



THE EFFECT OF MANAGERIAL OVERCONFIDENCE ON FIRM VALUE: THE MEDIATING ROLE OF ORGANIZATIONAL CAPITAL AND TAX AVOIDANCE

Reyhan Herwanda^{1✉}, Anisa Fahmi²

¹Directorate General of Taxes, Jakarta, Indonesia

²Polytechnic of State Finance STAN, Tangerang Selatan, Indonesia

Article Information Abstract

History of article:
Submitted 10 October 2025
Revised 19 November 2025
Accepted 25 December 2025

Keywords:
Managerial
Overconfidence,
Organizational Capital,
Tax Avoidance, Firm
Value, Mediation

This study aims to determine the effect of managerial overconfidence on firm value with organizational capital and tax avoidance as mediating variables. Using a quantitative approach, the study employs multiple linear regression analysis and path analysis on panel data from 69 manufacturing firms listed on the Indonesia Stock Exchange during 2021–2023. The results show that managerial overconfidence significantly reduces firm value, both directly and indirectly. Conversely, organizational capital has a significant positive effect on firm value, while tax avoidance also contributes positively, albeit with potential long-term risks. The analysis further reveals that organizational capital and tax avoidance significantly mediate the relationship between managerial overconfidence and firm value. This research contributes theoretically by extending the literature on behavioral accounting, organizational resources, and tax management. Practically, the study provides insights for regulators, auditors, and corporate governance bodies in monitoring managerial decision-making to prevent excessive risk-taking and to ensure that organizational capital investments and tax strategies enhance sustainable firm value rather than create distortions.

✉correspondence Address:
Kav. 40-42, Jl. Gatot Subroto No. 7, Senayan, Kby.
Baru, Jakarta Selatan, Jakarta 12190
E-mail: reyhanh73@gmail.com

© 2025 Universitas Negeri Semarang
e-ISSN 2502-1451

INTRODUCTION

In an effort to maintain and enhance firm value, managers are generally expected to behave rationally. However, in reality, managers do not always act rationally, as they may exhibit overconfidence in making strategic decisions, including financial decisions (Shefrin, 2007).

Overconfident managers tend to be risk takers, which drives them to innovate, increase investment, and even engage in tax avoidance (Jevita & Siregar, 2023). Such managers are often aggressive in investment decisions. Their aggressiveness does not stem from arrogance, but rather from a tendency to overestimate the probability of success of a project based on strong personal beliefs, rather than on objective analysis (Malmendier & Tate, 2005).

Managerial overconfidence can increase the firm's burden, as managers are inclined to

exaggerate reported earnings, delay the recognition of losses, and apply less conservative accounting practices (Ahmed & Duellman, 2013). Moreover, overconfident managers are more likely to practice earnings management, as they frequently overstate the likelihood of success of their investment activities. When the realization of investment outcomes does not align with their promises or expectations, managers may engage in earnings management to conceal the resulting losses (Schrand & Zechman, 2012).

The negative implications of overconfidence in managerial decision-making can ultimately affect firm value. One case related to this is the financial reporting scandal of PT Garuda Indonesia (Giovanni et al., 2021). On April 1, 2019, Garuda Indonesia submitted its 2018 annual financial report to the Indonesia Stock Exchange, declaring a net profit of US\$809 thousand. This reported profit marked a

significant turnaround from the previous year's net loss of US\$216.58 million in 2017. It was later revealed that the increase was due to the premature recognition of revenue from a cooperation agreement with PT Mahata Aero Teknologi, amounting to US\$239.94 million, which should not yet have been recognized. As a result of this case, Garuda Indonesia's stock (GIAA) plummeted sharply. This reflected the consequences of managerial overconfidence in presenting an artificially favorable financial performance, even though the company was actually incurring losses. Ultimately, this action had a negative impact on both the firm's reputation and value.

Research on the effect of managerial overconfidence on firm value has produced mixed findings. Gao & Han (2020) and Shah et al. (2018) found that managerial overconfidence has a significant positive effect on firm value. In contrast, studies by Dashtbayaz & Mohammadi (2016), Kunjal et al. (2021), and Listiani et al. (2024) found a significant negative effect. Meanwhile, Yuliani (2015) concluded that managerial overconfidence has no significant impact on firm value. Thus, there is still no conclusive consensus regarding the relationship between managerial overconfidence and firm value. In the Indonesian context, research on this issue remains limited and underexplored.

Overconfident managers may also influence strategic investment decisions, particularly in the development of organizational capital (Carlin et al., 2012; Hirshleifer et al., 2012). In addition, organizational capital plays a critical role in determining firm value (Astuti & Bandi, 2023). Organizational capital represents an accumulation of intangible assets generated through managerial and corporate operational activities (Astuti & Bandi, 2023). As a corporate asset, it includes elements such as knowledge, culture, business processes, and company systems that contribute to productivity enhancement (Hasan et al., 2021). A concrete example of investment in organizational capital is Wal-Mart's supply chain system. Each time a product barcode is scanned at checkout, the information is automatically transmitted to suppliers. This innovation significantly improved inventory management efficiency and strengthened Wal-Mart's competitiveness.

Atkeson & Kehoe (2005) estimated that revenues generated from organizational capital exceed those derived from physical assets. This condition motivates investors to prefer firms with higher organizational capital, as such firms are perceived to offer greater returns through improved productivity. When a firm's productivity increases, it sends a positive signal to investors, reflected in reported profits, thereby enhancing firm value.

Research on the effect of organizational capital on firm value has been conducted by (Astuti & Bandi, 2023), who found a significant positive impact. However, studies in this area remain scarce both in Indonesia and internationally. This scarcity is partly because organizational capital is a relatively new development within the broader classification of intellectual capital (Lev et al., 2009). Consequently, most prior research has focused on intellectual capital and firm value. Empirical findings have been mixed: Hasbi (2015) and Holiawati & Murwaningsari (2019) reported a significant positive impact, whereas Ginting & Sagala (2020) and Putri et al. (2023) found no significant effect. Therefore, this study seeks to examine specifically the effect of organizational capital, as part of intellectual capital, on firm value.

In practice, firms often engage in tax avoidance, which may also affect firm value. Tax avoidance is one of the strategies employed by overconfident managers to meet investment funding needs (Chyz et al., 2019). Managers generally aim to maximize firm profits by minimizing tax expenses. This reduction in tax burden is achieved through tax planning strategies such as underreporting income (Dhamara & Violita, 2018). Tax avoidance can lead to higher reported profits due to greater funds being available for investment activities, thereby making the firm more attractive to investors.

