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## TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE AND GENDER DIVERSITY

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**Abstract:** *We examine the effect of tax avoidance on corporate risk. Next, the moderating effect of executive characteristics and gender diversity is investigated in this association. The study examined Indonesia's nonfinancial listed companies, collecting a sample of 265 observations during 2020-2024. Hypotheses were tested using moderated regression with panel data. We find that companies that avoid taxes aggressively have a higher level of corporate risk. The presence of risk-averse executive characteristics and women weakens the effect of tax avoidance on corporate risk. Our research contributes by providing the latest references regarding Indonesian tax avoidance behavior that poses risks to companies and encouraging companies in Indonesia to be aware of the importance of executive characteristics and gender diversity.*

**Keywords:** Tax Avoidance, Executive Characteristics, Gender Diversity, Corporate Risk.

### INTRODUCTION

Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. Evidence that many companies engage in tax avoidance includes the new regulations issued by the Indonesian government to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perajakan.

Taxpayers believe that corporate tax avoidance will reduce their tax obligations, thereby maximizing shareholder value. However, they are also aware that tax avoidance encompasses a wide range of activities, from

harmless ones to aggressive strategies that are unlikely to hold up in court (Dyrengh, Hanlon, and Maydew 2019). Therefore, they recognize the negative impact of this practice (Thai et al. 2025). In fact, tax avoidance can create uncertainty for companies regarding future tax obligations and payments (Duhoon and Singh 2023).

According to Balakrishnan, Blouin, and Guay (2019) and Baker, Lyu, and Perotti (2024), companies that engage in tax avoidance demonstrate a lack of transparency to investors and reduce the comparability of their accounting. Su and Deng (2024) indicate that tax avoidance causes increased stock price instability, which leads to decreased stock market performance because of investor distrust. Tax avoidance increases corporate risk due to lower credit ratings and related investment inefficiency (Ariff et al. 2023; Benkraiem, Gaaya, and Lakhel

2024; Dhawan, Ma, and Kim 2020; Richardson, Taylor, and Lanis 2015)

The tax avoidance practices of companies depend on the characteristics and gender of their executives. According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk.

In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017) and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not influence the decision to engage in tax avoidance.

Inconsistent research results provide room for further research on the relationship between tax avoidance and corporate risk. This study aims to find empirical evidence of how tax avoidance affects corporate risk., considering executive characteristics and gender diversity as moderating variables.. The novelty of this study is evident in the integration of executive characteristics and gender diversity as moderating variables and provides the latest references regarding corporate tax avoidance and corporate risk for listed companies in Indonesia.

## Literature Review and Hypothesis Development

The above phenomenon is based on the agency theory, which was first proposed Jensen and Meckling (1976) and later expanded upon by Eisenhardt (1989). According to this theory, agents (i.e., managers) are parties authorized by the principal (i.e., investors) to run a company. Although both parties share the same goal of maximizing company value, they often use

different methods to do so. Since managers have the most knowledge about a company's operations, they can use various methods to maximize profits, even risky ones, because they receive significant incentives. One such method is tax avoidance. Information asymmetry occurs when company managers do not present the company's true financial condition, but rather information that benefits them personally.

According to Hanlon and Heitzman (2010), tax avoidance is any activity aimed at reducing tax liability. From an agency theory perspective, tax avoidance benefits managers unilaterally. It reduces transparency and, in the long run, can cause a company to lose its reputation. Tax avoidance is also considered socially irresponsible to shareholders (Wang et al. 2020). It is also considered a management activity that can mislead investors and reduce the company's value by covering up bad news (Desai and Dharmapala 2009; Ginting and Martani 2017; Hanlon and Slemrod 2009; Wang 2011). Balakrishnan, Blouin, and Guay (2019) state that the more aggressively a company conducts tax avoidance, the less transparent its information becomes for investors. Aggressive tax avoidance is strongly related to aggressive financial reporting, companies will produce non-transparent reports (Desai and Dharmapala 2006). This uncertainty and poor corporate transparency will increase the company's risk, ultimately leading to the destruction of its share price (Kim, Li, and Zhang 2011).

According to Baker, Lyu, and Perotti (2024) and Balakrishnan, Blouin, and Guay (2019), tax avoidance reduces the comparability of company accounting practices, which calls transparency into uncertainty for investors. This can lead to increased stock price volatility (Su and Deng 2024), investors become skeptical, which causes stock market performance to decline. Tax avoidance also causes investment inefficiencies (Benkraiem, Gaaya, and Lakhel 2024), lowers credit ratings, and increases corporate risk (Ariff et al. 2023; Dhawan, Ma, and Kim 2020; Edwards, Schwab, and Shevlin

2016; Richardson, Taylor, and Lanis 2015). Therefore, the first hypothesis in this study is:

**H1: Aggressive tax avoidance is associated with higher corporate risk.**

Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010) demonstrated that executives play a significant role in determining the extent to which a company will engage in tax avoidance practices. People who are willing to take risks are often more confident when making decisions, including those related to tax avoidance. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future., and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). Dyreng, Hanlon, and Maydew (2010) stated in order to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company are sometimes unable to capture this behavior. Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riguén, Salhi, and Jarboui 2020). Thus, the second and third hypotheses in this study are:

**H2: Executive characteristics moderate the effect of tax avoidance on corporate risk.**

**H3: Gender diversity moderates the effect of tax avoidance on corporate risk.**

## METHOD

This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual

reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024).

The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:

$$CR_i = a + ETR_{i.X1} + Lev_{i.X2} + e \quad \dots(\text{model 1a})$$

$$CR_i = a + BTD_{i.X1} + Lev_{i.X2} + e \quad \dots(\text{model 1b})$$

Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:

$$CR_i = a + ETR_{i.X1} + EC_{i.X2} + ETR*EC_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 2a})$$

$$CR_i = a + BTD_{i.X1} + EC_{i.X2} + BTD*EC_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 2b})$$

Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:

$$CR_i = a + ETR_{i.X1} + GD_{i.X2} + ETR*GD_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 3a})$$

$$CR_i = a + BTD_{i.X1} + GD_{i.X2} + BTD*GD_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 3b})$$

Notes:

CR<sub>i</sub>: Corporate Risk in year i

ETR<sub>i</sub>: Tax Avoidance measured by Effective Tax Rate in year i

BTD<sub>i</sub>: Tax Avoidance measured by Book Tax Different in year i

EC<sub>i</sub>: Executive Characteristics in year i

GD<sub>i</sub>: Gender Diversity in year i

Lev<sub>i</sub>: Leverage in year i

a: Constanta

x<sub>1,2,3,4</sub>: Coefficient Regression 1,2,3,4

e: error

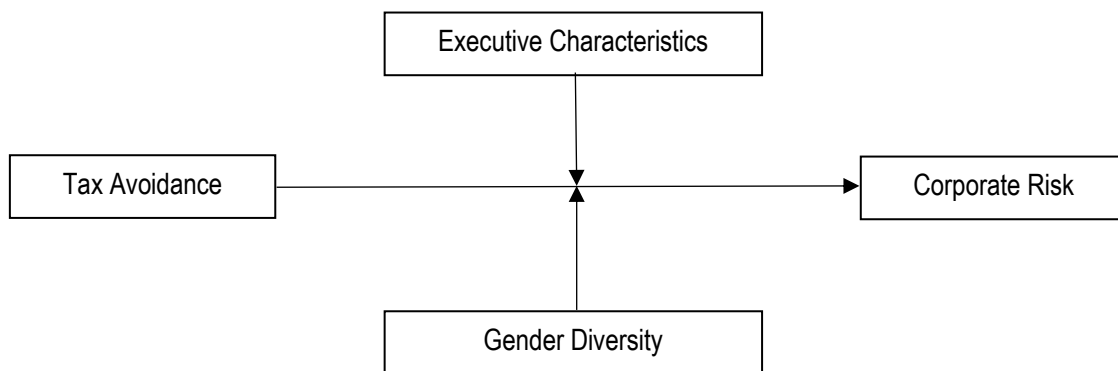
Table 1 below presents the operational definition of variables.

**Table 1. Operational Definition of Variables**

Variable	Indicator
<b>Independent Variable-Tax Avoidance:</b>	
Effective Tax Rate (ETR)	Income tax expense divided by profit before tax (Dyreng, Hanlon, and Maydew 2019, 2010). The ETR is a negative or inverse measurement; the higher the ETR value, the lower the level of tax avoidance.
Book Tax Different (BTD)	(Pretax Income x Tax Rate – Income Tax) / Total assets (Gaaya, Lakhal, and Lakhal 2017; Sutrisno et al. 2023; Tang, Mo, and Chan 2017).
<b>Dependent Variables-Corporate Risk:</b>	
Corporate Risk (CR)	Stock returns volatility (Guenther, Matsunaga, and Williams 2017; Sutrisno et al. 2023).
<b>Moderating Variable:</b>	
Executive Characteristics (EC)	A comparison of the standard deviation of EBITDA and total assets (Dyreng, Hanlon, and Maydew 2010; Novita 2016; Paligorova 2010).
Gender Diversity (GD)	The ratio of female executives to total executives (Jarboui, Saad, and Riguen 2020; Khim and Kee 2024; Zhang et al. 2022).
<b>Control Variable-Company Characteristics:</b>	
Leverage	A comparison between Long-Term Debt and Total Assets (Sutrisno et al., 2023; Yee et al., 2018).

This study will test the hypotheses using moderated regression analysis of panel data. First, descriptive statistics will be presented for all variables. The second stage involves calculating Pearson correlations to ensure the

data are free of multicollinearity and other classic problems. Then, moderated regression analysis of panel data will be conducted to test all hypotheses. Finally, a robustness test is performed to address issues of endogeneity.



**Figure 1. Research Model**

**RESULTS**

**Descriptive Statistics**

Table 2 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the

average firm risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low future risk. This finding is consistent with Sutrisno et al (2023). The tax avoidance rate (average = 0.249,

standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riguen (2020): 0.239 (ETR) and 13.839 (GD), respectively. Executive characteristics, on the other hand, have an average of 0.029 (standard deviation = 0.038), which is consistent with Novita (2016).

We also present Table 3, which shows the correlations among the independent variables in this study and helps us determine whether multicollinearity occurs. Table 3 shows that the data are free from classic problems.

**Table 2. Summary Statistics of Main Variables**

Variable	Mean	St.dev	Min	Max
CR	0.109913	0.060162	0.02322	0.452446
ETR	0.249858	0.147741	0.011581	0.94558
BTD	448,000,000,000	957,000,000,000	48,354	10,200,000,000,000
EC	0.029295	0.038974	0.000046	0.25473
GD	14.4257	13.49504	0	75
Lev	0.209542	0.181605	0	0.727643

Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage.

**Table 3. Pearson Correlations for Independent Variables**

	1	2	3	4	5	Prob <sup>a</sup>
1 ETR	1					0.210
2 BTD	0.095***	1.000				0.150
3 EC	0.169	0.156*	1.000			0.756
4 GD	0.078***	-0.109**	-0.008***	1.000		0.314
5 Lev	0.154*	-0.015***	0.059***	-0.071***	1.000	0.056

Notes: \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level respectively; Proba is the result of the Glejser test at the 0.05 level; Jarque-Bera Probability is 0.763, with Durbin-Watson stat 1.954 (DU = 1,828).

### Empirical Results and Discussion

Table 4 below shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05 and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower corporate risk. However, a

higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical results align with Hypothesis 1, aggressive tax avoidance is associated with higher corporate risk.

In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib

and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu, and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is

because tax avoidance has the potential to incur high costs, thereby increasing stock price volatility (Su and Deng 2024) and causing a negative reaction in stock prices (Bauckloh et al. 2021).

**Table 4. Hypothesis Testing**

<i>Variable</i>	<i>Model 1a<sup>a</sup></i>	<i>Model 1b<sup>b</sup></i>	<i>Model 2a<sup>b</sup></i>	<i>Model 2b<sup>b</sup></i>	<i>Model 3a<sup>b</sup></i>	<i>Model 3b<sup>b</sup></i>
Const	0.091 (0.000)***	0.053 (0.000)***	0.03 (0.154)	0.06 (0.275)	0.105 (0.000)***	0.07 (0.000)***
ETR	-0.052 (0.037)**		0.114 (0.050)**		-0.003 (0.590)	
BTD		1.95 (0.001)***		0.001 (0.624)		2.6 (0.000)***
EC			0.75 (0.003)***	0.004 (0.179)		
GD					-0.001 (0.004)***	-0.001 (0.05)*
ETR*EC			-1.759 (0.037)**			
BTD*EC				1.09 (0.041)**		
ETR*GD					0.002 (0.011)**	
BTD*GD						-6.51 (0.055)*
Lev	0.03 (0.142)	0.228 (0.001)***	0.209 (0.002)***	0.204 (0.004)***	0.026 (0.199)	0.207 (0.003)***
Adj. R <sup>2</sup>	0.021	0.191	0.188	0.175	0.031	0.232
F Test	3.832	1.979	1.928	1.85	3.12	2.209
F Sig	0.022	0	0	0	0.015	0
Observation	265	265	265	265	265	265

Notes: the dependent variable is corporate risk; a and b is for Common Effect Model and Fixed Effect Model; \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level, respectively.

**The moderating effect of executive characteristics on tax avoidance and corporate risk**

Models 2a (tax avoidance = ETR) and 2b (tax avoidance = BTD) show the moderation of executive characteristics on the effect of tax

avoidance on corporate risk. Both measurements provide significant results at 0.05 level (0.037 and 0.041), with inverse measurement coefficient values of -1.759 for ETR and 1.09 for BTD. These results lead to the conclusion that executive characteristics moderate the effect of tax avoidance on

corporate risk by strengthening the relationship. When a company engages in aggressive tax avoidance coupled with risk-taking executives, the company's risk increases. Risk-taking executives are more likely to make risky decisions, including tax decisions. Risk-seeking executives (Baghdadi, Podolski, and Veeraraghavan 2022) who are also overconfident (Chyz et al. 2019; Hsieh, Wang, and Demirkan 2018; Sutrisno et al. 2023) will engage in aggressive tax avoidance even though such actions are risky (Dhawan, Ma, and Kim 2020; Wang et al. 2020).

### The moderating effect of gender diversity on corporate risk and tax avoidance

Models 3a (tax avoidance = ETR) and 3b (tax avoidance = BTD) show the moderation of gender diversity in the influence of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 (0.011) and 0.10 (0.055) levels, with coefficient values of 0.002 for ETR (inverse measurement) and -6.51 for BTD. These results lead to the

conclusion that gender diversity weakens the relationship between tax avoidance and corporate risk. The greater the proportion of women in executive positions, the lower the level of tax avoidance aggressiveness, and thus, the lower the corporate risk. These results align with previous research concluding that women are generally risk-averse, including with regard to the risk of overly aggressive tax avoidance (Budiana and Kusuma 2022; Dakhli 2022; Elgharabawy and Aladwey 2025; Sukendar, Djaja, and Mettaya 2022). Not only does the presence of women reduce tax avoidance, it also reduces corporate risk (Yang et al. 2019).

### Robustness Test

We performed a robustness test to address concerns about endogeneity. The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 5. Therefore, we conclude that there are no endogeneity concerns in this study.

**Table 5. Robustness Test**

<i>Variable</i>	<i>Model 1a<sup>a</sup></i>	<i>Model 1b<sup>b</sup></i>	<i>Model 2a<sup>b</sup></i>	<i>Model 2b<sup>b</sup></i>	<i>Model 3a<sup>b</sup></i>	<i>Model 3b<sup>b</sup></i>
Const	0.0084 (0.000)***	0.084 (0.004)***	-2.309 (0.000)***	-1.22 (0.000)***	-2.372 (0.000)***	-1.77 (0.000)***
ETR	-0.042 (0.035)**		-0.074 (0.135)		-0.035 (0.504)	
BTD		0.345 (0.072)*		0.12 (0.223)		0.911 (0.003)***
EC			0.056 (0.045)**	0.433 (0.101)		
GD					-0.009 (0.005)***	-0.029 (0.073)*
ETR*EC			-7.385 (0.014)**			
BTD*EC				2.153 (0.049)**		
ETR*GD					0.022 (0.021)**	
BTD*GD						-2.791

						(0.059)*
Lev	0.025	0.029	0.209	0.41	0.192	0.036
	-0.115	(0.076)*	(0.419)	(0.041)**	(0.259)	(0.035)**

## CONCLUSION

Our paper extends the literature by investigating the effect of tax avoidance on corporate risk in Indonesia, as well as the moderating effect of executive characteristics and gender diversity on this association. We contribute to the literature on tax avoidance by demonstrating the positive effect of Indonesian tax avoidance on corporate risk. The characteristics of risk-averse and female executives will reduce tax avoidance and corporate risk.

Our results provide practical implications for companies to be more cautious with tax avoidance practices. While this may reduce a corporate taxes in the short term, it incurs various risks in the long term, such as audit risks. These risks could lead companies to pay more than they should. Furthermore, since investors react negatively to such actions,

companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive positions in reducing tax avoidance and corporate risk.

However, the findings of this study should be considered in light of several limitations that could provide opportunities for future research. First, the study focused only on publicly listed companies, overlooking the growing number of micro-, small-, and medium-sized enterprises (MSMEs) in Indonesia. Second, tax avoidance is still measured only by profit. Therefore, future research could explore other measures even when companies are not profitable.

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## TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE AND GENDER DIVERSITY

Commented [A1]: Executive characteristics

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**Abstract:** *We examine the effect of tax avoidance on corporate risk. Next, the moderating effect of executive characteristics and gender diversity is investigated in this association. The study examined Indonesia's nonfinancial listed companies, collecting a sample of 265 observations during 2020-2024. Hypotheses were tested using moderated regression with panel data. We find that companies that avoid taxes aggressively have a higher level of corporate risk. The presence of risk-averse executive characteristics and women weakens the effect of tax avoidance on corporate risk. Our research contributes by providing the latest references regarding Indonesian tax avoidance behavior that poses risks to companies and encouraging companies in Indonesia to be aware of the importance of executive characteristics and gender diversity.*

**Keywords:** Tax Avoidance, Executive Characteristics, Gender Diversity, Corporate Risk.

### INTRODUCTION

Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. Evidence that many companies engage in tax avoidance includes the new regulations issued by the Indonesian government to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perpajakan.

Taxpayers believe that corporate tax avoidance will reduce their tax obligations, thereby maximizing shareholder value. However, they are also aware that tax avoidance encompasses a wide range of activities, from harmless ones to aggressive strategies that are unlikely to hold up in court (Dyrenge, Hanlon, and Maydew 2019). Therefore, they recognize the negative impact of this practice (Thai et al. 2025). In fact, tax avoidance can create

uncertainty for companies regarding future tax obligations and payments (Duhoon and Singh 2023).

According to Balakrishnan, Blouin, and Guay (2019) and Baker, Lyu, and Perotti (2024), companies that engage in tax avoidance demonstrate a lack of transparency to investors and reduce the comparability of their accounting. Su and Deng (2024) indicate that tax avoidance causes increased stock price instability, which leads to decreased stock market performance because of investor distrust. Tax avoidance increases corporate risk due to lower credit ratings and related investment inefficiency (Ariff et al. 2023; Benkraiem, Gaaya, and Lakhali et al. 2023; Benkraiem, Gaaya, and Lakhali et al. 2024; Dhawan, Ma, and Kim 2020; Richardson, Taylor, and Lanis 2015)

The tax avoidance practices of companies depend on the characteristics and gender of their executives. According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax

avoidance increases corporate risk, but female executives mitigate this risk.

In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017) and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not influence the decision to engage in tax avoidance.

Inconsistent research results provide room for further research on the relationship between tax avoidance and corporate risk. This study aims to find empirical evidence of how tax avoidance affects corporate risk, considering executive characteristics and gender diversity as moderating variables. The novelty of this study is evident in the integration of executive characteristics and gender diversity as moderating variables and provides the latest references regarding corporate tax avoidance and corporate risk for listed companies in Indonesia.

