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Research Article

The Impact of Digital Transformation and Market Power on Corporate Tax Avoidance: The Moderating Role of Internal Control in Indonesian Listed Firms

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ABSTRACT

Introduction: This study has novelty by developing the measurement of digital transformation variables from Chen et al. (2024) which only focused on digital technology aspects. That approach has not yet reflected the complexity of digital transformation comprehensively, as it does not consider changes in business processes, organizational culture, skills, and customer experience. In the industry 4.0 era, companies need more holistic and adaptive digital strategies, so this research adds three new dimensions: business model, digital business, and sustainability, which represent a strategic and comprehensive approach to digitalization.

Objectives: The aim of the present work is to investigate the association among digital transformation and market power in the impact of these factors on tax aggressiveness. Finally, the research will also investigate how internal control and its components can serve as a moderating factor in the association of digital transformation, market dominance and Tax Avoidance in a firm.

Methods: The research is quantitative. The study concentrates on firms which are publishing the audited annual report and sustainability report of the company listed on Indonesia Stock Exchange in 2023 taken from www. idx. co.id. Purposive sampling was conducted and 363 companies selected. Cross-sectional data is utilized in this study.

Results: The research concludes that shifting to digitalization is connected to less tax avoidance yet when one has market dominance then he Inded more avoid taxes.Thus in addition to not being able effectively oppose the worsening effect on its control of tax, transitioning to a digital approach only makes it worse. However, internal controls do mitigate the positive outcome of market power toward tax avoidance.

Conclusions: Evidence shed light that adoption of digital transformation strategies are helpful to reduce business Tax Avoidance, however, market power and influence encourages tax avoidance. Internal control does not reinforce the favorable link between digital transformation and tax avoidance, and attenuates the direct positive correlation within market power and tax avoidance. These results confirm the importance of technology and governance in the control of firms' taxes. Stronger digital systems and an internal control system are urgently needed, particularly in developing countries such as Indonesia to close down tax avoidance practices. The sensitivity test results are in line with our expectations and show that incorporating dimensions such as business model, digital business and sustainability in the service of DT provides more in-depth and accurate evaluations than the former approach, which was limited to digital technology. This result demonstrates that digital transformation for commercial purposes is more successful in restraining tax avoidance instead of technology adoption alone.

Keywords: Digital Transformation, Market Power, Internal Control, Tax Avoidance.

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INTRODUCTION

Tax avoidance is now a matter of sustainability and continues to be widespread, even in developing nations (Van de Vijver et al., 2020; Wier, 2020). This comes to light through weak tax governance and enforcement (S. X. Chen, 2017; Rixen, 2011), elevated levels of tax avoidance (López, 2017), and the significant potential for lost state revenue (Gnangnon, 2020). While taxes are essential for financing the government, the failure of taxpayers to comply results in a deficit in revenue referred to as the tax gap. The tax gap can also be seen from Indonesia's low tax ratio, which indicates there is still untaxed potential (Sari, 2021). In Indonesia, this is reflected in the declining trend of the tax ratio. Indonesia's tax ratio has continued to decline over the past 20 years, from 12% in 2003 to 10.41% in 2022. According to data provided by the Indonesian Ministry of Finance, the tax ratio achieved in 2022 was recorded at 10.41% of the Gross Domestic Product.

Avoiding taxes can greatly affect the finances of a state, the performance of companies, and the dynamics between government and businesses (Viantiaraini et al., 2024). Citing Dyreng et al. (2008), Tiantian et al. (2023), Pandapotan (2023), tax avoidance practices are closely related to agency conflicts. Increased company revenue from tax avoidance makes company managers receive compensation for their achievements, so they often engage in excessive tax avoidance that is not disclosed in financial statements. The situation results in one party having more information than the other because of differences in the way shareholders and managers acquire information.

The development of digital technology has changed how companies manage information (Y. Wang & Hajli, 2017) and improved the internal communication landscape (H. Li et al., 2021). Leaders can utilize digital transformation to improve their ability to obtain, interpret, and implement data for decision-making purposes, including in the area of tax strategy. According to Kraus et al. (2022), Leão & da Silva (2021), and Reis & Melão (2023), digital transformation approaches that only focus on digital technology are considered less effective without comprehensive changes to business models, operational processes, and sustainability. Digital transformation measurement that only focuses on technological aspects, as done by W. Chen & Meng (2024), has limitations in reflecting the essence of digital transformation comprehensively. With the digital age and fourth industrial revolution, organizations operate in increasingly uncertain, complex and unpredictable VUCA (Volatility, Uncertainty, Complexity, Ambiguity) settings; thus companies need to have more complete strategies and deeper digital transformation (DT) beyond technology readjustment. Such changes can be considered as vision, strategy, culture, human resource competence, infrastructure capability, business model, as well as company performance gains (Kraus et al., 2022; Leão & da Silva, 2021; Reis & Melão, 2023).

This research develops digital transformation measurement from W. Chen & Meng (2024), by adding three dimensions based on Reis & Melão (2023), namely: business model, digital business, and sustainability, which become novelty elements. The business model dimension reflects innovation that integrates social and economic value through product development, services, processes, and organizational structures (Savastano et al., 2019). The digital business dimension strengthens the strategic position of organizations by means of digital tools and systems integrated with adaptive governance and financial structures (Attaran, 2020; Penmetsa & Bruque Camara, 2022). Meanwhile, viewing through the lens of sustainability can bring operational excellence with transformational technologies such as IOT, AI and other advanced analytics. These machines increase productivity as well as reduce the consumption of resources and protect the environment. The addition of these three dimensions is expected to expand the scope of digital transformation, not only in digital technology aspects but also in promoting adaptive and sustainable business strategies. With digitalization, companies can track and manage resources more efficiently, which in turn reduces waste and carbon emissions. Thus, companies can be better prepared to face future challenges while improving company performance in sustainability. Various research studies have indicated that through digital transformation, tax avoidance can be minimized by enhancing visibility, mitigating internal conflicts, and constraining the capacity for opportunistic actions among managers (Desai & Dharmapala, 2006; Wu et al., 2021; Zhao et al., 2023).