Research on the relationship between tax avoidance and firm value has also produced inconclusive findings. Desai & Dharmapala (2009) and Arfiansyah (2020) reported a positive effect, whereas Khan et al. (2020), Arora & Gill (2022), and Listiani et al. (2024) found a negative effect. Meanwhile, Lestari & Siregar (2024) and Mieseigha & Okewale (2021) concluded that tax avoidance has no significant impact on firm value. These inconsistencies highlight the absence of a conclusive consensus regarding the influence of tax avoidance on firm value.

Based on this discussion, this study aims to investigate the relationship between managerial overconfidence, organizational capital, and tax avoidance with firm value. Research on managerial overconfidence and firm value remains limited, particularly in the context of behavioral accounting in Indonesia, and has not yielded conclusive results. Similarly, studies on the effect of organizational capital on firm value are still relatively rare, both domestically and globally.

This study will also analyze the indirect effect of managerial overconfidence on firm value through organizational capital and tax avoidance as mediating variables. This approach is based on the role of overconfident managers in managing organizational capital and tax avoidance strategies. Accordingly, this study seeks to fill the

gap in the literature by providing a more comprehensive analysis that incorporates both direct and indirect effects on firm value.

From a practical standpoint, this study is expected to provide implications for the development and oversight of the accounting and finance profession, particularly for public accountants. Public companies are required to present audited financial statements, and independent auditors play a crucial role in ensuring that managerial information complies with applicable regulations. Schrand & Zechman (2012) noted that managerial overconfidence also influences financial reporting behavior. Thus, independent audits guarantee the integrity, transparency, and credibility of financial information, which in turn affect market evaluations of firm value.

This study focuses on manufacturing firms as the research sample, as this sector has shown significant growth despite being affected by Covid-19 (Mardiana & Wijaya, 2024; Revinka, 2021). Manufacturing firms have demonstrated strong performance during the post-Covid-19 financial recovery period (Mardiana & Wijaya, 2024). The research sample consists of manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2021–2023, a period that reflects post-pandemic economic recovery and captures shifts in managerial strategies and firm value.

HYPOTHESES DEVELOPMENT

Previous studies show that overconfident managers tend to engage in overinvestment (Malmendier & Tate, 2005). Such managers overestimate the probability of high returns while underestimating existing risks. As a result, the probability of failure becomes greater than the likelihood of success because overconfident managers often miscalculate due to subjective considerations. This misjudgment is perceived as negative information, which ultimately decreases firm value since the firm's prospects are viewed as neither objective nor realistic. Furthermore, when the outcomes promised by managers fail to materialize, shareholder trust declines. Based on this reasoning, the first hypothesis of this study is formulated as follows.

H1: Managerial overconfidence has a significant negative effects on firm value.

Organizational capital is a combination of knowledge and the firm's capacity that enables business activities to be carried out effectively and efficiently (Martín-de-Castro et al., 2006). Firms with high organizational capital tend to achieve higher levels of productivity, which in turn maximizes profitability while minimizing costs.

Organizational capital is deliberately developed by firms to generate strong competitiveness. The way organizational capital is managed is positively perceived by investors. This positive response arises because firms that optimally manage their organizational capital are able to create competitive advantages that cannot be easily imitated by other firms (Astuti & Bandi, 2023). Therefore, organizational capital can enhance firm value. Based on this reasoning discussion, the second hypothesis of this study is formulated as follows.

H2: Organizational capital has a significant positive effects on firm value.

Tax avoidance by managers is intended to enhance firm wealth by minimizing tax burdens through the transfer of state resources to the firm (Desai & Dharmapala, 2009). Managers exploit loopholes in tax regulations while ensuring that the benefits derived outweigh the associated costs. A smaller tax burden increases net income, making the firm's financial condition appear healthier (Herwanda & Firmansyah, 2024). Managers who are able to design and implement effective tax avoidance strategies can reduce the risk of future underpayment assessments. This, in turn, may serve as a positive signal to investors. Based on this reasoning, the third hypothesis of this study is formulated as follows.

H3: Tax avoidance has a significant positive effects on firm value.

Managers are granted authority by principals to make decisions in running the firm. They hold the discretion to determine the level of investment to be undertaken (Pikulina et al., 2017). Organizational capital represents one of the investment choices available to managers as a means of operating the firm. When managers exhibit overconfidence, their investment decisions are driven by subjective beliefs. If they perceive organizational capital as more profitable, the level of investment in organizational capital will increase. Based on this reasoning, the fourth hypothesis of this study is formulated as follows.

H4: Managerial overconfidence has a significant negative effects on organizational capital.

In managing the firm, managers consistently strive to maximize profits. Overconfident managers strongly believe that engaging in tax avoidance will generate earnings in line with their expectations. Through tax avoidance, the firm obtains additional available cash flows. The increased availability of cash can then be allocated to finance their chosen investments (Hsieh et al., 2018). Consequently,

overconfident managers are more likely to engage in tax avoidance. Based on this reasoning, the fifth hypothesis of this study is formulated as follows.

H5: Managerial overconfidence has a significant positive effects on tax avoidance.

Overconfident managers tend to engage in investment levels that exceed the average of comparable firms. Organizational capital may be chosen by managers as a means to maximize the company’s competitiveness. However, the level of investment in organizational capital depends on the manager’s assessment. When they perceive that organizational capital does not yield maximum benefits, the investment level will be lower. Conversely, when they believe that organizational capital is highly profitable, the investment level will be greater. Thus, overconfident managers influence the extent of organizational capital investment.

Theoretically, organizational capital can generate competitive advantages compared to firms that allocate greater investments to physical assets rather than organizational capital. Furthermore, significant investment in

organizational capital will be perceived as a positive signal by investors. When organizational capital is interpreted as such a signal, firm value can increase. Based on this reasoning, the sixth hypothesis of this study is formulated as follows.

H6: Organizational capital significantly mediates the relationship between managerial overconfidence and firm value.

Managers with excessive confidence tend to decide on engaging in tax avoidance as a means to finance their chosen investment activities. They rely on information drawn from their prior experiences in handling corporate taxation. Consequently, overconfident managers are more likely to undertake tax avoidance. Furthermore, such tax avoidance practices are subject to investor assessment. Tax avoidance may be perceived as a positive signal, since the company retains greater resources to support its operational activities, thereby potentially enhancing profitability. Based on this reasoning, the seventh hypothesis of this study is formulated as follows.