### Literature Review and Hypothesis Development

The above phenomenon is based on the agency theory, which was first proposed Jensen and Meckling (1976) and later expanded upon by Eisenhardt (1989). According to this theory, agents (i.e., managers) are parties authorized by the principal (i.e., investors) to run a company. Although both parties share the same goal of maximizing company value, they often use different methods to do so. Since managers have the most knowledge about a company's operations, they can use various methods to maximize profits, even risky ones, because they receive significant incentives. One such method is tax avoidance. Information asymmetry occurs when company managers do not present the company's true financial condition, but rather information that benefits them personally.

According to Hanlon and Heitzman (2010), tax avoidance is any activity aimed at reducing tax liability. From an agency theory perspective, tax avoidance benefits managers unilaterally. It reduces transparency and, in the long run, can cause a company to lose its reputation. Tax avoidance is also considered socially irresponsible to shareholders (Wang et al. 2020). It is also considered a management activity that can mislead investors and reduce the company's value by covering up bad news (Desai and Dharmapala 2009; Ginting and Martani 2017; Hanlon and Slemrod 2009; Wang 2011). Balakrishnan, Blouin, and Guay (2019) state that the more aggressively a company conducts tax avoidance, the less transparent its information becomes for investors. Aggressive tax avoidance is strongly related to aggressive financial reporting, companies will produce non-transparent reports (Desai and Dharmapala 2006). This uncertainty and poor corporate transparency will increase the company's risk, ultimately leading to the destruction of its share price (Kim, Li, and Zhang 2011).

According to Baker, Lyu, and Perotti (2024) and Balakrishnan, Blouin, and Guay (2019), tax avoidance reduces the comparability of company accounting practices, which calls transparency into uncertainty for investors. This can lead to increased stock price volatility (Su and Deng 2024), investors become skeptical, which causes stock market performance to decline. Tax avoidance also causes investment inefficiencies (Benkraiem, Gaaya, and Lakhali 2024), lowers credit ratings, and increases corporate risk (Ariff et al. 2023; Dhawan, Ma, and Kim 2020; Edwards, Schwab, and Shevlin 2016; Richardson, Taylor, and Lanis 2015). Therefore, the first hypothesis in this study is:

**H<sub>1</sub>: Aggressive tax avoidance is associated with higher corporate risk.**

Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010) demonstrated that executives play a significant role in determining the extent to which a

**Commented [A2]:** You have explained the female moderation logic but you haven't explained the executive characteristics logic and research gap

**Commented [A3]:** There are other researches analyzing the same variables with the same moderating variables. Please explain your novelty, instead of the moderating variables, e.g. the Indonesian samples. Why do you have to use Indonesia? Please explain the characteristics of Indonesia that are distinct from other countries which have been researched in this context

company will engage in tax avoidance practices. People who are willing to take risks are often more confident when making decisions, including those related to tax avoidance. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future., and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). Dyreng, Hanlon, and Maydew (2010) stated in order to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company are sometimes unable to capture this behavior. Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riguen, Salhi, and Jarboui 2020). Thus, the second and third hypotheses in this study are:

- H2: Executive characteristics moderate the effect of tax avoidance on corporate risk.**
- H3: Gender diversity moderates the effect of tax avoidance on corporate risk.**

**METHOD**

This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024).

The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:

$$CR_i = a + ETR_i.X_1 + Lev_i.X_2 + e \dots(\text{model 1a})$$

$$CR_i = a + BTD_i.X_1 + Lev_i.X_2 + e \dots(\text{model 1b})$$

Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:

$$CR_i = a + ETR_i.X_1 + EC_i.X_2 + ETR_i*EC_i.X_3 + Lev_i.X_4 + e \dots(\text{model 2a})$$

$$CR_i = a + BTD_i.X_1 + EC_i.X_2 + BTD_i*EC_i.X_3 + Lev_i.X_4 + e \dots(\text{model 2b})$$

Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:

$$CR_i = a + ETR_i.X_1 + GD_i.X_2 + ETR_i*GD_i.X_3 + Lev_i.X_4 + e \dots(\text{model 3a})$$

$$CR_i = a + BTD_i.X_1 + GD_i.X_2 + BTD_i*GD_i.X_3 + Lev_i.X_4 + e \dots(\text{model 3b})$$

**Notes:**

- CR<sub>i</sub>: Corporate Risk in year i
- ETR<sub>i</sub>: Tax Avoidance measured by Effective Tax Rate in year i
- BTD<sub>i</sub>: Tax Avoidance measured by Book Tax Different in year i
- EC<sub>i</sub>: Executive Characteristics in year i
- GD<sub>i</sub>: Gender Diversity in year i
- Lev<sub>i</sub>: Leverage in year i
- a: Constanta
- X<sub>1,2,3,4</sub>: Coefficient Regression 1,2,3,4
- e: error

Table 1 below presents the operational definition of variables.

**Table 1. Operational Definition of Variables**

Variable	Indicator
<b>Independent Variable-Tax Avoidance:</b>	

**Commented [A7]:** CR should be renamed by CR1 and CR2 to avoid confusion

**Commented [A4]:** Explain what is the definition of executive characteristics that you use in this research and how this characteristic moderates the effect of TA on CR

**Commented [A5]:** Explain the way female moderates the effect of tax avoidance and corporate risk. Risk-averse characteristics of female do not properly explain how the effect of tax avoidance and corporate risk is moderated/weakened by female

**Commented [A6]:** Please separate the logic for each hypothesis

Effective Tax Rate (ETR)	Income tax expense divided by profit before tax (Dyreng, Hanlon, and Maydew 2019, 2010). The ETR is a negative or inverse measurement; the higher the ETR value, the lower the level of tax avoidance.
Book Tax Different (BTD)	$(\text{Pretax Income} \times \text{Tax Rate} - \text{Income Tax}) / \text{Total assets}$ (Gaaya, Lakhal, and Lakhal 2017; Sutrisno et al. 2023; Tang, Mo, and Chan 2017).
<b>Dependent Variables-Corporate Risk:</b>	
Corporate Risk (CR)	Stock returns volatility (Guenther, Matsunaga, and Williams 2017; Sutrisno et al. 2023).
<b>Moderating Variable:</b>	
Executive Characteristics (EC)	A comparison of the standard deviation of EBITDA and total assets (Dyreng, Hanlon, and Maydew 2010; Novita 2016; Paligorova 2010).
Gender Diversity (GD)	The ratio of female executives to total executives (Jarboui, Saad, and Riquen 2020; Khim and Kee 2024; Zhang et al. 2022).
<b>Control Variable-Company Characteristics:</b>	
Leverage	A comparison between Long-Term Debt and Total Assets (Sutrisno et al., 2023; Yee et al., 2018).

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This study will test the hypotheses using moderated regression analysis of panel data. First, descriptive statistics will be presented for all variables. The second stage involves calculating Pearson correlations to ensure the

data are free of multicollinearity and other classic problems. Then, moderated regression analysis of panel data will be conducted to test all hypotheses. Finally, a robustness test is performed to address issues of endogeneity.

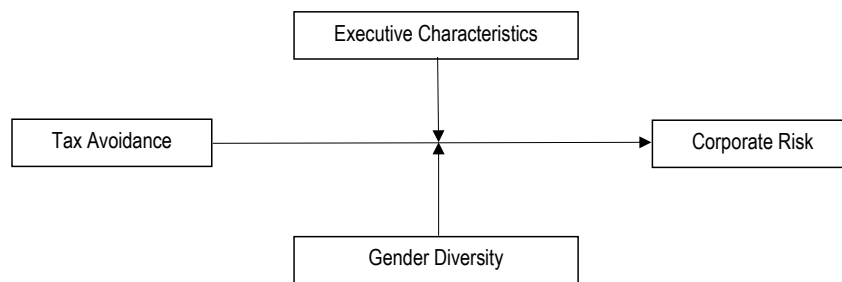


Figure 1. Research Model

**RESULTS**

**Descriptive Statistics**

Table 2 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the average firm risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low future risk. This finding is consistent with Sutrisno et al (2023).

The tax avoidance rate (average = 0.249, standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riquen (2020): 0.239 (ETR) and 13.839 (GD), respectively. Executive characteristics, on the other hand, have an average of 0.029 (standard deviation = 0.038), which is consistent with Novita (2016).

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We also present Table 3, which shows the correlations among the independent variables in this study and helps us determine whether multicollinearity occurs. Table 3 shows that the data are free from classic problems.

**Table 2. Summary Statistics of Main Variables**

Variable	Mean	St.dev	Min	Max
CR	0.109913	0.060162	0.02322	0.452446
ETR	0.249858	0.147741	0.011581	0.94558
BTD	448,000,000,000	957,000,000,000	48,354	10,200,000,000,000
EC	0.029295	0.038974	0.000046	0.25473
GD	14.4257	13.49504	0	75
Lev	0.209542	0.181605	0	0.727643

Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage.

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**Commented [A11]:** Are you sure?? BTD should be in ratio

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**Table 3. Pearson Correlations for Independent Variables**

	1	2	3	4	5	Prob <sup>a</sup>
1 ETR	1					0.210
2 BTD	0.095***	1.000				0.150
3 EC	0.169	0.156*	1.000			0.756
4 GD	0.078***	-0.109**	-0.008***	1.000		0.314
5 Lev	0.154*	-0.015***	0.059***	-0.071***	1.000	0.056

Notes: \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level respectively; Proba is the result of the Glejser test at the 0.05 level; Jarque-Bera Probability is 0.763, with Durbin-Watson stat 1.954 (DU = 1,828).

### Empirical Results and Discussion

Table 4 below shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05 and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower corporate risk. However, a higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical results align with Hypothesis 1, aggressive tax

avoidance is associated with higher corporate risk.

In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu, and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is because tax avoidance has the potential to incur high costs, thereby increasing stock price volatility (Su and Deng 2024) and causing a

**Commented [A13]:** The discussion is not strong enough. You should explain the results by integrating both t test results and descriptive statistics results. Explain in Indonesian context, especially in Indonesian governance context

negative reaction in stock prices (Bauckloh et al. 2021).

**Table 4. Hypothesis Testing**

Variable	Model 1a <sup>a</sup>	Model 1b <sup>b</sup>	Model 2a <sup>b</sup>	Model 2b <sup>b</sup>	Model 3a <sup>b</sup>	Model 3b <sup>b</sup>
Const	0.091 (0.000)***	0.053 (0.000)***	0.03 (0.154)	0.06 (0.275)	0.105 (0.000)***	0.07 (0.000)***
ETR	-0.052 (0.037)**		0.114 (0.050)**		-0.003 (0.590)	
BTD		1.95 (0.001)***		0.001 (0.624)		2.6 (0.000)***
EC			0.75 (0.003)***	0.004 (0.179)		
GD					-0.001 (0.004)***	-0.001 (0.05)*
ETR*EC			-1.759 (0.037)**			
BTD*EC				1.09 (0.041)**		
ETR*GD					0.002 (0.011)**	
BTD*GD						-6.51 (0.055)*
Lev	0.03 (0.142)	0.228 (0.001)***	0.209 (0.002)***	0.204 (0.004)***	0.026 (0.199)	0.207 (0.003)***
Adj. R <sup>2</sup>	0.021	0.191	0.188	0.175	0.031	0.232
F Test	3.832	1.979	1.928	1.85	3.12	2.209
F Sig	0.022	0	0	0	0.015	0
Observation	265	265	265	265	265	265

Notes: the dependent variable is corporate risk; a and b is for Common Effect Model and Fixed Effect Model; \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level, respectively.

**The moderating effect of executive characteristics on tax avoidance and corporate risk**

Models 2a (tax avoidance = ETR) and 2b (tax avoidance = BTD) show the moderation of executive characteristics on the effect of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 level (0.037 and 0.041), with inverse measurement coefficient values of -1.759 for

ETR and 1.09 for BTD. These results lead to the conclusion that executive characteristics moderate the effect of tax avoidance on corporate risk by strengthening the relationship. When a company engages in aggressive tax avoidance coupled with risk-taking executives, the company's risk increases. Risk-taking executives are more likely to make risky decisions, including tax decisions. Risk-seeking executives (Baghdadi, Podolski, and Veeraraghavan 2022) who are also

overconfident (Chyz et al. 2019; Hsieh, Wang, and Demirkan 2018; Sutrisno et al. 2023) will engage in aggressive tax avoidance even though such actions are risky (Dhawan, Ma, and Kim 2020; Wang et al. 2020).

**The moderating effect of gender diversity on corporate risk and tax avoidance**

Models 3a (tax avoidance = ETR) and 3b (tax avoidance = BTD) show the moderation of gender diversity in the influence of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 (0.011) and 0.10 (0.055) levels, with coefficient values of 0.002 for ETR (inverse measurement) and -6.51 for BTD. These results lead to the conclusion that gender diversity weakens the relationship between tax avoidance and corporate risk. The greater the proportion of women in executive positions, the lower the level

of tax avoidance aggressiveness, and thus, the lower the corporate risk. These results align with previous research concluding that women are generally risk-averse, including with regard to the risk of overly aggressive tax avoidance (Budiana and Kusuma 2022; Dakhli 2022; Elgharabawy and Aladwey 2025; Sukendar, Djaja, and Mettaya 2022). Not only does the presence of women reduce tax avoidance, it also reduces corporate risk (Yang et al. 2019).

**Robustness Test**

We performed a robustness test to address concerns about endogeneity. The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 5. Therefore, we conclude that there are no endogeneity concerns in this study.

**Commented [A14]:** What robustness test do you use? Is it 2SLS? Explain clearly and explain the results meticulously

**Table 5. Robustness Test**

Variable	Model 1a <sup>a</sup>	Model 1b <sup>b</sup>	Model 2a <sup>b</sup>	Model 2b <sup>b</sup>	Model 3a <sup>b</sup>	Model 3b <sup>b</sup>
Const	0.0084 (0.000)***	0.084 (0.004)***	-2.309 (0.000)***	-1.22 (0.000)***	-2.372 (0.000)***	-1.77 (0.000)***
ETR	-0.042 (0.035)**		-0.074 (0.135)		-0.035 (0.504)	
BTB		0.345 (0.072)*		0.12 (0.223)		0.911 (0.003)***
EC			0.056 (0.045)**	0.433 (0.101)		
GD					-0.009 (0.005)***	-0.029 (0.073)*
ETR*EC			-7.385 (0.014)**			
BTB*EC				2.153 (0.049)**		
ETR*GD					0.022 (0.021)**	
BTB*GD						-2.791 (0.059)*
Lev	0.025 -0.115	0.029 (0.076)*	0.209 (0.419)	0.41 (0.041)**	0.192 (0.259)	0.036 (0.035)**

## CONCLUSION

Our paper extends the literature by investigating the effect of tax avoidance on corporate risk in Indonesia, as well as the moderating effect of executive characteristics and gender diversity on this association. We contribute to the literature on tax avoidance by demonstrating the positive effect of Indonesian tax avoidance on corporate risk. The characteristics of risk-averse and female executives will reduce tax avoidance and corporate risk.

Our results provide practical implications for companies to be more cautious with tax avoidance practices. While this may reduce a corporate taxes in the short term, it incurs various risks in the long term, such as audit risks. These risks could lead companies to pay more than they should. Furthermore, since investors react negatively to such actions,

companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive positions in reducing tax avoidance and corporate risk.

However, the findings of this study should be considered in light of several limitations that could provide opportunities for future research. First, the study focused only on publicly listed companies, overlooking the growing number of micro-, small-, and medium-sized enterprises (MSMEs) in Indonesia. Second, tax avoidance is still measured only by profit. Therefore, future research could explore other measures even when companies are not profitable.

**Commented [A15]:** Is this the only implication? Define theoretical and practical implications for this study. What is the implication of executive characteristics?

**Commented [A16]:** Is this the only limitation? I'm not sure. Using indonesia as the only country is also a limitation, and what else? Other moderating variable? Other context?

**Commented [A17]:** What does it mean? U only use profitable companies? It's not measured by profit.

**Commented [A18]:** 80% should come from scopus indexed journals within the last 10 years. Add 2 JBA articles

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REVIEWERS' EVALUATION FORM

A. EVALUATION: Please rate the manuscript based on the following criteria.

	Excellent	Average	Poor
	5	4	3
1. Extent of contribution to the discipline in terms of:			
a. Abstract manifest the whole paper	v		
b. Objectives were drawn clearly	v		
c. the theoretical/conceptual framework.	v		
d. originality (e.g. how innovative, creative, or provocative is the idea/approach).	v		
e. methodology (sampling, design, instrumentation, statistical analysis, etc.).	v	v	
f. the data presented and results obtained.	v		
g. the findings and implications to the discipline.	v		
2. If not a major contribution in terms of (1), does it nevertheless:			
a. provide a useful summary of the state of knowledge in the field?	v		
b. replicate existing work in a competent manner to provide further support/modification to existing hypotheses, models, theories, etc.?	v		
c. suggest applications useful to practitioners?		v	
3. Presentation of the paper in terms of:			
a. organization.	v		
b. writing style.	v		
c. language.	v		
d. clarity/readability.	v		

B. RECOMMENDATION

- Accept (publishable as it is)
- Return to author for VERY MINOR revisions
- Return to author for MINOR revisions
- Return to author for major revisions
- Reject

v

C. OTHER COMMENTS (IF ANY)

Secara garis besar penelitian menarik, namun terdapat beberapa komentar ui

ntuk artikel.

## TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE AND GENDER DIVERSITY

Received: Month Date, Year; Revised: Month Date, Year; Accepted: Month Date, Year

**Abstract:** *We examine the effect of tax avoidance on corporate risk. Next, the moderating effect of executive characteristics and gender diversity is investigated in this association. The study examined Indonesia's nonfinancial listed companies, collecting a sample of 265 observations during 2020-2024. Hypotheses were tested using moderated regression with panel data. We find that companies that avoid taxes aggressively have a higher level of corporate risk. The presence of risk-averse executive characteristics and women weakens the effect of tax avoidance on corporate risk. Our research contributes by providing the latest references regarding Indonesian tax avoidance behavior that poses risks to companies and encouraging companies in Indonesia to be aware of the importance of executive characteristics and gender diversity.*

**Keywords:** Tax Avoidance, Executive Characteristics, Gender Diversity, Corporate Risk.

### INTRODUCTION

Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. Evidence that many companies engage in tax avoidance includes the new regulations issued by the Indonesian government to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perpajakan.

Taxpayers believe that corporate tax avoidance will reduce their tax obligations, thereby maximizing shareholder value. However, they are also aware that tax avoidance encompasses a wide range of activities, from harmless ones to aggressive strategies that are unlikely to hold up in court (Dyrenge, Hanlon, and Maydew 2019). Therefore, they recognize the negative impact of this practice (Thai et al.

2025). In fact, tax avoidance can create uncertainty for companies regarding future tax obligations and payments (Duhon and Singh 2023).

According to Balakrishnan, Blouin, and Guay (2019) and Baker, Lyu, and Perotti (2024), companies that engage in tax avoidance demonstrate a lack of transparency to investors and reduce the comparability of their accounting. Su and Deng (2024) indicate that tax avoidance causes increased stock price instability, which leads to decreased stock market performance because of investor distrust. Tax avoidance increases corporate risk due to lower credit ratings and related investment inefficiency (Ariff et al. 2023; Benkraiem, Gaaya, and Lakhel 2024; Dhawan, Ma, and Kim 2020; Richardson, Taylor, and Lanis 2015)

The tax avoidance practices of companies depend on the characteristics and gender of their executives. According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate

**Commented [A1]:** The introduction discusses regulatory changes that lead to tax avoidance in accordance with the topic, but there is a shortcoming in this introduction, namely the phenomenon that occurs, which could provide more emphasis on research on tax avoidance in Indonesia.

actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk.

In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017) and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not influence the decision to engage in tax avoidance.