Another relevant determinant of tax avoidance is market power. Companies with high market power have flexibility in pricing and strategy, including in designing aggressive tax planning (Kubick et al., 2015; Tirole, 1988). Market power measured through Price-Cost Margin reflects the ability to generate persistent profits that drives tax avoidance incentives. Types of studies carried out and the relationship with proposed hypothesis. Previous research provides evidence on a beneficial correlation of market power and tax avoidance, including Karamshahi et al. (2018); Kubick et al. (2015); Marcolino Gomes et al. (2022); Y. Shin & Park (2023). Additionally, internal control mechanisms serve as important moderating factors that help manage the effects of digital transformation, market concentration, and Tax Avoidance practices. According to Wu (2023), introducing digital transformation which

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drives better outcomes in internal controls by improving the transparency of information sharing, resulting in more effective tax monitoring and decreasing the chances of inappropriate behavior (S. X. Chen, 2017; Qi et al., 2023). Internal control also contributes to improving reporting accuracy, tracking efficiency, and information disclosure (Luo et al., 2021). This research seeks to examine the influence of digital transformation (DT), market dominance, and internal governance systems on corporate tax avoidance practices. The study will investigate how internal governance mechanisms may moderate the connections between digital transformation, market dominance, and tax avoidance behaviors.

OBJECTIVES

This research intends to uncover how digital transformation and market leadership impacts non-financial companies tax avoidance listed on the Indonesian Stock Exchange (IDX), and to observe the position of internal control as the moderating variable. A major point this research brings is the new approach adopted to evaluate digital transformation, which is of great academic significance. Different from M. Chen et al. (2024) who only used digital technology dimensions, this research adds three new dimensions including business model, digital business, and sustainability which reflect digital transformation development more comprehensively. The development of this measurement becomes a novelty element in the literature. Practically, the findings of this research are expected to help managers consider tax implications when formulating business strategies. Companies are advised to build information management systems that support more structured tax information management and are adaptive to regulatory changes in the digital era.

LITERATURE REVIEW

Digital Transformation and Tax Avoidance

Referring to agency theory, managers are driven to tax avoidance because of agency related conflict and asymmetry of information. Digitisation helps to minimize the information asymmetry and enhance transparency thus constraining the scope of the managers' opportunism. A sociotechnical systems perspective of digitisation success recognizes that it is not only about technology but also about how technical and social systems in organisations come together. It is the combination of both that is required to deliver holistic organizational transformation.

Research conducted previously indicates that enhancing internal control systems through digital transformation can lead to a decrease in tax avoidance (Tiantian et al., 2023). Similar results were found by Strango (2021); T. Wang et al. (2024); Xie & Huang (2023); Yamen et al. (2023), who concluded that the more advanced the digital transformation is, the less likely there is to be Tax avoidance. Based on what was discussed earlier, the study's hypothesis is established as follows:

H1: Digital Transformation is negatively associated with Tax Avoidance

Market Power and Tax Avoidance

Tirole (1988) in Industrial Organization theory explains that companies that have control over the market can impact both the prices of goods and the quantity of goods produced, and implement strategies that are not possible in competitive markets. This provides long-term strategic flexibility, including in designing legal efforts to minimize tax obligations.

Consistently with this, different studies have showed that firms with stronger market position are more prone to be involved in tax avoidance strategies (Kubick et al., 2015; Y. Shin & Park, 2023). Companies in non-competitive industries have comparative advantages through persistent profits, which drives their involvement in tax avoidance strategies (Kubick et al., 2015). Further studies have also validated the correlation between monopolistic control in the market and the practice of evading taxes (Almand, 2016; Karamshahi et al., 2018; R. Li et al., 2021). Companies with large market power generally have broader access to resources, tax expertise, and cross-jurisdictional opportunities that support more effective tax avoidance strategies compared to smaller companies. From this basis, the hypothesis developed stated below:

H2: Market Power is positively associated with Tax Avoidance

Internal Control, Digital Transformation, and Tax Avoidance

Driven by the agency theory, good internal control will strengthen the internal relations among the digital transformation and the tax competition because of the reduction of manager-owner conflict and the improvement of enterprise transparency and long-term interests of shareholders. To clarify, effective internal control acts as a

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control mechanism that ensures digital transformation is used for the right purposes and is not misused for management's personal interests.

Xie & Huang (2023) researched and found that enhancing company internal control systems through digital transformation is essential for minimizing corporate Tax Avoidance; Similar results were obtained by Bimo et al., (2019) that implementing effective internal control measures may decrease the chances of Tax Avoidance occurring. Implementing efficient internal control measures can decrease the likelihood of Tax Avoidance by encouraging accurate financial reporting and compliance with tax laws (Amri et al., 2023; H. Chen et al., 2020). Tight internal control for tax is crucial in determining how far tax avoidance and it would impact cash flow and results that come not only under financial reporting but other results too. The study thus presents the following hypothesis:

H3: The interaction between Internal Control and Digital Transformation is negatively associated with Tax Avoidance

Internal Control, Market Power and Tax Avoidance

In view of agency theory, strong internal control has opportunity to moderate the linkage between Market Power and tax avoidance, because it reduces the level of interest conflict between the management and the shareholders. That is, a successful internal control can be considered as a protective device to transformation of Market Power into an improper means for tax saving.

