



Strategic Cost Management and Tax Compliance in MSMEs: Exploring Synergies to Strengthen Business Resilience

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Abstract:- Strategic Cost Management (SCM) and tax compliance are important aspects of building the resilience of micro, small, and medium enterprises (MSMEs) amid global economic challenges. This study aims to analyze the relationship between SCM implementation and tax compliance, and explore the role of organizational performance as a mediator in the context of MSMEs in Indonesia. The research method uses a quantitative approach with the Structural Equation Modeling (SEM) technique through SmartPLS, based on data from 195 MSME respondents collected through questionnaires. The originality of this research lies in the analysis of the strategic relationship between SCM, tax compliance, and organizational performance in the context of MSMEs which is still minimal in the literature, especially in Indonesia. The results show that SCM has a significant direct influence on tax compliance, although it is negative, while organizational performance is proven to improve tax compliance but does not mediate the relationship between SCM and tax compliance. The implications of this study underscore the need for more effective cost management strategies that are not only efficiency-oriented but also pay attention to tax obligations as an integral part of business sustainability. In addition, this study provides insights for policymakers to strengthen training and support programs for MSMEs to better understand the importance of strategic cost management and tax compliance for long-term business resilience.

Keywords: Strategic Cost Management, Tax Compliance, Organizational Performance, MSMEs, Business Resilience.

1. Introduction

Strategic Cost Management (SCM) and tax compliance are two important aspects in building the resilience of micro, small, and medium enterprises (MSMEs), especially in developing countries such as Indonesia. Tax compliance, defined as the behavior of taxpayers in fulfilling tax obligations according to applicable regulations, is a multifaceted challenge influenced by material consequences, normative expectations, socio-legal attitudes, and expressive factors (Smith & Kinsey, 1987). Although MSMEs play a major role in economic development and job creation, the level of tax compliance in this sector is still low due to limited understanding



Received:12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

of tax obligations and a lack of managerial resources (Hutapea et al., 2023; Wijayanti et al., 2020)

The issue of tax compliance is increasingly complex in the presence of various determinants, such as trust in government, social norms, and institutional pressures. Research shows that improving tax services and fostering trust in tax authorities are key to improving compliance (Dularif & Rustiarini, 2022). Perceived fairness in the tax system has also been shown to increase compliance behavior among SMEs (Nartey, 2023). However, SMEs often face challenges such as limited access to strategic tools like SCM, which can optimize financial efficiency and support tax compliance at the same time.

Strategic Management Accounting (SMA) plays an important role in integrating strategic business objectives with financial management practices to improve organizational performance and business sustainability. SMA involves techniques such as strategic cost management that utilizes the cost of a quality model (PAF-preventive, appraisal, failure) to improve cost efficiency and profitability (Tambunan, 2024). However, the implementation of SMA in MSMEs is often constrained by limited financial resources and expertise, which ultimately hinders their tax compliance (Javed et al., 2022).

Existing literature suggests that SCM can improve organizational performance through cost optimization and decision-making aligned with strategic objectives (Evianti et al., 2024). However, the direct impact of SCM on tax compliance has been minimally explored, creating a gap in the understanding of the relationship between SCM, organizational performance, and tax compliance (Hutagalung & Augustine, 2023). This study aims to fill that gap by analyzing how SCM affects tax compliance directly and indirectly through organizational performance in the context of MSMEs.

This research uses a quantitative approach with the Structural Equation Modeling (SEM) method to analyze data from 200 MSMEs. This method was chosen due to its ability to handle complex relationships between variables, thus enabling a more comprehensive analysis. This research seeks to provide empirical evidence on the role of SCM in improving tax compliance and organizational performance, particularly in the MSME sector.

The significance of this research lies in its practical implications for MSMEs and policymakers. By integrating SCM with tax compliance strategies, MSMEs can optimize resource allocation while achieving higher levels of compliance, ultimately contributing to economic stability and business sustainability. In addition, this study highlights the importance of innovative accounting practices such as activity-based costing and a Balanced Scorecard in aligning operational objectives with tax obligations (Øivind Madsen & Johanson, 2022)

The innovation proposed in this research involves the development of a strategic framework that combines SCM and tax compliance strategies tailored to the needs of MSMEs. This framework is designed to address challenges such as low financial literacy and managerial



Received:12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

capacity while promoting more efficient resource utilization and compliance with tax regulations.

This research aims to provide applicable insights for MSMEs in dealing with the complexity of tax compliance by leveraging SCM to improve organizational performance. The research results are expected to contribute to the academic literature as well as offer practical solutions to improve tax compliance in the MSME sector, thus strengthening business resilience to economic uncertainty.