Inconsistent research results provide room for further research on the relationship between tax avoidance and corporate risk. This study aims to find empirical evidence of how tax avoidance affects corporate risk., considering executive characteristics and gender diversity as moderating variables.. The novelty of this study is evident in the integration of executive characteristics and gender diversity as moderating variables and provides the latest references regarding corporate tax avoidance and corporate risk for listed companies in Indonesia.

### Literature Review and Hypothesis Development

The above phenomenon is based on the agency theory, which was first proposed Jensen and Meckling (1976) and later expanded upon by Eisenhardt (1989). According to this theory, agents (i.e., managers) are parties authorized by the principal (i.e., investors) to run a company. Although both parties share the same goal of maximizing company value, they often use different methods to do so. Since managers have the most knowledge about a company's operations, they can use various methods to maximize profits, even risky ones, because they receive significant incentives. One such method is tax avoidance. Information asymmetry occurs when company managers do not present the

company's true financial condition, but rather information that benefits them personally.

According to Hanlon and Heitzman (2010), tax avoidance is any activity aimed at reducing tax liability. From an agency theory perspective, tax avoidance benefits managers unilaterally. It reduces transparency and, in the long run, can cause a company to lose its reputation. Tax avoidance is also considered socially irresponsible to shareholders (Wang et al. 2020). It is also considered a management activity that can mislead investors and reduce the company's value by covering up bad news (Desai and Dharmapala 2009; Ginting and Martani 2017; Hanlon and Slemrod 2009; Wang 2011). Balakrishnan, Blouin, and Guay (2019) state that the more aggressively a company conducts tax avoidance, the less transparent its information becomes for investors. Aggressive tax avoidance is strongly related to aggressive financial reporting, companies will produce non-transparent reports (Desai and Dharmapala 2006). This uncertainty and poor corporate transparency will increase the company's risk, ultimately leading to the destruction of its share price (Kim, Li, and Zhang 2011).

According to Baker, Lyu, and Perotti (2024) and Balakrishnan, Blouin, and Guay (2019), tax avoidance reduces the comparability of company accounting practices, which calls transparency into uncertainty for investors. This can lead to increased stock price volatility (Su and Deng 2024), investors become skeptical, which causes stock market performance to decline. Tax avoidance also causes investment inefficiencies (Benkraiem, Gaaya, and Lakhel 2024), lowers credit ratings, and increases corporate risk (Ariff et al. 2023; Dhawan, Ma, and Kim 2020; Edwards, Schwab, and Shevlin 2016; Richardson, Taylor, and Lanis 2015). Therefore, the first hypothesis in this study is:

**H<sub>1</sub>: Aggressive tax avoidance is associated with higher corporate risk.**

Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010)

demonstrated that executives play a significant role in determining the extent to which a company will engage in tax avoidance practices. People who are willing to take risks are often more confident when making decisions, including those related to tax avoidance. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future., and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). Dyreng, Hanlon, and Maydew (2010) stated in order to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company are sometimes unable to capture this behavior. Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riguen, Salhi, and Jarbouy 2020). Thus, the second and third hypotheses in this study are:

- H2: Executive characteristics moderate the effect of tax avoidance on corporate risk.**
- H3: Gender diversity moderates the effect of tax avoidance on corporate risk.**

**METHOD**

This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024).

The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:

$$CR_i = a + ETR_{i.X1} + Lev_{i.X2} + e \dots(\text{model 1a})$$

$$CR_i = a + BTDi.X1 + Lev_{i.X2} + e \dots(\text{model 1b})$$

Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:

$$CR_i = a + ETR_{i.X1} + EC_{i.X2} + ETR*EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2a})$$

$$CR_i = a + BTDi.X1 + EC_{i.X2} + BTDi*EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2b})$$

Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:

$$CR_i = a + ETR_{i.X1} + GD_{i.X2} + ETR*GD_{i.X3} + Lev_{i.X4} + e \dots(\text{model 3a})$$

$$CR_i = a + BTDi.X1 + GD_{i.X2} + BTDi*GD_{i.X3} + Lev_{i.X4} + e \dots(\text{model 3b})$$

Notes:

- CR<sub>i</sub>: Corporate Risk in year i
- ETR<sub>i</sub>: Tax Avoidance measured by Effective Tax Rate in year i
- BTDi: Tax Avoidance measured by Book Tax Different in year i
- EC<sub>i</sub>: Executive Characteristics in year i
- GD<sub>i</sub>: Gender Diversity in year i
- Lev<sub>i</sub>: Leverage in year i
- a: Constanta
- x<sub>1,2,3,4</sub>: Coefficient Regression 1,2,3,4
- e: error

Table 1 below presents the operational definition of variables.

**Table 1. Operational Definition of Variables**

Variable	Indicator
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**Commented [A5]:** Why using 2 measurement?

**Commented [A2]:** The discussion on the role of female directors in moderating the relationship between tax avoidance and corporate risk has not been adequately elaborated. Additional explanation is needed.  
  
How is agency theory related to the moderating relationship?

**Commented [A3]:** Why emphasize research data using companies in Indonesia? Provide reasons that support its use in companies in Indonesia.

**Commented [A4]:** Can you show me the sample selection procedure? Because it does not mention how many samples were used over the 5 years.

Independent Variable-Tax Avoidance:	
Effective Tax Rate (ETR)	Income tax expense divided by profit before tax (Dyreng, Hanlon, and Maydew 2019, 2010). The ETR is a negative or inverse measurement; the higher the ETR value, the lower the level of tax avoidance.
Book Tax Different (BTD)	$(\text{Pretax Income} \times \text{Tax Rate} - \text{Income Tax}) / \text{Total assets}$ (Gaaya, Lakhal, and Sutrisno et al. 2023; Tang, Mo, and Chan 2017).
Dependent Variables-Corporate Risk:	
Corporate Risk (CR)	Stock returns volatility (Guenther, Matsunaga, and Williams 2017; Sutrisno et al. 2023).
Moderating Variable:	
Executive Characteristics (EC)	A comparison of the standard deviation of EBITDA and total assets (Dyreng, Hanlon, and Maydew 2010; Novita 2016; Paligorova 2010).
Gender Diversity (GD)	The ratio of female executives to total executives (Jarboui, Saad, and Riguen 2020; Khim and Kee 2024; Zhang et al. 2022).
Control Variable-Company Characteristics:	
Leverage	A comparison between Long-Term Debt and Total Assets (Sutrisno et al., 2023; Yee et al., 2018).

**Commented [A6]:** Does the tax rate here refer to the tax rate according to tax regulations? Please explain the tax rate.

This study will test the hypotheses using moderated regression analysis of panel data. First, descriptive statistics will be presented for all variables. The second stage involves calculating Pearson correlations to ensure the

data are free of multicollinearity and other classic problems. Then, moderated regression analysis of panel data will be conducted to test all hypotheses. Finally, a robustness test is performed to address issues of endogeneity.

**Commented [A7]:** Can you mention which model was chosen? Since panel data is used.

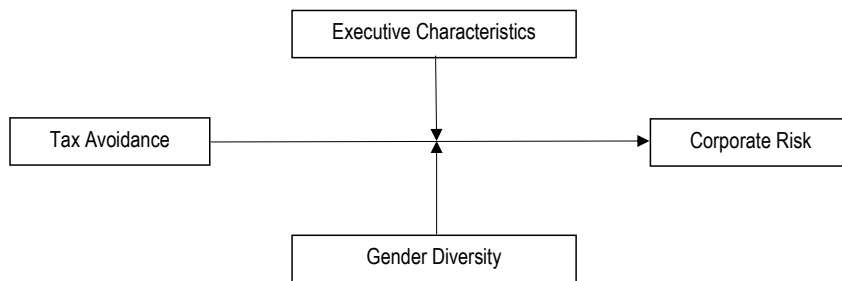


Figure 1. Research Model

**RESULTS**

**Descriptive Statistics**

Table 2 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the average firm risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low future risk. This

finding is consistent with Sutrisno et al (2023). The tax avoidance rate (average = 0.249, standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riguen (2020): 0.239 (ETR) and 13.839 (GD), respectively. Executive characteristics, on the other hand, have an

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average of 0.029 (standard deviation = 0.038), which is consistent with Novita (2016).

We also present Table 3, which shows the correlations among the independent

variables in this study and helps us determine whether multicollinearity occurs. Table 3 shows that the data are free from classic problems.

**Table 2. Summary Statistics of Main Variables**

Variable	Mean	St.dev	Min	Max
CR	0.109913	0.060162	0.02322	0.452446
ETR	0.249858	0.147741	0.011581	0.94558
BTD	448,000,000,000	957,000,000,000	48,354	10,200,000,000,000
EC	0.029295	0.038974	0.000046	0.25473
GD	14.4257	13.49504	0	75
Lev	0.209542	0.181605	0	0.727643

Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage.

**Table 3. Pearson Correlations for Independent Variables**

	1	2	3	4	5	Prob <sup>a</sup>
1 ETR	1					0.210
2 BTD	0.095***	1.000				0.150
3 EC	0.169	0.156*	1.000			0.756
4 GD	0.078***	-0.109**	-0.008***	1.000		0.314
5 Lev	0.154*	-0.015***	0.059***	-0.071***	1.000	0.056

Notes: \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level respectively; Proba is the result of the Glejser test at the 0.05 level; Jarque-Bera Probability is 0.763, with Durbin-Watson stat 1.954 (DU = 1,828).

**Empirical Results and Discussion**

Table 4 below shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05 and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower corporate risk. However, a higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical

results align with Hypothesis 1, aggressive tax avoidance is associated with higher corporate risk.

In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu, and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is because tax avoidance has the potential to incur high costs, thereby increasing stock price

**Commented [A9]:** It would be better if descriptive statistics did not just mention numbers, but also summarized their meaning, such as in business risk.

**Commented [A10]:** Is there an error?

**Commented [A11]:** Which one?

volatility (Su and Deng 2024) and causing a negative reaction in stock prices (Bauckloh et al. 2021).

**Table 4. Hypothesis Testing**

Variable	Model 1a <sup>a</sup>	Model 1b <sup>b</sup>	Model 2a <sup>b</sup>	Model 2b <sup>b</sup>	Model 3a <sup>b</sup>	Model 3b <sup>b</sup>
Const	0.091 (0.000)***	0.053 (0.000)***	0.03 (0.154)	0.06 (0.275)	0.105 (0.000)***	0.07 (0.000)***
ETR	-0.052 (0.037)**		0.114 (0.050)**		-0.003 (0.590)	
BTD		1.95 (0.001)***		0.001 (0.624)		2.6 (0.000)***
EC			0.75 (0.003)***	0.004 (0.179)		
GD					-0.001 (0.004)***	-0.001 (0.05)*
ETR*EC			-1.759 (0.037)**			
BTD*EC				1.09 (0.041)**		
ETR*GD					0.002 (0.011)**	
BTD*GD						-6.51 (0.055)*
Lev	0.03 (0.142)	0.228 (0.001)***	0.209 (0.002)***	0.204 (0.004)***	0.026 (0.199)	0.207 (0.003)***
Adj. R <sup>2</sup>	0.021	0.191	0.188	0.175	0.031	0.232
F Test	3.832	1.979	1.928	1.85	3.12	2.209
F Sig	0.022	0	0	0	0.015	0
Observation	265	265	265	265	265	265

Notes: the dependent variable is corporate risk; a and b is for Common Effect Model and Fixed Effect Model; \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level, respectively.

**The moderating effect of executive characteristics on tax avoidance and corporate risk**

Models 2a (tax avoidance = ETR) and 2b (tax avoidance = BTD) show the moderation of executive characteristics on the effect of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 level (0.037 and 0.041), with inverse

measurement coefficient values of -1.759 for ETR and 1.09 for BTD. These results lead to the conclusion that executive characteristics moderate the effect of tax avoidance on corporate risk by strengthening the relationship. When a company engages in aggressive tax avoidance coupled with risk-taking executives, the company's risk increases. Risk-taking executives are more likely to make risky decisions, including tax decisions. Risk-seeking

executives (Baghdadi, Podolski, and Veeraraghavan 2022) who are also overconfident (Chyz et al. 2019; Hsieh, Wang, and Demirkan 2018; Sutrisno et al. 2023) will engage in aggressive tax avoidance even though such actions are risky (Dhawan, Ma, and Kim 2020; Wang et al. 2020).

**The moderating effect of gender diversity on corporate risk and tax avoidance**

Models 3a (tax avoidance = ETR) and 3b (tax avoidance = BTD) show the moderation of gender diversity in the influence of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 (0.011) and 0.10 (0.055) levels, with coefficient values of 0.002 for ETR (inverse measurement) and -6.51 for BTD. These results lead to the conclusion that gender diversity weakens the relationship between tax avoidance and corporate risk. The greater the proportion of

women in executive positions, the lower the level of tax avoidance aggressiveness, and thus, the lower the corporate risk. These results align with previous research concluding that women are generally risk-averse, including with regard to the risk of overly aggressive tax avoidance (Budiana and Kusuma 2022; Dakhli 2022; Elgharabawy and Aladwey 2025; Sukendar, Djaja, and Mettaya 2022). Not only does the presence of women reduce tax avoidance, it also reduces corporate risk (Yang et al. 2019).

**Robustness Test**

We performed a robustness test to address concerns about endogeneity. The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 5. Therefore, we conclude that there are no endogeneity concerns in this study.

**Table 5. Robustness Test**

Variable	Model 1a <sup>a</sup>	Model 1b <sup>b</sup>	Model 2a <sup>b</sup>	Model 2b <sup>b</sup>	Model 3a <sup>b</sup>	Model 3b <sup>b</sup>
Const	0.0084 (0.000)***	0.084 (0.004)***	-2.309 (0.000)***	-1.22 (0.000)***	-2.372 (0.000)***	-1.77 (0.000)***
ETR	-0.042 (0.035)**		-0.074 (0.135)		-0.035 (0.504)	
BTD		0.345 (0.072)*		0.12 (0.223)		0.911 (0.003)***
EC			0.056 (0.045)**	0.433 (0.101)		
GD					-0.009 (0.005)***	-0.029 (0.073)*
ETR*EC			-7.385 (0.014)**			
BTD*EC				2.153 (0.049)**		
ETR*GD					0.022 (0.021)**	
BTD*GD						-2.791 (0.059)*
Lev	0.025 -0.115	0.029 (0.076)*	0.209 (0.419)	0.41 (0.041)**	0.192 (0.259)	0.036 (0.035)**

## CONCLUSION

Our paper extends the literature by investigating the effect of tax avoidance on corporate risk in Indonesia, as well as the moderating effect of executive characteristics and gender diversity on this association. We contribute to the literature on tax avoidance by demonstrating the positive effect of Indonesian tax avoidance on corporate risk. The characteristics of risk-averse and female executives will reduce tax avoidance and corporate risk.

Our results provide practical implications for companies to be more cautious with tax avoidance practices. While this may reduce a corporate taxes in the short term, it incurs various risks in the long term, such as audit risks. These risks could lead companies to pay more than they should. Furthermore, since investors react negatively to such actions,

companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive positions in reducing tax avoidance and corporate risk.

However, the findings of this study should be considered in light of several limitations that could provide opportunities for future research. First, the study focused only on publicly listed companies, overlooking the growing number of micro-, small-, and medium-sized enterprises (MSMEs) in Indonesia. Second, tax avoidance is still measured only by profit. Therefore, future research could explore other measures even when companies are not profitable.

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**3. Bukti Konfirmasi Submit Revisi Pertama,  
Respon kepada Reviewer,  
dan Artikel yang Diresubmit  
(19 September 2025)**



Round 1 **Round 2**

**Round 1 Status**  
All reviewers have responded and a decision is needed.

**Notifications**

<a href="#">Sent to Review</a>	2025-09-03 02:45 AM
<a href="#">Resubmit for Review</a>	2025-09-09 09:25 AM
<a href="#">New Review Round Initiated</a>	2025-09-30 12:04 PM
<a href="#">Resubmit for Review</a>	2025-09-30 12:06 PM

**Reviewer's Attachments** 🔍 Search  
No Files

**Revisions** 🔍 Search Upload File

▶  14310 <a href="#">daftar hasil revisi.docx</a>	September 19, 2025	Other
▶  14309 <a href="#">artikel revisi.docx</a>	September 19, 2025	Article Text

**Review Discussions** Add discussion

Name	From	Last Reply	Replies	Closed
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Nomor Reviewer	Nomor Komentar	Isi komentar	Halaman	Tulisan Sebelum Revisi	Tulisan Setelah Revisi	Komentar
2897-1-put1	1	Executive characteristics	1	TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE AND GENDER DIVERSITY	TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE CHARACTERISTICS AND GENDER DIVERSITY	We have added the word "characteristics" to the title.
2897-2-PUT1	1	The introduction discusses regulatory changes that lead to tax avoidance in accordance with the topic, but there is a shortcoming in this introduction, namely the phenomenon that occurs, which could provide more emphasis on research on tax avoidance in Indonesia.	1	Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. Evidence that many companies engage in tax avoidance includes the new regulations issued by the Indonesian government to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perpajakan.	Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). Indonesia lost at least \$2.7365 billion (approximately 44 trillion Indonesian rupiah) due to corporate tax avoidance (TJN 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. In order to overcome this phenomenon, the Indonesian government issued the new regulations to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perpajakan.	We have added the phenomenon.

**DAFTAR HASIL REVISI**

<p>2897-1-put1</p>	<p>2</p>	<p>You have explained the female moderation logic but you haven't explained the executive characteristics logic and research gap</p>	<p>2</p>	<p>The tax avoidance practices of companies depend on the characteristics and gender of their executives. According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk.</p> <p>In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017) and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not</p>	<p>The tax avoidance practices of companies depend on the characteristics and gender of their executives. The executive's risk-taking nature influences his decisions to engage in aggressive tax avoidance (Liu et al. 2023). Baghdadi, Podolski, and Veeraraghavan (2022) stated that the risk-seeking tendencies of CEOs are one of the managerial characteristics impacting tax avoidance.</p> <p>According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk.</p> <p>In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017)</p>	<p>We have added executive characteristics logic and research gap.</p>
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				influence the decision to engage in tax avoidance.	and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. Wilde and Wilson (2018) stated that there is no impact of CEOs' risk-seeking tendencies on corporate tax avoidance. Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not influence the decision to engage in tax avoidance.	
2897-1-put1	3	There are other researches analyzing the same variables with the same moderating variables. Please explain your novelty, instead of the moderating variables, e.g. the Indonesian samples. Why do you have to use Indonesia? Please explain the characteristics of Indonesia that are distinct from other	2	The novelty of this study is evident in the integration of executive characteristics and gender diversity as moderating variables and provides the latest references regarding corporate tax avoidance and corporate risk for listed companies in Indonesia.	The novelty of this study is providing the latest references regarding corporate tax avoidance and corporate risk with executive characteristics and gender diversity as moderating variables in the Indonesian context. Most public companies in Indonesia are family firms with a two-tier governance system that was understudied in previous research. Unlike in other countries with gender quotas, companies in Indonesia have limited gender equality. Studying firms in Indonesia allows us to	We have emphasized the novelty of Indonesia's distinct characteristics compared to other countries that have been researched in this context.

DAFTAR HASIL REVISI

		countries which have been researched in this context			explore the moderating role of gender in environments where female representation in top management is not enforced by regulation. This offers insights that differ from those in countries with formal gender quotas.	
2897-1-put1	4 and 6	4: Explain what is the definition of executive characteristics that you use in this research and how this characteristic moderates the effect of TA on CR  6: Please separate the logic for each hypothesis	3	Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010) demonstrated that executives play a significant role in determining the extent to which a company will engage in tax avoidance practices. People who are willing to take risks are often more confident when making decisions, including those related to tax avoidance. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future., and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and	Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010) demonstrated that executives play a significant role in determining the extent to which a company will engage in tax avoidance practices. Executive character refers to the traits, preferences, and behavioral patterns of a company leader when making strategic decisions, especially those involving risk. It reflects how willing an executive is to face uncertainty and potential losses to pursue profit opportunities (Bamber, Jiang, and Wang 2010). People who are willing to take risks are often	We have explained the definition of the executive characteristics used in this research, and how these characteristics moderate the effect of TA on CR. We have also separated the logic for each hypothesis.