Research results by Gallemore & Labro (2015) find that a quality internal control environment within the firm is positively associated with the reduction in the tax payable by the firm. Research conducted by Shin & Park, (2023) finds tax avoidance is higher as the firm's market power increases. This provides evidence that the linkage between market power and tax avoidance is sensitive to the level of market competition. Research by Liu et al., (2017) reveals that effective internal controls have the capacity to reduce corporate tax vulnerabilities in emerging nations where investor safeguards are lacking. Furthermore, these results suggest that internal control mechanisms are pivotal for managing corporate risks and carry significant implications for governmental bodies in developing economies. Therefore, The following statement serves as the hypothesis for this study:

H4: The interaction between Internal Control and Market Power is positively associated with Tax Avoidance

METHODS

Data and Data Sources

This is a method of quantitative research. The secondary data for 2023 drawm from audited annual reports and sustainability reports of companies listed on Indonesia Stock Exchange. Information gleaned from the IDX website and the company's own websites. The organization or issuer is chosen as the unit of analysis in this study. This research uses cross-sectional data. In this study, STATA is employed as the analytic testing tool.

The research sample was obtained through several stages of elimination. From 902 companies listed on IDX in 2023, 104 financial sector companies and 370 service sector companies were excluded due to differences in reporting characteristics and operational structures. From the remaining 428 non-financial and non-service companies, 30 did not present tax payment information in cash flow statements, 26 did not have accessible annual and sustainability reports due to suspension, and 9 were identified as outliers based on initial statistical tests. After the screening process, 363 companies were obtained as the final sample.

Data Analysis Method

The study used a method that involved analyzing data using multiple linear regression. The equation for multiple linear regression is displayed.

$$\mathbf{Taxavoid}_{it} = \beta o + \beta_1 \mathbf{DT}_{it} + \beta_2 \mathbf{MP}_{it} + \beta_3 \mathbf{DT}_{it} * \mathbf{IC}_{it} + \beta_4 \mathbf{MP}_{it} * \mathbf{IC}_{it} + \beta_5 \mathbf{GROWTH}_{it} + \beta_6\, \mathbf{SIZE}_{it} + \beta_7 \mathbf{ROA} + \varepsilon_{it}$$

Description: $Taxavoid_{it}$: Taxavoidance; DT_{it}: Digital Transformation; MP_{it}: Market Power; IC_{it}: Internal Control; $GROWTH_{it}$: Company Growth; $SIZE_{it}$: Company Size; ROA_i: Asset Turnover; ε_{it}: error/residual

Tax avoidance in this research is measured by utilizing the methodology created by Badertscher et al. (2015), which involves determining the residual value from the specific regression formula provided.

$$\mathbf{TAXESPAID\_TO\_ASSETS}_{it} = \beta_o + \beta_1 \mathbf{BTD}_{it} + \beta_2 \mathbf{NEG}_{it} + \beta_3 \mathbf{BTD}_{it} \times \mathbf{NEG}_{it} + \beta_4 \mathbf{NOL}_{it} + \beta_5 \Delta \mathbf{NOL}_{it} + \varepsilon_{it}$$

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Description:

TAXESPAID TO ASSETS: Ratio between cash taxes paid and total assets of the previous year; BTD: Book-Tax Differences (BTD = Accounting profit before tax – Taxable income)/ Total Assets; NEG: Negative (BTD with negative results); NOL: Net Operating Loss; ΔNOL: Change in Net Operating Loss; εit: residual as measurement of tax avoidance

In this research, the digital transformation aspect is evaluated through the use of four different categories and 51 markers, marking a progression from M. Chen et al. (2024); Reis & Melão (2023). M. Chen et al. (2024) proposed one dimension, namely digital technology, with 5 indicators, while Reis & Melao (2023) added three dimensions, namely: business model (24 indicators), digital business (12 indicators), and sustainability (10 indicators). The addition of these three dimensions is a novelty in this research. The independent variable market power is empirically determined based measurements of Kubick et al. (2015), Peress (2010) measuring Market Power by firm product market power with Excess PCM. Price cost margin is an indicator of the firm's performance level, where a smaller priccost margin points to a less efficacy in controlling costs. Internal control serves as the moderating variable in this research, which is operationalized following Ge et al. (2021) which contains 44 internal control index items. For control variables GROWTH: Company growth according to Asmirantho & Rooney (2015) (measured by Total Asset t – Total Asset t-1/Total Asset t-1); SIZE: natural logarithm of total assets; ROA: Return on Asset measured by net profit after tax/total assets (Mineri & Paramitha, 2021).