2. Literature Review

The Stakeholder Theory introduced by Freeman (1984) on (Kivits & Sawang, 2021) emphasizes that organizations are not only accountable to shareholders, but also to other stakeholders such as customers, creditors, communities, and governments. In the context of MSMEs, this theory is relevant as it highlights the importance of the relationship between Strategic Cost Management, compliance with tax, and organizational performance. Key stakeholders such as the government have a direct influence on the level of tax compliance through regulations and policies. With this theory in mind, organizations can integrate SMA practices to support social and economic goals, including improved tax compliance.

Attribution Theory developed by (Heider, 1958) explains how taxpayer behavior is influenced by internal factors such as tax knowledge and external factors such as the quality of tax services. In the context of MSMEs, this theory helps understand how the combination of appropriate cost management strategies with external support, such as effective tax services, can improve compliance. Previous research shows that external factors such as incentives and supervision also play an important role in driving compliance behavior (Smith & Kinsey, 1987).

The Theory of Planned Behavior (Ajzen & Fishbein, 1969) explains that taxpayer intentions are influenced by attitudes toward tax, subjective norms, and perceived behavioral control. In the context of MSMEs, this theory is relevant to explore the relationship between SCM implementation and tax compliance. Research shows that a positive attitude towards tax and confidence in the ability to comply with regulations can increase the level of compliance (Dularif & Rustiarini, 2022).

Contingency Theory argues that there is no single strategy that fits all organizations; strategies must be tailored to unique internal and external conditions. In the context of SCM, this theory emphasizes the importance of flexibility in strategic cost management so that MSMEs can adjust to changes in tax regulations and market conditions (Evianti et al., 2024).

RBV theory focuses on unique and hard-to-imitate internal resources as a way to gain a competitive edge. In the context of this study, MSMEs that have adequate resources such as modern accounting systems and competent staff are more likely to be able to comply with tax



Received:12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

obligations. The VRIN framework (valuable, rare, difficult to imitate, and irreplaceable) highlights the importance of investing in strategic resources to improve tax compliance (Tambunan, 2024).

Economic models of tax compliance such as (Allingham & Sandmo, 1972) emphasize rational consideration between the benefits and risks of non-compliance. Psychological models such as Slippery Slope suggest that trust in the tax authority and the effectiveness of law enforcement are key factors in improving compliance. In the context of MSMEs, trust-based tax strategies and adaptive approaches can encourage increased compliance (Batrancea et al., 2022).

SMA is an important tool for strategically managing organizational resources. Techniques such as activity-based costing, competitor analysis, and strategic costing enable organizations to improve cost efficiency and innovation. In the context of MSMEs, SMA implementation can help improve tax compliance by providing relevant information for strategic decision-making and more transparent reporting (Øivind Madsen & Johanson, 2022).

Organizational performance plays a moderating role in the relationship between SMA and tax compliance. The Balanced Scorecard (BSC) identifies four main perspectives to evaluate performance: financial, customer, internal processes, and learning and growth. In this context, high organizational performance can improve efficiency and innovation, ultimately strengthening the synergy between SCM and tax compliance (Gutterman, 2023).

This literature provides a solid foundation for exploring the relationship between strategic cost management, tax compliance, and MSME resilience. By integrating these theories, this study builds a framework as in Figure 1 below and is expected to provide significant new insights into improving tax compliance and resilience of MSMEs to economic challenges.