H7: Tax avoidance significantly mediates the relationship between managerial overconfidence and firm value.

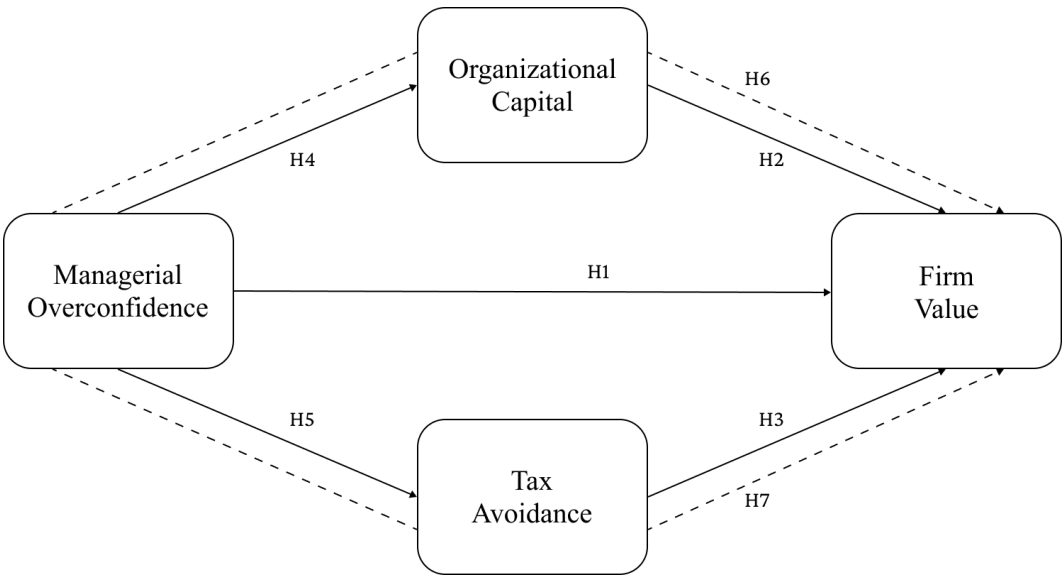


Figure 1. Research Model

METHOD

Types of Research

This study employs a quantitative approach using multiple linear regression analysis and path analysis to examine both direct and indirect effects among independent variables, mediating variables, and dependent variables. The data used are panel data, combining time series and cross-sectional dimensions, obtained from the financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Population, Samples, and Sampling Techniques

The population of this study consists of all manufacturing companies listed on the IDX for the period 2021–2023. Samples were selected using a purposive sampling method and produced a sample of 69 companies.

Research Variable

The variables in this study include: (a) firm value (FV) as the dependent variable; (b) managerial overconfidence (MO) as the independent variable; (c) organizational capital

(OC) and tax avoidance (ETR) as mediating variables; and (d) firm size (SIZE), profitability (PROF), and leverage (LEV) as control variables.

Operational Definition and Variable Measurement

Firm value (FV) reflects investor's perceptions of a company's future prospects and is proxied using Tobin's Q, which captures both market and book value components. Tobin's Q (FV) can be formulated as follows according to D'Amato & Falivena (2020) dan Salvi et al. (2021).

$$FV = \frac{\left(\frac{\text{Closing Price} \times \text{Number of Shares Outstanding}}{\text{Total Assets}} \right) + \text{Total Debt}}{\text{Total Assets}}$$

Managerial overconfidence (MO) proxied by an investment-based measure. Following Kunjal et al. (2021), managerial overconfidence is operationalized by regressing asset growth on sales growth, where the residual (ε) represents overinvestment. A positive residual (ε > 0) is coded as 1, indicating overconfidence, while a negative residual (ε < 0) is coded as 0.

Organizational capital (OC) refers to the intangible, firm-specific knowledge and managerial capabilities embedded within the organization. It is measured using the Perpetual Inventory Method, where Selling, General, and Administrative (SG&A) expenses are capitalized and adjusted for depreciation over time. OC can be formulated as follows according to Hasan et al. (2021), Astuti & Bandi (2023), and Hasan & Cheung (2023).

$$OC = \frac{SG\&A \times \lambda_{oc}}{g + \delta_{oc}} \times (1 + g)$$

The value is then transformed using the natural logarithm to normalize distribution and reduce skewness. In the calculation, OC represents the firm's organizational capital value; λ_{oc} is set at 30% of SG&A expenses as applied by Eisfeldt & Papanikolaou (2013); g denotes the average growth rate of the firm's SG&A expenditures; while δ_{oc} reflects the organizational capital depreciation rate, set at 20%.

Tax avoidance is the extent to which firms minimize their tax obligations. It is measured using the Cash Effective Tax Rate (CETR), calculated as (Hasan et al., 2021):

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

The CETR value reflects tax compliance. Therefore, to obtain a measure of tax avoidance, the CETR value is multiplied by -1 (Hutabarat & Firmansyah, 2022).

Firm size represents the scale of a company's operations and is measured as the natural logarithm of total assets. Profitability reflects the firm's ability to generate earnings from its assets and is measured using Return on Assets (ROA). In this study, ROA is calculated as:

$$ROA = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$$

Leverage describes the proportion of debt financing relative to equity in a firm's capital structure. Following Jihadi et al. (2021), leverage is measured using the Debt to Equity Ratio (DER):

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Data Analysis Method

This study employs path analysis using a quantitative approach. Path analysis is a statistical technique used to examine the comparative strength of direct and indirect relationships among several variables (Lleras, 2005). The analytical tool applied for the modeling is multiple linear regression. Multiple linear regression is a method that examines one dependent variable against more than one independent variable (Gujarati & Porter, 2009). This study consists of three equation models. Model 1 is a regression analysis of the dependent variable, while model 2 and 3 are regression analyses of the mediating variables. The following are the equations that describe this research model.

$$FV_{it} = \alpha_f + \beta_{fm} MO_{it} + \beta_{fo} OC_{it} + \beta_{ft} TA_{it} + \beta_{fz} SIZE_{it} + \beta_{fp} PROF_{it} + \beta_{fl} LEV_{it} + \varepsilon \dots(1)$$

$$OC_{it} = \alpha_o + \beta_{om} MO_{it} + \beta_{oz} SIZE_{it} + \varepsilon \dots(2)$$

$$TA_{it} = \alpha_t + \beta_{tm} MO_{it} + \beta_{tz} SIZE_{it} + \varepsilon \dots(3)$$

