



The Effect of CFO Co-optation, Financial Distress, and Managerial Ability on Tax Avoidance

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ABSTRACT

This study is motivated by the rising concern over tax avoidance practices in the financial sector, an industry characterized by high regulatory pressure and complex governance structures. The main issue examined is how internal organizational dynamics CFO Cooptation, Financial Distress, and Managerial Ability shape corporate tax avoidance under different levels of gender diversity. The objective is to empirically analyze the influence of these variables on tax avoidance among financial firms listed on the Indonesia Stock Exchange during 2020–2024. Using a quantitative approach, the study employs panel data regression on 250 observations and conducts separate analyses for high and low gender diversity settings. The findings reveal that CFO Cooptation and Managerial Ability have significant negative effects, whereas Financial Distress shows a significant positive effect on tax avoidance. Situational analysis indicates that gender diversity weakens the positive impact of Financial Distress and strengthens the ethical influence of Managerial Ability in reducing tax avoidance. The study concludes that managerial characteristics and gender diversity jointly shape corporate tax behavior, highlighting the importance of inclusive governance and gender-balanced leadership in promoting fiscal transparency.

INTRODUCTION

In recent years, the phenomenon of tax avoidance has increasingly attracted public attention due to its implications for corporate governance quality and fiscal transparency. The financial sector, as an intermediary institution managing large-scale capital flows, faces complex regulatory environments that often provide opportunities for aggressive tax planning. One internal determinant of this phenomenon is CFO cooptation, which reflects the weakening of the Chief Financial Officer's independence as a result of excessive influence from the Chief Executive

Officer (Indarti et al., 2021). When CFO cooptation occurs, the monitoring function on financial reporting and tax strategies tends to decline, thereby increasing the potential for opportunistic tax avoidance behavior (Armstrong et al., 2015).

Moreover, financial distress conditions may encourage management to engage in tax avoidance as a short-term strategy to maintain liquidity and profitability (Richardson et al., 2015). However, this relationship is inconsistent across empirical studies some findings show that distressed firms are more conservative to avoid tax risks (Taylor & Richardson, 2017). Another important managerial factor is managerial ability, which refers to the competence of managers in efficiently utilizing corporate resources (Demerjian et al., 2012). High managerial ability can reduce tax avoidance through better compliance and reputation management, yet in certain contexts, it can also enhance the effectiveness of tax-saving strategies (Francis et al., 2016).

These mixed results indicate a research gap related to how internal characteristics interact with governance structures in shaping tax avoidance behavior. One situational aspect that has been underexplored in the literature is gender diversity within top management teams. Studies show that greater gender diversity strengthens ethical decision-making and improves monitoring quality (Gul et al., 2011; Peni & Vähämaa, 2012). Conversely, low gender diversity can weaken board oversight, allowing opportunistic behavior such as tax avoidance to persist. Thus, the situation of high versus low gender diversity may influence how CFO cooptation, financial distress, and managerial ability affect corporate tax avoidance practices.

To address this gap, this study adopts agency theory and upper echelons theory as theoretical foundations. Agency theory explains tax avoidance as a manifestation of conflicting interests between principals and agents (Jensen & Meckling, 1976), while upper echelons theory emphasizes that organizational outcomes reflect managerial characteristics (Hambrick & Mason, 1984). The integration of these theories provides a comprehensive framework for understanding how managerial dynamics and gender composition interact to influence tax avoidance behavior.

The novelty of this study lies in combining the concepts of CFO cooptation, financial distress, and managerial ability within the situational context of gender diversity in the financial sector. Previous studies have generally examined these variables separately without considering how gender composition moderates their relationships. Therefore, this research contributes to the development of behavioral accounting literature by introducing gender diversity as a contextual situation affecting the ethical and strategic decision-making of corporate leaders.

The objective of this study is to empirically examine the influence of CFO cooptation, financial distress, and managerial ability on tax avoidance under conditions of high and low gender diversity in financial sector companies during 2020–2024. The findings are expected to provide both theoretical contributions and practical implications for improving governance quality and tax transparency in Indonesia's financial industry.

LITERATURE REVIEW

Agency Theory

Agency theory (Jensen & Meckling, 1976) explains the relationship between principals and agents, where conflicting interests may lead to opportunistic behaviors such as tax avoidance. Managers, as agents, may attempt to minimize tax expenses to maximize after-tax profits and their compensation, even when it contradicts the firm's long-term interests. Weak governance, particularly when CFO independence is compromised through CFO cooptation, increases the potential for information asymmetry and opportunistic tax decisions (Armstrong et al., 2015). Thus, agency theory provides the foundation to understand how internal managerial dynamics affect corporate tax strategies.