**DAFTAR HASIL REVISI**

				<p>Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). Dyreng, Hanlon, and Maydew (2010) stated in order to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company are sometimes unable to capture this behavior.</p>	<p>more confident when making decisions, including those related to tax avoidance. They are more likely to push aggressive tax avoidance strategies to reduce their tax burden, so that corporate risk from detection, penalties, and reputational loss increases. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). It moderates the upward relationship (weakening it). Dyreng, Hanlon, and Maydew (2010) stated in order to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company are sometimes unable to capture this behavior. Therefore, the second hypothesis in this study is:  <b>H2: Executive characteristics moderate the effect of tax avoidance on corporate risk.</b></p>	
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<p>2897-1-put1</p> <p>and</p>	<p>5 and 6</p>	<p>5: Explain the way female moderates the effect of tax avoidance and corporate risk. Risk-averse characteristics of female do not properly explain how the effect of tax avoidance and corporate risk is moderated/weakened by female</p>	<p>3</p>	<p>Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riguen, Salhi, and Jarboui 2020).</p>	<p>Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riguen, Salhi, and Jarboui 2020). Female executives moderate the relationship between tax avoidance and corporate risk. They do so by incorporating ethical discipline, stronger monitoring, and stakeholder-oriented governance into decision-making processes (Yang et al. 2019; Aguir et al. 2023; Israini 2020; Adnindya and Restuti 2024). This approach ensures that, while tax avoidance is still practiced, it does not escalate into risky (Thai et al. 2025), aggressive behavior that endangers the firm (Tashfeen et al. 2023). Thus, the second and third hypotheses in this study are: <b>H3: Gender diversity moderates the effect of tax avoidance on corporate risk.</b></p>	<p>We have explained the way female moderates the effect of tax avoidance and corporate risk. We have also separated the logic for each hypothesis.</p>
<p>2897-2-PUT1</p>	<p>2</p>	<p>6: Please separate the logic for each hypothesis</p> <p>The discussion on the role of female directors in moderating the relationship between tax avoidance and corporate risk has not been adequately elaborated. Additional</p>	<p>3</p>			

DAFTAR HASIL REVISI

		explanation is needed.				
2897-2-PUT1	3	Why emphasize research data using companies in Indonesia? Provide reasons that support its use in companies in Indonesia.	3	This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024).	This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). We use Indonesian companies as our sample because Indonesia's gender regulations differ from those in other countries. Although Indonesia has not implemented formal gender quotas, gender equality in corporate leadership remains limited. This context provides a unique opportunity to examine how executive characteristics, including gender, influence corporate decisions, such as tax avoidance. Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024). The effective tax rate can be used to identify tax avoidance when the company reports	We have added the reasons that support its use in companies in Indonesia.

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					profits (Dyreng, Hanlon, and Maydew 2019).																																					
2897-2-PUT1	4	Can you show me the sample selection procedure? Because it does not mention how many samples were used over the 5 years.	3	-	<table border="1"> <thead> <tr> <th colspan="4">Table 1. Research Sample</th> </tr> <tr> <th>Criteria</th> <th>Total</th> <th>Total Sample (2020-2024)</th> <th></th> </tr> </thead> <tbody> <tr> <td>Non-financial companies</td> <td>829</td> <td></td> <td>4145</td> </tr> <tr> <td>Less companies that do not issue an annual report consistently/companies listed during the research period</td> <td>(122)</td> <td></td> <td>(610)</td> </tr> <tr> <td>Less companies that do not use the Indonesian rupiah as their reporting currency</td> <td>(56)</td> <td></td> <td>(280)</td> </tr> <tr> <td>Less companies that have made losses</td> <td>(201)</td> <td></td> <td>(1005)</td> </tr> <tr> <td>Less companies that do not provide the required data</td> <td>(326)</td> <td></td> <td>(1630)</td> </tr> <tr> <td>Less data affected by outliers</td> <td>(71)</td> <td></td> <td>(355)</td> </tr> <tr> <td>Final sample</td> <td>53</td> <td></td> <td>265</td> </tr> </tbody> </table>	Table 1. Research Sample				Criteria	Total	Total Sample (2020-2024)		Non-financial companies	829		4145	Less companies that do not issue an annual report consistently/companies listed during the research period	(122)		(610)	Less companies that do not use the Indonesian rupiah as their reporting currency	(56)		(280)	Less companies that have made losses	(201)		(1005)	Less companies that do not provide the required data	(326)		(1630)	Less data affected by outliers	(71)		(355)	Final sample	53		265	We have added the table of research sample
Table 1. Research Sample																																										
Criteria	Total	Total Sample (2020-2024)																																								
Non-financial companies	829		4145																																							
Less companies that do not issue an annual report consistently/companies listed during the research period	(122)		(610)																																							
Less companies that do not use the Indonesian rupiah as their reporting currency	(56)		(280)																																							
Less companies that have made losses	(201)		(1005)																																							
Less companies that do not provide the required data	(326)		(1630)																																							
Less data affected by outliers	(71)		(355)																																							
Final sample	53		265																																							
2897-1-put1	7	CR should be renamed by CR1 and CR2 to avoid confusion	3	<p>The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:</p> $CR_i = a + ETR_{i.X1} + Lev_{i.X2} + e \dots(\text{model 1a})$ $CR_i = a + BTDi.X1 + Lev_{i.X2} + e \dots(\text{model 1b})$ <p>Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:</p> $CR3_i = a + ETR_{i.X1} + EC_{i.X2} + ETR*EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2a})$ $CR4_i = a + BTDi.X1 + EC_{i.X2} + BTDi*EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2b})$ <p>Finally, in hypothesis 3, we test the effect of tax avoidance</p>	<p>The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:</p> $CR1_i = a + ETR_{i.X1} + Lev_{i.X2} + e \dots(\text{model 1a})$ $CR2_i = a + BTDi.X1 + Lev_{i.X2} + e \dots(\text{model 1b})$ <p>Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:</p> $CR3_i = a + ETR_{i.X1} + EC_{i.X2} + ETR*EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2a})$ $CR4_i = a + BTDi.X1 + EC_{i.X2} + BTDi*EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2b})$ <p>Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity</p>	We have renamed the CR variable to avoid confusion																																				

**DAFTAR HASIL REVISI**

				<p>on corporate risk with gender diversity as a moderating variable using the following model:  <math>CR_i = a + ETR_i \cdot X_1 + GD_i \cdot X_2 + ETR_i \cdot GD_i \cdot X_3 + Lev_i \cdot X_4 + e</math>                      ...(model 3a)  <math>CR_i = a + LTD_i \cdot X_1 + GD_i \cdot X_2 + LTD_i \cdot GD_i \cdot X_3 + Lev_i \cdot X_4 + e</math>                      ...(model 3b)</p>	<p>as a moderating variable using the following model:  <math>CR5_i = a + ETR_i \cdot X_1 + GD_i \cdot X_2 + ETR_i \cdot GD_i \cdot X_3 + Lev_i \cdot X_4 + e</math>                      ...(model 3a)  <math>CR6_i = a + LTD_i \cdot X_1 + GD_i \cdot X_2 + LTD_i \cdot GD_i \cdot X_3 + Lev_i \cdot X_4 + e</math>                      ...(model 3b)</p>	
2897-2-PUT1	5	Does the tax rate here refer to the tax rate according to tax regulations? Please explain the tax rate.	4	(Pretax Income x Tax Rate – Income Tax) / Total assets (Gaaya, Lakhali, and Lakhali 2017; Sutrisno et al. 2023; Tang, Mo, and Chan 2017)	(Pretax Income x Tax Rate* – Income Tax) / Total assets (Gaaya, Lakhali, and Lakhali 2017; Sutrisno et al. 2023; Tang, Mo, and Chan 2017). *The applicable tax rate in the country where the company operates.	We have explained about the tax rate.
2897-1-put1	8	You should add 2 more control variables. For ex: firm size and profitability	4	Leverage: A comparison between Long-Term Debt and Total Assets (Sutrisno et al., 2023; Yee et al., 2018).	Leverage: A comparison between Long-Term Debt and Total Assets (Sutrisno et al., 2023; Yee et al., 2018). Firm Size: The log of the book value of total assets (Thai et al. 2025) Profitability (ROA): Earnings before interest and taxes divided by total assets (Sutrisno et al. 2023)	We have added firm size and profitability as control variables.
2897-2-PUT1	6	Can you mention which model was chosen? Since panel data is used.	4	-	-	We indicate which model was chosen in the notes on Table 5.

DAFTAR HASIL REVISI

						Notes: the dependent variable is corporate risk; <sup>a</sup> is for Common Effect Model and <sup>b</sup> is for Fixed Effect Model
2897-1-put1	9-12	<p>9: Which part is the same as Novita?? The number of executive characteristics? Is it possible?</p> <p>10: Please recheck all the data</p> <p>11: Are you sure?? BTD should be in ratio</p> <p>12: This is wrong. It should be in ratio</p>	5	<p>Table 3 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the average firm risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low future risk. This finding is consistent with Sutrisno et al (2023). The tax avoidance rate (average = 0.249, standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riguen (2020): 0.239 (ETR) and 13.839 (GD), respectively. Executive characteristics, on the other hand, have an average of 0.029 (standard deviation = 0.038), which is consistent with Novita (2016).</p>	<p>Table 3 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the average firm risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low future risk. This finding is consistent with Sutrisno et al (2023). The tax avoidance rate (average = 0.249, standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riguen (2020): 0.239 (ETR) and 13.839 (GD), respectively. The maximum value for gender diversity is 0.75. The distance between the average value and the maximum value observed illustrates the limited involvement of women directors on the board of Indonesian companies. On the other hand, executive</p>	<p>Since we added two more control variables and rechecked and reran all the data, the revisions are less likely to be included in the revision table because the changes are significant and affect the entire table.</p>
2897-2-PUT1	7	<p>7: It would be better if descriptive statistics did not just mention numbers, but also summarized their meaning, such as in business risk.</p>				

DAFTAR HASIL REVISI

				<p>Table 2. Summary Statistics of Main Variables</p> <table border="1"> <thead> <tr> <th>Variable</th> <th>Mean</th> <th>St.dev</th> <th>Min</th> <th>Max</th> </tr> </thead> <tbody> <tr> <td>CR</td> <td>0.109913</td> <td>0.060162</td> <td>0.02322</td> <td>0.452446</td> </tr> <tr> <td>ETR</td> <td>0.249858</td> <td>0.147741</td> <td>0.011581</td> <td>0.94558</td> </tr> <tr> <td>BTD</td> <td>448,000,000,000</td> <td>957,000,000,000</td> <td>48.354</td> <td>10,200,000,000,000</td> </tr> <tr> <td>EC</td> <td>0.029295</td> <td>0.038974</td> <td>0.000046</td> <td>0.25473</td> </tr> <tr> <td>GD</td> <td>14.4257</td> <td>13.49504</td> <td>0</td> <td>75</td> </tr> <tr> <td>Lev</td> <td>0.209542</td> <td>0.181605</td> <td>0</td> <td>0.727643</td> </tr> </tbody> </table> <p>Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage.</p>	Variable	Mean	St.dev	Min	Max	CR	0.109913	0.060162	0.02322	0.452446	ETR	0.249858	0.147741	0.011581	0.94558	BTD	448,000,000,000	957,000,000,000	48.354	10,200,000,000,000	EC	0.029295	0.038974	0.000046	0.25473	GD	14.4257	13.49504	0	75	Lev	0.209542	0.181605	0	0.727643	<p>characteristics have an average of 0.029 (standard deviation = 0.038). This is consistent with Novita (2016) and indicates that the type of executive decision-making in Indonesia has remained consistent to date.</p> <p>Table 2. Summary Statistics of Main Variables</p> <table border="1"> <thead> <tr> <th>Variable</th> <th>Mean</th> <th>St.dev</th> <th>Min</th> <th>Max</th> </tr> </thead> <tbody> <tr> <td>CR</td> <td>0.109913</td> <td>0.060162</td> <td>0.02322</td> <td>0.452446</td> </tr> <tr> <td>ETR</td> <td>0.249858</td> <td>0.147741</td> <td>0.011581</td> <td>0.94558</td> </tr> <tr> <td>BTD</td> <td>0.223892</td> <td>0.478528</td> <td>0.000000242</td> <td>5.085034</td> </tr> <tr> <td>EC</td> <td>0.029295</td> <td>0.038974</td> <td>0.000046</td> <td>0.25473</td> </tr> <tr> <td>GD</td> <td>0.144257</td> <td>0.134950</td> <td>0</td> <td>0.75</td> </tr> <tr> <td>Lev</td> <td>0.209542</td> <td>0.181605</td> <td>0</td> <td>0.727643</td> </tr> <tr> <td>Size</td> <td>27.18770</td> <td>10.84929</td> <td>24.61103</td> <td>37.81583</td> </tr> <tr> <td>ROA</td> <td>0.085295</td> <td>0.084393</td> <td>0.023508</td> <td>0.299751</td> </tr> </tbody> </table> <p>Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage; ROA, Return on Asset.</p>	Variable	Mean	St.dev	Min	Max	CR	0.109913	0.060162	0.02322	0.452446	ETR	0.249858	0.147741	0.011581	0.94558	BTD	0.223892	0.478528	0.000000242	5.085034	EC	0.029295	0.038974	0.000046	0.25473	GD	0.144257	0.134950	0	0.75	Lev	0.209542	0.181605	0	0.727643	Size	27.18770	10.84929	24.61103	37.81583	ROA	0.085295	0.084393	0.023508	0.299751	
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2897-1-put1	13	The discussion is not strong enough. You should explain the results by integrating both t test results and descriptive statistics results. Explain in Indonesian context, especially in Indonesian governance context	6	Table 5 below shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05 and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower	Table 5 below shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05 and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower corporate risk. However, a	We have explained the results by integrating both t test results and descriptive statistics results and use Indonesian context.																																																																																

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			<p>corporate risk. However, a higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical results align with Hypothesis 1, aggressive tax avoidance is associated with higher corporate risk.</p> <p>In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu, and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is because tax avoidance has the potential to incur high costs,</p>	<p>higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical results align with Hypothesis 1, aggressive tax avoidance is associated with higher corporate risk.</p> <p>In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu, and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is because tax avoidance has the potential to incur high costs, thereby increasing stock price volatility (Su and Deng 2024) and causing a negative reaction in stock prices (Bauckloh et al. 2021).</p>	
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DAFTAR HASIL REVISI

				<p>thereby increasing stock price volatility (Su and Deng 2024) and causing a negative reaction in stock prices (Bauckloh et al. 2021).</p>	<p>Descriptive statistics show that the minimum effective tax rate (ETR) for companies in Indonesia is 0.011581, or approximately 1.15%. An ETR value below the 25% tax threshold is considered an indication of aggressive tax avoidance, a practice that remains a concern for the Indonesian government. However, the average ETR for Indonesian companies is 24.98%, approaching the 25% tax rate, which suggests that they generally do not engage in tax avoidance activities. Descriptive statistics also support this finding, indicating that when tax avoidance activities are low, corporate risk is also reduced. The average risk for companies in Indonesia is 0.109, or 10.9%, which is relatively low compared to the maximum level of 45.24%. This is partly due to the Indonesian context, in which most companies are family-owned and tend to have a feminine leadership style (Northouse 2013), as well as being conservative and reputation-oriented (Putri and Viverita 2019; Sutrisno et al. 2023).</p>	
2897-1-put1	14	What robustness test do you use? Is it	8	We performed a robustness test to address	We performed a robustness test to address concerns about	We have explained the

DAFTAR HASIL REVISI

		2SLS? Explain clearly and explain the results meticulously		concerns about endogeneity. The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 6. Therefore, we conclude that there are no endogeneity concerns in this study.	endogeneity. We use robustest test with the S-estimator because the S-estimator provides the most accurate results for data with high outliers (Rousseeuw and Yohai 1984). The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 6. Therefore, we conclude that there are no endogeneity concerns in this study.	robustness test we used in this research.
2897-1-put1	15	Is this the only implication? Define theoretical and practical implications for this study. What is the implication of executive characteristics?	9	Our results provide practical implications for companies to be more cautious with tax avoidance practices. While this may reduce a corporate taxes in the short term, it incurs various risks in the long term, such as audit risks. These risks could lead companies to pay more than they should. Furthermore, since investors react negatively to such actions, companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive positions in reducing tax avoidance and corporate risk.	Our results provide both theoretical and practical implications. In terms of agency theory, our findings suggest that tax avoidance is not a tax-efficiency strategy (while this may reduce a corporate taxes in the short term) but rather creates risks for companies (it incurs various risks in the long term, such as audit risks. So that the companies have to pay more than they should). The presence of risk-averse executives can help to resolve agency conflicts. Furthermore, these findings strengthen upper echelons theory, which posits that gender diversity promotes more prudent and balanced risk management. For practical implications, since investors react negatively to such actions,	We have defined theoretical and practical implications and added implication of executive characteristics.

DAFTAR HASIL REVISI

					companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive positions in reducing tax avoidance and corporate risk.	
2897-1-put1	16	Is this the only limitation? I'm not sure. Using indonesia as the only country is also a limitation, and what else? Other moderating variable? Other context?	10	However, the findings of this study should be considered in light of several limitations that could provide opportunities for future research. First, the study focused only on publicly listed companies, overlooking the growing number of micro-, small-, and medium-sized enterprises (MSMEs) in Indonesia. Second, tax avoidance is still measured only by profit. Therefore, future research could explore other measures even when companies are not profitable.	Firstly, the study only focused on publicly listed companies, overlooking the growing number of micro-, small- and medium-sized enterprises (MSMEs) in Indonesia. Furthermore, using samples from Indonesian companies only limits the results of this study to the Indonesian context. Indonesia has a different tax system, governance regulations (e.g. gender equality) and organisational culture (e.g. leadership types) to other countries. Secondly, the measurement of variables is still limited. For example, the executive character could be explored further using a qualitative approach, and gender could be analysed further by considering the role, strategic position, and level of participation of women in decision-making.	

DAFTAR HASIL REVISI

2897-1-put1	17	80% should come from scopus indexed journals within the last 10 years. Add 2 JBA articles	10-11		<p>Adnindya, Amalia, and Mitha Dwi Restuti. 2024. "ESG And Firm Performance: The Moderating Role Of Board Diversity." <i>Jurnal Bisnis Dan Akuntansi</i> 26 (2): 275–90.</p> <p>Israini, Nur Jamaliyah. 2020. "Pengaruh Female Ceo Terhadap Kualitas Laporan Keuangan:Preferensi Risiko Sebagai Pemoderasi." <i>Jurnal Bisnis Dan Akuntansi</i> 22 (2): 271–88.</p>	We have added 2 JBA articles at page 3.
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## TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE CHARACTERISTICS AND GENDER DIVERSITY

Received: Month Date, Year; Revised: Month Date, Year; Accepted: Month Date, Year

**Abstract:** *We examine the effect of tax avoidance on corporate risk. Next, the moderating effect of executive characteristics and gender diversity is investigated in this association. The study examined Indonesia's nonfinancial listed companies, collecting a sample of 265 observations during 2020-2024. Hypotheses were tested using moderated regression with panel data. We find that companies that avoid taxes aggressively have a higher level of corporate risk. The presence of risk-averse executive characteristics and women weakens the effect of tax avoidance on corporate risk. Our research contributes by providing the latest references regarding Indonesian tax avoidance behavior that poses risks to companies and encouraging companies in Indonesia to be aware of the importance of executive characteristics and gender diversity.*

**Keywords:** Tax Avoidance, Executive Characteristics, Gender Diversity, Corporate Risk.

### INTRODUCTION

Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). Indonesia lost at least \$2.7365 billion (approximately 44 trillion Indonesian rupiah) due to corporate tax avoidance (TJN 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. In order to overcome this phenomenon, the Indonesian government issued the new regulations to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perpajakan.