Information:

FV	: Firm Value
MO	: Managerial Overconfidence
OC	: Organizational Capital
TA	: Tax Avoidance
SIZE	: Firm Size
PROF	: Profitability
LEV	: Leverage
α _f , α _o , α _t	: Constant
β _{fm} , β _{fo} , β _{ft} , β _{fz} , β _{fp} ,	
β _{fl} , β _{om} , β _{oz} , β _{tm} , β _{tz}	: Coefficient
ε	: Error

RESULT AND DISCUSSION

Descriptive Analysis

Based on Table 1, the descriptive statistical results of this study can be interpreted as follows. The firm value (FV) variable, derived from 207 observations, has a mean of 1.6970 with a standard deviation of 1.5253. The minimum value recorded is 0.3262, while the maximum reaches 10.8409. Since the standard deviation is smaller than the mean, it indicates that firm value across

companies in the sample does not vary substantially.

The managerial overconfidence (MO) variable, with the same number of observations, records a mean of 0.5024 and a standard deviation of 0.5012. This finding suggests that nearly half of the total observations exhibit managerial overconfidence. The values range from 0, which reflects the absence of managerial overconfidence, to 1, which reflects its presence, thereby confirming the validity of the data coding.

Table 1. Descriptive Statistic Result

	N	Minimum	Maximum	Mean	Std. Deviation
FV	207	0.3262	10.8409	1.6970	1.5253
MO	207	0	1	0.5024	0.5012
OC	207	22.3145	32.3221	27.0277	1.8777
TA	207	-3.2232	0	-0.2702	0.2868
SIZE	207	25.1609	33.7306	28.9548	1.6532
PROF	207	0.0043	0.3964	0.1027	0.0839
LEV	207	0.0337	3.9283	0.6253	0.5362

The organizational capital (OC) variable shows a mean of 27.0277 with a standard deviation of 1.8777. As this variable is expressed in natural logarithms, the mean corresponds to $e^{27.0277}$, which is equivalent to IDR 546,991,992,324. The minimum value of 22.3145 equals IDR 4,910,197,490, while the maximum value of 32.3221 equals IDR 108,980,490,946,906. The relatively low standard deviation compared to the mean suggests that organizational capital is relatively similar across firms.

For tax avoidance (TA), the mean value is -0.2702 with a standard deviation of 0.2868. The minimum recorded value is -3.2232, while the maximum is 0. These results indicate that the degree of tax avoidance varies among companies, but remains within the expected range.

Regression Analysis

The results of the multiple linear regression analysis in this study are presented in Table 2, which reports the regression outcomes for Model 1, where firm value serves as the dependent variable. Meanwhile, Tables 3 and 4 present the regression results for Models 2 and 3, in which organizational capital and tax avoidance, respectively, are specified as the dependent variables.

The hypothesis testing in this study uses a significance level of 0.05. H0 is accepted if sig α greater than or equal to 0.05. Otherwise, H0 is rejected if sig α less than 0.05.

Table 2. Regression Test Result Model 1

Variable	Coefficient	Std. Error	T	Prob.
MO → FV (H ₁)	-0.2103	0.0560	-3.76	0.000
OC → FV (H ₂)	0.1340	0.0426	3.14	0.002
TA → FV (H ₃)	0.1820	0.0703	2.59	0.005
SIZE → FV	-0.1911	0.0391	-4.89	0.000
PROF → FV	12.7514	0.2550	50.00	0.000
LEV → FV	1.3456	0.0987	13.62	0.000
Cons.	1.6299	0.8701	1.87	0.030
R ²	0.9348			
Prob. chi ²	0.0000			

Based on Table 2, the variable managerial overconfidence (MO) with a coefficient of -0.2103 and a probability value of $0.000 < 0.05$ has a statistically significant negative effect on firm value, thus H1 is accepted. The variable organizational capital (OC) with a coefficient of 0.1340 and a probability value of $0.001 < 0.05$ has a statistically significant positive effect on firm value, thus H2 is accepted. Meanwhile, the variable tax avoidance (TA) with a coefficient of 0.1820 and a probability value of $0.005 < 0.05$ also

has a statistically significant positive effect on firm value, thus H3 is accepted.

Based on Table 3, the variable MO with a coefficient of -0.2929 and a probability value of $0.000 < 0.05$ has a statistically significant negative effect on OC, thus H4 is accepted.

Meanwhile, based on Table 4, the variable MO with a coefficient of 0.0693 and a probability value of $0.001 < 0.05$ has a statistically significant positive effect on TA, thus H5 is accepted.

Table 3. Regression Test Result Model 2

Variable	Coefficient	Std. Error	T	Prob.
MO → OC (H ₄)	-0.2929	0.0792	-3.76	0.000
SIZE → OC	1.0329	0.0520	19.84	0.000
Cons.	-2.7344	1.5075	-1.81	0.035
R ²	0.8183			
Prob. chi ²	0.0000			

Table 4. Regression Test Result Model 3

Variable	Coefficient	Std. Error	T	Prob.
MO → TA (H ₅)	0.0693	0.0220	3.15	0.001
SIZE → TA	-0.0091	0.0042	-2.16	0.015
Cons.	-0.0466	0.1216	-0.38	0.350
R ²	0.2649			
Prob. chi ²	0.0000			

Path Analysis

To test H6 and H7, which examine the mediating effects of organizational capital and tax avoidance in the relationship between managerial overconfidence and firm value, this study employs path analysis complemented by the sobel test. In path analysis, the total effect of an independent

variable on a dependent variable can be determined by calculating both the direct and indirect effects using regression coefficients. Meanwhile, sobel test is conducted to determine the significance of the indirect effect of an independent variable on a dependent variable through a mediating variable (Sobel, 1982).

