioritize their personal goals over shareholder wealth. Earnings management often becomes a strategic tool for managers to present a more favorable view of the company's financial health—sometimes to attract investors, maintain job security, or meet performance-based compensation targets (Sulistyanto, 2008).

As principals, shareholders have the right to monitor and evaluate the performance of the managers they have appointed. They are entitled to fair returns on their investments and may replace managers who fail to meet expectations. On the other hand, they are also responsible for incentivizing and acknowledging the contributions of capable managers. Providing performance-based bonuses is one way to align the interests of both parties, ultimately enhancing the company's value and the shareholders' prosperity (Sulistyanto, 2008).

Over time, various scholars have offered nuanced definitions of earnings management. Despite the differences in wording, these definitions generally convey the same essence: managers take deliberate steps within the allowed accounting practices to shape reported earnings to meet specific objectives. Davidson, Stickney, and Weil (1987) describe earnings management as the process of taking deliberate steps, within GAAP constraints, to achieve desired earnings figures. Schipper (1989) adds a critical perspective by emphasizing the private gain aspect of such interventions in financial reporting. The National Association of Fraud Examiners (1993), however, offers a sterner view, defining earnings management as the intentional misstatement or omission of material facts that mislead stakeholders, thereby altering their judgments or decisions.

Fisher and Rosenzweig (1995) highlight the temporal nature of earnings management, pointing out how managers may alter reported earnings in the current period without affecting the long-term profitability of the firm. Lewitt (1998) focuses on the misuse of accounting flexibility to obscure financial volatility and mislead users of financial reports. Finally, Healy and Wahlen (1999) explain that earnings management occurs when managers use judgment in financial reporting to influence financial outcomes either to mislead stakeholders or to affect contractual obligations tied to reported earnings.

In practice, earnings management takes several common forms. One such pattern is "taking a bath," where earnings are deliberately reduced during a specific period often in times of organizational transition—to make future performance look more favorable. Another strategy is "income minimization," in which current

earnings are lowered, typically to reduce tax liabilities or avoid political scrutiny. Conversely, "income maximization" involves boosting reported profits to attract investors or meet performance targets. This may involve delaying expenses or adopting accounting methods that increase earnings. Lastly, "income smoothing" is aimed at reducing fluctuations in earnings over time to present a more stable financial performance, which is often appealing to risk-averse investors and lenders (Sulistiawan et al., 2011).

Tax avoidance

Tax avoidance is a topic that often sparks debate, both in academic circles and in the public domain. While it is technically legal, its ethical implications are frequently questioned. According to Pohan (2013), tax avoidance refers to efforts made by companies to reduce their tax burden by shifting transactions to areas that are not subject to taxation. As part of broader tax management strategies, tax avoidance is seen as a legitimate tool used by companies to minimize costs. However, despite its legality, it is often perceived negatively because it implies an intent to pay as little tax as possible, sometimes at the expense of the public good.

The distinction between tax avoidance and tax evasion is crucial. While tax evasion involves illegal actions such as underreporting income or falsifying records, tax avoidance stays within the boundaries of the law by exploiting loopholes or gray areas in tax regulations. Sugiono (2020) points out that tax avoidance can even be considered a high-risk investment strategy for management, as it involves navigating complex tax structures and legal uncertainties. Simanjuntak (2019) classifies the causes of tax avoidance into two major categories. The first includes factors that negatively impact taxpayers' willingness to comply with tax laws—such as low tax morale or high compliance costs. The second category deals with the limitations of tax authorities and the judicial system in enforcing tax compliance. These limitations include understaffing in tax administration, weak audit capabilities, and insufficient legal oversight, which together create opportunities for taxpayers to avoid their obligations with little fear of being penalized.

To understand tax avoidance more fully, it is essential to revisit the key characteristics of a tax itself. According to Ilyas and Burton (2004), several fundamental elements define a tax: it must be governed by law; it is non-quid pro quo in nature, meaning taxpayers do not receive direct benefits in return; it must be collected by the state—either central or local government, but never by private entities; and it must be used to fund public expenditure, both operational and developmental, for the collective benefit of society.

Taxpayers, naturally, tend to seek ways to reduce their tax liabilities. This leads to two potential behaviors. First, they aim to minimize tax payments within legal boundaries—essentially, through tax planning. Second, they may engage in aggressive forms of tax avoidance if they believe such actions are unlikely to trigger legal consequences. While this may not technically break the law, it does often challenge the spirit of the law.