Taxpayers believe that corporate tax avoidance will reduce their tax obligations, thereby maximizing shareholder value. However, they are also aware that tax avoidance encompasses a wide range of activities, from harmless ones to aggressive strategies that are unlikely to hold up in court (Dyreng, Hanlon, and

Maydew 2019). Therefore, they recognize the negative impact of this practice (Thai et al. 2025). In fact, tax avoidance can create uncertainty for companies regarding future tax obligations and payments (Duhoon and Singh 2023).

According to Balakrishnan, Blouin, and Guay (2019) and Baker, Lyu, and Perotti (2024), companies that engage in tax avoidance demonstrate a lack of transparency to investors and reduce the comparability of their accounting. Su and Deng (2024) indicate that tax avoidance causes increased stock price instability, which leads to decreased stock market performance because of investor distrust. Tax avoidance increases corporate risk due to lower credit ratings and related investment inefficiency (Ariff et al. 2023; Benkraiem, Gaaya, and Lakhali 2024; Dhawan, Ma, and Kim 2020; Richardson, Taylor, and Lanis 2015)

The tax avoidance practices of companies depend on the characteristics and gender of their executives. The executive's risk-taking nature influences his decisions to engage in aggressive tax avoidance (Liu et al. 2023).

Baghdadi, Podolski, and Veeraraghavan (2022) stated that the risk-seeking tendencies of CEOs are one of the managerial characteristics impacting tax avoidance. According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk.

In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017) and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. Wilde and Wilson (2018) stated that there is no impact of CEOs' risk-seeking tendencies on corporate tax avoidance. Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not influence the decision to engage in tax avoidance.

Inconsistent research results provide room for further research on the relationship between tax avoidance and corporate risk. This study aims to find empirical evidence of how tax avoidance affects corporate risk, considering executive characteristics and gender diversity as moderating variables. The novelty of this study is providing the latest references regarding corporate tax avoidance and corporate risk with executive characteristics and gender diversity as moderating variables in the Indonesian context. Most public companies in Indonesia are family firms with a two-tier governance system that was understudied in previous research. Unlike in other countries with gender quotas, companies in Indonesia have limited gender equality. Studying firms in Indonesia allows us to explore the moderating role of gender in environments where female representation in top management is not enforced by regulation. This offers insights that differ from those in countries with formal gender quotas.

## Literature Review and Hypothesis Development

The above phenomenon is based on the agency theory, which was first proposed Jensen and Meckling (1976) and later expanded upon by Eisenhardt (1989). According to this theory, agents (i.e., managers) are parties authorized by the principal (i.e., investors) to run a company. Although both parties share the same goal of maximizing company value, they often use different methods to do so. Since managers have the most knowledge about a company's operations, they can use various methods to maximize profits, even risky ones, because they receive significant incentives. One such method is tax avoidance. Information asymmetry occurs when company managers do not present the company's true financial condition, but rather information that benefits them personally.

According to Hanlon and Heitzman (2010), tax avoidance is any activity aimed at reducing tax liability. From an agency theory perspective, tax avoidance benefits managers unilaterally. It reduces transparency and, in the long run, can cause a company to lose its reputation. Tax avoidance is also considered socially irresponsible to shareholders (Wang et al. 2020). It is also considered a management activity that can mislead investors and reduce the company's value by covering up bad news (Desai and Dharmapala 2009; Ginting and Martani 2017; Hanlon and Slemrod 2009; Wang 2011). Balakrishnan, Blouin, and Guay (2019) state that the more aggressively a company conducts tax avoidance, the less transparent its information becomes for investors. Aggressive tax avoidance is strongly related to aggressive financial reporting, companies will produce non-transparent reports (Desai and Dharmapala 2006). This uncertainty and poor corporate transparency will increase the company's risk, ultimately leading to the destruction of its share price (Kim, Li, and Zhang 2011).

According to Baker, Lyu, and Perotti (2024) and Balakrishnan, Blouin, and Guay

(2019), tax avoidance reduces the comparability of company accounting practices, which calls transparency into uncertainty for investors. This can lead to increased stock price volatility (Su and Deng 2024), investors become skeptical, which causes stock market performance to decline. Tax avoidance also causes investment inefficiencies (Benkraiem, Gaaya, and Lakhel 2024), lowers credit ratings, and increases corporate risk (Ariff et al. 2023; Dhawan, Ma, and Kim 2020; Edwards, Schwab, and Shevlin 2016; Richardson, Taylor, and Lanis 2015). Therefore, the first hypothesis in this study is:

**H1: Aggressive tax avoidance is associated with higher corporate risk.**

Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010) demonstrated that executives play a significant role in determining the extent to which a company will engage in tax avoidance practices. Executive character refers to the traits, preferences, and behavioral patterns of a company leader when making strategic decisions, especially those involving risk. It reflects how willing an executive is to face uncertainty and potential losses to pursue profit opportunities (Bamber, Jiang, and Wang 2010). People who are willing to take risks are often more confident when making decisions, including those related to tax avoidance. They are more likely to push aggressive tax avoidance strategies to reduce their tax burden, so that corporate risk from detection, penalties, and reputational loss increases. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). It moderates the upward relationship (weakening it). Dyreng, Hanlon, and Maydew (2010) stated in order to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company

are sometimes unable to capture this behavior. Therefore, the second hypothesis in this study is:

**H2: Executive characteristics moderate the effect of tax avoidance on corporate risk.**

Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riquen, Salhi, and Jarboui 2020). Female executives moderate the relationship between tax avoidance and corporate risk. They do so by incorporating ethical discipline, stronger monitoring, and stakeholder-oriented governance into decision-making processes (Yang et al. 2019; Aguir et al. 2023; Israini 2020; Adnindya and Restuti 2024). This approach ensures that, while tax avoidance is still practiced, it does not escalate into risky (Thai et al. 2025), aggressive behavior that endangers the firm (Tashfeen et al. 2023). Thus, the second and third hypotheses in this study are:

**H3: Gender diversity moderates the effect of tax avoidance on corporate risk.**

## METHOD

This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). We use Indonesian companies as our sample because Indonesia's gender regulations differ from those in other countries. Although Indonesia has not implemented formal gender quotas, gender equality in corporate leadership remains limited. This context provides a unique opportunity to examine how executive characteristics, including gender, influence corporate decisions, such as tax avoidance. Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024). The effective tax

rate can be used to identify tax avoidance when the company reports profits (Dyreng, Hanlon, and Maydew 2019).

**Table 1. Research Sample**

Criteria	Total	Total Sample (2020-2024)
Non-financial companies	829	4145
Less companies that do not issue an annual report consistently/companies listed during the research period	(122)	(610)
Less companies that do not use the Indonesian rupiah as their reporting currency	(56)	(280)
Less companies that have made losses	(201)	(1005)
Less companies that do not provide the required data	(326)	(1630)
Less data affected by outliers	(71)	(355)
Final sample	53	265

The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:

$$CR1_i = a + ETR_{i,x1} + Lev_{i,x2} + e \dots(\text{model 1a})$$

$$CR2_i = a + BTDi_{x1} + Lev_{i,x2} + e \dots(\text{model 1b})$$

Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:

$$CR3_i = a + ETR_{i,x1} + EC_{i,x2} + ETR * EC_{i,x3} + Lev_{i,x4} + e \dots(\text{model 2a})$$

$$CR4_i = a + BTDi_{x1} + EC_{i,x2} + BTDi * EC_{i,x3} + Lev_{i,x4} + e \dots(\text{model 2b})$$

Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:

$$CR5_i = a + ETR_{i,x1} + GD_{i,x2} + ETR * GD_{i,x3} + Lev_{i,x4} + e \dots(\text{model 3a})$$

$$CR6_i = a + BTDi_{x1} + GD_{i,x2} + BTDi * GD_{i,x3} + Lev_{i,x4} + e \dots(\text{model 3b})$$

Notes:

CR<sub>i</sub>: Corporate Risk in year i

ETR<sub>i</sub>: Tax Avoidance measured by Effective Tax Rate in year i

BTDi<sub>i</sub>: Tax Avoidance measured by Book Tax Different in year i

EC<sub>i</sub>: Executive Characteristics in year i

GD<sub>i</sub>: Gender Diversity in year i

Lev<sub>i</sub>: Leverage in year i

a: Constanta

x<sub>1,2,3,4</sub>: Coefficient Regression 1,2,3,4

e: error

Table 2 below presents the operational definition of variables.

**Table 2. Operational Definition of Variables**

Variable	Indicator
<b>Independent Variable-Tax Avoidance:</b>	
Effective Tax Rate (ETR)	Income tax expense divided by profit before tax (Dyreng, Hanlon, and Maydew 2019, 2010). The ETR is a negative or inverse measurement; the higher the ETR value, the lower the level of tax avoidance.

Book Tax Different (Pretax Income x Tax Rate\* – Income Tax) / Total assets (Gaaya, Lakhal, and (BTD) Lakhal 2017; Sutrisno et al. 2023; Tang, Mo, and Chan 2017).  
\*The applicable tax rate in the country where the company operates.

**Dependent Variables-Corporate Risk:**

Corporate Risk (CR) Stock returns volatility (Guenther, Matsunaga, and Williams 2017; Sutrisno et al. 2023).

**Moderating Variable:**

Executive Characteristics (EC) A comparison of the standard deviation of EBITDA and total assets (Dyreg, Hanlon, and Maydew 2010; Novita 2016; Paligorova 2010).

Gender Diversity (GD) The ratio of female executives to total executives (Jarboui, Saad, and Riguen 2020; Khim and Kee 2024; Zhang et al. 2022).

**Control Variable-Company Characteristics:**

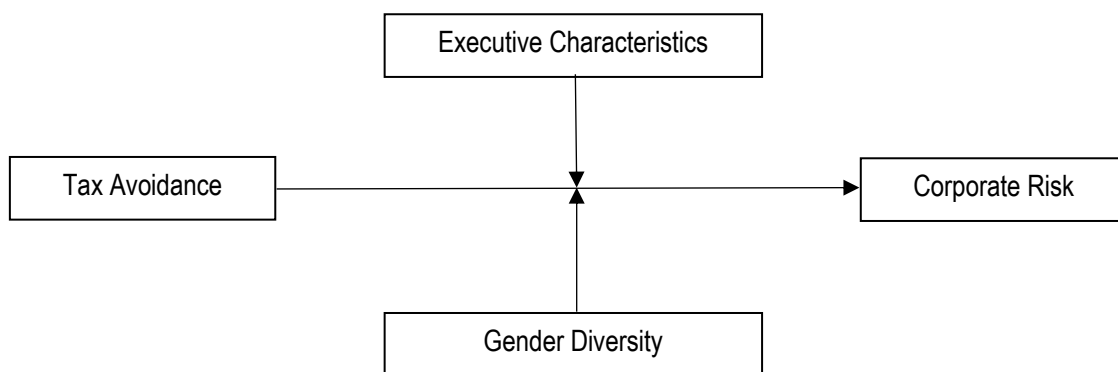
Leverage A comparison between Long-Term Debt and Total Assets (Sutrisno et al. 2023; Yee, Sapiei, and Abdullah 2018).

Firm Size The log of the book value of total assets (Thai et al. 2025).

Profitability (ROA) Earnings before interest and taxes divided by total assets (Sutrisno et al. 2023).

This study will test the hypotheses using moderated regression analysis of panel data. First, descriptive statistics will be presented for all variables. The second stage involves calculating Pearson correlations to ensure the

data are free of multicollinearity and other classic problems. Then, moderated regression analysis of panel data will be conducted to test all hypotheses. Finally, a robustness test is performed to address issues of endogeneity.



**Figure 1. Research Model**

**RESULTS**

**Descriptive Statistics**

Table 3 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the average corporate risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low

future risk. This finding is consistent with Sutrisno et al (2023). The tax avoidance rate (average = 0.249, standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riguen (2020): 0.239 (ETR) and 13.839 (GD), respectively. The maximum value for gender

diversity is 0.75. The distance between the average value and the maximum value observed illustrates the limited involvement of women directors on the board of Indonesian companies. On the other hand, executive characteristics have an average of 0.029 (standard deviation = 0.038). This is consistent with Novita (2016) and indicates that the type of executive decision-

making in Indonesia has remained consistent to date.

We also present Table 4, which shows the correlations among the independent variables in this study and helps us determine whether multicollinearity occurs. Table 4 shows that the data are free from classic problems.

**Table 3. Summary Statistics of Main Variables**

Variable	Mean	St.dev	Min	Max
CR	0.109913	0.060162	0.02322	0.452446
ETR	0.249858	0.147741	0.011581	0.74558
BTD	0.223892	0.478528	0.000000242	5.085034
EC	0.029295	0.038974	0.000046	0.25473
GD	0.144257	0.134950	0	0.75
Lev	0.209542	0.181605	0	0.727643
Size	27.18770	10.84829	24.61103	37.81563
ROA	0.085295	0.084393	0.023508	0.299751

Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage; ROA, Return on Asset.

**Table 4. Pearson Correlations for Independent Variables**

	1	2	3	4	5	6	7	Prob <sup>a</sup>
1 ETR	1.000							0.8755
2 BTD	0.0958***	1.000						0.0891
3 EC	0.1693	0.1563***	1.000					0.2690
4 GD	0.0787***	-0.1097***	-0.0088***	1.000				0.3413
5 Lev	0.1541***	-0.0159***	0.0591***	-0.0718***	1.000			0.3550
6 Size	0.0590***	-0.2668	-0.1395***	0.0821***	0.0419***	1.000		0.4841
7 ROA	-0.1279***	-0.1646	0.0384***	0.0882***	-0.2263	0.3836	1.000	0.0738

Notes: \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level respectively; Prob<sup>a</sup> is the result of the Glejser test at the 0.05 level; Jarque-Bera Probability is 0.7029, with Durbin-Watson stat 2.024 (DU = 1,8441).

**Empirical Results and Discussion**

Table 5 below shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05

and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower corporate risk. However, a higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical results align with Hypothesis 1, aggressive tax

avoidance is associated with higher corporate risk.

In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu, and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is because tax avoidance has the potential to incur high costs, thereby increasing stock price volatility (Su and Deng 2024) and causing a negative reaction in stock prices (Bauckloh et al. 2021).

Descriptive statistics show that the minimum effective tax rate (ETR) for companies

in Indonesia is 0.011581, or approximately 1.15%. An ETR value below the 25% tax threshold is considered an indication of aggressive tax avoidance, a practice that remains a concern for the Indonesian government. However, the average ETR for Indonesian companies is 24.98%, approaching the 25% tax rate, which suggests that they generally do not engage in tax avoidance activities. Descriptive statistics also support this finding, indicating that when tax avoidance activities are low, corporate risk is also reduced. The average risk for companies in Indonesia is 0.109, or 10.9%, which is relatively low compared to the maximum level of 45.24%. This is partly due to the Indonesian context, in which most companies are family-owned and tend to have a feminine leadership style (Northouse 2013), as well as being conservative and reputation-oriented (Putri and Viverita 2019; Sutrisno et al. 2023).

**Table 5. Hypothesis Testing**

<i>Variable</i>	<i>Model 1a<sup>a</sup></i>	<i>Model 1b<sup>b</sup></i>	<i>Model 2a<sup>b</sup></i>	<i>Model 2b<sup>b</sup></i>	<i>Model 3a<sup>b</sup></i>	<i>Model 3b<sup>b</sup></i>
Const	0.1221 (0.0000)***	0.0386 (0.0589)*	0.0185 (0.4631)	0.0582 (0.0292)**	0.0822 (0.0009)***	0.0558 (0.0107)**
ETR	-0.0546 (0.0289)**		0.1098 (0.0656)*		-0.0010 (0.9852)	
BTD		0.0388 (0.0019)***		0.0361 (0.0039)***		0.0520 (0.0001)***
EC			0.7358 (0.0038)***	0.0047 (0.1723)		
GD					-0.1533 (0.3821)	-0.0872 (0.0528)*
ETR*EC			-1.7172 (0.0432)**			
BTD*EC				0.1709 (0.0173)**		
ETR*GD					0.1310 (0.0126)**	
BTD*GD						-0.1346 (0.0485)**

Lev	0.0284 (0.1692)	0.2139 (0.0024)***	0.1963 (0.0056)***	0.2273 (0.0013)***	0.1331 (0.0594)*	0.1924 (0.0055)***
Size	-0.0011 (0.0042)***	0.0007 (0.1915)	0.0007 (0.2441)	0.0007 (0.2887)	0.0008 (0.1778)	0.0008 (0.1548)
ROA	-0.0379 (0.432)	-0.0299 (0.7072)	-0.0316 (0.7000)	-0.0248 (0.7534)	-0.0463 (0.5744)	-0.0406 (0.6014)
Adj. R <sup>2</sup>	0.0607	0.1908	0.1859	0.2057	0.1782	0.2324
F Test	5.2652	1.9431	1.8863	2.0056	1.8419	2.1757
F Sig	0.0004	0.0002	0.0004	0.0001	0.0006	0.000
Observation	265	265	265	265	265	265

Notes: the dependent variable is corporate risk; <sup>a</sup> is for Common Effect Model and <sup>b</sup> is for Fixed Effect Model; \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level, respectively.

### The moderating effect of executive characteristics on tax avoidance and corporate risk

Models 2a (tax avoidance = ETR) and 2b (tax avoidance = BTD) show the moderation of executive characteristics on the effect of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 level (0.037 and 0.041), with inverse measurement coefficient values of -1.759 for ETR and 1.09 for BTD. These results lead to the conclusion that executive characteristics moderate the effect of tax avoidance on corporate risk by strengthening the relationship. When a company engages in aggressive tax avoidance coupled with risk-taking executives, the company's risk increases. Risk-taking executives are more likely to make risky decisions, including tax decisions. Risk-seeking executives (Baghdadi, Podolski, and Veeraraghavan 2022) who are also overconfident (Chyz et al. 2019; Hsieh, Wang, and Demirkan 2018; Sutrisno et al. 2023) will engage in aggressive tax avoidance even though such actions are risky (Dhawan, Ma, and Kim 2020; Wang et al. 2020).

### The moderating effect of gender diversity on corporate risk and tax avoidance

Models 3a (tax avoidance = ETR) and 3b (tax avoidance = BTD) show the moderation

of gender diversity in the influence of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 (0.011) and 0.10 (0.055) levels, with coefficient values of 0.002 for ETR (inverse measurement) and -6.51 for BTD. These results lead to the conclusion that gender diversity weakens the relationship between tax avoidance and corporate risk. The greater the proportion of women in executive positions, the lower the level of tax avoidance aggressiveness, and thus, the lower the corporate risk. These results align with previous research concluding that women are generally risk-averse, including with regard to the risk of overly aggressive tax avoidance (Budiana and Kusuma 2022; Dakhli 2022; Elgharabawy and Aladwey 2025; Sukendar, Djaja, and Mettaya 2022). Not only does the presence of women reduce tax avoidance, it also reduces corporate risk (Yang et al. 2019).

### Robustness Test

We performed a robustness test to address concerns about endogeneity. We use robustest test with the S-estimator because the S-estimator provides the most accurate results for data with high outliers (Rousseeuw and Yohai 1984). The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 6. Therefore, we conclude that there are no endogeneity concerns in this study.

