

The Effect of Tax Avoidance and Product Market Competition on Cost Stickiness with Business Strategy as A Moderation

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Abstract

Managers' decisions regarding company resources can impact company costs significantly when sales activity decreases, resulting in cost stickiness. These costs can be covered by cash savings from tax avoidance or by pruning unused resources when the company's product market competition increases. Implementation of strategy also has an impact on company cost management. This research aims to provide empirical evidence that tax avoidance and product market competition influence cost stickiness, which is moderated by business strategy. This type of research is quantitative, using secondary data. Using purposive sampling, 33 manufacturing sector companies listed on the IDX for 2013-2022 were obtained. Data analysis used SPSS 26 software. The research results obtained were: (1) Tax avoidance has a positive and significant effect on cost stickiness; (2) Product market competition has a negative and significant effect on cost stickiness; (3) The prospector's business strategy cannot strengthen the influence of tax avoidance on cost stickiness; (4) Business strategy defenders cannot strengthen the influence of product market competition on cost stickiness.

Abstrak

Keputusan manajer mengenai sumber daya perusahaan dapat berdampak signifikan pada biaya perusahaan ketika aktivitas penjualan menurun, yang mengakibatkan kelengketan biaya. Biaya ini dapat ditutupi dengan penghematan uang tunai dari penghindaran pajak atau dengan memangkas sumber daya yang tidak terpakai ketika persaingan pasar produk perusahaan meningkat. Penerapan strategi juga berdampak pada manajemen biaya perusahaan. Penelitian ini bertujuan untuk memberikan bukti empiris bahwa penghindaran pajak dan persaingan pasar produk mempengaruhi kelekatan biaya, yang dimoderasi oleh strategi bisnis. Jenis penelitian ini bersifat kuantitatif, menggunakan data sekunder. Dengan menggunakan purposive sampling, diperoleh 33 perusahaan sektor manufaktur yang tercatat di BEI untuk tahun 2013-2022. Analisis data menggunakan perangkat lunak SPSS 26. Hasil penelitian yang diperoleh adalah: (1) Penghindaran pajak memiliki efek positif dan signifikan terhadap kelekatan biaya; (2) Persaingan pasar produk memiliki efek negatif dan signifikan terhadap kelekatan biaya; (3) Strategi bisnis pencari tidak dapat memperkuat pengaruh penghindaran pajak terhadap kelekatan biaya; (4) Pembela strategi bisnis tidak dapat memperkuat pengaruh persaingan pasar produk pada kelekatan biaya.

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Kata kunci

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Produk;
Strategi Bisnis.

1. Introduction

Costs are the most important part of a company that must be managed well to obtain goods and services. Managers are one of the parties responsible for managing company costs and must understand cost concepts and behavior. Thus, managers can optimize costs and increase efficiency in managing company resources (Zulfiati et al., 2020). Costs have various classifications related to company activities, including the relationship between costs and activity levels. In this relationship, there is disproportionality, where when sales activity decreases, costs tend to decrease less, but when sales activity increases, costs tend to increase more; this phenomenon is known as cost stickiness (Anderson et al., 2003). Companies indicated by cost stickiness can be detrimental to shareholders because the company experiences a decline in profits, giving rise to agency problems (Arliyansyah et al., 2023). Managers must consider the benefits of pruning unused resources when sales decline because the resulting adjustment costs will be high.

To minimize cost stickiness, companies can make the best use of tax avoidance, in this case, not aggressively. Tax avoidance results in cash savings or financial flexibility, which can be used to minimize the impact of the company's cost stickiness. Research by Xu et al., (2018) and Putra et al., (2020) found that there is a negative and significant relationship between tax avoidance and cost stickiness, which means that cash savings from tax avoidance can reduce managers' concerns regarding the cost of adjusting unused resources, making it possible to cut more quickly when there is a decline in sales. However, Restuti, (2023) found that tax avoidance positively affects cost stickiness, which means that managers are motivated to retain unused resources when sales decline because cash savings from tax avoidance can partially cover the adjustment costs that arise. Besides that, product market competition can also minimize cost stickiness. Product market competition is one of the company's external monitors. High product market competition motivates managers to improve company performance and make the best decisions in the future so that from here, the principal can see the manager's performance in managing the company. When a company is in high competition, and there is a decline in sales, the company will survive in any way, either cutting costs to maintain finances or increasing costs, which can have a big impact on the company. Li et al., (2017) found that product market competition positively affected cost stickiness. However, J. Li et al., (2021) found that product market competition negatively affects cost stickiness.