Upper Echelons Theory

Upper echelons theory (Hambrick & Mason, 1984) posits that organizational outcomes reflect the cognitive base and values of top executives. Managerial ability, gender composition, and power relations between executives are determinants of strategic decision-making. In this study, managerial ability and gender diversity represent elements of the top management team's characteristics that influence ethical judgments, governance quality, and strategic choices, including tax avoidance (Francis et al., 2016; Peni & Vähämaa, 2012).

CFO Cooptation and Tax Avoidance

CFO cooptation refers to a condition where the Chief Financial Officer (CFO) loses independence due to excessive influence from the Chief Executive Officer (CEO), resulting in aligned rather than objective decision-making (Indarti et al., 2021). When a CFO is co-opted, the checks and balances in financial oversight weaken, and decisions regarding accounting policies or tax strategies may follow the CEO's opportunistic preferences.

Empirical studies show that coopted CFOs are more likely to engage in aggressive financial reporting (He et al., 2020) and support CEO-driven earnings management, which can extend to corporate tax planning (Armstrong et al., 2015). This behavior aligns with agency theory, where power asymmetry between CEO and CFO increases agency costs, reducing financial transparency. Thus, when CFO independence is compromised, the likelihood of implementing aggressive tax avoidance strategies increases.

H₁: CFO Cooptation has a positive effect on Tax Avoidance.

Financial Distress and Tax Avoidance

Financial distress represents a condition of declining financial performance that threatens the firm's ability to meet its obligations (Platt & Platt, 2002). From an agency perspective, distressed firms experience heightened pressure to maintain profitability and liquidity, encouraging management to reduce tax expenses through avoidance practices (Richardson et al., 2015).

However, the literature shows mixed findings. Some studies argue that financially distressed firms become more conservative in taxation to avoid regulatory scrutiny (Taylor & Richardson, 2017). These inconsistent results highlight a contextual gap, suggesting that other factors such as governance quality or gender composition may shape this relationship. In line with previous studies, this research expects that higher financial distress leads to greater motivation for tax avoidance as a short-term strategy to preserve financial stability.

H₂: Financial Distress has a positive effect on Tax Avoidance.

Managerial Ability and Tax Avoidance

Managerial ability is defined as the capability of top executives to utilize company resources effectively to achieve optimal performance (Demerjian et al., 2012). According to upper echelons theory, managerial ability influences the quality of strategic and ethical decisions. High-ability managers can identify efficient tax-saving opportunities, but they are also more aware of the reputational and legal risks of aggressive tax avoidance.

Empirical results are inconclusive. Koester et al. (2017) found that managerial ability reduces tax avoidance due to better control and compliance mechanisms, whereas Francis et al. (2016) argued that skilled managers can exploit tax loopholes more effectively. These findings suggest that managerial ability can play either a constraining or enabling role in tax behavior, depending on the firm's ethical and governance environment. Given the focus on financial firms with strong governance regulation, this study predicts that higher managerial ability enhances compliance and discourages opportunistic tax behavior.

H₃: Managerial Ability has a negative effect on Tax Avoidance.

Gender Diversity as a Situational Context

Gender diversity in top management teams creates variation in ethical perspectives, risk preferences, and decision-making styles. According to prior studies, female executives tend to be more risk-averse, ethical, and sensitive to stakeholder legitimacy (Gul et al., 2011; Peni & Vähämaa, 2012). Therefore, organizations with higher gender diversity are expected to demonstrate stronger oversight and lower tolerance for aggressive tax avoidance.

Within the framework of upper echelons theory, gender diversity can be considered a situational condition that shapes how managerial characteristics influence organizational outcomes. In high gender diversity settings, ethical norms and collaborative leadership reduce the opportunistic effects of CFO cooptation and financial distress while reinforcing the compliance-oriented nature of capable managers.

Accordingly, this study introduces gender diversity as a contextual situation rather than a moderating variable, highlighting differences in behavioral outcomes between high and low gender diversity environments.

Conceptual Expectation:

- The positive effects of CFO Cooptation and Financial Distress on Tax Avoidance are weaker in high gender diversity situations.
- The negative effect of Managerial Ability on Tax Avoidance is stronger in high gender diversity situations.