**Table 6. Robustness Test**

<i>Variable</i>	<i>Model 1a<sup>a</sup></i>	<i>Model 1b<sup>b</sup></i>	<i>Model 2a<sup>b</sup></i>	<i>Model 2b<sup>b</sup></i>	<i>Model 3a<sup>b</sup></i>	<i>Model 3b<sup>b</sup></i>
Const	0.1044 (0.0000)***	0.1168 (0.0000)***	0.1131 (0.0000)***	0.1158 (0.0000)***	0.1094 (0.0000)***	0.2069 (0.0000)***
ETR	-0.0926 (0.0000)***		-0.0025 (0.6642)		-0.0025 (0.6338)	
BTD		0.0222 (0.0007)***		0.0399 (0.0000)***		0.1887 (0.0138)**
EC			0.0891 (0.5544)	0.2338 (0.0042)***		
GD					-0.0789 (0.0201)**	-0.0929 (0.7052)
ETR*EC			-1.3726 (0.0033)***			
BTD*EC				0.3363 (0.0001)***		
ETR*GD					0.1957 (0.0332)**	
BTD*GD						-1.3453 (0.0107)**
Lev	-0.0250 (0.1801)	-0.0232 (0.1785)	-0.0078 (0.6702)	-0.0119 (0.4515)	0.0241 (0.1587)	0.2401 (0.1681)
Size	-0.0014 (0.0000)***	-0.0010 (0.0012)***	-0.0012 (0.0004)***	-0.0012 (0.0000)***	-0.0006 (0.0637)*	-0.0060 (0.0576)*
ROA	0.0328 (0.4508)	0.0272 (0.4985)	0.0246 (0.5653)	0.0114 (0.7560)	0.0119 (0.7617)	-0.0887 (0.8267)

## CONCLUSION

Our paper extends the literature by investigating the effect of tax avoidance on corporate risk in Indonesia, as well as the moderating effect of executive characteristics and gender diversity on this association. We contribute to the literature on tax avoidance by demonstrating the positive effect of Indonesian tax avoidance on corporate risk. The characteristics of risk-averse and female executives will reduce tax avoidance and corporate risk.

Our results provide both theoretical and practical implications. In terms of agency theory, our findings suggest that tax avoidance is not a

tax-efficiency strategy (while this may reduce a corporate taxes in the short term) but rather creates risks for companies (it incurs various risks in the long term, such as audit risks. So that the companies have to pay more than they should). The presence of risk-averse executives can help to resolve agency conflicts. Furthermore, these findings strengthen upper echelons theory, which posits that gender diversity promotes more prudent and balanced risk management. For practical implications, since investors react negatively to such actions, companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive

positions in reducing tax avoidance and corporate risk.

Firstly, the study only focused on publicly listed companies, overlooking the growing number of micro-, small- and medium-sized enterprises (MSMEs) in Indonesia. Furthermore, using samples from Indonesian companies only limits the results of this study to the Indonesian context. Indonesia has a different tax system, governance regulations (e.g. gender equality) and organisational culture (e.g.

leadership types) to other countries. Secondly, the measurement of variables is still limited. For example, the executive character could be explored further using a qualitative approach, and gender could be analysed further by considering the role, strategic position, and level of participation of women in decision-making.

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## TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE CHARACTERISTICS AND GENDER DIVERSITY

Received: Month Date, Year; Revised: Month Date, Year; Accepted: Month Date, Year

**Abstract:** We examine the effect of tax avoidance on corporate risk. Next, the moderating effect of executive characteristics and gender diversity is investigated in this association. The study examined Indonesia's nonfinancial listed companies, collecting a sample of 265 observations during 2020-2024. Hypotheses were tested using moderated regression with panel data. We find that companies that avoid taxes aggressively have a higher level of corporate risk. The presence of risk-averse executive characteristics and women weakens the effect of tax avoidance on corporate risk. Our research contributes by providing the latest references regarding Indonesian tax avoidance behavior that poses risks to companies and encouraging companies in Indonesia to be aware of the importance of executive characteristics and gender diversity.

**Keywords:** Tax Avoidance, Executive Characteristics, Gender Diversity, Corporate Risk.

### INTRODUCTION

Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). Indonesia lost at least \$2.7365 billion (approximately 44 trillion Indonesian rupiah) due to corporate tax avoidance (TJN 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. In order to overcome this phenomenon, the Indonesian government issued the new regulations to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perpajakan.

Taxpayers believe that corporate tax avoidance will reduce their tax obligations, thereby maximizing shareholder value. However, they are also aware that tax avoidance encompasses a wide range of activities, from harmless ones to aggressive strategies that are unlikely to hold up in court (Dyreg, Hanlon, and

Maydew 2019). Therefore, they recognize the negative impact of this practice (Thai et al. 2025). In fact, tax avoidance can create uncertainty for companies regarding future tax obligations and payments (Duhoon and Singh 2023).

According to Balakrishnan, Blouin, and Guay (2019) and Baker, Lyu, and Perotti (2024), companies that engage in tax avoidance demonstrate a lack of transparency to investors and reduce the comparability of their accounting. Su and Deng (2024) indicate that tax avoidance causes increased stock price instability, which leads to decreased stock market performance because of investor distrust. Tax avoidance increases corporate risk due to lower credit ratings and related investment inefficiency (Ariff et al. 2023; Benkraiem, Gaaya, and Lakhali 2024; Dhawan, Ma, and Kim 2020; Richardson, Taylor, and Lanis 2015)

The tax avoidance practices of companies depend on the characteristics and gender of their executives. The executive's risk-taking nature influences his decisions to engage in aggressive tax avoidance (Liu et al. 2023).

Baghdadi, Podolski, and Veeraraghavan (2022) stated that the risk-seeking tendencies of CEOs are one of the managerial characteristics impacting tax avoidance. According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk.

In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017) and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. **Wilde and Wilson (2018) stated that there is no impact of CEOs' risk-seeking tendencies on corporate tax avoidance.** Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not influence the decision to engage in tax avoidance.

Inconsistent research results provide room for further research on the relationship between tax avoidance and corporate risk. This study aims to find empirical evidence of how tax avoidance affects corporate risk, considering executive characteristics and gender diversity as moderating variables. **The novelty of this study is providing the latest references regarding corporate tax avoidance and corporate risk with executive characteristics and gender diversity as moderating variables in the Indonesian context. Most public companies in Indonesia are family firms with a two-tier governance system that was understudied in previous research. Unlike in other countries with gender quotas, companies in Indonesia have limited gender equality. Studying firms in Indonesia allows us to explore the moderating role of gender in environments where female representation in top management is not enforced by regulation. This offers insights that differ from those in countries with formal gender quotas.**

### Literature Review and Hypothesis Development

The above phenomenon is based on the agency theory, which was first proposed Jensen and Meckling (1976) and later expanded upon by Eisenhardt (1989). According to this theory, agents (i.e., managers) are parties authorized by the principal (i.e., investors) to run a company. Although both parties share the same goal of maximizing company value, they often use different methods to do so. Since managers have the most knowledge about a company's operations, they can use various methods to maximize profits, even risky ones, because they receive significant incentives. One such method is tax avoidance. Information asymmetry occurs when company managers do not present the company's true financial condition, but rather information that benefits them personally.

According to Hanlon and Heitzman (2010), tax avoidance is any activity aimed at reducing tax liability. From an agency theory perspective, tax avoidance benefits managers unilaterally. It reduces transparency and, in the long run, can cause a company to lose its reputation. Tax avoidance is also considered socially irresponsible to shareholders (Wang et al. 2020). It is also considered a management activity that can mislead investors and reduce the company's value by covering up bad news (Desai and Dharmapala 2009; Ginting and Martani 2017; Hanlon and Slemrod 2009; Wang 2011). Balakrishnan, Blouin, and Guay (2019) state that the more aggressively a company conducts tax avoidance, the less transparent its information becomes for investors. Aggressive tax avoidance is strongly related to aggressive financial reporting, companies will produce non-transparent reports (Desai and Dharmapala 2006). This uncertainty and poor corporate transparency will increase the company's risk, ultimately leading to the destruction of its share price (Kim, Li, and Zhang 2011).

According to Baker, Lyu, and Perotti (2024) and Balakrishnan, Blouin, and Guay

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(2019), tax avoidance reduces the comparability of company accounting practices, which calls transparency into uncertainty for investors. This can lead to increased stock price volatility (Su and Deng 2024), investors become skeptical, which causes stock market performance to decline. Tax avoidance also causes investment inefficiencies (Benkraiem, Gaaya, and Lakhali 2024), lowers credit ratings, and increases corporate risk (Ariff et al. 2023; Dhawan, Ma, and Kim 2020; Edwards, Schwab, and Shevlin 2016; Richardson, Taylor, and Lanis 2015). Therefore, the first hypothesis in this study is:

**H<sub>1</sub>: Aggressive tax avoidance is associated with higher corporate risk.**

Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010) demonstrated that executives play a significant role in determining the extent to which a company will engage in tax avoidance practices. Executive character refers to the traits, preferences, and behavioral patterns of a company leader when making strategic decisions, especially those involving risk. It reflects how willing an executive is to face uncertainty and potential losses to pursue profit opportunities (Bamber, Jiang, and Wang 2010). People who are willing to take risks are often more confident when making decisions, including those related to tax avoidance. They are more likely to push aggressive tax avoidance strategies to reduce their tax burden, so that corporate risk from detection, penalties, and reputational loss increases. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). It moderates the upward relationship (weakening it). Dyreng, Hanlon, and Maydew (2010) stated in order to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company

are sometimes unable to capture this behavior. Therefore, the second hypothesis in this study is:

**H<sub>2</sub>: Executive characteristics moderate the effect of tax avoidance on corporate risk.**

Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riguen, Salhi, and Jarboui 2020). Female executives moderate the relationship between tax avoidance and corporate risk. They do so by incorporating ethical discipline, stronger monitoring, and stakeholder-oriented governance into decision-making processes (Yang et al. 2019; Aguir et al. 2023; Israini 2020; Adnindya and Restuti 2024). This approach ensures that, while tax avoidance is still practiced, it does not escalate into risky (Thai et al. 2025), aggressive behavior that endangers the firm (Tashfeen et al. 2023). Thus, the second and third hypotheses in this study are:

**H<sub>3</sub>: Gender diversity moderates the effect of tax avoidance on corporate risk.**

## METHOD

This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). We use Indonesian companies as our sample because Indonesia's gender regulations differ from those in other countries. Although Indonesia has not implemented formal gender quotas, gender equality in corporate leadership remains limited. This context provides a unique opportunity to examine how executive characteristics, including gender, influence corporate decisions, such as tax avoidance. Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024). The effective tax

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rate can be used to identify tax avoidance when the company reports profits (Dyreng, Hanlon, and Maydew 2019).

**Table 1. Research Sample**

Criteria	Total	Total Sample (2020-2024)
Non-financial companies	829	4145
Less companies that do not issue an annual report consistently/companies listed during the research period	(122)	(610)
Less companies that do not use the Indonesian rupiah as their reporting currency	(56)	(280)
Less companies that have made losses	(201)	(1005)
Less companies that do not provide the required data	(326)	(1630)
Less data affected by outliers	(71)	(355)
Final sample	53	265

The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:

$$CR1_i = a + ETR_{i.X1} + Lev_{i.X2} + e \dots(\text{model 1a})$$

$$CR2_i = a + BTD_{i.X1} + Lev_{i.X2} + e \dots(\text{model 1b})$$

Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:

$$CR3_i = a + ETR_{i.X1} + EC_{i.X2} + ETR * EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2a})$$

$$CR4_i = a + BTD_{i.X1} + EC_{i.X2} + BTD * EC_{i.X3} + Lev_{i.X4} + e \dots(\text{model 2b})$$

Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:

$$CR5_i = a + ETR_{i.X1} + GD_{i.X2} + ETR * GD_{i.X3} + Lev_{i.X4} + e \dots(\text{model 3a})$$

$$CR6_i = a + BTD_{i.X1} + GD_{i.X2} + BTD * GD_{i.X3} + Lev_{i.X4} + e \dots(\text{model 3b})$$

Notes:

CR<sub>i</sub>: Corporate Risk in year i

ETR<sub>i</sub>: Tax Avoidance measured by Effective Tax Rate in year i

BTD<sub>i</sub>: Tax Avoidance measured by Book Tax Different in year i

EC<sub>i</sub>: Executive Characteristics in year i

GD<sub>i</sub>: Gender Diversity in year i

Lev<sub>i</sub>: Leverage in year i

a: Constanta

X<sub>1,2,3,4</sub>: Coefficient Regression 1,2,3,4

e: error

Table 2 below presents the operational definition of variables.

**Table 2. Operational Definition of Variables**

Variable	Indicator
<b>Independent Variable-Tax Avoidance:</b>	
Effective Tax Rate (ETR)	Income tax expense divided by profit before tax (Dyreng, Hanlon, and Maydew 2019, 2010). The ETR is a negative or inverse measurement; the higher the ETR value, the lower the level of tax avoidance.

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Book Tax Different (Pretax Income x Tax Rate\* – Income Tax) / Total assets (Gaaya, Lakhai, and (BTD) Lakhai 2017; Sutrisno et al. 2023; Tang, Mo, and Chan 2017).  
\*The applicable tax rate in the country where the company operates.

**Dependent Variables-Corporate Risk:**

Corporate Risk (CR) Stock returns volatility (Guenther, Matsunaga, and Williams 2017; Sutrisno et al. 2023).

**Moderating Variable:**

Executive Characteristics (EC) A comparison of the standard deviation of EBITDA and total assets (Dyreg, Hanlon, and Maydeu 2010; Novita 2016; Paligorova 2010).  
Gender Diversity The ratio of female executives to total executives (Jarboui, Saad, and Riguén 2020; Khim and Kee 2024; Zhang et al. 2022).

**Control Variable-Company Characteristics:**

Leverage A comparison between Long-Term Debt and Total Assets (Sutrisno et al. 2023; Yee, Sapiei, and Abdullah 2018).  
Firm Size The log of the book value of total assets (Thai et al. 2025).  
Profitability (ROA) Earnings before interest and taxes divided by total assets (Sutrisno et al. 2023).

This study will test the hypotheses using moderated regression analysis of panel data. First, descriptive statistics will be presented for all variables. The second stage involves calculating Pearson correlations to ensure the

data are free of multicollinearity and other classic problems. Then, moderated regression analysis of panel data will be conducted to test all hypotheses. Finally, a robustness test is performed to address issues of endogeneity.

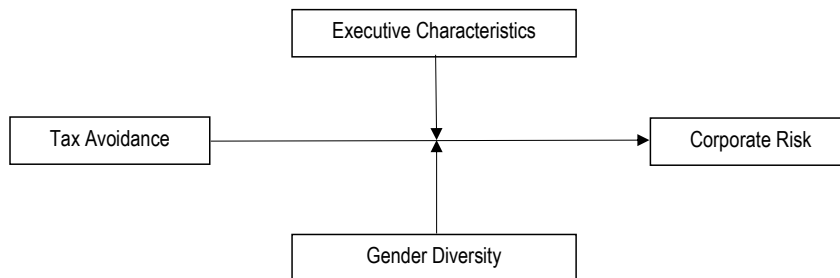


Figure 1. Research Model

**RESULTS**

**Descriptive Statistics**

Table 3 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the average corporate risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low

future risk. This finding is consistent with Sutrisno et al (2023). The tax avoidance rate (average = 0.249, standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riguén (2020): 0.239 (ETR) and 13.839 (GD), respectively. The maximum value for gender

diversity is 0.75. The distance between the average value and the maximum value observed illustrates the limited involvement of women directors on the board of Indonesian companies. On the other hand, executive characteristics have an average of 0.029 (standard deviation = 0.038). This is consistent with Novita (2016) and indicates that the type of executive decision-

making in Indonesia has remained consistent to date.

We also present Table 4, which shows the correlations among the independent variables in this study and helps us determine whether multicollinearity occurs. Table 4 shows that the data are free from classic problems.

**Table 3. Summary Statistics of Main Variables**

Variable	Mean	St.dev	Min	Max
CR	0.109913	0.060162	0.02322	0.452446
ETR	0.249858	0.147741	0.011581	0.74558
BTD	0.223892	0.478528	0.000000242	5.085034
EC	0.029295	0.038974	0.000046	0.25473
GD	0.144257	0.134950	0	0.75
Lev	0.209542	0.181605	0	0.727643
Size	27.18770	10.84829	24.61103	37.81563
ROA	0.085295	0.084393	0.023508	0.299751

Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage; ROA, Return on Asset.

**Table 4. Pearson Correlations for Independent Variables**

	1	2	3	4	5	6	7	Prob <sup>a</sup>
1 ETR	1.000							0.8755
2 BTD	0.0958***	1.000						0.0891
3 EC	0.1693	0.1563***	1.000					0.2690
4 GD	0.0787***	-0.1097***	-0.0088***	1.000				0.3413
5 Lev	0.1541***	-0.0159***	0.0591***	-0.0718***	1.000			0.3550
6 Size	0.0590***	-0.2668	-0.1395***	0.0821***	0.0419***	1.000		0.4841
7 ROA	-0.1279***	-0.1646	0.0384***	0.0882***	-0.2263	0.3836	1.000	0.0738

Notes: \*\*\*, \*\* indicate significance at the 0.01, 0.05 and 0.10 level respectively; Prob<sup>a</sup> is the result of the Glejser test at the 0.05 level; Jarque-Bera Probability is 0.7029, with Durbin-Watson stat 2.024 (DU = 1,8441).

**Empirical Results and Discussion**

Table 5 below shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05

and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower corporate risk. However, a higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical results align with Hypothesis 1, aggressive tax

avoidance is associated with higher corporate risk.

In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu, and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is because tax avoidance has the potential to incur high costs, thereby increasing stock price volatility (Su and Deng 2024) and causing a negative reaction in stock prices (Bauckloh et al. 2021).

Descriptive statistics show that the minimum effective tax rate (ETR) for companies

in Indonesia is 0.011581, or approximately 1.15%. An ETR value below the 25% tax threshold is considered an indication of aggressive tax avoidance, a practice that remains a concern for the Indonesian government. However, the average ETR for Indonesian companies is 24.98%, approaching the 25% tax rate, which suggests that they generally do not engage in tax avoidance activities. Descriptive statistics also support this finding, indicating that when tax avoidance activities are low, corporate risk is also reduced. The average risk for companies in Indonesia is 0.109, or 10.9%, which is relatively low compared to the maximum level of 45.24%. This is partly due to the Indonesian context, in which most companies are family-owned and tend to have a feminine leadership style (Northouse 2013), as well as being conservative and reputation-oriented (Putri and Viverita 2019; Sutrisno et al. 2023).

**Table 5. Hypothesis Testing**

Variable	Model 1a <sup>a</sup>	Model 1b <sup>b</sup>	Model 2a <sup>b</sup>	Model 2b <sup>b</sup>	Model 3a <sup>b</sup>	Model 3b <sup>b</sup>
Const	0.1221 (0.0000)***	0.0386 (0.0589)*	0.0185 (0.4631)	0.0582 (0.0292)**	0.0822 (0.0009)***	0.0558 (0.0107)**
ETR	-0.0546 (0.0289)**		0.1098 (0.0656)*		-0.0010 (0.9852)	
BTD		0.0388 (0.0019)***		0.0361 (0.0039)***		0.0520 (0.0001)***
EC			0.7358 (0.0038)***	0.0047 (0.1723)		
GD					-0.1533 (0.3821)	-0.0872 (0.0528)*
ETR*EC			-1.7172 (0.0432)**			
BTD*EC				0.1709 (0.0173)**		
ETR*GD					0.1310 (0.0126)**	
BTD*GD						-0.1346 (0.0485)**

Lev	0.0284 (0.1692)	0.2139 (0.0024)***	0.1963 (0.0056)***	0.2273 (0.0013)***	0.1331 (0.0594)*	0.1924 (0.0055)***
Size	-0.0011 (0.0042)***	0.0007 (0.1915)	0.0007 (0.2441)	0.0007 (0.2887)	0.0008 (0.1778)	0.0008 (0.1548)
ROA	-0.0379 (0.432)	-0.0299 (0.7072)	-0.0316 (0.7000)	-0.0248 (0.7534)	-0.0463 (0.5744)	-0.0406 (0.6014)
Adj. R <sup>2</sup>	0.0607	0.1908	0.1859	0.2057	0.1782	0.2324
F Test	5.2652	1.9431	1.8863	2.0056	1.8419	2.1757
F Sig	0.0004	0.0002	0.0004	0.0001	0.0006	0.000
Observation	265	265	265	265	265	265

Notes: the dependent variable is corporate risk; <sup>a</sup> is for Common Effect Model and <sup>b</sup> is for Fixed Effect Model; \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level, respectively.