Research on cost stickiness is also often related to business strategy. The company's competitive advantage is reflected in the strategy implemented, which will respond to changes in the business environment and influence the company's performance. Several typologies of strategies proposed by Miles et al., (1978), of which the most common are the defender and prospector. The defenders focus on cost efficiency and prospectors focus on innovation. Managers will adjust resource allocation to suit their competitive strategy. Ayu Widyasari, (2018) and Ballas et al., (2022), found that the defender business strategy reduces cost stickiness while the prospector strategy increases cost stickiness. Higgins et al., (2015) found that companies that implemented a prospector strategy had a higher level of tax avoidance than those that implemented a defender strategy because companies with a prospector strategy have more opportunities to carry out tax avoidance. Xu et al., (2018) found a negative relationship between tax avoidance and cost stickiness that was more obvious in the business strategy of prospectors than defenders.

In addition, product market competition has a negative effect on cost stickiness in a competitive and cost-focused business environment. Companies with a defender strategy will face price pressure and higher costs, and also have greater flexibility to adjust costs when competition increases. Conversely, the prospector strategy can reduce price competition by making products that are different from competitors. But when sales decline, companies with a prospector strategy have higher adjustment costs and inclined retain unused resources. This statement is different from the research conducted by J. Li et al., (2021), which found that in companies with prospector strategy, high product market competition cannot weaken cost stickiness.

Due to the background that has been explained and the need for more research examining the effect of tax avoidance and product market competition on cost stickiness, researchers are interested in studying it more deeply. Besides that, this research also adds the moderating effect of business

strategy to the relationship between the independent and dependent variables. Since there has not been much study done on the moderating impact of business strategy and no relevant studies have been found in Indonesia, researchers are eager to carry out further studies in this area. According to Sidabutar et al., (2018), manufacturing companies listed on the Indonesia Stock Exchange exhibit sticky cost behavior since their costs rise more significantly when net sales rise as opposed to falling. So, manufacturing companies listed on the Indonesia Stock Exchange (IDX) are the objects of this study and this research takes 2013-2022 as the research year.

2. Methods

This research is quantitative research where the data used are annual reports and financial reports of manufacturing companies listed on the Indonesia Stock Exchange for the 2013-2022 period. The sample selection technique uses a purposive sampling technique with several sample criteria that must be met, namely (1) manufacturing companies that are consistently listed on the Indonesia Stock Exchange for the 2013-2022 period, (2) manufacturing companies that consistently publish financial reports and annual reports in the research period. , (3) manufacturing companies that consistently use the rupiah currency in their financial reports and annual reports, (4) manufacturing companies that have positive profits before tax, and (5) manufacturing companies that have complete data for all measurements of research variables. After filtering the sample, the next step is to tabulate the data and measure each variable. After that, the classical assumption test, model feasibility test (F test), coefficient of determination test (R²), and hypothesis test (t-test) were carried out, assisted by SPSS Version 26.0 software.

This research has several variables, namely tax avoidance (X₁), product market competition (X₂), business strategy (Z), and cost stickiness (Y). The following are the measurements of the variables used in this research, namely as follows:

Tabel 1. Measurement Variable

No	Variable	Measurement	References
1.	Cost Stickiness (Y)	$\Delta \ln DV_{i,t} = \beta_0 + \beta_1 \Delta \ln SALES_{i,t} + \beta_2 DEC_{i,t} \times \Delta \ln SALES_{i,t} + \varepsilon_{i,t}$ <p> $\Delta \ln DV_{i,t}$: The natural logarithm of cost of goods sold and selling, general and administrative costs in year t (research period) is compared with the year t-1 (previous period). $\Delta \ln SALES_{i,t}$: The natural logarithm of net income or sales in year t (research period) is compared with the year t-1 (previous period). $DEC_{i,t}$: Dummy variable that describes sales. If sales have decreased compared to the previous year given a value of 1, and if sales have increased compared to the previous year are given a value of 0. </p>	Anderson et al., (2003); Subramanyam et al., (2003); Banker et al., (2014); and Fakhroni, (2017)
2.	Tax avoidance (X ₁)	$CETR = \frac{\text{Cash Taxes Paid}_{i,t}}{\text{Pretax Income}_{i,t}} \times (-1)$	Dyreng et al., (2008); Higgins et al., (2015); Cook et al., (2017); and Xu et al., (2018).
3.	Product Market Competition (X ₂)	$PCM_i = \frac{\text{Profit}_{it}}{\text{Sales}_{it}}$ <p>IPCM = company's PCM - industry's average PCM</p>	Chou et al., (2011); Chen et al., (2020); and Yanuardi & Usman, (2022).
4.	Business Strategy (Z)	1) Produced and distributed goods and services effectively $EMP/SALES = \frac{\text{Number of Employees}}{\text{Sales}}$	Bentley et al., (2013); Higgins et al., 2012); and Hendrani et al., (2022);

No	Variable	Measurement	References
		2) Company's growth rate	
	$M_{tob} = \frac{\text{Stock Market Price at the End of Period } t}{\text{Total Company Equity/Number of Shares Outstanding}}$		
		3) Marketing and sales	
	$\text{Market} = \frac{\text{Advertising Expenses}}{\text{Total Sales}}$		
		4) Fixed asset intensity	
	$\text{PPEINT} = \frac{\text{Property, Plant, and Equipment}}{\text{Total Assets}}$		
<p>After these ratios are calculated, they are grouped by industry and given 1-5 quintiles for the first to third ratios, and for the fourth ratio, 5-1 quintiles are given. Then, the total of all ratios is added up per company, and the strategies are grouped. If the score is 4-12 will be given a score of 0 (defender), and the score 13-20 will be given a score of 1 (prospector).</p>			

3. Results and Discussion

With the assist of IBM SPSS Statistics 26, this study employs multiple linear and moderated regression analyses to examine the potential influence of business strategy-moderated tax avoidance and product market competition on cost stickiness. To choose the sample, this research used purposive sampling and acquired 33 companies or 330 observation samples. However, because there was abnormal data, the author removed several extreme values so that 311 observation samples were obtained.

3.1. The Classical Assumption Test

This research using Kolmogorov-Smirnov test to determine whether data is normally distributed. If the significance value is greater than 5% or 0.05, the data is normally distributed. Conversely, if it is less than 5% or 0.05, the data is not normally distributed.

Tabel 2. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		311
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,10348039
Most Extreme Differences	Absolute	,045
	Positive	,045
	Negative	-,036
Test Statistic		,045
Asymp. Sig. (2-tailed)		,200 ^{c,d}

It is shown in the table above, significant value of 0.200 was obtained after extreme data outliers were carried out, so it can be concluded that the data is normally distributed.

The Variance Inflation Factor (VIF) and tolerance value can be used to determine the degree of multicollinearity. Multicollinearity does not exist if the tolerance value is > 0.10 and the VIF is less than 10. On the other hand, multicollinearity does occur if the tolerance value is less than 0.10 and the VIF is greater than 10.

Tabel 3. Multicollinearity Test Results

Model		Coefficients ^a	
		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Tax Avoidance	,979	1,022
	Product Market Competition	,988	1,012
	Business Strategy	,990	1,010

a. Dependent Variable: Cost Stickiness

It is shown in the table above, multicollinearity does not occur when the tolerance value is above or > 0.10 and the VIF value is below or < 10 . Therefore, there are no signs of multicollinearity in the regression model used in this investigation.

Glejser test can be used to determine the heteroscedasticity symptoms. The data is considered non-heteroscedastic when significance value is greater than 0.05.

Tabel 4. Heteroscedasticity Test Results

Model		Coefficients ^a	
		t	Sig.
1	(Constant)	9,395	,000
	Tax Avoidance	1,463	,145
	Product Market Competition	-,947	,344
	Business Strategy	,083	,934

a. Dependent Variable: Cost Stickiness

It is shown in the table above, this regression model is devoid of heteroscedasticity symptoms because the significance value is greater than 0.05.