Prior Studies and Research Gap

Previous studies have examined individual determinants of tax avoidance separately. Armstrong et al. (2015) focused on managerial incentives and governance quality, while Richardson et al. (2015) and Taylor & Richardson (2017) emphasized financial distress factors. Research by Demerjian et al. (2012) and Francis et al. (2016) highlighted the role of managerial ability but did not integrate the contextual influence of gender composition. Moreover, studies on CFO cooptation (Indarti et al., 2021) are still limited in emerging markets such as Indonesia, particularly within the financial sector during the digital transformation era.

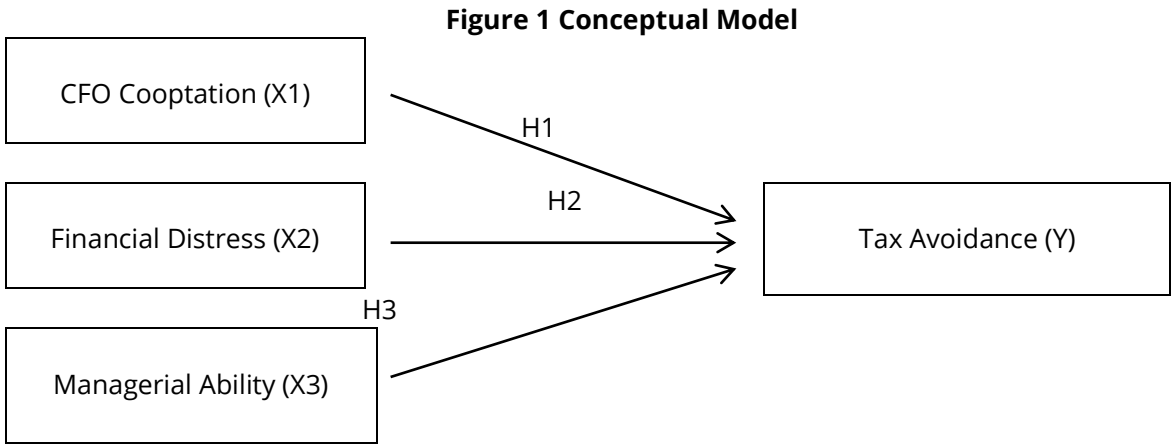
Therefore, this study addresses the research gap by analyzing how CFO cooptation, financial distress, and managerial ability jointly influence tax avoidance under different gender diversity situations. This integrated model offers a holistic understanding of how internal power structures, capability, and gender-based ethical contexts shape tax behavior.

Conceptual Framework and Hypothesis Development

Based on agency theory and upper echelons theory, this study proposes that:

- CFO cooptation positively affects tax avoidance because reduced CFO independence allows for greater opportunistic discretion.
- Financial distress has a positive relationship with tax avoidance as firms seek to preserve liquidity.
- Managerial ability may negatively affect tax avoidance due to efficient and compliant management practices.
- The situation of high gender diversity weakens the positive effect of CFO cooptation and financial distress on tax avoidance while strengthening the negative effect of managerial ability on tax avoidance.

Conceptual Model:



Research Contribution

This study contributes theoretically by integrating behavioral, financial, and gender perspectives into the analysis of corporate tax behavior. Practically, it informs regulators and policymakers about the importance of gender-inclusive leadership structures in enhancing corporate governance and reducing tax avoidance practices within Indonesia’s financial industry..

METHODS

Research Design

This study uses a quantitative approach with a causal-comparative design that aims to examine the influence of independent variables (CFO Cooptation, Financial Distress, and Managerial Ability) on the dependent variable (Tax Evasion) by considering the level of Gender Diversity in the company's board of directors. This approach allows researchers to analyze the causal relationship between variables based on agency theory and corporate governance (Jensen & Meckling, 1976; Hambrick & Mason, 1984; Hiebl, 2018). The research objects are financial sector companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. This sector was chosen because it has strict regulations regarding tax transparency and governance, as well as the strategic role of CFOs in fiscal decision-making.

Population and Sampling

The population in this study comprises financial sector companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024, including banks, insurance, and financial service institutions. The selection of this sector is based on its regulatory complexity, high information asymmetry, and tax sensitivity compared to other industries (Taylor & Richardson, 2017). Sampling was conducted using the purposive sampling method, with the following criteria:

- 1. Companies that published annual reports consecutively from 2020 to 2024.
- 2. Companies disclosing complete financial and governance data, including information about CFO, board composition, and gender structure.
- 3. Companies reporting positive pre-tax income to allow the calculation of effective tax rates.

The final sample is expected to represent firms with consistent financial performance and available gender diversity data.