**The moderating effect of executive characteristics on tax avoidance and corporate risk**

Models 2a (tax avoidance = ETR) and 2b (tax avoidance = LTD) show the moderation of executive characteristics on the effect of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 level (0.037 and 0.041), with inverse measurement coefficient values of -1.759 for ETR and 1.09 for LTD. These results lead to the conclusion that executive characteristics moderate the effect of tax avoidance on corporate risk by strengthening the relationship. When a company engages in aggressive tax avoidance coupled with risk-taking executives, the company's risk increases. Risk-taking executives are more likely to make risky decisions, including tax decisions. Risk-seeking executives (Baghdadi, Podolski, and Veeraraghavan 2022) who are also overconfident (Chyz et al. 2019; Hsieh, Wang, and Demirkan 2018; Sutrisno et al. 2023) will engage in aggressive tax avoidance even though such actions are risky (Dhawan, Ma, and Kim 2020; Wang et al. 2020).

**The moderating effect of gender diversity on corporate risk and tax avoidance**

Models 3a (tax avoidance = ETR) and 3b (tax avoidance = LTD) show the moderation

of gender diversity in the influence of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 (0.011) and 0.10 (0.055) levels, with coefficient values of 0.002 for ETR (inverse measurement) and -6.51 for LTD. These results lead to the conclusion that gender diversity weakens the relationship between tax avoidance and corporate risk. The greater the proportion of women in executive positions, the lower the level of tax avoidance aggressiveness, and thus, the lower the corporate risk. These results align with previous research concluding that women are generally risk-averse, including with regard to the risk of overly aggressive tax avoidance (Budiana and Kusuma 2022; Dakhli 2022; Elgharabawy and Aladwey 2025; Sukendar, Djaja, and Mettaya 2022). Not only does the presence of women reduce tax avoidance, it also reduces corporate risk (Yang et al. 2019).

**Robustness Test**

We performed a robustness test to address concerns about endogeneity. We use robustest test with the S-estimator because the S-estimator provides the most accurate results for data with high outliers (Rousseeuw and Yohai 1984). The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 6. Therefore, we conclude that there are no endogeneity concerns in this study.

**Table 6. Robustness Test**

Variable	Model 1a <sup>a</sup>	Model 1b <sup>b</sup>	Model 2a <sup>b</sup>	Model 2b <sup>b</sup>	Model 3a <sup>b</sup>	Model 3b <sup>b</sup>
Const	0.1044 (0.0000)***	0.1168 (0.0000)***	0.1131 (0.0000)***	0.1158 (0.0000)***	0.1094 (0.0000)***	0.2069 (0.0000)***
ETR	-0.0926 (0.0000)***		-0.0025 (0.6642)		-0.0025 (0.6338)	
BTD		0.0222 (0.0007)***		0.0399 (0.0000)***		0.1887 (0.0138)**
EC			0.0891 (0.5544)	0.2338 (0.0042)***		
GD					-0.0789 (0.0201)**	-0.0929 (0.7052)
ETR*EC			-1.3726 (0.0033)***			
BTD*EC				0.3363 (0.0001)***		
ETR*GD					0.1957 (0.0332)**	
BTD*GD						-1.3453 (0.0107)**
Lev	-0.0250 (0.1801)	-0.0232 (0.1785)	-0.0078 (0.6702)	-0.0119 (0.4515)	0.0241 (0.1587)	0.2401 (0.1681)
Size	-0.0014 (0.0000)***	-0.0010 (0.0012)***	-0.0012 (0.0004)***	-0.0012 (0.0000)***	-0.0006 (0.0637)*	-0.0060 (0.0576)*
ROA	0.0328 (0.4508)	0.0272 (0.4985)	0.0246 (0.5653)	0.0114 (0.7560)	0.0119 (0.7617)	-0.0887 (0.8267)

**CONCLUSION**

Our paper extends the literature by investigating the effect of tax avoidance on corporate risk in Indonesia, as well as the moderating effect of executive characteristics and gender diversity on this association. We contribute to the literature on tax avoidance by demonstrating the positive effect of Indonesian tax avoidance on corporate risk. The characteristics of risk-averse and female executives will reduce tax avoidance and corporate risk.

Our results provide both theoretical and practical implications. In terms of agency theory, our findings suggest that tax avoidance is not a

tax-efficiency strategy (while this may reduce a corporate taxes in the short term) but rather creates risks for companies (it incurs various risks in the long term, such as audit risks. So that the companies have to pay more than they should). The presence of risk-averse executives can help to resolve agency conflicts. Furthermore, these findings strengthen upper echelons theory, which posits that gender diversity promotes more prudent and balanced risk management. For practical implications, since investors react negatively to such actions, companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive

positions in reducing tax avoidance and corporate risk.

Firstly, the study only focused on publicly listed companies, overlooking the growing number of micro-, small- and medium-sized enterprises (MSMEs) in Indonesia. Furthermore, using samples from Indonesian companies only limits the results of this study to the Indonesian context. Indonesia has a different tax system, governance regulations (e.g. gender equality) and organisational culture (e.g.

leadership types) to other countries. Secondly, the measurement of variables is still limited. For example, the executive character could be explored further using a qualitative approach, and gender could be analysed further by considering the role, strategic position, and level of participation of women in decision-making.

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**5. Bukti Konfirmasi Submit Revisi Kedua,  
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Nomor Reviewer	Nomor Komentar	Isi komentar	Halaman	Tulisan Sebelum Revisi	Tulisan Setelah Revisi	Komentar
2897-1-put2	1	The explanation is not strong enough to explain the reason of using characteristic and gender as moderating variable.	1	<p>The tax avoidance practices of companies depend on the characteristics and gender of their executives. The executive's risk-taking nature influences his decisions to engage in aggressive tax avoidance (Liu et al. 2023). Baghdadi, Podolski, and Veeraraghavan (2022) stated that the risk-seeking tendencies of CEOs are one of the managerial characteristics impacting tax avoidance. According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk.</p>	<p>The tax avoidance practices of companies depend on the characteristics and gender of their executives, because they play a central role in shaping managerial decision-making under uncertainty. According to the upper echelons theory, organisational outcomes are determined by the values held by top executives. In the context of high-risk activities such as tax avoidance, the personal characteristics of executives can influence how aggressively these practices are pursued. The executive's risk-taking nature influences his decisions to engage in aggressive tax avoidance (Liu et al. 2023). Baghdadi, Podolski, and Veeraraghavan (2022) stated that the risk-seeking tendencies of CEOs are one of the managerial characteristics impacting tax avoidance. A risk-averse executive is more likely to avoid strategies that could expose the firm to regulatory sanctions or reputational damage. This would weaken the positive association between tax avoidance and firm risk.</p>	

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					<p>According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk. Previous research has shown that women tend to have stronger ethical standards and lower tolerance of excessive risk-taking. This suggests that gender diversity is associated with more thorough decision-making processes, reducing the likelihood of overly aggressive tax strategies. Therefore, gender diversity may also weaken the positive relationship between tax avoidance and corporate risk.</p>	
2897-1-put2	2-3	This is not a novelty. Novelty should answer the research gap and the research gap should not been researched by anyone.	2	The novelty of this study is providing the latest references regarding corporate tax avoidance and corporate risk with executive characteristics and gender diversity as moderating variables in the Indonesian context. Most public companies in Indonesia are family firms with a two-tier governance system that was	The novelty of this study is providing the latest references regarding corporate tax avoidance and corporate risk. This study fills a research gap by examining the relationship between tax avoidance and corporate risk, and investigating the role of executive characteristics and gender diversity in the Indonesian context. Most public	

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		This is a novelty but the novelty does not link to the research gap. Please explain the research gap from Indonesian context.		understudied in previous research. Unlike in other countries with gender quotas, companies in Indonesia have limited gender equality. Studying firms in Indonesia allows us to explore the moderating role of gender in environments where female representation in top management is not enforced by regulation. This offers insights that differ from those in countries with formal gender quotas.	companies in Indonesia are family firms with a two-tier governance system that has not been widely studied in previous research. Unlike in countries with gender quotas, companies in Indonesia have limited gender equality. Studying Indonesian firms enables us to examine the moderating role of gender in environments where female representation in top management is not mandated by law. This provides a different perspective to that in countries with formal gender quotas.	
2897-1-put2	4	Please change into weakening the positive effect	3	Executive characteristics moderate the effect of tax avoidance on corporate risk	<b>Executive characteristics weaken the positive effect of tax avoidance on corporate risk.</b>	
2897-1-put2	5	Please change into weakening the positive effect	4	Gender diversity moderates the effect of tax avoidance on corporate risk.	<b>Gender diversity weaken the positive effect of tax avoidance on corporate risk.</b>	
2897-1-put2	6	What's the difference among CR1-CR6??? If they are using the same measurement, put CR only.	4	The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1: <b>CR1<sub>i</sub></b> = a + ETR <sub>i</sub> .x <sub>1</sub> +Lev <sub>i</sub> .x <sub>2</sub> + e ...(model 1a) <b>CR2<sub>i</sub></b> = a + BTD <sub>i</sub> .x <sub>1</sub> +Lev <sub>i</sub> .x <sub>2</sub> + e ...(model 1b)	The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1: <b>CR<sub>i</sub></b> = a + ETR <sub>i</sub> .x <sub>1</sub> +Lev <sub>i</sub> .x <sub>2</sub> + e ...(model 1a) <b>CR<sub>i</sub></b> = a + BTD <sub>i</sub> .x <sub>1</sub> +Lev <sub>i</sub> .x <sub>2</sub> + e ...(model 1b)	Yes, they are using the same measurement

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			<p>Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:</p> $CR3_i = a + ETR_i.x_1 + EC_i.x_2 + ETR*EC_i.x_3 + Lev_i.x_4 + e$ <p style="text-align: center;">...(model 2a)</p> $CR4_i = a + BTD_i.x_1 + EC_i.x_2 + BTD*EC_i.x_3 + Lev_i.x_4 + e$ <p style="text-align: center;">...(model 2b)</p> <p>Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:</p> $CR5_i = a + ETR_i.x_1 + GD_i.x_2 + ETR*GD_i.x_3 + Lev_i.x_4 + e$ <p style="text-align: center;">...(model 3a)</p> $CR6_i = a + BTD_i.x_1 + GD_i.x_2 + BTD*GD_i.x_3 + Lev_i.x_4 + e$	<p>Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:</p> $CR_i = a + ETR_i.x_1 + EC_i.x_2 + ETR*EC_i.x_3 + Lev_i.x_4 + e$ <p style="text-align: center;">...(model 2a)</p> $CR_i = a + BTD_i.x_1 + EC_i.x_2 + BTD*EC_i.x_3 + Lev_i.x_4 + e$ <p style="text-align: center;">...(model 2b)</p> <p>Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:</p> $CR_i = a + ETR_i.x_1 + GD_i.x_2 + ETR*GD_i.x_3 + Lev_i.x_4 + e$ <p style="text-align: center;">...(model 3a)</p> $CR_i = a + BTD_i.x_1 + GD_i.x_2 + BTD*GD_i.x_3 + Lev_i.x_4 + e$	
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## TAX AVOIDANCE & CORPORATE RISK: MODERATION BY EXECUTIVE CHARACTERISTICS AND GENDER DIVERSITY

Received: Month Date, Year; Revised: Month Date, Year; Accepted: Month Date, Year

**Abstract:** *This study examines the effect of tax avoidance on corporate risk. Next, the moderating effect of executive characteristics and gender diversity is investigated in this association. The study examined Indonesia's nonfinancial listed companies, collecting a sample of 265 observations during 2020-2024. Hypotheses were tested using moderated regression with panel data. It was found that companies that avoid taxes aggressively have a higher level of corporate risk. The presence of risk-averse executive characteristics and women weakens the effect of tax avoidance on corporate risk. This research contributes by providing the latest references regarding Indonesian tax avoidance behavior that poses risks to companies and encouraging companies in Indonesia to be aware of the importance of executive characteristics and gender diversity.*

**Keywords:** Tax Avoidance, Executive Characteristics, Gender Diversity, Corporate Risk.

### INTRODUCTION

Tax avoidance practices remain widespread in Indonesia. Taxpayers interpret tax avoidance as a legal act (Hidranto 2023). Indonesia lost at least \$2.7365 billion (approximately 44 trillion Indonesian rupiah) due to corporate tax avoidance ("The State of Tax Justice 2023" 2023)("The State of Tax Justice 2023" 2023). The consequence of companies' continued tax avoidance is suboptimal state revenue. To overcome this phenomenon, the Indonesian government issued new regulations to prevent such practices. The latest regulation related to tax avoidance is Peraturan Pemerintah No. 55 of 2022, which amends income tax regulations and is derived from Undang-Undang No. 7 of 2021, also known as Undang-Undang Harmonisasi Peraturan Perpajakan.

Taxpayers believe corporate tax avoidance will reduce their tax obligations, thereby maximizing shareholder value. However, they also know that tax avoidance encompasses a wide range of activities, from harmless ones to aggressive strategies that are

unlikely to hold up in court (Dyreng, Hanlon, and Maydew 2019). Therefore, they recognize the negative impact of this practice (Thai et al. 2025). In fact, tax avoidance can create uncertainty for companies regarding future tax obligations and payments (Duhoon and Singh 2023).

According to Balakrishnan, Blouin, and Guay (2019) and Baker, Lyu, and Perotti (2024), companies that engage in tax avoidance demonstrate a lack of transparency to investors and reduce the comparability of their accounting. Su and Deng (2024) indicate that tax avoidance causes increased stock price instability, which leads to decreased stock market performance because of investor distrust. Tax avoidance increases corporate risk due to lower credit ratings and related investment inefficiency (Ariff et al. 2023; Benkraiem, Gaaya, and Lakhali 2024; Dhawan, Ma, and Kim 2020; Richardson, Taylor, and Lanis 2015)

The tax avoidance practices of companies depend on the characteristics and gender of their executives, because they play a central role in shaping managerial decision-

making under uncertainty. According to the upper echelons theory, organisational outcomes are determined by the values held by top executives. In the context of high-risk activities such as tax avoidance, the personal characteristics of executives can influence how aggressively these practices are pursued. The executive's risk-taking nature influences his decisions to engage in aggressive tax avoidance (Liu et al. 2023). Baghdadi, Podolski, and Veeraraghavan (2022) stated that the risk-seeking tendencies of CEOs are one of the managerial characteristics impacting tax avoidance. A risk-averse executive is likelier to avoid strategies that could expose the firm to regulatory sanctions or reputational damage. This would weaken the positive association between tax avoidance and firm risk.

According to Sukendar, Djaja, and Mettaya (2022), women are generally more risk-averse, which makes them less likely to engage in risky corporate actions, such as aggressive tax avoidance. Furthermore, Thai et al. (2025) found that tax avoidance increases corporate risk, but female executives mitigate this risk. Previous research has shown that women tend to have stronger ethical standards and lower tolerance of excessive risk-taking. This suggests that gender diversity is associated with more thorough decision-making processes, reducing the likelihood of overly aggressive tax strategies. Therefore, gender diversity may weaken the positive relationship between tax avoidance and corporate risk.

In contrast to the previously mentioned research results, several studies provide different findings. For example, Guenther, Matsunaga, and Williams (2017) and Warastri and Suryaningrum (2022) found that tax avoidance does not affect corporate risk directly or indirectly. Wilde and Wilson (2018) stated that risk-seeking tendencies have no impact on corporate tax avoidance. Hoseini, Gerayli, and Valiyan (2019) found that the presence of women executives does not influence the decision to engage in tax avoidance.

Inconsistent research results provide room for further research on the relationship between tax avoidance and corporate risk. This study seeks empirical evidence of how tax avoidance affects corporate risk, considering executive characteristics and gender diversity as moderating variables. The novelty of this study is providing the latest references regarding corporate tax avoidance and corporate risk. This study fills a research gap by examining the relationship between tax avoidance and corporate risk, and investigating the role of executive characteristics and gender diversity in the Indonesian context. Most public companies in Indonesia are family firms with a two-tier governance system that has not been widely studied in previous research. Unlike in countries with gender quotas, companies in Indonesia have limited gender equality. Studying Indonesian firms enables us to examine the moderating role of gender in environments where female representation in top management is not mandated by law. This provides a different perspective from that in countries with formal gender quotas.

## Literature Review and Hypothesis Development

The above phenomenon is based on the agency theory, which was first proposed by Jensen and Meckling (1976) and later expanded upon by Eisenhardt (1989). According to this theory, agents (i.e., managers) are parties authorized by the principal (i.e., investors) to run a company. Although both parties share the same goal of maximizing company value, they often use different methods. Since managers have the most knowledge about a company's operations, they can use various methods to maximize profits, even risky ones, because they receive significant incentives. One such method is tax avoidance. Information asymmetry occurs when company managers do not present the company's true financial condition, but rather information that benefits them personally.

According to Hanlon and Heitzman (2010), tax avoidance is any activity to reduce tax liability. From an agency theory perspective, tax avoidance benefits managers unilaterally. It reduces transparency and, in the long run, can cause a company to lose its reputation. Tax avoidance is also considered socially irresponsible to shareholders (Wang et al. 2020). It is also considered a management activity that can mislead investors and reduce the company's value by covering up bad news (Desai and Dharmapala 2009; Hanlon and Slemrod 2009; Wang 2011). Balakrishnan, Blouin, and Guay (2019) state that the more aggressively a company conducts tax avoidance, the less transparent its information becomes for investors. Aggressive tax avoidance is strongly related to aggressive financial reporting, companies will produce non-transparent reports (Desai and Dharmapala 2006). This uncertainty and poor corporate transparency will increase the company's risk, ultimately destroying its share price (Kim, Li, and Zhang 2011).

According to Baker, Lyu, and Perotti (2024) and Balakrishnan, Blouin, and Guay (2019), tax avoidance reduces the comparability of company accounting practices, which calls transparency into uncertainty for investors. This can lead to increased stock price volatility (Su and Deng 2024), and investors become skeptical, which causes stock market performance to decline. Tax avoidance also causes investment inefficiencies (Benkraiem, Gaaya, and Lakhali 2024), lowers credit ratings, and increases corporate risk (Ariff et al. 2023; Dhawan, Ma, and Kim 2020; Edwards, Schwab, and Shevlin 2016; Richardson, Taylor, and Lanis 2015). Therefore, the first hypothesis in this study is:

**H<sub>1</sub>: Aggressive tax avoidance is associated with higher corporate risk.**

Tax avoidance is a decision made by executives and depends on the individual. Dyreng, Hanlon, and Maydew (2010) demonstrated that executives play a significant

role in determining how much a company will engage in tax avoidance practices. Executive character refers to a company leader's traits, preferences, and behavioral patterns when making strategic decisions, especially those involving risk. It reflects how willing an executive is to face uncertainty and potential losses to pursue profit opportunities (Bamber, Jiang, and Wang 2010). People who are willing to take risks are often more confident when making decisions, including those related to tax avoidance. They are more likely to push aggressive tax avoidance strategies to reduce their tax burden, so that corporate risk increases from detection, penalties, and reputational loss. Conversely, risk-averse people tend to avoid risks because they dislike uncertainty about the future and this caution is often a result of their fear of loss or failure (Alfiyah, Subroto, and Ghofar 2022; Lewellen 2003; MacCrimmon and Wehrung 1990). It moderates the upward relationship (weakening it). Dyreng, Hanlon, and Maydew (2010) stated that to identify tax avoidance behavior, we must examine the characteristics of executives, as the characteristics of a company are sometimes unable to capture this behavior. Therefore, the second hypothesis in this study is:

**H<sub>2</sub>: Executive characteristics weaken the positive effect of tax avoidance on corporate risk.**

Studies have shown that female executives avoid risks, reducing tax avoidance rates and minimizing corporate risk (Dakhli 2022; Hoseini, Gerayli, and Valiyan 2019; Novita 2016; Riguen, Salhi, and Jarbouei 2020). Female executives moderate the relationship between tax avoidance and corporate risk. They incorporate ethical discipline, stronger monitoring, and stakeholder-oriented governance into decision-making processes (Yang et al. 2019; Aguir et al. 2023; Israini 2020; Adnindya and Restuti 2024). This approach ensures that, while tax avoidance is still practiced, it does not escalate into risky (Thai et

al. 2025), aggressive behavior that endangers the firm (Tashfeen et al. 2023). Thus, the second and third hypotheses in this study are:

**H3: Gender diversity weakens the positive effect of tax avoidance on corporate risk.**

**METHOD**

This quantitative study involves all non-financial companies listed on the Indonesia Stock Exchange (IDX). We use Indonesian companies as our sample because Indonesia's gender regulations differ from other countries. Although Indonesia has not implemented formal gender quotas, gender equality in corporate leadership remains limited. This context provides a unique opportunity to examine how

executive characteristics, including gender, influence corporate decisions, such as tax avoidance. Financial companies were excluded due to their separate accounting and taxation regulations. All data were obtained from Refinitiv and the companies' annual reports. The sample was selected based on several criteria, including the use of rupiah as the reporting currency and reported profits during the study period (2020-2024). The effective tax rate can be used to identify tax avoidance when the company reports profits (Dyreng, Hanlon, and Maydew 2019). The sample calculation method of this study is explained by Table 1, including the selection criteria, number of firms, and total number of firm-year observations in the analysis.