The Lagrange Multiplier (LM) is one of the autocorrelation tests and used in this research. If the LAG residual parameter coefficient has a value of Sig. > 0.05 , meaning there are no symptoms of autocorrelation.

Tabel 5. Autocorrelation Test Results

Model		Coefficients ^a				
		Unstandardized Coefficients	Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta		
1	(Constant)	,002	,015		,151	,880
	Tax Avoidance	,007	,044	,009	,154	,878
	Product Market Competition	,002	,070	,002	,029	,977
	Business Strategy	-,001	,012	-,007	-,120	,904
	LAG_RES1	,109	,057	,109	1,897	,059

a. Dependent Variable: Unstandardized Residual

It is shown in the table above, there were no autocorrelation symptoms in this investigation. The Asymp. Sig. (2-tailed) is 0.059 or greater than 0.05 (> 0.05).

3.2. The Model Feasibility Test (F test)

This research has three equation models, where the first model is the effect of tax avoidance and product market competition on cost stickiness, the second model is the effect of tax avoidance on cost stickiness strengthened by the prospector's business strategy, and the third model is the effect of product market competition on cost stickiness strengthened by business strategy defender. So, the F test is carried out three times. The independent variable affects the dependent variable simultaneously if the significance value is less than 0.05.

Tabel 6. The Model Feasibility Test Results

ANOVA ^a			
Model		F	Sig.
1		9,359	,000 ^b
2		2,676	,047 ^b
3		3,268	,022 ^b

It is shown in the table above, it can be concluded that this regression model is feasible and can be analyzed further.

3.3. The Coefficient of Determination Test (R²)

The model's coefficient of determination test (R²) was run three times in this study. The initial step was assessing the independent variable's simultaneous impact on the dependent variable. Moderating variables were included in the relationship between the independent and dependent variables in the second and third tests.

Tabel 7. The Coefficient of Determination Test Results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,239 ^a	,057	,051	,10402
2	,160 ^a	,025	,016	,10593
3	,176 ^a	,031	,021	,10563

It is shown in the table above, it indicates that the independent variables used in this research could only explain 5.1%, 1.6%, and 2.1% of the dependent variables, respectively.

3.4. The Hypothesis Test (t-test)

Hypothesis testing (t test) will be accepted if the results of the significance value are less than 0.05 (< 0.05) and the beta value can determine the direction of the variable relationship.

Tabel 8. First and Second Hypothesis Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,126	,014		9,121	,000
	Tax Avoidance	,132	,043	,169	3,037	,003
	Product Market Competition	-,238	,070	-,189	-3,388	,001

a. Dependent Variable: Cost Stickiness

It is shown in the table above, the tax avoidance has a significance value of 0,003 and the coefficient value shows a positive value, namely 0.132. Besides that, the product market competition has a significance value of 0.001 and the coefficient value shows a negative value, namely -0.238. It can be concluded that the first and second hypothesis accepted. It means that excess cash resulting from tax avoidance can help managers retain unused resources. With this activity, the company will still incur high costs even though there is a decrease in sales activity, but these costs can be reduced by excess cash from tax avoidance carried out by the company. The results of this research are in line with research conducted by Restuti, (2023), which found that tax avoidance has a positive effect on cost stickiness. It means that excess cash resulting from tax avoidance can help managers retain unused resources. With this activity, the company will still incur high costs even though there is a decrease in sales activity, but these costs can be reduced by excess cash from tax avoidance carried out by the company.

Besides that, it is known that product market competition is one of the company's external monitoring mechanisms, so if product market competition is high, it will increase information

symmetry between shareholders and managers because a high level of competition will encourage companies to provide more transparent financial information to the public, including shareholders. With this transparency, shareholders can use it to monitor the performance of managers in managing the company and prevent them from abusing company resources for personal interests. The results of this research are in line with the research results of J. Li et al., (2021) found that product market competition has a negative effect on cost stickiness. It means that when product market competition is high, managers are motivated to reduce unused resources to continue to improve company innovation so as not to be left behind. Reducing these resources can reduce costs for unused resources and maintain the company's profitability when sales decline.