In many cases, tax avoidance is equated with tax planning. The latter involves structuring financial and business affairs in such a way that tax obligations are reduced in a manner allowed by both legal and commercial standards. It is a proactive, strategic process, and when done ethically, it helps businesses operate more efficiently without violating any rules.

From a measurement standpoint, tax avoidance can be quantified using a financial metric known as the Cash Effective Tax Rate (CASH ETR). This is calculated by dividing the actual cash paid for taxes by the company's pre-tax income (Zain, 2003). The lower the CASH ETR, the greater the degree to which a company may be engaging in tax avoidance. Ultimately, tax avoidance sits at the intersection of legality and ethics. While companies may be acting within the bounds of the law, they must also consider their social responsibility. Balancing tax efficiency with fair contribution remains a challenge that defines the integrity of both corporate governance and tax systems globally.

Method

This study adopts a causal associative method with a quantitative approach to examine the cause-and-effect relationship between independent variables—earnings management and tax avoidance—and the dependent variable, firm value. The analysis is based on secondary data derived from the financial statements of companies in the financial sector listed on the Indonesia Stock Exchange (IDX) for the period 2020 to 2023. The population consists of 97 companies, from which a sample of 41 firms was selected based on specific criteria: consistent publication of financial reports during the observation period, consecutive profitability, and disclosure of tax payments in the cash flow statement. After removing outliers, a total of 68 data points were used for the analysis.

Earnings management is measured using the Modified Jones Model to calculate discretionary accruals (DACC), while tax avoidance is measured using the Cash Effective Tax Rate (Cash ETR), which reflects the ratio of

actual cash tax paid to pre-tax income. Firm value is proxied by Tobin's Q, representing investor perception of a company's market performance and future growth potential.

Data analysis includes descriptive statistics, classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), and hypothesis testing using multiple linear regression. The normality test is conducted using the Kolmogorov-Smirnov test; Variance Inflation Factor (VIF) and tolerance values are used to test for multicollinearity; heteroscedasticity is assessed through scatterplots and the Spearman test; and autocorrelation is examined using the Durbin-Watson statistic. If the data deviate from a normal distribution, transformation methods such as root, logarithm, or arcsine are applied.

Hypothesis testing consists of an F-test to assess the simultaneous effects of the independent variables and t-tests to evaluate partial effects. The model's explanatory power is evaluated using the Adjusted R^2 coefficient, which indicates how well the independent variables explain variations in firm value. The findings are expected to reveal whether earnings management and tax avoidance significantly influence firm value, both individually and jointly. This research contributes practical insights for investors and corporate managers in making informed decisions, and also enriches academic literature on the interplay between accounting practices, taxation, and firm valuation. The study acknowledges certain limitations, including the relatively short observation period and potential biases in secondary data, and recommends future research to incorporate additional variables or alternative methodologies for deeper insights.

Results and Discussion

Descriptive Analysis

Descriptive analysis is used to provide an overall picture of the research data. The statistics analyzed include the minimum, maximum, mean, and standard deviation for each variable: Earnings Management (X1), Tax Avoidance (X2), and Firm Value (Y). The results are presented in **Table 1** below:

Table 1. Descriptive Statistics of Research Variables

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management (X1)	69	-4,61	0,77	-1,9370	1,36275
Tax Avoidance (X2)	160	-3,91	0,95	-1,5154	0,60674
Firm Value (Y)	161	-1,35	0,82	0,0576	0,35773
Valid N (listwise)	68				

Source: Processed with SPSS 25

From Table 1 it can be explained as follows:

1. Earnings Management (X1): The mean of −1.9370 with a standard deviation of 1.36275 indicates substantial variation in earnings-management practices across companies, with extreme values ranging from −4.61 to 0.77.
2. Tax Avoidance (X2): With a mean of −1.5154 and a relatively small standard deviation of 0.60674, tax avoidance shows less dispersion compared to earnings management.
3. Firm Value (Y): A mean of 0.0576 and standard deviation of 0.35773 suggest a relatively stable distribution of firm value, despite the presence of companies with very low (−1.35) and relatively high (0.82) values.

Classical Assumption Tests

Before running regression analysis, classical assumption tests were carried out to ensure the data meet valid modeling requirements.