The measurement of independent variable digital transformation and moderating variable internal control in this study is conducted using content analysis method, referring to Papoutsi & Sodhi (2020). Assessment is done manually on annual reports and/or sustainability reports with a scale of 0–3, namely: 0 not disclosed; 1 = disclosed briefly without additional explanation; 2= explained qualitatively with more detailed narrative; 3 = presented completely with quantitative data, graphs, tables, or other supporting visuals. The final value is obtained through summing the total scores of all indicators for each company.

$$\sum \text{Disclosure}_{ij} = \frac{\sum_{i=1}^{Mj} Xij}{Mj}$$

Description:
∑Disclosureij = Disclosure score
Xij = indicator scores are measured by content analysis
Mj = Total of all indicators with maximum scores

RESULTS

Descriptive Statistics and Correlation Analysis

Descriptive data for all the variables analyzed are provided in Table 1. The lead variable, Tax Avoidance, has an average of 0.0023, implying that most firms are closely aligned with their tax duties. However, that is still a wide range, from -1.1105 to 5.4884, with a standard deviation of 0.8898 that is suggestive of plenty of variation among firms. The average and standard deviation of digital transformation is 0.3060 and 0.1277, respectively, falling in the range of 0.0261–0.6863. Companies have incorporated digital transformation to different extents, suggesting a diversity in implementation. The information on market dominance shows an average of 0.1127 and a deviation of 0.1944. This data spans from -0.8604 to 0.8867, indicating a wide range of values within this variable. These figures suggest that certain organizations possess limited competitive advantage in their respective markets. The statistical analysis satisfied all prerequisite assumptions for classical regression, including the requirements for normal distribution, absence of multicollinearity issues, and homoscedasticity conditions.

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Table 1. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev.
Taxavoid	363	-1.1105	5.4884	0.0023	0.8898
DT	363	0.0261	0.6863	0.3060	0.1277
MP	363	-0.8604	0.8867	0.1127	0.1944
IC	363	0.0152	0.6818	0.3183	0.1419
Growth	363	-0.9979	3.2098	0.0993	0.3776
SIZE	363	20.4382	33.7306	28.2783	2.0238
ROA	363	-0.3478	0.4030	0.0475	0.0841

TAXVOID: Tax avoidance rate (measured by the residual value of tax paid to assets; DT: Digital Transformation; MP: Market Power; IC: Internal Control; GROWTH: Company growth (measured by Total Assets t – Total Assets t-1/Total Assets t-1); SIZE: natural logarithm of total assets; ROA: Return on Assets measured by net profit after tax/total assets

Regression Results

As shown in Table 2, the regression outcomes affirm the reliability of the statistical evidence in this study. The F-statistic and its corresponding probability achieve significance at the 1% level, confirming that the analytical framework is appropriate and dependable for forecasting tax avoidance behavior. The model explains 53% of the variance in tax avoidance practices according to the adjusted R^2. Testing of hypothesis The testing results of hypothesis indicate that there is a negative strong relationship between digital transformation and tax avoidance with t-statistic of 1.84 which is greater than critical t-value 1.65 and the corresponding p-value 0.033 is also less than 0.05. Therefore, null hypothesis is accepted and first hypothesis is empirically supported and is significant at 5% level of significance.

$$\textbf{Model Taxavoidit} = \beta o + \beta 1 DTit + \beta 2 MPit + \beta 3 DTit*ICit + \beta 4 MPit*ICit + \beta 5 GROWTHit + \beta 6\ SIZEit + \beta 7 ROA + \varepsilon it$$

.....Model 1

Table 2. Hypothesis Test Results

Variable	Sign Expectation	Coeff.	t	Sig. (p-value)	Remark
DT	-	-1.1273	-1.84	0.033**	H1 acceptable
MP	+	2.0006	3.36	0.000*	H2 acceptable
DT*IC	-	1.9740	1.67	0.047**	H3 refused
MP*IC	-	-4.6141	-2.77	0.003*	H4 acceptable
GROWTH	+	0.4392	3.70	0.000*	
SIZE	+	0.0345	1.49	0.069	
ROA	+	2.1241	3.73	0.000*	
Constant		-1.0411	-1.61	0.109	
N Samples		363			
R-squared (R^2)		0.5438			
Adj R-squared (R^2)		0.5341			
F-stat		9.19			
Prob. F (stat)		0.0000			

*Significant at 1% level; **Significant at 5% level.

According to Table 2, evidence supports a favorable correlation between the market power and tax avoidance. The acceptance of hypothesis H2 is confirmed by t-value of 3.36, which is older than 1.65, and p-value of 0.000, which is lower than 0.05, verifying the positive and significant outcomes of market power toward tax avoidance at a 5% level of significance. Additionally, the influence of DT if combined with IC is meaningful against the Tax Avoidance was obtained a coefficient of 1.9740 with p-value of 0.047. Despite the substantial magnitude, the direction of this relationship contradicts the initial hypothesis that predicted a negative effect. Consequently, hypothesis H3 is rejected, suggesting that internal control systems fail to mitigate the negative influence of digital transformation on Tax Avoidance.

The interaction test results between MP and IC report coefficient of -4.6141 with t-statistic 2.77 > 1.65 and p-value 0.003 < 0.05. Therefore we accept H4, which implies that strong internal control would then reduce the association between market power and tax avoidance at 5% level. This suggests that companies with a larger market power and better internal control system would be less likely to avoid taxes to a low extent.

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DISCUSSION

Digital Transformation and Tax Avoidance

The explanation of the hypothesis (H1) that Digitalization has a favourable outcome on minimizing Tax Avoidance and hence, H1 is recognized. This raises the concern that those firms with lower digital intensity are less compliant in relation to tax avoidance. This outcome corresponds to previous studies (W. Chen & Meng, 2024; Tiantian et al., 2023; Xie & Huang, 2023; Zhang & She, 2024). The digital transformation variable in this study is measured by adding new dimensions that represent novelty in this research, namely the business model, digital business, and sustainability dimensions, which are developments from M. Chen et al. (2024) research. The addition of three new dimensions in measuring digital transformation including business model, digital business, and sustainability provides important contributions in improving the accuracy and depth of analysis. This approach not only captures technological aspects but also reflects strategic and systemic transformation within organizations. The research results show that models with more comprehensive measurements have higher explanatory power in explaining tax avoidance. Comprehensive digital transformation, which includes innovating business models, integrating digital technologies into operations, and focusing on sustainability, has been shown to contribute meaningfully in deterring the use of tax avoidance tactics. Thus, the addition of these dimensions not only strengthens the validity of the empirical model but also provides scientific novelty contributions and practical relevance for decision-makers and stakeholders.