Tabel 9. Third Hypothesis Test Results

Model		Coefficients ^a					
		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	,126	,016			7,667	,000
	Tax Avoidance	,116	,049	,149		2,376	,018
	Business Strategy Prospector	-,006	,034	-,029		-,191	,849
	Interaction of Tax Avoidance dan Business Strategy Prospector	,022	,113	,030		,199	,843

a. Dependent Variable: Cost Stickiness

It is shown in the table above, the prospector business strategy has a significance value of 0,843 and the coefficient value shows a positive value, namely 0.022. It can be concluded that the third hypothesis rejected. Excess cash from tax avoidance can be utilized well by managers to maintain unused resources when sales decline. However, business strategy prospectors cannot strengthen this effect because companies with a prospector business strategy tend to have high uncertainty and risk. It causes companies with this strategy to prefer to develop innovation by investing in research and development costs rather than retaining unused resources. In contractual relationship between managers and shareholders can occur conflicts of interest because sometimes managers are motivated to benefit themselves. Excess cash can be used to increase manager compensation or invest in unprofitable projects rather than cover some of the costs of maintaining unused resources. In essence, if shareholders are more active in encouraging managers to reduce costs or worry about risks related to tax avoidance, it will not affect on the company's cost stickiness level.

Tabel 10. Fourth Hypothesis Test Results

Model		Coefficients ^a					
		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	,082	,010			8,222	,000
	Product Market Competition	-,222	,112	-,176		-1,981	,048
	Business Strategy Defender	,010	,012	,043		,769	,442
	Interaction of Product Market Competition dan Business Strategy Defender	,010	,145	,006		,071	,943

a. Dependent Variable: Cost Stickiness

It is shown in the table above, the defender business strategy has a significance value of 0,943 and the coefficient value shows a positive value, namely 0.010. It can be concluded that the fourth hypothesis rejected. As market competition becomes more competitive, managers are motivated to cut unused resources to increase efficiency and stay caught up in product development. It is true that the defender strategy is easy to adapt to any conditions and emphasizes efficiency, but this strategy tends to avoid the risk of reducing cost stickiness associated with pruning unused resources

when sales decline. This risk is related to the difficulty of competing with innovative competitors because the latest trends and technology limit the company. Reducing cost stickiness is considered a risk because it can disrupt company stability. In addition, when a company cuts unused resources, it also requires costs, which can burden the company when sales decline, especially in defender strategy companies that emphasize cost efficiency. So, companies, especially managers, must have a strong incentive to maintain the stability of company expenditure.

The results of this research are the same as the research results of J. Li et al., (2021), which found that the effect of product market competition on cost stickiness did not have a significant difference between prospector and defender strategies. When product market competition increases, companies that implement prospectors and defenders will respond quickly by reducing costs when decline sales occur.

4. Conclusions

Based on the research results and discussion, it can be concluded that tax avoidance has a positive and significant effect on cost stickiness, so the first hypothesis in this research is accepted. Savings or excess cash from tax avoidance can help managers cover the costs of maintaining unused resources, especially when sales decline so that the company's cost stickiness increases. Product market competition is also has a negative and significant effect on cost stickiness, so the second hypothesis in this research is accepted. When a company is in a highly competitive product market, and there is a decline in sales activity, managers tend to respond by cutting unused resources more quickly to maintain company profitability so that cost stickiness decreases. Besides that, the prospector's business strategy cannot strengthen the effect of tax avoidance on cost stickiness and the third hypothesis is rejected. The implementation of any strategy by the company, if shareholders are more active in encouraging managers to reduce costs or are concerned about risks related to tax avoidance, will not affect the company's cost stickiness level. The fourth hypothesis is also rejected which states that defender's business strategy cannot strengthen the effect of product market competition on cost stickiness. Increasing product market competition encourages managers to cut unused resources. A defender business strategy cannot help strengthen efforts to cut unused resources when sales decline, because this activity is seen as risking disrupting the company's stability and competitive ability, as well as requiring burdensome additional costs.

There are several suggestions that the author can provide for further research, namely regarding the use of other measurements that can describe the variables of tax avoidance, product market competition, cost stickiness, and business strategy. It is hoped that future researchers can use other measurements because this research has several data limitations. In addition, future researchers can expand the research sample to non-financial companies and consider other variables that can influence cost stickiness.

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