Normality Test

Table 2. Normality Test Before Transformation

Parameter	Unstandardized Residual
N	164
Mean	0,0000000
Std. Deviation	0,56844297

Parameter	Unstandardized Residual
Kolmogorov-Smirnov Z	0,167
Sig. (2-tailed)	0,000

The initial result indicates non-normal distribution (Sig. < 0.05). Therefore, a natural logarithm transformation and outlier removal were performed.

Table 3. Normality Test After Transformation

Parameter	Unstandardized Residual
N	68
Mean	0,0000000
Std. Deviation	0,32908835
Kolmogorov-Smirnov Z	0,107
Sig. (2-tailed)	0,052

After transformation, the data are normally distributed (Sig. > 0.05).

Multicollinearity Test

Table 4. Multicollinearity Test Results

Variabel	Tolerance	VIF
Earnings Management (X1)	0,993	1,007
Tax Avoidance (X2)	0,993	1,007

Tolerance > 0.10 and VIF < 10 indicate there is no multicollinearity among the independent variables.

Heteroskedasticity Test

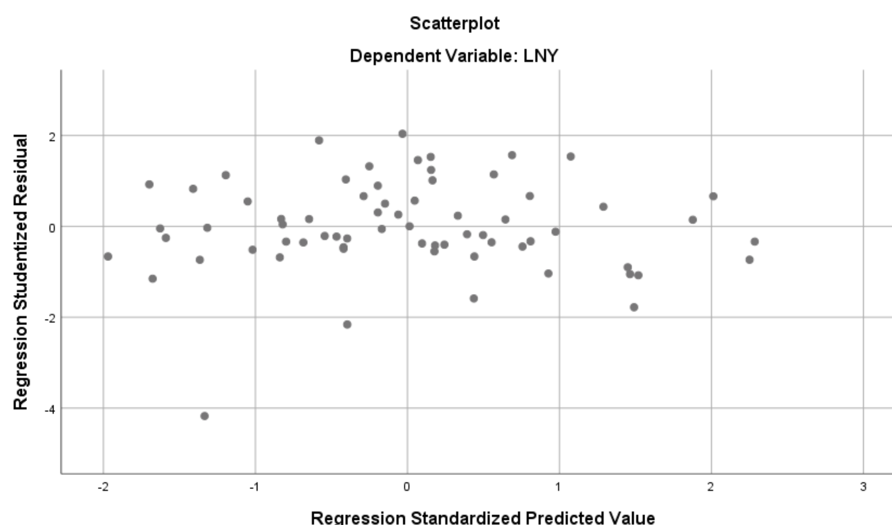

Figure 1. Scatterplot for Heteroskedasticity Test

Based on the scatterplot result for the heteroscedasticity test between earnings management and tax avoidance on firm value, it can be seen that the data points are randomly scattered above and below the value of 0 on the Y-axis without forming any specific pattern. This indicates that there is no heteroscedasticity present in the regression model used.

Autocorrelation Test

Table 5. Autocorrelation Test (Durbin–Watson)

Durbin-Watson
1,043

Since the Durbin–Watson statistic falls within the acceptable range (–2 to +2), there is no autocorrelation.

Multiple Linear Regression Results

Table 6. Multiple Regression Output

Variabel Independent	Unstandardized Coefficients (B)	t-hit	Sig. t
Konstanta (α)	0,187	1,408	0,164
Earnings Management (X1)	0,032	1,053	0,296
Tax Avoidance (X2)	0,045	0,579	0,565
Multiple R	0,153		
R Square	0,023		
Adjusted R Square	-0,007		
F-hitung	0,776		
Sig. F	0,465		
α (Signifikansi)	0,05		
F-tabel	3,14		

Source: Processed with SPSS 25

Y=0,187+0,032X1+0,045X2+ϵY = 0,187 + 0,032X_1 + 0,045X_2 + e

The equation can be interpreted as follows:

1. The constant (0.187) indicates that if both earnings management and tax avoidance are zero, the average firm value is 0.187.
2. The earnings management coefficient (X_1) of 0.032 means that each one-unit increase in earnings management contributes to a 0.032 increase in firm value. However, because its t-value is not significant ($p = 0.296 > 0.05$), this effect is not statistically proven.
3. The tax avoidance coefficient (X_2) of 0.045 indicates that each one-unit increase in tax avoidance is associated with a 0.045 increase in firm value. Yet, its t-value is also not significant ($p = 0.565 > 0.05$), so tax avoidance does not have a significant impact in this model.