Theoretically, these results reflect the dynamics predicted by agency theory (Jensen & Meckling, 1976), the meaning of the theoretical result is that interest conflicts between managers (agents) and owners (principals) cause managers be opportunistic so that they make tax avoidance. However, digital transformation serves as an effective governance mechanism to reduce information asymmetry and limit managers' scope for manipulation. The implementation of technologies such as ERP, cloud accounting, and automatic tax reporting increases transparency, accuracy, and auditability of financial information (Appelbaum et al., 2017; Moll & Yigitbasioglu, 2019). This strengthens internal oversight and reduces manipulation risks and agency costs (Song & Wang, 2022). Furthermore, these results confirm that digitalization reflects companies' commitment to fiscal compliance and good corporate governance. In the Indonesian context, this finding is relevant to the government's efforts to promote digitalization through core tax administration system programs and digital-based tax return reporting, this will improve the effectiveness of digital transformation in decreasing tax fraud.

These analysis results contradict studies by Balaskas et al., 2024 and Lestari & Kholid (2024), which found that the process of digitization can lead to an increase in Tax Avoidance. According to W. Chen & Meng (2024), one way to enhance tax management is by utilizing digital technology to adjust taxable income when necessary, and execute global operational and investment plans in order to reduce tax liability. This impact tends to be stronger when tax pressure increases. These research results can also be explained more deeply using the Sociotechnical System Theory approach (Emery & Trist, 1965), which emphasizes the need for integration between social systems (humans, organizational structure, work culture) and technical systems (technology, procedures, digital tools) to achieve optimal performance. In this context, digital transformation is understood as systemic change that unites business processes with organizational behavior. The implementation of digital technology in financial reporting, taxation, and internal oversight promotes transparency, increases accountability, and strengthens fiscal compliance. Companies that successfully integrate technology with accountable and data-based work culture have narrower space for manipulative practices. Digital systems such as e-invoices, e-withholding tax, and online tax return reporting mandated by Indonesian tax authorities further strengthen the connection between digitalization and tax compliance. Thus, socially and technically integrated digital transformation not only increases efficiency but also functions as an effective internal control tool in suppressing tax avoidance.

Market Power and Tax Avoidance

Inspection of hypothesis two reveals that market power significantly related to aggressive tax avoidance as predicted under H2. Empirical evidence shed light that firms exercising greater market dominance are highly inclined toward tax avoidance strategies. It suggests that the high tax is because marketleaders have higher motivations and opportunities to engage in tax minimization strategies. Businesses that dominate the market can enjoy more flexibility and autonomy in their operations and financial decisions, including in tax management strategies. Companies like these often have the advantage of utilizing legal expertise, tax advisors, and intricate tax planning tactics, allowing them to efficiently create sophisticated and assertive tax avoidance plans. The findings correspond with Kubick et al. (2015); Marcolino Gomes et al. (2022); Y. Shin & Park (2023), but is inconsistent

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with research by I. Shin & Park (2019), where market power research results negatively affected tax avoidance, indicating that higher market power leads to lower tax avoidance levels.

The companies that have established themselves as leaders in the market seem to have the power to control both the pricing and quality of their products, as explained by Shepherd & Dewey (1970). As a result, their competitive advantage allows them to maintain consistent and reliable profit margins (Hou & Robinson, 2006; Irvine & Pontiff, 2009; Peress, 2010) and when they are out of competition, they can invest on new projects (Hoberg et al., 2014; MacKay & Phillips, 2005). Hence, we conclude that businesses with increased dominance in the market tend to engage in more extensive strategies to evade taxes.

Theoretically, this finding aligns with the Theory of Industrial Organization proposed by (Tirole, 1988), companies that have a higher level of market dominance tend to have more control over setting prices, determining production levels, and making other key business decisions, and therefore, would also have greater capacity to manage the tax burden. In markets that are not fully competitive, dominant companies tend to have the flexibility to structure complex transactions and business activities to legally optimize tax obligations.

Companies' ability to exploit regulatory tax loopholes is greatly influenced by the economic resources they possess. Companies with strong market power have access to professional resources such as tax consultants, cross-border planning, and corporate structure engineering that enables efficient profit reporting to reduce tax burden. These findings contribute to knowledge that market power not only influences market performance and competition, but also is a necessary factor to consider in companies' tax behaviour such as tax avoidance. From an industrial organization theory perspective, this highlights the importance of tax regulation that considers market structure and economic power characteristics of business actors.

Based on research results and industrial organization theory, the behavior of companies in avoiding taxes is significantly influenced by their market power. Companies that are more dominant in the market have greater control over cost structure and profits, and are able to utilize various available tax avoidance techniques. Accordingly, tax policy should consider the market structure and the relative power of business actors to reduce the reliance on aggressive tax avoidance.