**Table 1. Research Sample**

Criteria	Total	Total Sample (2020-2024)
Non-financial companies	829	4145
Less companies that do not issue an annual report consistently/companies listed during the research period	(122)	(610)
Less companies that do not use the Indonesian rupiah as their reporting currency	(56)	(280)
Less companies that have made losses	(201)	(1005)
Less companies that do not provide the required data	(326)	(1630)
Less data affected by outliers	(71)	(355)
Final sample	53	265

The following regression model is used to test the effect of tax avoidance on corporate risk in hypothesis 1:

$$CR_i = a + ETR_{i.X1} + Lev_{i.X2} + e \quad \dots(\text{model 1a})$$

$$CR_i = a + BTD_{i.X1} + Lev_{i.X2} + e \quad \dots(\text{model 1b})$$

Then, in hypothesis 2, we test the effect of tax avoidance on corporate risk with executive characteristics as a moderating variable using the following model:

$$CR_i = a + ETR_{i.X1} + EC_{i.X2} + ETR*EC_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 2a})$$

$$CR_i = a + BTD_{i.X1} + EC_{i.X2} + BTD*EC_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 2b})$$

Finally, in hypothesis 3, we test the effect of tax avoidance on corporate risk with gender diversity as a moderating variable using the following model:

$$CR_i = a + ETR_{i.X1} + GD_{i.X2} + ETR*GD_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 3a})$$

$$CR_i = a + BTD_{i.X1} + GD_{i.X2} + BTD*GD_{i.X3} + Lev_{i.X4} + e \quad \dots(\text{model 3b})$$

Notes:

CR<sub>i</sub>: Corporate Risk in year i

ETR<sub>i</sub>: Tax Avoidance measured by Effective Tax Rate in year i

BTD<sub>i</sub>: Tax Avoidance measured by Book Tax Different in year *i*  
EC<sub>i</sub>: Executive Characteristics in year *i*  
GD<sub>i</sub>: Gender Diversity in year *i*  
Lev<sub>i</sub>: Leverage in year *i*  
*a*: Constanta

$x_{1,2,3,4}$ : Coefficient Regression 1,2,3,4  
*e*: error

Table 2 presents the operational definition of variables.

**Table 2. Operational Definition of Variables**

Variable	Indicator
<b>Independent Variable-Tax Avoidance:</b>	
Effective Tax Rate (ETR)	Income tax expense divided by profit before tax (Dyreng, Hanlon, and Maydew 2019, 2010). The ETR is a negative or inverse measurement; the higher the ETR value, the lower the level of tax avoidance.
Book Tax Different (BTD)	$(\text{Pretax Income} \times \text{Tax Rate}^* - \text{Income Tax}) / \text{Total assets}$ (Gaaya, Lakhal, and Lakhal 2017; Sutrisno et al. 2023; Tang, Mo, and Chan 2017). *The applicable tax rate in the country where the company operates.
<b>Dependent Variables-Corporate Risk:</b>	
Corporate Risk (CR)	Stock returns volatility (Guenther, Matsunaga, and Williams 2017; Sutrisno et al. 2023).
<b>Moderating Variable:</b>	
Executive Characteristics (EC)	A comparison of the standard deviation of EBITDA and total assets (Dyreng, Hanlon, and Maydew 2010; Novita 2016; Paligorova 2010).
Gender Diversity (GD)	The ratio of female executives to total executives (Jarboui, Saad, and Riguen 2020; Khim and Kee 2024; Zhang et al. 2022).
<b>Control Variable-Company Characteristics:</b>	
Leverage	A comparison between Long-Term Debt and Total Assets (Sutrisno et al. 2023; Yee, Sapiei, and Abdullah 2018).
Firm Size	The log of the book value of total assets (Thai et al. 2025).
Profitability (ROA)	Earnings before interest and taxes divided by total assets (Sutrisno et al. 2023).

This study will test the hypotheses using moderated regression analysis of panel data. First, descriptive statistics will be presented for all variables. The second stage involves calculating Pearson correlations to ensure the data are free of multicollinearity and other classic problems. Then, moderated regression analysis of panel data will be conducted to test all

hypotheses. Finally, a robustness test is performed to address issues of endogeneity.

Figure 1 shows the research model developed in this study. It illustrates the hypothesised relationships between tax avoidance, executive characteristics and corporate risk.

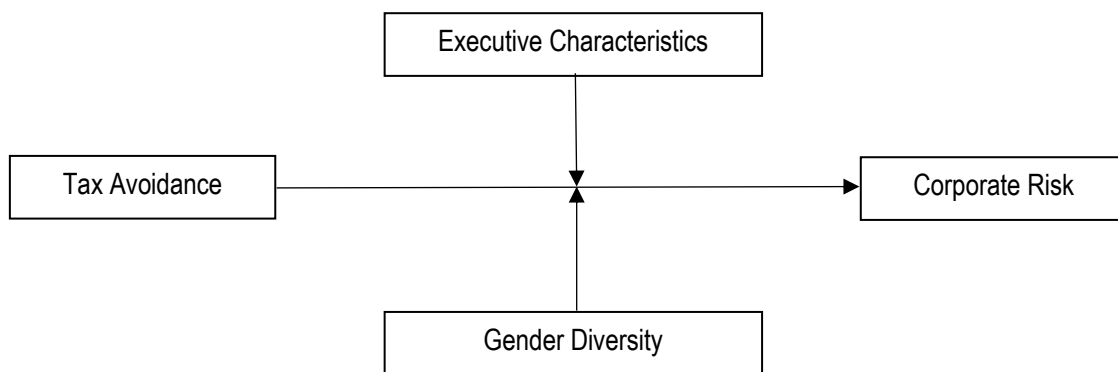


Figure 1. Research Model

**RESULTS**

**Descriptive Statistics**

Table 3 presents the descriptive statistics of the main variables for a total sample of 265 observations. The table shows that the average corporate risk is 0.109 (standard deviation = 0.060), which indicates that non-financial firms in Indonesia have relatively low future risk. This finding is consistent with Sutrisno et al (2023). The tax avoidance rate (average = 0.249, standard deviation = 0.147) and gender diversity (average = 14.425, standard deviation = 13.495) are close to the values reported by Jarboui, Saad, and Riguen (2020): 0.239 (ETR) and 13.839 (GD),

respectively. The maximum value for gender diversity is 0.75. The distance between the average and maximum values observed illustrates the limited involvement of women directors on the board of Indonesian companies. On the other hand, executive characteristics have an average of 0.029 (standard deviation = 0.038). This is consistent with Novita (2016) and indicates that the type of executive decision-making in Indonesia has remained consistent.

We also present Table 4, which shows the correlations among the independent variables in this study and helps us determine whether multicollinearity occurs. Table 4 shows that the data are free from classic problems.

**Table 3. Summary Statistics of Main Variables**

Variable	Mean	St.dev	Min	Max
CR	0.109913	0.060162	0.02322	0.452446
ETR	0.249858	0.147741	0.011581	0.74558
<b>BTD</b>	<b>0.223892</b>	<b>0.478528</b>	<b>0.0000000242</b>	<b>5.085034</b>
EC	0.029295	0.038974	0.000046	0.25473
<b>GD</b>	<b>0.144257</b>	<b>0.134950</b>	<b>0</b>	<b>0.75</b>
Lev	0.209542	0.181605	0	0.727643
<b>Size</b>	<b>27.18770</b>	<b>10.84829</b>	<b>24.61103</b>	<b>37.81563</b>
<b>ROA</b>	<b>0.085295</b>	<b>0.084393</b>	<b>0.023508</b>	<b>0.299751</b>

Notes: CR, Corporate Risk; ETR, Effective Tax Rate; BTD, Book Tax Different; EC, Executive Characteristics; GD, Gender Diversity; Lev, Leverage; ROA, Return on Asset.

**Table 4. Pearson Correlations for Independent Variables**

	1	2	3	4	5	6	7	Prob <sup>a</sup>
1 ETR	1.000							0.8755
2 BTD	0.0958***	1.000						0.0891
3 EC	0.1693	0.1563***	1.000					0.2690
4 GD	0.0787***	-0.1097***	-0.0088***	1.000				0.3413
5 Lev	0.1541***	-0.0159***	0.0591***	-0.0718***	1.000			0.3550
6 Size	0.0590***	-0.2668	-0.1395***	0.0821***	0.0419***	1.000		0.4841
7 ROA	-0.1279***	-0.1646	0.0384***	0.0882***	-0.2263	0.3836	1.000	0.0738

Notes: \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level respectively; Prob<sup>a</sup> is the result of the Glejser test at the 0.05 level; Jarque-Bera Probability is 0.7029, with Durbin-Watson stat 2.024 (DU = 1,8441).

### Empirical Results and Discussion

Table 5 shows the results of the hypothesis tests for the six models. Models 1a and 1b investigated how tax avoidance affects corporate risk. Tax avoidance, as measured by ETR (Model 1a) and BTD (Model 1b), was shown to influence corporate risk with probabilities of 0.037 and 0.001, respectively. These probabilities are significant at the 0.05 and 0.01 levels, respectively. ETR, an inverse measure, showed a negative coefficient (-0.052). This indicates that a higher ETR corresponds to lower corporate risk. However, a higher ETR indicates a lower level of tax avoidance. The BTD measurement showed a positive coefficient (1.95), indicating a higher level of tax avoidance. Thus, the empirical results align with Hypothesis 1, aggressive tax avoidance is associated with higher corporate risk.

In line with agency theory, agents carry out tax avoidance to achieve their personal goals, ultimately reducing transparency to the principal. Reduced transparency damages the company's reputation in the long run (Wang et al. 2020) and leads investors to view tax avoidance negatively (Chen et al. 2014; Guedrib and Marouani 2023). This reduced transparency includes reduced accounting comparability and the overall financial reporting system Baker, Lyu,

and Perotti (2024). While tax avoidance reduces income tax payable, it also increases the risk of a stock price crash (Garg et al. 2022). This is because tax avoidance has the potential to incur high costs, thereby increasing stock price volatility (Su and Deng 2024) and causing a negative reaction in stock prices (Bauclloh et al. 2021).

Descriptive statistics show that the minimum effective tax rate (ETR) for companies in Indonesia is 0.011581, or approximately 1.15%. An ETR value below the 25% tax threshold indicates aggressive tax avoidance, a practice that remains a concern for the Indonesian government. However, the average ETR for Indonesian companies is 24.98%, approaching the 25% tax rate, which suggests that they generally do not engage in tax avoidance activities. Descriptive statistics also support this finding, indicating that corporate risk is also reduced when tax avoidance activities are low. The average risk for companies in Indonesia is 0.109, or 10.9%, which is relatively low compared to the maximum level of 45.24%. This is partly due to the Indonesian context, in which most companies are family-owned, tend to have a feminine leadership style (Northouse 2013), and are conservative and reputation-oriented (Putri and Viverita 2019; Sutrisno et al. 2023).

**Table 5. Hypothesis Testing**

<i>Variable</i>	<i>Model 1a<sup>a</sup></i>	<i>Model 1b<sup>b</sup></i>	<i>Model 2a<sup>b</sup></i>	<i>Model 2b<sup>b</sup></i>	<i>Model 3a<sup>b</sup></i>	<i>Model 3b<sup>b</sup></i>
Const	0.1221 (0.0000)***	0.0386 (0.0589)*	0.0185 (0.4631)	0.0582 (0.0292)**	0.0822 (0.0009)***	0.0558 (0.0107)**
ETR	-0.0546 (0.0289)**		0.1098 (0.0656)*		-0.0010 (0.9852)	
BTD		0.0388 (0.0019)***		0.0361 (0.0039)***		0.0520 (0.0001)***
EC			0.7358 (0.0038)***	0.0047 (0.1723)		
GD					-0.1533 (0.3821)	-0.0872 (0.0528)*
ETR*EC			-1.7172 (0.0432)**			
BTD*EC				0.1709 (0.0173)**		
ETR*GD					0.1310 (0.0126)**	
BTD*GD						-0.1346 (0.0485)**
Lev	0.0284 (0.1692)	0.2139 (0.0024)***	0.1963 (0.0056)***	0.2273 (0.0013)***	0.1331 (0.0594)*	0.1924 (0.0055)***
Size	-0.0011 (0.0042)***	0.0007 (0.1915)	0.0007 (0.2441)	0.0007 (0.2887)	0.0008 (0.1778)	0.0008 (0.1548)
ROA	-0.0379 (0.432)	-0.0299 (0.7072)	-0.0316 (0.7000)	-0.0248 (0.7534)	-0.0463 (0.5744)	-0.0406 (0.6014)
Adj. R <sup>2</sup>	0.0607	0.1908	0.1859	0.2057	0.1782	0.2324
F Test	5.2652	1.9431	1.8863	2.0056	1.8419	2.1757
F Sig	0.0004	0.0002	0.0004	0.0001	0.0006	0.000
Observation	265	265	265	265	265	265

Notes: the dependent variable is corporate risk; <sup>a</sup> is for Common Effect Model and <sup>b</sup> is for Fixed Effect Model; \*, \*\*, \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level, respectively.

**The moderating effect of executive characteristics on tax avoidance and corporate risk**

Models 2a (tax avoidance = ETR) and 2b (tax avoidance = BTD) show the moderation of executive characteristics on the effect of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 level (0.037 and 0.041), with inverse

measurement coefficient values of -1.759 for ETR and 1.09 for BTD. These results conclude that executive characteristics moderate the effect of tax avoidance on corporate risk by strengthening the relationship. When a company engages in aggressive tax avoidance coupled with risk-taking executives, the company's risk increases. Risk-taking executives are more likely to make risky decisions, including tax decisions. Risk-seeking executives (Baghdadi,

Podolski, and Veeraraghavan 2022) who are also overconfident (Chyz et al. 2019; Hsieh, Wang, and Demirkan 2018; Sutrisno et al. 2023) will engage in aggressive tax avoidance even though such actions are risky (Dhawan, Ma, and Kim 2020; Wang et al. 2020).

### The moderating effect of gender diversity on corporate risk and tax avoidance

Models 3a (tax avoidance = ETR) and 3b (tax avoidance = BTD) show the moderation of gender diversity in the influence of tax avoidance on corporate risk. Both measurements provide significant results at 0.05 (0.011) and 0.10 (0.055) levels, with coefficient values of 0.002 for ETR (inverse measurement) and -6.51 for BTD. These results lead to the conclusion that gender diversity weakens the relationship between tax avoidance and corporate risk. The greater the proportion of women in executive positions, the lower the level of tax avoidance aggressiveness, and thus, the

lower the corporate risk. These results align with previous research concluding that women are generally risk-averse, including concerning the risk of overly aggressive tax avoidance (Budiana and Kusuma 2022; Dakhli 2022; Elgharabawy and Aladwey 2025; Sukendar, Djaja, and Mettaya 2022). Not only does the presence of women reduce tax avoidance, but it also reduces corporate risk (Yang et al. 2019).

### Robustness Test

A robustness test was performed to address endogeneity concerns. The robust test is used with the S-estimator because the S-estimator provides the most accurate results for data with high outliers (Rousseeuw and Yohai 1984). The demonstration of consistency between the results of the robustness test and the regression test is shown in Table 6. Therefore, we conclude that there are no endogeneity concerns in this study.

**Table 6. Robustness Test**

<i>Variable</i>	<i>Model 1a<sup>a</sup></i>	<i>Model 1b<sup>b</sup></i>	<i>Model 2a<sup>b</sup></i>	<i>Model 2b<sup>b</sup></i>	<i>Model 3a<sup>b</sup></i>	<i>Model 3b<sup>b</sup></i>
Const	0.1044 (0.0000)***	0.1168 (0.0000)***	0.1131 (0.0000)***	0.1158 (0.0000)***	0.1094 (0.0000)***	0.2069 (0.0000)***
ETR	-0.0926 (0.0000)***		-0.0025 (0.6642)		-0.0025 (0.6338)	
BTD		0.0222 (0.0007)***		0.0399 (0.0000)***		0.1887 (0.0138)**
EC			0.0891 (0.5544)	0.2338 (0.0042)***		
GD					-0.0789 (0.0201)**	-0.0929 (0.7052)
ETR*EC			-1.3726 (0.0033)***			
BTD*EC				0.3363 (0.0001)***		
ETR*GD					0.1957 (0.0332)**	
BTD*GD						-1.3453 (0.0107)**

Lev	-0.0250 (0.1801)	-0.0232 (0.1785)	-0.0078 (0.6702)	-0.0119 (0.4515)	0.0241 (0.1587)	0.2401 (0.1681)
Size	-0.0014 (0.0000)***	-0.0010 (0.0012)***	-0.0012 (0.0004)***	-0.0012 (0.0000)***	-0.0006 (0.0637)*	-0.0060 (0.0576)*
ROA	0.0328 (0.4508)	0.0272 (0.4985)	0.0246 (0.5653)	0.0114 (0.7560)	0.0119 (0.7617)	-0.0887 (0.8267)

## CONCLUSION

This paper extends the literature by investigating the effect of tax avoidance on corporate risk in Indonesia, as well as the moderating effect of executive characteristics and gender diversity on this association. We contribute to the literature on tax avoidance by demonstrating the positive effect of Indonesian tax avoidance on corporate risk. The characteristics of risk-averse and female executives will reduce tax avoidance and corporate risk.

Our results provide both theoretical and practical implications. Regarding agency theory, our findings suggest that tax avoidance is not a tax-efficiency strategy (while this may reduce corporate tax in the short term) but rather creates risks for companies (it incurs various risks in the long term, such as audit risks so that the companies have to pay more than they should). The presence of risk-averse executives can help to resolve agency conflicts. Furthermore, these findings strengthen upper echelons theory, which posits that gender diversity promotes more prudent and balanced risk management. For practical implications,

since investors react negatively to such actions, companies should reconsider before engaging in aggressive tax avoidance. The results of this study also have implications for policymakers regarding the role of women in executive positions in reducing tax avoidance and corporate risk.

Firstly, the study only focused on publicly listed companies, overlooking Indonesia's growing number of micro-, small- and medium-sized enterprises (MSMEs). Furthermore, using samples from Indonesian companies only limits the results of this study to the Indonesian context. Indonesia has a different tax system, governance regulations (e.g., gender equality), and organisational culture (e.g. leadership types) from other countries. Secondly, the measurement of variables is still limited. For example, the executive character could be explored further using a qualitative approach, and gender could be analysed further by considering women's role, strategic position, and level of participation in decision-making.

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