Coefficient of Determination (R^2 and Adjusted R^2)

Based on Table 6, the R^2 value is 0.023, meaning only 2.3 % of the variation in firm value is explained by the two independent variables, earnings management (X_1) and tax avoidance (X_2). This shows that the regression model cannot account for the majority of firm value variation, with the remaining 97.7 % attributable to other factors not included in the model. Although both independent variables were examined, they contribute only marginally to explaining firm value.

Furthermore, the Adjusted R^2 is –0.007, indicating the regression model is not a good fit and does not meaningfully predict variation in firm value. Adjusted R^2 corrects R^2 for the number of predictors, and a negative value suggests that adding earnings management and tax avoidance actually reduces model quality. In this context, the negative Adjusted R^2 reveals the model fails to provide relevant and accurate explanations for the phenomenon under study.

Simultaneous F-Test

From Table 6, at a 5 % significance level with $df_1 = 2$ (number of independent variables) and $df_2 = 65$ (68 observations minus 2 predictors minus 1), the critical F-value is 3.14. The test yields F = 0.776 with p = 0.465. Since F (0.776) < F-table (3.14) and p (0.465) > 0.05, we fail to reject the null hypothesis. In other words, earnings management and tax avoidance, when tested jointly, do not significantly explain the variation in firm value.

Partial t-Tests

Using $\alpha/2 = 0.025$ and df = 65, the critical t-value is 1.99714. For earnings management (X_1), $t = 1.053 < 1.99714$ with $p = 0.296 > 0.05$; thus, it has no significant partial effect on firm value. For tax avoidance (X_2), $t = 0.579 < 1.99714$ with $p = 0.565 > 0.05$; it likewise has no significant partial effect. Therefore, both null hypotheses (H_{01} and H_{02}) are accepted: neither variable individually contributes significantly to explaining firm value

Discussion

Earnings Management, Tax Avoidance, and Firm Value in Financial Sector Companies Listed on the Indonesia Stock Exchange (IDX) During 2020–2023

This study analyzes the effect of earnings management and tax avoidance on firm value in financial sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. The findings highlight variations in the practice of earnings management and tax avoidance across companies, which in turn impact firm value. Companies that consistently manage their earnings or show upward trends tend to be viewed more favorably by the market, contributing to higher firm value. On the other hand, those with fluctuating or declining earnings management patterns face increased uncertainty, which may negatively affect their valuation. Tax avoidance levels also influence firm value. Companies with stable tax strategies generally enjoy a more positive image among investors compared to those exhibiting sharp fluctuations in tax avoidance. Extreme cases—such as SMMA's significant negative figure in 2020 and BSIM's sharp increase in 2023—demonstrate how specific tax policies can affect financial stability and perceived risk.

Firm value was measured using Tobin's Q ratio, revealing that some companies like MEGA and BJBR maintained consistent performance, while others such as MFIN and TIFA experienced significant spikes in 2023. Meanwhile, firms like BINA and FUJI showed major fluctuations, suggesting both internal and external factors significantly influenced their firm value. Overall, this study aims to understand how earnings management and tax avoidance impact firm value within Indonesia's financial sector. Fundamentally, firm value reflects shareholders' wealth. Increasing firm value requires optimal performance management by enhancing revenue and minimizing risks (Violeta & Serly, 2020). For financial companies listed on the IDX, share prices are a key indicator of firm value—higher stock prices equate to higher firm value, while declining prices indicate the opposite (Harjito, 2008).

The Simultaneous Effect of Earnings Management and Tax Avoidance on Firm Value in Financial Sector Companies Listed on the IDX (2020–2023)

The results of this research show that earnings management and tax avoidance, when tested simultaneously, do not significantly affect firm value. The regression analysis yielded an F-statistic of 0.776, which is less than the critical value of 3.14, with a significance level of 0.465 (greater than 0.05). Therefore, the regression model is not strong enough to establish a significant relationship between the two independent variables and firm value. This outcome may be attributed to a potential trade-off between earnings management and tax avoidance. On one hand, earnings management aims to inflate accounting profits to present stronger short-term financial performance. On the other hand, tax avoidance typically involves reducing reported profits to minimize tax liability.