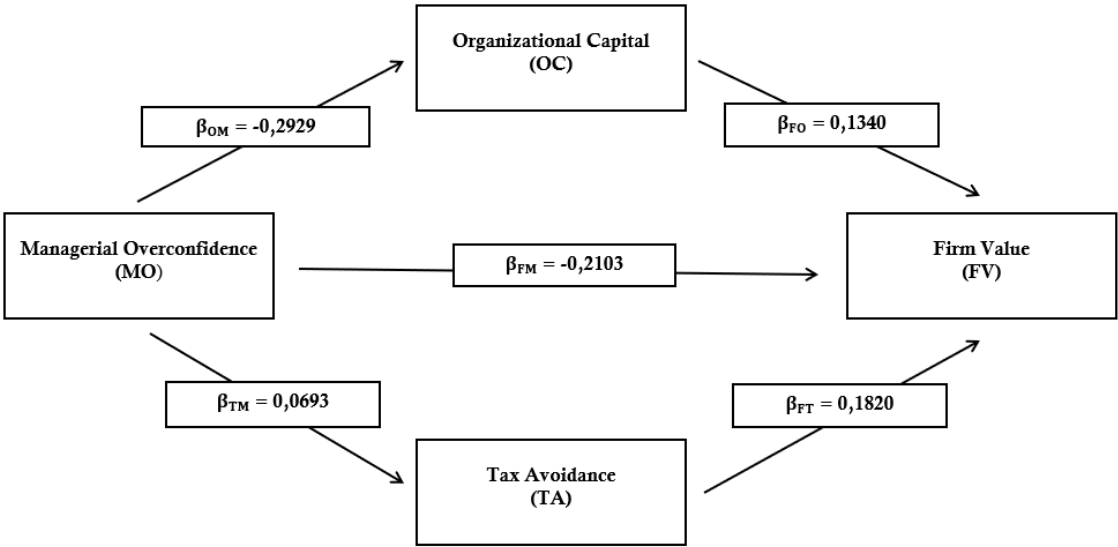


Figure 2. Path Analysis Model

Figure 2 illustrates two indirect pathways through which managerial overconfidence influences firm value, namely the MO → OC → FV path with organizational capital as a mediator and the MO → TA → FV path with tax avoidance as a mediator. Since the direct effect of managerial overconfidence on firm value is significant, both organizational capital and tax avoidance act as partial mediators.

Based on Table 5, the MO → OC → FV path produces a coefficient of $-0.2929 \times 0.1340 =$

-0.0392 . This indicates that when managers are overconfident, firm value, assuming other variables remain constant, decreases by 0.0392 points through the partial mediating effect of organizational capital. Meanwhile, the MO → TA → FV path yields a coefficient of $0.0693 \times 0.1820 = 0.0126$. This shows that when managers are overconfident, firm value, assuming other variables remain constant, increases by 0.0126 points through the partial mediating effect of tax avoidance.

Table 5. Direct Effect and Indirect Effect Results

Effect	Coefficient	Path Coefficient Value	
Direct Effect (Path MO→FV)		β_{FM}	-0.2103
Indirect Effect (Path MO→OC→FV)	$\beta_{OM} \times \beta_{FO}$		$-0.2929 \times 0.1340 = -0.0392$
Indirect Effect (Path MO→TA→FV)	$\beta_{TM} \times \beta_{FT}$		$0.0693 \times 0.1820 = 0.0126 +$
Total Effect			-0.2369

The total effect of managerial overconfidence on firm value, as presented in Table 5, is the sum of the coefficients from the direct path MO → FV and the two indirect paths MO → OC → FV and MO → TA → FV, which is $-0.2103 - 0.0392 + 0.0126 = -0.2369$. This result demonstrates that managerial overconfidence overall reduces firm value by 0.2369 points, with organizational capital reinforcing the negative impact and tax avoidance providing only a marginal positive offset.

Based on the sobel test results presented in Table 6, the path MO → OC → FV has a probability value of $0.0165 < 0.05$, indicating that organizational capital significantly mediates the effect of managerial overconfidence on firm value. Thus, H6 is accepted. Similarly, the path MO → TA → FV shows a probability value of $0.0454 < 0.05$, confirming that tax avoidance also acts as a significant mediator in the relationship between managerial overconfidence and firm value. Therefore, H7 is accepted.

Table 6. Sobel Test Results

Path	t.	Std. Error	Prob
MO → OC → FV (H ₆)	2.3826	0.0163	0,0165
MO → TA → FV (H ₇)	1.9976	0.0061	0,0454

Effect of Managerial Overconfidence on Firm Value

The hypothesis testing reveals that managerial overconfidence has a significant

negative effect on firm value. This finding consistent with prior studies (Dashtbayaz & Mohammadi, 2016; Kunjal et al., 2021; Listiani et al., 2024), which highlight that overconfident managers tend to make decisions that ultimately undermine firm performance. Overconfidence leads managers to overestimate their abilities and exaggerate the probability of success (Malmendier & Tate, 2005; Svenson, 1981), resulting in investment decisions that lack objectivity and may generate negative investor sentiment.

Overconfident managers frequently overestimate returns while underestimating risks, which increases the likelihood of overinvestment in less profitable projects (Roll, 1986). If financed externally, such investments raise financial burdens that exceed the benefits. If financed internally, they create inefficiencies in capital allocation. Both scenarios weaken financial performance, and when actual results fall short of expectations, shareholder trust diminishes, leading to a decline in firm value.

In addition, overconfidence often contributes to less conservative accounting practices, delayed recognition of losses, and even earnings management to preserve a positive image (Ahmed & Duellman, 2013; Schrand & Zechman, 2012). In extreme cases, this behavior may result in financial misreporting, which investors interpret as a negative signal. While overconfident managers may reduce underinvestment problems by being more willing to take risks (Malmendier & Tate, 2005), excessive and unobjective investment decisions expose the firm to greater risks than benefits.

Taken together, these results suggest that managerial overconfidence, although potentially beneficial in addressing underinvestment, has

more harmful consequences when it becomes a persistent characteristic of corporate leadership. The increased financial burdens, inefficiencies, and risks associated with overconfidence ultimately undermine firm value and threaten long-term sustainability.

Effect of Organizational Capital on Firm Value

The hypothesis testing reveals that organizational capital has a significant positive effect on firm value. This finding is consistent with Astuti & Bandi (2023), who also documented a positive association between organizational capital and firm value. As an essential intangible asset, organizational capital integrates human resources and physical assets to develop technology, organizational culture, business processes, and efficient organizational design (Evenson & Westphal, 1995; Lev et al., 2009). Such unique processes and structures not only improve operational efficiency but also generate sustainable competitive advantages.