The interaction effect of Internal Control and Digital Transformation on Tax Avoidance

The finding of the third hypothesis suggests a positive relationship at a higher extent among DT, IT and Tax avoidance. This indicates that the effect of digital transformation on tax avoidance is moderated by internal control systems. However, the moderate influence operates in a direction contrary to the originally anticipated negative effect. The observed coefficient contradicts the theoretical proposition that internal control mechanisms would amplify the tax avoidance-reducing impact of digital transformation. Therefore, the third hypothesis is not empirically supported, because the result indicates that internal control systems do not strengthen the attenuating role of the tax avoidance behaviors of digital transformation.

This finding can be associated with the multidimensional nature of measuring DT, specifically with the construction of business model, digital business, and sustainability. These three dimensions expand the meaning of digital transformation from mere technical digitalization to strategic and systemic change. This means companies may have made extensive changes to business model structure and digital operations but not necessarily accompanied by effective and adaptive internal control systems to these dynamics. In such situations, misalignment between technology and governance can occur, where technology develops faster than organizational readiness to control and mitigate risks.

Additionally, adding the sustainability dimension to digital transformation emphasizes long-term aspects and companies' social values. However, if this aspect is only adopted normatively for image or formal compliance purposes, while internal oversight has not fully internalized these ethical values comprehensively, then digital transformation can create control ambiguity, allowing managers to exploit digital systems for tax avoidance purposes without being detected by internal mechanisms. Thus, unexpected outcomes from the interaction between DT*IC suggest that the effectiveness of curbing Tax Avoidance through digital transformation relies on how well companies' internal controls are prepared and capable of adapting to this shift, rather than simply following a set of rules. This is an important note that extensive digitalization must be accompanied by strengthening relevant, adaptive, and data-based oversight systems.

In contrast, the ineffectiveness of internal controls in improving the digital transformation's impact on reducing tax avoidance goes against the principles of Agency Theory (Jensen & Meckling, 1976), which states that internal control is a control mechanism designed to reduce any conflicts between managers and shareholders by providing

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a buffer to both parties. In this context, digital transformation is expected to increase transparency and information effectiveness, so tax avoidance practices can be suppressed through good internal systems. However, reality shows that existing internal control has not been able to optimally perform its function in moderating digitalization impacts.

This positive coefficient can be interpreted as an indication that internal control within companies has not been implemented effectively or is still merely formal. This means that although companies have implemented digital transformation through the utilization of IT in financial reporting systems and data management, existing internal control cannot keep pace with technological acceleration. Existing internal control is still structured and procedural, not yet fully integrated with adaptive and real-time digital systems. This condition shows an imbalance between technological innovation and corporate governance, where technology implementation is not automatically accompanied by improved oversight quality and accountability. This can create new gaps for opportunistic practices, including tax avoidance, due to weak digital-based oversight mechanisms.

These results provide important implications that internal control needs to be adapted and strengthened to endorse the efficiency of digital transformation in hindering Tax Avoidance. Integration between internal oversight and digital systems must run in parallel, not separately, to produce optimal synergy in improving corporate tax compliance. Digitalization that should strengthen internal oversight is instead utilized to devise more complex tax avoidance strategies through automation, ERP systems, or increasingly sophisticated reporting practices. The exploitation of technological vulnerabilities by individuals serves their own benefit, going against the original goal of using digital transformation to enhance corporate management.

The internal control system is important in reducing corporate Tax Avoidance. Efficient internal controls reduce the danger that Tax Avoidance poses by encouraging more accurate financial reporting, as well as compliance with tax laws (Amri et al., 2023; H. Chen et al., 2020). This analysis has demonstrated that flaws in internal regulation can create more chances for tax avoidance. For instance, if companies lack proper monitoring and supervision, employees are more inclined to participate in tax fraud (Abiola & Oyewole, 2013). Having strong internal control measures in place can greatly reduce the occurrence of corporate tax avoidance. Proper internal control systems help to lower the likelihood of tax avoidance stemming from improper financial reporting and failure to comply with tax regulations (Almasria et al., 2018). This study also reveals that deficiencies in internal control create opportunities for Tax Avoidance. In instances where a company lacks a robust internal control mechanism to oversee and manage its operations, employees within the organization are more likely to evade taxes (Chalmers et al., 2019). The success of internal control is primarily determined by the honesty and moral character of the organization, rather than solely relying on established processes and procedures. If digital transformation is not accompanied by strong and independent internal control, then digitalization can become a new tool to strengthen information asymmetry rather than reduce it.

Thus, as a result, internal control is not a moderator that amplifies the negative effect of digital transformation on reducing tax avoidance in companies that have been research samples and even tends to show the opposite direction. Regulators and policymakers should take this as a cautionary message, emphasizing the importance of supporting digitalization efforts while also ensuring that internal control functions operate efficiently and with utmost honesty, that internal governance (corporate governance) is strengthened in the context of digitalization and policy can be made to have IT Governance disclosed in companies' annual reports.

The Interacntion effect of Internal Control and Market Power on Tax Avoidance

The results of hypothesis four demonstrate that the interaction between MP and IC exerts a negatively on tax avoidance. As such, hypothesis H4 is valid: There is robust statistical evidence at the 95% confidence level that internal control significantly moderates the link within market power and tax avoidance. Consequently, all signs point to firms with considerable market dominance could decrease their tax avoidance practices through the implementation of strong internal control systems. Tax avoidance through tax havens can be more employed by firms with a great market power. But if such companies have effective internal controls, tax-avoidance will be minimized. Appropriate management can prevent the abuse of market power for tax avoidance.