When these two strategies are applied concurrently, their effects may offset one another, resulting in an overall negligible impact on firm value. Market perception of these practices also varies—earnings management might be viewed as a sign of performance stability or as manipulation, while tax avoidance could be interpreted as cost-efficiency or a reputational/legal risk.

In the financial sector, such practices are less likely to enhance firm value due to strict regulatory oversight from institutions like the Central Bank and the Financial Services Authority (OJK). These authorities enforce transparency in financial reporting, making it more difficult to engage in earnings manipulation (Widodo & Yazid, 2024). This finding aligns with research by Sambo and Rahma (2022), as well as Nilam Cahya (2024), both of which conclude that earnings management and tax avoidance do not have a significant simultaneous effect on firm value. However, it contrasts with the study by Rajab et al. (2022), which found a significant effect of these variables on firm value.

The Partial Effect of Earnings Management on Firm Value in Financial Sector Companies Listed on the IDX (2020–2023)

The study further reveals that earnings management alone does not significantly affect firm value. The t-statistic was 1.053 (less than the critical t-value of 1.99714) and the p-value was 0.296 (greater than 0.05), indicating a lack of statistical significance. This suggests that whether or not a company engages in earnings management does not directly affect firm value. Although the intention behind earnings management is often to attract investors by presenting favorable profit figures, the findings show that this strategy does not translate into higher firm value (Anggraini & Lestari, 2023). Investors seem to understand that earnings management is a common practice and do not necessarily view it as a critical factor in making investment decisions (Permatasari et al., 2021).

According to agency theory, each party within a company seeks to maximize their own benefit, which often leads to conflicts of interest. While shareholders (principals) expect returns through increased firm value, managers (agents) aim to secure rewards for their performance. This conflict can make earnings management less effective in shaping investor perception. This finding aligns with research by Rahmadiani and Barry (2020), as well as Widodo and Yazid (2024), both of which found that earnings management does not significantly influence firm value. However, it contradicts Afifah and Adriana (2023), who reported a positive partial effect of earnings management on firm value.

The Partial Effect of Tax Avoidance on Firm Value in Financial Sector Companies Listed on the IDX (2020–2023)

This study also found no significant partial effect of tax avoidance on firm value. The t-statistic was 0.579 (less than the critical value of 1.99714) with a p-value of 0.565 (greater than 0.05), indicating statistical insignificance. The findings suggest that higher levels of tax avoidance do not inherently lead to higher or lower firm value. In other words, tax avoidance is not a primary factor influencing firm value. Investors and shareholders appear more concerned with the company's business performance and earnings stability than with the taxes paid. As a result, tax strategies do not play a prominent role in investment decisions.

This outcome is consistent with prior research by Astuti et al. (2024) and Widodo and Yazid (2024), which both concluded that tax avoidance has no significant impact on firm value. However, it contradicts the findings of Lestari & Meini (2024), who reported a positive partial effect of tax avoidance on firm value.

Conclusion

Based on the findings of this study, it can be concluded that earnings management and tax avoidance practices do not have a significant impact on firm value in financial sector companies listed on the Indonesia Stock Exchange. While earnings management is typically used to present a more favorable financial performance, and tax avoidance aims to reduce the company's tax burden, neither practice was found to meaningfully influence how investors value these companies. One likely explanation for this is the strict oversight by regulatory bodies such as Bank Indonesia and the Financial Services Authority (OJK). This regulatory environment limits the extent to which companies can apply aggressive financial strategies without facing scrutiny. Moreover, investors today tend to focus on more fundamental aspects of a business—such as consistent profitability, financial health, and long-term growth potential—rather than on how much tax is paid or how profits are reported.

This study is not without its limitations. The number of observations used in the analysis was reduced due to necessary data cleaning processes, including the elimination of outliers and data transformation. This may have limited the statistical power of the findings. Additionally, the study only covers a four-year period from 2020 to 2023, which may not be sufficient to capture longer-term patterns or trends. For future research, it is recommended to extend the time frame of analysis to provide a more comprehensive understanding of these relationships over time. Adding other independent variables—such as profitability, leverage, or company growth—could also help reveal more nuanced insights into what truly drives firm value. Moreover, focusing on more specific sub-sectors within the financial industry may yield more detailed and sector-relevant conclusions. Ultimately, this research is hoped to serve as a useful reference for those studying the relationship between corporate financial practices and firm value. It may also provide a foundation for future researchers who wish to explore this topic further using broader data and additional variables.

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