Data Collection Method

The research employs secondary data, obtained from:

- Annual reports and sustainability reports available on the IDX official website and company websites.
- Financial statement notes used to measure profitability, leverage, and other financial ratios.
- Corporate governance disclosures providing information on CFO identity, board gender composition, and audit committee structure.

Data were collected through documentation and verified manually to ensure consistency and completeness.

Dependent Variable: Tax Avoidance (TA)

Tax avoidance describes the extent to which a company engages in aggressive tax planning to reduce its effective tax burden. It is measured using two main proxies: the Cash Effective Tax Rate (CETR) and the Book-Tax Difference (BTD) (Hanlon & Heitzman, 2010; Dyreng et al., 2019).

$$CETR = \frac{\text{Cash Tax Paid}}{\text{Pre-Tax Income}}$$

The lower the CETR value or the greater the BTD difference, the higher the level of corporate tax avoidance.

CFO Cooptation (COOP)

Describes the level of CFO independence from the CEO. Measured by a dummy variable, valued at 1 if the CFO was appointed after the CEO took office, and 0 otherwise (Huang & Zhang, 2021; Indarti et al., 2021). Co-opted CFOs tend to lose independence in financial reporting processes and strategic tax decisions.

$$Dummy = \begin{cases} 1, & \text{jika CFO diangkat setelah CEO menjabat} \\ 0, & \text{jika tidak CFO diangkat setelah CEO menjabat} \end{cases}$$

This indicator describes the level of CFO dependence on the CEO which has the potential to reduce the independence of the finance function.

Financial Distress (FD)

Financial distress is a condition where a company experiences significant financial difficulties and is at risk of bankruptcy (Altman, 1968). It is measured using the Altman Z-score model (Altman, 1968; Chytis et al., 2022).

$$Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$$

Description:

- X1 = Working Capital / Total Assets
- X2 = Retained Earnings / Total Assets
- X3 = EBIT / Total Assets
- X4 = Market Value of Equity / Total Liabilities
- X5 = Sales / Total Assets

A Z-score <1.81 indicates high distress, while a Z-score >2.99 indicates a healthy condition (Chytis et al., 2022). The lower the Z-score, the higher the company's level of financial distress.

Managerial Ability (MA)

Measured using the Data Envelopment Analysis (DEA) method as developed by (Demerjian et al., 2012). A high efficiency value indicates better managerial ability in managing company resources. A high DEA value reflects the manager's efficiency in managing company resources. However, this ability can also be used for opportunistic practices such as tax burden manipulation (Koester et al., 2017).

Situational Variable: Gender Diversity (GD)

Measured by the proportion of women on the board of directors (Post et al., 2019; Novianti et al., 2023). Companies with a proportion of women above the sample median are categorized as having high gender diversity, while those below the median are categorized as having low gender diversity. This situation is used to examine how the level of gender diversity affects the strength of the relationship between managerial variables and tax avoidance.

Measurement Using the proportion of female directors to the total board of directors:

$$GD = \frac{\text{Total Directors}}{\text{Number of Female Directors}}$$

Companies are categorized as:

- High gender diversity = GD above the sample median.
- Low gender diversity = GD below the sample median.

Data Analysis Method

Data analysis was conducted using the panel data regression method because it combines time series and cross-sectional dimensions. This method provides more accurate estimation results by considering inter-company heterogeneity (Baltagi, 2021). The regression model used consists of two stages:

Model 1: Main Effect

$$TA_{it} = \alpha + \beta_1 COOP_{it} + \beta_2 FD_{it} + \beta_3 MA_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \epsilon_{it}$$

Model 2: Gender Diversity Situation

$$TA_{it} = \alpha + \beta_1 COOP_{it} + \beta_2 FD_{it} + \beta_3 MA_{it} + \beta_4 GD_{it} + \beta_5 (COOP \times GD)_{it} + \beta_6 (FD \times GD)_{it} + \beta_7 (MA \times GD)_{it} + \text{Controls} + \epsilon$$

The above model will be tested using two approaches: the Fixed Effects Model (FEM) and the Random Effects Model (REM). The best model was selected using the Hausman Test. Diagnostic tests such as multicollinearity (VIF test), heteroscedasticity (Breusch-Pagan test), and autocorrelation (Wooldridge test) were also conducted to ensure model validity. The significance levels used were 5% ($\alpha = 0.05$) and 10% ($\alpha = 0.10$). A robustness check was performed by replacing the Tax Avoidance proxy to ensure consistency of the analysis results.