This conclusion confirm the findings of Desai & Dharmapala (2006) stating that strong corporate governance mechanisms can limit management's opportunistic behavior, including tax avoidance strategies. In other words, although companies have power or dominant positions in the market, strict internal control will increase accountability and encourage compliance with tax regulations. These research results can also be linked to Industrial Organization Theory (Tirole, 1988) stating that businesses that have a strong hold on the market often find ways to avoid paying taxes. Yet, having reliable internal controls like independent audits, compliance

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measures, and clear reporting can limit a company's ability to manipulate its market power for tax benefits. In this framework, internal control not only serves in financial oversight but also as a corporate governance tool that can mitigate risks of market power misuse. This supports studies by Desai & Dharmapala (2006) and Armstrong et al. (2015) that underscoring the significance of proper governance in mitigating the impact of strategic resources on managerial choices.

Sensitivity and Expansion Tests

The purpose of sensitivity testing in this study was to assess the accuracy of the recently created measurement model. Sensitivity testing was done by comparing digital transformation variable measurements, where the old measurement model 2 (M. Chen et al., 2024) measured digital transformation with 1 (one) dimension, namely the digital technology dimension, while model 1, which is the novelty in this research, measured digital transformation by adding 3 dimensions: business model, digital business, and sustainability. Based on data in table 3, sensitivity testing conducted for classical assumption testing shows that both novelty and sensitivity models are fulfilled, consisting of multicollinearity and heteroscedasticity.

$$\mathbf{Taxavoidit = \beta o + \beta 1 DTit + \beta 2 MPit + \beta 3 DTit*ICit + \beta 4 MPit*ICit + \beta 5 GROWTH\ it + \beta 6\ SIZEit + \beta 7 ROA + \varepsilon it} \quad \text{.....2)}$$

As a sensitivity test, Model 2 was used with a more limited digital transformation measurement approach, using only one dimension: digital technology. Results show that although the model remains significant (F-statistic = 8.62; $p < 0.01$), the Adjusted R^2 value decreases drastically to 0.1284, indicating that the model's explanatory power is significantly reduced. In this model, digital transformation does not affect tax avoidance ($p = 0.496$), so hypothesis H1 is rejected. This supports that measuring holistically on business model, digital business, and sustainability have substantial implications. Meanwhile, the influence of market power and its interaction with internal control still significantly positive as in Model 1, which also verifies the conclusion. As a whole, comparing these two models demonstrates that a more complete measure of digital transformation that includes business model, digital business, and sustainability dimensions are more capable of explaining the variation in tax avoidance, and reinforces the novelty of this study.

Table 3. Sensitivity/Robustness Test Results

Variable	Prediction	Model 1 Novelty				Model 2 Sensitivity			
		Coefficients	T -Statistics	p-value	Remark	Coefficients	T -Statistics	p-value	Remark
C		-1.0411	-1.61	0.109		-1.0293	-1.58	0.115	
DT	-	-1.1273	-1.84	0.033**	Accepted	-0.0080	-0.01	0.496	Rejected
MP	+	2.0006	3.36	0.000*	Accepted	1.6889	2.90	0.002*	Accepted
DT*IC	-	1.9740	1.67	0.047**	Rejected	0.2164	0.12	0.451	Rejected
MP*IC	-	-4.6141	-2.77	0.003*	Accepted	-3.6105	-2.23	0.013*	Accepted
GROWTH	+	0.4392	3.70	0.000*		0.4302	3.61	0.000*	
SIZE	+	0.0345	1.49	0.069		0.0289	1.23	0.109	
ROA	+	2.1241	3.73	0.000*		2.1190	3.72	0.000*	
R-squared		0.5438				0.1452			
Adj R-squared		0.5341				0.1284			
F-statistic		9.19				8.62			
Prob F-statistic		0.0000				0.0000			

Note: *Significant at 1% level; **Significant at 5% level

For model 1 (novelty) provides better results compared to model 2 (sensitivity). This is shown by several statistical results as follows: Model 1 (novelty) has higher Adj. R-squared (0.5341) compared to model 2 (Sensitivity) (0.1284), meaning Model 1 has much stronger predictive ability (explanatory power) than Model 2. This means variables in Model 1 are more relevant and representative in explaining corporate tax avoidance behavior, particularly due to broader and deeper digital transformation measurement. The distinction also indicates that relying solely on technology for evaluating digital transformation, as shown in Model 2, is not enough to capture the intricate connection between digitalization and Tax Avoidance. Model 1 (novelty) has a better research model compared to model 2, seen from higher F Stat values (9.19) and (8.62) with the same Prob F Statistic of 0.000. When examining the statistical significance and effect sizes, the variables in model 1 (novelty) demonstrate greater impact than those in model 2, as evidenced by their lower p-values. The comprehensive approach to measuring digital transformation which incorporates business model innovation, digital business practices, and sustainability factors yields higher

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values than traditional measurement methods that focus solely on digital technology components. While both models show consistent directional relationships, model 1 proves to be more statistically robust in its findings.

The expansion analysis evaluated four digital transformation dimensions including digital technology, business model, digital business, and sustainability and the way they affect tax avoidance. Findings pointed to business model (p=0.033), digital business (p=0.008), and sustainability (p=0.028) significantly influence tax avoidance, while digital technology showed no significant effect (p=0.668).