Although investments in organizational capital may reduce short-term profits, they enhance long-term flexibility, reduce cost rigidities, and foster sustainable growth by building enduring intangible assets (Martín-de-Castro et al., 2006; Mohammadi & Taherkhani, 2017). Firms that allocate resources to organizational capital—through expenditures on administration, marketing, and strategic development—tend to outperform those that rely solely on physical assets, particularly in operational efficiency and business innovation. Atkeson & Kehoe (2005) further found that, on average, returns on organizational capital investments exceed those of physical capital.

Organizational capital also provides a positive signal to investors, as its effective management contributes to long-term financial performance Lev et al. (2009). The growth of organizational capital thus shapes investor perceptions of favorable prospects, ultimately enhancing firm value. Consequently, companies should not limit investments to physical assets but strategically develop organizational capital as a sustainable source of competitive advantage.

Effect of Tax Avoidance on Firm Value

The hypothesis testing reveals that tax avoidance has a significant positive effect on firm value. This finding is consistent with Desai & Dharmapala (2009) and Arfiansyah (2020), who also documented a significant positive association between tax avoidance and firm value.

From a theoretical perspective, tax avoidance represents part of earnings management strategies undertaken by managers to maintain financial performance and stabilize

stock prices, thereby influencing firm value (Hernawati et al., 2021). By minimizing tax expenses, managers increase after-tax profits, often through the use of tax incentives and regulatory opportunities. Lower tax payments also strengthen firms' cash flows, allowing greater capacity for investment and operational expansion. As a result, investors may interpret tax avoidance as an efficiency signal, perceiving firms with higher after-tax cash flows as more attractive in the market (Arfiansyah, 2020).

Nevertheless, such positive effects may be temporary. This study covers the period 2021–2023, a critical recovery phase after the Covid-19 pandemic, during which tax savings were instrumental in safeguarding short-term financial performance (Athira & Ramesh, 2023). Yet, as tax enforcement intensifies in the post-pandemic period, firms engaging in aggressive tax avoidance may face heightened audit risks, sanctions, and reputational damage (Arora & Gill, 2022).

If sustained over the long term, the benefits of tax avoidance may diminish, as investors begin to view it as a signal of legal exposure or financial manipulation. This shift in perception can erode investor trust and ultimately decrease firm value. Therefore, balancing tax efficiency with regulatory compliance is crucial to ensuring the sustainable enhancement of firm value.

Effect of Managerial Overconfidence on Organizational Capital

The hypothesis testing reveals that managerial overconfidence has a significant negative effect on organizational capital. Overconfident managers tend to overestimate their abilities in making business decisions, which often leads to suboptimal resource allocation (Malmendier & Tate, 2005). Their decisions are frequently biased, relying more on personal beliefs and experiences rather than objective data, thereby reducing the effectiveness of organizational capital in enhancing firm efficiency (Hasan & Cheung, 2023).

In the context of manufacturing firms, Eisfeldt & Papanikolaou (2013) demonstrate that this sector generally holds a larger share of physical assets compared to intangible assets, particularly organizational capital. This condition may reinforce overconfident managers' belief that investing heavily in physical assets yields higher returns than investing in organizational capital. Moreover, in times of financial distress, physical assets are often perceived as more valuable than organizational capital because they can be liquidated to cover interest payments and debt obligations (Shefrin, 2007). In contrast, organizational capital is less liquid and cannot provide immediate financial relief. Consequently, the limited information and cognitive bias of

overconfident managers strengthen their conviction that the chosen investment in tangible assets is the best option (Svenson, 1981).

Organizational capital, however, critically depends on managerial efficiency and proper resource allocation (Eisfeldt & Papanikolaou, 2013). Managers' lack of awareness regarding the strategic benefits and optimal development of organizational capital often discourages investment in this intangible asset. This imbalance in investment decisions undermines the effectiveness of organizational capital, ultimately weakening firms' long-term competitiveness. Without proper management, organizational capital may stagnate, hindering innovation and reducing firms' ability to adapt to market changes. Therefore, it is crucial for firms to ensure that investment decisions are made more objectively and based on reliable data so that organizational capital can be managed effectively to sustain long-term corporate performance.

Effect of Managerial Overconfidence on Tax Avoidance

The hypothesis testing reveals that managerial overconfidence has a significant positive effect on tax avoidance. This finding is consistent with Hsieh et al. (2018), Chyz et al. (2019), and Ilaboya & Aronmwan (2021), who demonstrate that overconfident managers are more likely to adopt aggressive tax strategies as part of their financial decision-making. Overconfident managers often pursue high-risk investments requiring substantial funding (Hsieh et al., 2018), and tax avoidance becomes a means to secure greater cash flows to finance these investments. By focusing on short-term benefits, such managers tend to underestimate potential tax risks, prioritizing immediate liquidity over long-term compliance.

Moreover, tax avoidance may also emerge as a mechanism to conceal the adverse consequences of overconfidence. Overconfident managers frequently overestimate the likelihood of favorable outcomes, and when actual results fall short, they may resort to earnings management to obscure losses (Schrand & Zechman, 2012). Tax avoidance serves as an alternative earnings management tool, as it increases reported net income without directly manipulating accounting figures. Consequently, tax avoidance not only supports funding needs but also functions as a strategy for preserving managerial credibility in the eyes of investors.

The Mediating Role of Organizational Capital in the Relationship between Managerial Overconfidence and Firm Value

The hypothesis testing reveals that organizational capital significantly mediates the

effect of managerial overconfidence on firm value. Overconfident managers tend to pursue bolder and more aggressive investment decisions (Billett & Qian, 2008), often leading to suboptimal resource allocation as they prioritize external investments while neglecting internal capabilities.

In this context, organizational capital plays a key role in explaining how overconfidence shapes firm value. As an intangible asset that relies heavily on managerial efficiency, organizational capital requires adequate resource allocation to enhance productivity and competitiveness (Eisfeldt & Papanikolaou, 2013). However, overconfident managers often underinvest in organizational capital, limiting its development and reducing organizational efficiency, which in turn weakens the firm's market competitiveness (Carlin et al., 2012).

Thus, managerial overconfidence influences firm value both directly and indirectly through organizational capital. Instead of strengthening firm value, organizational capital may amplify the negative consequences of overconfidence when inadequately managed, resulting in slower innovation and diminished competitiveness compared to more adaptive rivals. This highlights the need for a balanced managerial approach in resource allocation to ensure that organizational capital contributes positively to firm growth and value creation.