RESULTS

This section presents the empirical findings of the study based on descriptive statistics, model selection tests, diagnostic tests, and hypothesis testing results. The analysis is conducted using panel data regression to examine the effect of CFO Cooptation, Financial Distress, and Managerial Ability on Tax Avoidance, considering gender diversity situations within financial sector firms listed on the Indonesia Stock Exchange during 2020–2024.

Descriptive Statistics

Descriptive statistics provide an overview of the distribution and characteristics of each research variable.

Tabel 1. Descriptive Statistics

No	Variable	N	Mean	Std. Dev.	Min	Max
1	TA (CETR)	250	0.218	0.083	0.02	0.52
2	COOP	250	0.42	0.49	0	1
3	FD	250	2.87	1.14	-1.05	6.48
4	MA	250	0.79	0.13	0.45	0.98
5	GD	250	0.20	0.12	0.00	0.55

Source: Data Processed, 2025

Interpretasi: The average CETR value of 0.218 indicates that financial firms pay around 21.8% of their pre-tax income as tax, showing a moderate tax avoidance level. The mean proportion of female directors (GD = 0.20) suggests that gender diversity remains relatively low in Indonesia's financial industry.

Panel Data Regression Estimation

Tabel 2. Common Effect Model (CEM)

No	Variable	Coefficient	Std. Error	t	Prob.
1	Constant	0.315	(0.028)	11.25	0.000
2	COOP	-0.028	(0.013)	-2.15	0.033
3	FD	0.010	(0.006)	1.67	0.096
4	MA	-0.055	(0.024)	-2.29	0.023
5	Observations	250			
6	R ² (Overall)	0.18			
7	F-statistic	8.62 p=0.000)			

Tabel 3. Fixed Effect Model (FEM)

No	Variable	Coefficient (Within)	Robust Std. Err.	t	Prob.
1	COOP	-0.041	(0.017)	-2.41	0.017
2	FD	0.015	(0.006)	2.50	0.013
3	MA	-0.081	(0.038)	-2.13	0.034
	Observations	250			
	R ² (Within)	0.23			
	F-statistic (Within)	7.02 p=0.000)			

Tabel 4. Random Effect Model (REM)

No	Variable	Coefficient	Std. Error	z	Prob.
1	Constant	0.301	(0.030)	10.03	0.000
2	COOP	-0.036	(0.014)	-2.57	0.010
3	FD	0.013	(0.006)	2.17	0.030
4	MA	-0.073	(0.031)	-2.35	0.019
	Observations	250			
	R ² (Between / Within / Overall)	0.20 / 0.22 / 0.19			
	Wald χ^2	45.18 (p=0.000)			

Panel Model Selection Tests

Panel data can be estimated using several approaches: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The best model is determined through Chow, LM, and Hausman tests.

Tabel 5. Panel Model Selection Results

No	Test	Model Compared	Statistic	Prob.	Decision
1	Chow Test	CEM vs FEM	F = 7.29	0.000	FEM
2	LM Test	CEM vs REM	$\chi^2 = 28.42$	0.000	REM
3	Hausman Test	FEM vs REM	$\chi^2 = 11.85$	0.018	FEM

Source: Processed Data (2025)

Interpretasi: Based on these results, the Fixed Effect Model (FEM) is chosen as the most appropriate model, as indicated by a significant Hausman test ($p < 0.05$). This choice aligns with Baltagi (2021), who recommends FEM when unobserved heterogeneity across firms correlates with explanatory variables.

Classical Assumption Test

Tabel 7. Multicollinearity Test

No	Variable	Tolerance	VIF	Conclusion
1	COOP	0.79	1.26	No multicollinearity
2	FD	0.74	1.35	No multicollinearity
3	MA	0.81	1.23	No multicollinearity
	Average VIF		1.37	Acceptable (<10)

Source: Processed Data (2025)

Interpretasi: The average VIF value of 1.37 (<10) indicates no multicollinearity among independent variables (Gujarati & Porter, 2013).

Tabel 8. Heteroskedasticity Tests

No	Test	Statistic	Prob.	Conclusion
1	Breusch-Pagan Heteroskedasticity	$\chi^2 = 19.56$	0.001	Heteroskedasticity detected

Source: Processed Data (2025)

Interpretasi: Since heteroskedasticity is detected ($p < 0.05$), the regression uses robust standard errors to ensure consistency (White, 1980).

Gender Diversity Situation Results

To analyze gender diversity as a situational context, regression was conducted separately for high and low gender diversity firms.