Adding the business model dimension relates to innovation presence. Companies in the midst of digital transformation are placing a growing emphasis on integrating various types of innovation, such as developing new products, services, and processes, as well as improving business models and organizational setups, in order to boost their overall value proposition (Savastano et al., 2019). Developing digital business models is very important for organizations because digital transformation involves business and technology issues and can significantly add business value (Attaran, 2020). Business models integrated with digital transformation and focused on value-added innovation (both economically and socially) have the potential to suppress tax avoidance. This is achieved through increased transparency, social accountability, and efficiency in legal tax planning. Digitalization is not just a tool but becomes part of new business model philosophy that is more ethical and compliant with regulations. Digital transformation enables companies to reshape traditional business models into platform-driven, data-centric, and customer-integrated ones. This model generally includes: automation of accounting processes and financial reporting, ERP system integration with taxation modules and transaction tracking, the use of artificial intelligence, blockchain, and cloud to enhance risk management and control tax risk. Such digital business models enhance transparency and audit trail, rendering room for aggressive tax avoidance even more difficult.

Studies have shown that incorporating digital aspects into business operations can enhance a company's standing by improving corporate governance practices and financial framework that are in sync with cutting-edge technology. Digital business is seen as a means to hasten the shift towards digital transformation in traditional sectors, foster new ecosystems utilizing digital tools, and advance digital industries (Penmetsa & Bruque Camara, 2022). Digital business facilitates data openness, efficiency, and easy access for tax authorities to conduct audits and data verification. Digital business has significant potential in influencing company behavior toward tax avoidance through fundamental changes in operational systems, reporting, and organizational decision-making, all of which impact transparency and accountability. Digital business usually adopts more open and efficient organizational structures. This system strengthens governance principles such as information openness, managerial responsibility, and effective internal control. With strong governance, pressure from stakeholders (including regulators, investors, and the public) on tax compliance practices will increase. This ultimately encourages companies to avoid aggressive tax avoidance strategies to maintain reputation and long-term sustainability.

Adding sustainability dimensions to digital transformation enables companies to optimize their operations through technology use such as IoT, AI, and big data. Not only does this lead to improved productivity, it also results in decreased consumption of resources like energy and raw materials, thereby promoting sustainability. With digitalization, companies can track and manage resources more efficiently, which in turn reduces waste and carbon emissions by using environmentally friendly technology. For example, using smart technology in supply chain management can minimize waste and maximize energy use. Digital transformation aligned with sustainability goals can help companies contribute to achieving sustainable development goals (Gomez-Trujillo & Gonzalez-Perez, 2022). According to the findings from research, incorporating sustainable practices into digital transformation strategies may decrease the likelihood of corporations resorting to Tax Avoidance. This indicates that investment in advanced technology supporting efficiency and sustainability can serve dual functions: improving company operational performance and encouraging tax compliance.

CONCLUSION

The research findings on how digital transformation and market power influence tax avoidance behavior, with internal control as a moderating factor, reveal several key insights. Digital transformation demonstrates a negative relationship with tax avoidance, suggesting that digitalization enhances corporate transparency and tax compliance among Indonesian companies, particularly as the government promotes digital tax systems. Conversely, market power demonstrates a positive correlation, suggesting that firms with significant market dominance tend to adopt more aggressive tax reduction tactics. With respect to internal control's moderating function, the findings yield varied results. Internal control mechanisms do not enhance the positive effects of digital transformation for reducing tax avoidance, potentially indicating insufficient deployment of internal governance systems or their

treatment as superficial compliance measures. Nevertheless, internal control significantly moderates the link among market power and tax avoidance by attenuating its positive effect, thus curtailing the tax avoidance behaviors of major corporations when effective internal governance structures are appropriately implemented.

Sensitivity test results show that digital transformation measurement by adding business model, digital business, and sustainability dimensions produces stronger coefficients and significance compared to old measurement based only on digital technology. This addition makes the approach more holistic and suitable for modern company strategic contexts, while improving the conceptual validity of digital transformation variables. Expansion test results also confirm that the three additional dimensions significantly affect reducing tax avoidance, while the digital technology dimension has no effect. Business models promote efficiency and transparency, digital business strengthens governance, and sustainability increases compliance through efficiency and environmentally friendly technology. These findings confirm that strategic and integrated digital transformation is more effective in suppressing tax avoidance than mere technology adoption.

This study has three main implications. First, for business practitioners, digital transformation needs to be viewed as a strategy to improve fiscal compliance and governance through business model innovation, technology integration in tax reporting, and commitment to sustainability. Second, academically, this research expands literature by developing a more comprehensive digital transformation measurement model through adding three dimensions and 51 indicators, thus, providing deeper understanding of its role in tax avoidance. Third, for government, this finding encourages policies supporting strategic corporate digital transformation, not only technology-based but also touching business model, digitalization, and sustainability aspects that are proven effective in suppressing tax avoidance practices.

There are several limitations in this study. First, based on data from the annual and sustainability reports of 2023 of the businesses within the Indonesian Stock Exchange would not give a full picture of what has been occurring due to the absence of a consistent benchmark across digital transformation metrics. Second, the quantitative approach limits exploration of internal aspects such as management motivation and organizational culture. Third, content analysis-based internal control measurement is subjective and lacks established standards in digital contexts. Fourth, cross-sectional design has not captured the dynamics of policy changes and company strategies related to digital taxation over time. This research is limited to public companies in Indonesia. To improve generalization, future studies are suggested to include SME sectors, or cross-country comparisons with different digital transformation levels, considering each sector has unique challenges and opportunities related to digitalization and sustainability. Additionally, there is a need to create and establish more thorough and standardized metrics for measuring digital transformation and internal control across various companies and sectors. This could be achieved by developing indices grounded in global frameworks like the Digital Maturity Model or the OECD's Digital Transformation Indicators.

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