The Mediating Role of Tax Avoidance in the Relationship between Managerial Overconfidence and Firm Value

The hypothesis testing reveals that tax avoidance significantly mediates the effect of managerial overconfidence on firm value. Overconfident managers tend to pursue bolder and riskier investment decisions (Billett & Qian, 2008), which may either enhance or diminish firm value. In this study, tax avoidance serves as a mechanism through which managerial overconfidence influences firm value.

Tax avoidance provides overconfident managers with additional resources to realize their optimistic investment outlooks. They perceive tax avoidance not only as a means of reducing corporate burdens but also as a strategic tool to expand investment capacity (Slothouber, 2010). By reducing tax expenses, firms gain extra cash flow to finance high-risk projects, which are often favored by overconfident managers (Gervais et al., 2011).

Beyond resource augmentation, tax avoidance can also shape market perceptions. Investors may view it as an indicator of cash flow optimization and financial efficiency, thereby temporarily increasing firm value. However, such benefits are short-lived, as excessive tax avoidance heightens legal risks and the potential for tax

sanctions (Arora & Gill, 2022). Once these risks materialize, the positive effect of managerial overconfidence on firm value may reverse into a negative one. Thus, firms should strengthen oversight of managerial strategic decisions, particularly regarding tax avoidance, and provide managers with training in risk-based decision-making to ensure sustainable financial performance.

CONCLUSION AND RECOMMENDATION

The conclusion of this study is that managerial overconfidence has a significant negative effect on firm value, while organizational capital and tax avoidance have a significant positive effect on firm value. Managerial overconfidence negatively affects organizational capital but positively affects tax avoidance. Furthermore, organizational capital and tax avoidance are proven to significantly mediate the effect of managerial overconfidence on firm value in manufacturing firms listed on the Indonesia Stock Exchange during 2021–2023.

This study has several limitations. The requirement for positive pre-tax income reduced the sample size, while the mediating variables were limited to organizational capital and tax avoidance, leaving other potential mediators unexplored.

Future research could broaden the sample beyond manufacturing firms, extend the observation period, and incorporate additional mediators such as financial reporting quality, dividend policy, and corporate governance. For companies, strengthening governance structures and adopting long-term incentive schemes may help mitigate the negative effects of managerial overconfidence, while investing in organizational capital and disclosing its elements can enhance sustainable value creation.

For investors, prioritizing firms with high tax compliance is essential, as tax avoidance may yield short-term gains but increases long-term risks. Policymakers should reinforce auditor independence and tighten tax regulations to reduce avoidance practices that threaten state revenue. Lastly, accounting regulators are encouraged to consider developing standards for recognizing and measuring organizational capital, given its strategic importance in driving firm performance and improving transparency.

REFERENCES

Ahmed, A. S., & Duellman, S. (2013). Managerial overconfidence and accounting conservatism. *Journal of Accounting Research*, 51(1), 1–30.

Arfiansyah, Z. (2020). Pengaruh penghindaran pajak dan risiko pajak terhadap nilai perusahaan dengan komisaris independen sebagai pemoderasi. *Jurnal Pajak Indonesia*, 2, 67–76.

Arora, T. S., & Gill, S. (2022). Impact of corporate tax aggressiveness on firm value: Evidence from India. *Managerial Finance*, 48(2), 313–333.

Astuti, N. W., & Bandi. (2023). Modal organisasi, nilai perusahaan, dan penghindaran pajak. *Jurnal Akuntansi dan Bisnis*, 23(2), 220–233.

Athira, A., & Ramesh, V. K. (2023). COVID-19 and corporate tax avoidance: International evidence. *International Business Review*, 32(4), 1–27.

Atkeson, A., & Kehoe, P. J. (2005). Modeling and measuring organization capital. *Journal of Political Economy*, 113(5), 1026–1053.

Billett, M. T., & Qian, Y. (2008). Are overconfident CEOs born or made? Evidence of self-attribution bias from frequent acquirers. *Management Science*, 54(6), 1037–1051.

Carlin, B. I., Chowdhry, B., & Garmaise, M. J. (2012). Investment in organization capital. *Journal of Financial Intermediation*, 21(2), 268–286.

Chyz, J. A., Gaertner, F. B., Kausar, A., & Watson, L. (2019). Overconfidence and corporate tax policy. *Review of Accounting Studies*, 24(3), 1114–1145.

D’Amato, A., & Falivena, C. (2020). Corporate social responsibility and firm value: Do firm size and age matter? Empirical evidence from European listed companies. *Corporate Social Responsibility and Environmental Management*, 27(2), 909–924.

Dashtbayaz, M. L., & Mohammadi, S. (2016). The relationship between managerial overconfidence with firms value: Evidence from the vehicle and parts manufacturing industry. *Journal of Economics, Marketing, and Management*, 4(3), 1–6.

Desai, M. A., & Dharmapala, D. (2009). Corporate tax avoidance and firm value. *The Review of Economics and Statistics*, 91(3), 537–546.

Dhamara, G. P., & Violita, E. S. (2018). The influence of financial distress and independence of board of commissioners on tax aggressiveness. *Advances in Economics, Business and Management Research*, 55(6), 81–86.

Eisfeldt, A. L., & Papanikolaou, D. (2013). Organization capital and the cross-section