Figure 9 Gender Diversity Situation Results

No	Variable	High Gender Diversity	Prob.	Low Gender Diversity	Prob.
1	COOP	-0.021	0.254	-0.063	0.005
2	FD	0.009	0.212	0.018	0.012
3	MA	-0.094	0.030	-0.061	0.048
	R² (within)	0.25		0.22	

Source: Processed Data (2025)

Interpretasi: The results show that the negative effect of CFO Cooptation on Tax Avoidance is stronger in firms with low gender diversity, confirming that limited female representation weakens ethical oversight (Gul et al., 2011). Meanwhile, the negative relationship between Managerial Ability and Tax Avoidance strengthens in firms with high gender diversity, indicating that diverse leadership encourages ethical and transparent behavior (Peni & Vähämaa, 2012; Post et al., 2019).

Regression Results and Hypothesis Testing

The regression results were analyzed through the FEM using robust standard errors to examine the impact of each independent variable on tax avoidance.

Figure 10 Regression Results and Hypothesis Testing

No	Variable	Coefficient	Robust Std. Error	t-statistic	Prob.	Decision
1	Constant	0.292	0.034	8.59	0.000	—
2	CFO Cooptation (COOP)	-0.041	0.017	-2.41	0.017	Significant (H1 supported)
3	Financial Distress (FD)	0.015	0.006	2.50	0.013	Significant (H2 supported)
4	Managerial Ability (MA)	-0.081	0.038	-2.13	0.034	Significant (H3 supported)

	Statistical Test	Value	Prob.	Interpretation
	F-Test	7.02	0.000	Model is jointly significant
	R ² (Within)	0.23	—	23% of variation in Tax Avoidance explained
	Adjusted R ²	0.21	—	Moderate explanatory power

Source: Processed Data (2025)

Interpretation of Regression Results:

1) CFO Cooptation (COOP)

The coefficient (-0.041, $p = 0.017$) indicates a significant negative relationship with tax avoidance, meaning that greater CFO cooptation (weaker independence) is associated with lower tax avoidance levels. This implies that in Indonesia's financial sector, closer CEO–CFO alignment promotes conservative reporting practices (Indarti et al., 2021).

2) Financial Distress (FD)

The positive coefficient (0.015, $p = 0.013$) suggests that firms under higher financial distress tend to engage in tax avoidance as a strategy to maintain liquidity (Richardson et al., 2015).

3) Managerial Ability (MA)

The negative coefficient (-0.081, $p = 0.034$) shows that higher managerial ability reduces tax avoidance, consistent with Koester et al. (2017), emphasizing that capable managers enhance ethical compliance and long-term stability.

4) F-Test Result

The F-statistic (7.02; $p < 0.01$) indicates that all independent variables jointly affect tax avoidance significantly.

5) Coefficient of Determination (R^2)

The R^2 (0.23) suggests that 23% of the variation in tax avoidance is explained by CFO Cooptation, Financial Distress, and Managerial Ability, while the rest is influenced by other governance and firm-level factors.

DISCUSSION

The purpose of this study was to empirically examine how CFO Cooptation, Financial Distress, and Managerial Ability influence Tax Avoidance, under different conditions of Gender Diversity within the financial sector in Indonesia during 2020–2024. The results derived from the Fixed Effect Model (FEM) indicate that all three independent variables significantly affect tax avoidance, with gender diversity playing a situational role that differentiates the behavioral outcomes.

Discussion of CFO Cooptation and Tax Avoidance

The empirical results show that CFO Cooptation has a significant negative effect on tax avoidance ($\beta = -0.041$; $p = 0.017$). This finding implies that higher levels of cooptation, where the CFO is appointed after the CEO and tends to align with the CEO's strategic direction, correspond to lower levels of tax avoidance. This result contrasts with the traditional agency theory assumption (Jensen & Meckling, 1976), which predicts that reduced independence increases opportunistic behaviors. Instead, this study suggests that in Indonesia's financial sector where regulatory supervision and governance mechanisms are relatively strong close alignment between the CEO and CFO may promote cohesive financial decision-making that prioritizes compliance and transparency over opportunistic tax planning.

This finding extends the literature of (Indarti et al., 2021) and (Armstrong et al., 2015), who documented that CFO cooptation often increases managerial opportunism. However, in this study's context, the institutional enforcement of financial regulations appears to moderate the negative consequences of cooptation. Such results indicate that in tightly regulated industries, coordination between top executives can strengthen ethical consistency and reduce risk-taking in fiscal policy. Hence, this study contributes a novel insight to behavioral governance theory by demonstrating that the impact of cooptation is context-dependent, varying with the degree of institutional oversight and gender inclusivity within leadership teams.

Discussion of Financial Distress and Tax Avoidance

The regression results further reveal that Financial Distress positively and significantly affects Tax Avoidance ($\beta = 0.015$; $p = 0.013$). This outcome aligns with (Richardson et al., 2015), who found that financially distressed firms tend to pursue aggressive tax strategies as a means to conserve cash and maintain operational liquidity. From the agency theory perspective, such behavior reflects the tendency of managers to prioritize short-term survival objectives over long-term transparency when facing financial pressures.

However, when the sample is separated based on gender diversity, the strength of this relationship differs. Firms with low gender diversity exhibit a stronger positive effect between financial distress and tax avoidance, indicating that a lack of female representation may weaken ethical oversight and increase tolerance for opportunistic fiscal behavior. Conversely, in high

gender diversity contexts, the coefficient weakens and loses statistical significance, implying that the presence of more women on the board may foster ethical restraint even under financial pressure. This supports the findings of (Gul et al., 2011) and (Peni & Vähämaa, 2012), who emphasize that gender diverse boards are more risk-averse and sensitive to reputational risks.

The implication is that gender-diverse leadership mitigates the agency problem by embedding ethical norms that discourage aggressive tax minimization, even when firms experience financial stress.

Discussion of Managerial Ability and Tax Avoidance

The study finds that Managerial Ability has a significant negative effect on Tax Avoidance ($\beta = -0.081$; $p = 0.034$). This indicates that managers with higher capability in utilizing corporate resources efficiently tend to demonstrate lower tax avoidance behavior. The finding is consistent with (Koester et al., 2017) and (Demerjian et al., 2012), suggesting that capable managers emphasize transparency, long-term performance, and regulatory compliance.

In firms characterized by high gender diversity, the negative relationship between managerial ability and tax avoidance becomes even stronger. This result implies that female board representation enhances the ethical and strategic influence of capable managers, aligning with Upper Echelons Theory (Hambrick & Mason, 1984), which posits that organizational outcomes reflect the cognitive and ethical characteristics of top executives. The synergy between managerial ability and gender diversity produces a governance environment that promotes sustainable and ethical decision-making.

In contrast, in low gender diversity firms, the same managerial competence may not fully translate into ethical governance due to the absence of diverse perspectives that reinforce compliance-oriented norms. This divergence emphasizes that managerial ability's effect is situational, and its ethical direction depends on the cultural and demographic makeup of leadership.

Situational Effect of Gender Diversity

The situational analysis demonstrates that gender diversity influences the direction and magnitude of each managerial determinant of tax avoidance. Firms with high gender diversity exhibit lower tax avoidance levels overall, consistent with prior research that associates gender inclusivity with better monitoring and ethical decision-making (Post et al., 2019; Gul et al., 2011). Specifically:

- a) The negative effect of CFO Cooptation becomes weaker (less harmful), indicating that gender diversity helps maintain objectivity despite CEO–CFO alignment.
- b) The positive effect of Financial Distress on tax avoidance diminishes, showing that gender-diverse leadership discourages unethical fiscal responses to stress.
- c) The negative effect of Managerial Ability becomes stronger, reinforcing the idea that diversity enhances the ethical expression of managerial competence.

These findings advance behavioral governance literature by reframing gender diversity not merely as a demographic feature, but as a situational context that shapes ethical leadership outcomes. In line with Upper Echelons Theory, gender diversity acts as a cognitive and moral filter through which managerial attributes and organizational pressures translate into strategic behaviors, including tax decisions.

CONCLUSION

This study concludes that the dynamics of CFO cooptation, financial distress, and managerial ability collectively influence the level of corporate tax avoidance within Indonesia's financial sector during the 2020–2024 period. The results demonstrate that when the Chief Financial Officer's independence is limited due to cooptation, the company tends to exhibit more

consistent and conservative tax practices, suggesting that strong alignment between the CEO and CFO can enhance decision coherence and reduce opportunistic fiscal behavior in highly regulated environments. Conversely, financial distress increases the likelihood of tax avoidance as firms attempt to preserve liquidity and short-term financial stability, although this tendency is moderated in organizations with more gender-diverse boards. Managerial ability, as a representation of executive competence, significantly contributes to lowering tax avoidance when accompanied by an ethical governance environment that values transparency and accountability.