- of expected returns. *Journal of Finance*, 68(4), 1365–1406.
- Evenson, R. E., & Westphal, L. E. (1995). Technological change and technology strategy. In J. Behrman & T. N. Srinivasan (Eds.), *Handbook of development economics* (Vol. 3, pp. 2209–2300). North-Holland.
- Gao, Y., & Han, K. S. (2020). Managerial overconfidence, CSR and firm value. *Asia-Pacific Journal of Accounting and Economics*, 29(6), 1600–1618.
- Gervais, S., Heaton, J. B., & Odean, T. (2011). Overconfidence, compensation contracts, and capital budgeting. *The Journal of Finance*, 56(5), 1735–1777.
- Ginting, M. C., & Sagala, L. (2020). Pengaruh modal intelektual terhadap nilai perusahaan (studi kasus pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia periode tahun 2017–2019). *Jurnal Manajemen*, 6(2), 91–100.
- Giovanni, A., Utami, D. W., Astuti, U. D., & Fania. (2021). Konflik keagenan dalam perspektif keuangan keperilakuan. *Journal Accounting and Finance*, 5(1), 1–10.
- Gujarati, D. N., & Porter, D. C. (2009). *Basic econometrics* (5th ed.). McGraw-Hill.
- Hasan, M. M., & Cheung, A. W. K. (2023). Organization capital and firm risks. *China Accounting & Finance Review*, 25(3), 338–367.
- Hasan, M. M., Lobo, G. J., & Qiu, B. (2021). Organizational capital, corporate tax avoidance, and firm value. *Journal of Corporate Finance*, 70, 1–27.
- Hasbi, H. (2015). Islamic microfinance institution: The capital structure, growth, performance and value of firm in Indonesia. *Procedia - Social and Behavioral Sciences*, 211, 1073–1080.
- Hernawati, R. I., Ghozali, I., Yuyetta, E. N. A., & Pratiwi, A. (2021). The effect of income and earnings management on firm value: Empirical evidence from Indonesia. *Journal of Asian Finance, Economics and Business*, 8(4), 105–112.
- Herwanda, R., & Firmansyah, A. (2024). Strategi penghindaran pajak dan kualitas laporan keuangan: Peran leverage sebagai pemoderasi. *APSSAI Accounting Review*, 4(1), 86–99.
- Hirshleifer, D., Low, A., & Teoh, S. H. (2012). Are overconfident CEOs better innovators? *The Journal of Finance*, 67(4), 1457–1498.
- Holiawati, & Murwaningsari, E. (2019). Intellectual capital, tax avoidance and firm value. *International Journal of Business, Economics and Law*, 18(5), 219–227.
- Hsieh, T. S., Wang, Z., & Demirkan, S. (2018). Overconfidence and tax avoidance: The role of CEO and CFO interaction. *Journal of Accounting and Public Policy*, 37(3), 241–253.
- Hutabarat, P. D. C., & Firmansyah, A. (2022). Are sustainability disclosure and tax avoidance associated with the cost of debt? *ULTIMA Accounting*, 14(2), 281–294.
- Ilaboya, O. J., & Aronmwan, E. J. (2021). Overconfident CEOs and corporate tax avoidance. *Journal of Accounting and Management*, 11(2), 70–80.
- Jevita, A., & Siregar, S. V. (2023). Financial distress, CEO overconfidence dan tax avoidance. *E-Jurnal Akuntansi*, 33(6), 1429–1443.
- Jihadi, M., Vilantika, E., Hashemi, S. M., Arifin, Z., Bachtiar, Y., & Sholichah, F. (2021). The effect of liquidity, leverage, and profitability on firm value: Empirical evidence from Indonesia. *Journal of Asian Finance, Economics and Business*, 8(3), 423–431.
- Khan, N., Ullah, N., Aman, N., & Sulehri, N. A. (2020). Impact of tax avoidance on firm value and the moderating role of corporate governance: Evidence from Pakistan manufacturing firms. *Iqra Journal of Business and Management*, 4(2), 122–138.
- Kunjal, D., Nyasha, J., Ghisyan, A., Govender, P. J., Murugasen, S., Naidoo, P., Patel, D. S., & Muzindutsi, P.-F. (2021). The effect of managerial overconfidence on firm value: Evidence from the Johannesburg Stock Exchange. *Management and Economics Review*, 6(1), 1–14.
- Lestari, P. G., & Siregar, J. K. (2024). Does environmental cost and tax aggressiveness affect mining firms' value? *International Journal of Research in Community Service*, 5(3), 112–117.
- Lev, B., Radhakrishnan, S., & Zhang, W. (2009). Organization capital. *Abacus*, 45(3), 275–298.
- Listiani, N., Nugrahanti, Y. W., Damayanti, T. W., & Supramono, S. (2024). Managerial overconfidence, cash flow, tax aggressiveness and firm value. *Montenegrin Journal of Economics*, 20(1), 47–57.
- Lleras, C. (2005). Path analysis. In K. Kempf-Leonard (Ed.), *Encyclopedia of social measurement* (Vol. 3, pp. 25–30). Elsevier.

- Malmendier, U., & Tate, G. (2005). CEO overconfidence and corporate investment. *Journal of Finance*, 60(6), 2661–2700.
- Mardiana, A., & Wijaya, H. (2024). Faktor-faktor yang mempengaruhi nilai perusahaan pada perusahaan manufaktur. *Jurnal Multiparadigma Akuntansi*, 6(2), 691–700.
- Martín-de-Castro, G., Navas-López, J. E., López-Sáez, P., & Alama-Salazar, E. (2006). Organizational capital as competitive advantage of the firm. *Journal of Intellectual Capital*, 7(3), 324–337.
- Mieseigha, E. G., & Okewale, J. A. (2021). Tax aggressiveness and firm value: Evidence from industrial goods companies on the Nigerian Exchange Group. *Acta Oeconomica Universitatis Selye*, 10(2), 56–69.
- Mohammadi, A., & Taherkhani, P. (2017). Organizational capital, intellectual capital and cost stickiness (evidence from Iran). *Journal of Intellectual Capital*, 18(3), 625–642.
- Pikulina, E., Renneboog, L., & Tobler, P. N. (2017). Overconfidence and investment: An experimental approach. *Journal of Corporate Finance*, 43, 175–192.
- Putri, I. A. J., Budiyo, Triyonowati, & Ilham. (2023). Growth, intellectual capital, financial performance and firm value: Evidence from Indonesian automotive firms. *International Journal of Science, Technology & Management*, 4(1), 139–146.
- Roll, R. (1986). The hubris hypothesis of corporate takeovers. *The Journal of Business*, 59(2), 197–216.
- Salvi, A., Vitolla, F., Rubino, M., Giakoumelou, A., & Raimo, N. (2021). Online information on digitalisation processes and its impact on firm value. *Journal of Business Research*, 124, 437–444.
- Schrand, C. M., & Zechman, S. L. C. (2012). Executive overconfidence and the slippery slope to financial misreporting. *Journal of Accounting and Economics*, 53(1–2), 311–329.
- Shah, S. S. H., Xinping, X., Khan, M. A., & Harjan, S. A. (2018). Investor and manager overconfidence bias and firm value: Micro-level evidence from the Pakistan equity market. *International Journal of Economics and Financial Issues*, 8(5), 190–199.
- Shefrin, H. (2007). *Behavioral corporate finance: Decisions that create value* (2nd ed.). McGraw-Hill.
- Svenson, O. (1981). Are we all less risky and more skillful than our fellow drivers? *Acta Psychologica*, 47(1), 143–148.
- Yuliani. (2015). Overconfidence dan nilai perusahaan: Struktur modal dan investasi sebagai pemediasi. *Journal of Management and Business Review*, 12(2), 90–104.