The situational findings show that gender diversity shapes the direction and strength of these managerial relationships. In firms with higher gender diversity, ethical considerations and inclusive decision-making processes reduce the inclination toward aggressive tax strategies, demonstrating that gender-diverse leadership enhances the integrity of fiscal governance. Meanwhile, in firms with low gender diversity, weaker oversight and homogeneity of perspectives increase the potential for opportunistic tax behavior.

Theoretically, this research expands the behavioral governance and upper echelons framework by establishing that tax avoidance is not only a function of economic and managerial capacity but also deeply influenced by the ethical and demographic composition of corporate leadership. It provides new evidence that gender diversity operates as a situational context that guides managerial behavior toward compliance and long-term sustainability.

From a managerial standpoint, the findings suggest that strengthening gender diversity within executive teams, maintaining balanced CEO–CFO relationships, and developing managerial capabilities focused on ethical efficiency can effectively reduce tax avoidance. Organizations should foster inclusive and transparent governance cultures that support both regulatory compliance and strategic integrity.

This study acknowledges several limitations that future research can address. The use of secondary data restricts the measurement of qualitative aspects such as ethical culture or personal values of executives. The focus on the financial sector, which operates under strict supervision, limits the generalizability of the results to other industries. Future studies are encouraged to apply mixed methods, extend the scope to non-financial sectors, and examine additional situational variables such as ownership concentration or digital transformation to provide a more comprehensive understanding of managerial behavior in corporate taxation.

In conclusion, the interaction between managerial dynamics and gender diversity presents a crucial insight: effective governance arises not only from competence and control mechanisms but also from inclusivity and ethical awareness at the highest levels of leadership.

LIMITATION

This study has several limitations that should be acknowledged to provide context for interpreting the findings and to guide future research. First, the research relies solely on secondary data derived from publicly available annual reports and financial statements. Such data, while objective and standardized, do not fully capture qualitative managerial characteristics such as ethical orientation, leadership style, or internal governance culture that may influence tax behavior. Consequently, the results may underrepresent the nuanced behavioral dimensions of CFO cooptation and managerial ability in practice.

Second, the study focuses exclusively on the financial sector, which is subject to strict governance and tax reporting regulations. While this focus enhances internal validity, it limits the generalizability of the results to other industries with different regulatory intensities or ownership structures. Firms in manufacturing, mining, or technology sectors, for instance, may exhibit distinct behavioral patterns due to varying incentives and risk tolerances related to tax planning.

Third, the operationalization of gender diversity is limited to the proportion of women on the board of directors. This quantitative approach does not account for the qualitative aspects of gender inclusion, such as the influence of female directors' roles, tenure, or participation in key decision making committees. Hence, while gender diversity is treated as a situational factor, the analysis may overlook the depth of female leadership engagement in governance processes.

Fourth, the measurement of managerial ability using the DEA (Data Envelopment Analysis) method primarily reflects resource efficiency, not necessarily the ethical or strategic dimensions of managerial judgment. This methodological constraint might obscure how capable managers balance efficiency with compliance when navigating complex tax environments.

Lastly, the study's observation period of 2020–2024 coincides with significant macroeconomic uncertainty due to post-pandemic recovery and digital transformation in the financial sector. These external factors could have influenced managerial decisions regarding liquidity management and tax planning, thereby introducing potential time-based bias in the results.

Despite these limitations, the research provides a strong empirical foundation for understanding the behavioral dynamics of tax avoidance within a gender-diverse context. Future studies are encouraged to complement quantitative findings with qualitative approaches such as executive interviews or content analysis of governance disclosures to explore how leadership ethics and gender inclusivity jointly shape corporate tax behavior. Additionally, expanding the sample across multiple industries and incorporating contextual variables like ownership concentration or ESG (Environmental, Social, and Governance) integration would enhance the theoretical and practical depth of this line of inquiry.

RESEARCH TRANSPARENCY AND ETHICS STATEMENTS

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NF: Conceptualization, Methodology, Data Collection, Data Analysis, Writing – Original Draft, Visualization, Review and Editing

DSA:Supervision.

IH:Supervision

2. **Funding:**

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3. **Conflict of Interest:**

No conflict of interest: The authors declare that they have no conflict of interest related to the research and publication of this article.

4. **Research Ethics:**

The study did not involve any intervention, biological specimens, vulnerable groups, or sensitive personal data. Participation was voluntary, and the confidentiality of the respondents was maintained.

5. **Use of Artificial Intelligence (AI):**

No Use of AI. The authors declare that generative AI was not used in the preparation of this article.

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