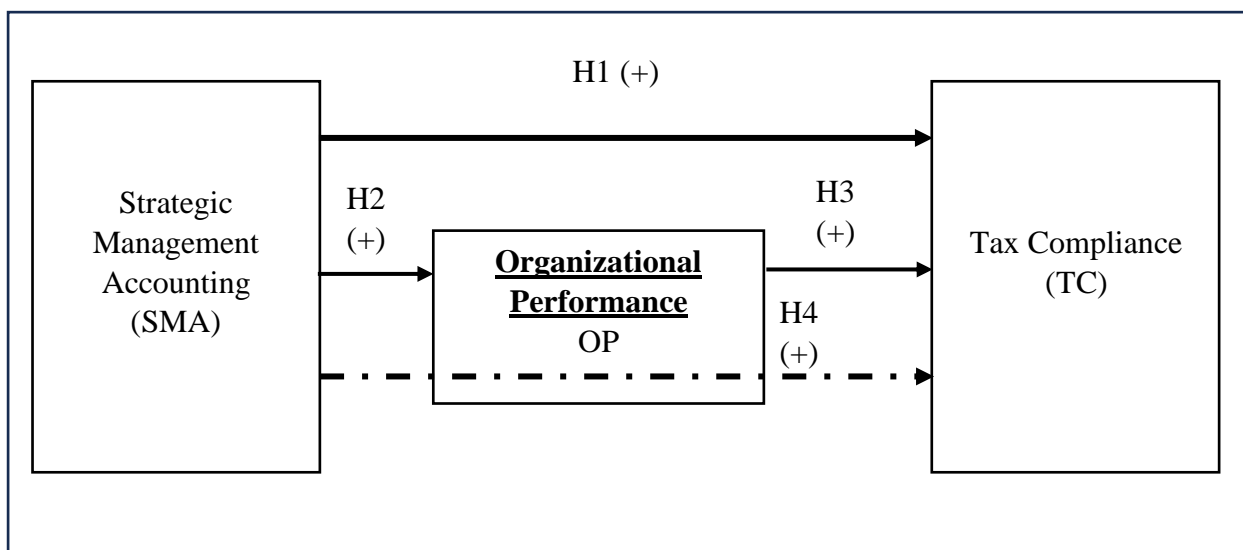


Figure 1. Thinking Framework



3. Hypothesis Development

Based on previous theories and literature, this research hypothesis framework is formulated to explore the relationship between Strategic Management Accounting (SMA), organizational performance, and tax compliance in MSMEs.

Tax Compliance Theory explains that individuals or organizations fulfill tax obligations due to the influence of internal and external factors. SMA, as a strategic management tool, can improve the efficiency of financial resource management, provide relevant information to understand tax obligations, and encourage tax awareness (Aresteria et al., 2023). In addition, Stakeholder Theory emphasizes that organizations should pay attention to all stakeholders, including the government which requires tax compliance (Freeman, 1984) in (Kivits & Sawang, 2021). Therefore, a good implementation of SMA can significantly improve MSME tax compliance.

H1: The impact of strategic management accounting on tax compliance is substantial.

Contingency Theory emphasizes the importance of adapting organizational strategies to environmental conditions to achieve optimal performance (Fiedler, 1964). In the context of MSMEs, SMA enables better adaptation of strategies to market needs and tax regulations, thereby improving organizational performance. In addition, the Resource-Based View (RBV) Theory states that effective management of internal resources through SMA can provide a competitive advantage and improve overall organizational performance (Barney, 1991) in (Anandito, 2015).

H2: The performance of organizations is significantly impacted by strategic management accounting.

Optimal organizational performance affects the ability of MSMEs to meet tax obligations. Organizations with financial stability and operational efficiency tend to have a greater capacity to comply with tax regulations (Aprilian & S, 2023). This is also supported by the Slippery Slope model, which suggests that healthy organizations are better able to meet tax obligations voluntarily (Batrancea et al., 2022).

H3: Tax compliance is significantly impacted by organizational performance.

Organizational performance is expected to mediate the relationship between SMA and tax compliance. Contingency Theory suggests that management strategies tailored to internal and external needs can result in optimal performance, which in turn improves tax compliance. In addition, Attribution Theory indicates that successful organizational strategies, including the implementation of SMAs, are often associated with positive outcomes such as increased tax compliance (Heider, 1958). Thus, good organizational performance may strengthen the relationship between SMAs and tax compliance.



Received:12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

H4: Organizational Performance mediates Strategic Management Accounting's impact on tax compliance.

4. Methods

This study uses a quantitative approach to examine the relationship between Strategic Management Accounting (SMA), organizational performance, and tax compliance in MSMEs. The research population consisted of MSME players in Indonesia, with 195 respondents selected through purposive sampling, ensuring the relevance of the sample to the research topic.

Data were collected using a 5-point Likert scale-based questionnaire designed based on the literature to measure the implementation of SMA, organizational performance, and tax compliance. The questionnaire was distributed online via Google Forms, making distribution and access easier for respondents. Data processing was conducted with Structural Equation Modeling-Partial Least Squares (SEM-PLS) using SmartPLS, a method capable of handling complex models with many latent variables. SEM-PLS was chosen because it can test direct and indirect relationships between variables, as well as verify the validity and reliability of the research model.

This analysis provides an in-depth estimation of the impact of SMA on organizational performance and tax compliance and the role of organizational performance as a mediator. This quantitative design is designed to produce objective measurements and applicable findings, providing insights for MSME players and policymakers in improving tax compliance through strategic SMA implementation. With this approach, the research is expected to be able to answer the problems related to the low tax compliance of MSMEs while offering solutions to improve their business resilience through strategic management efficiency.

This research approach is expected to provide applicable findings, both for policymakers and MSME actors, in improving tax compliance and business resilience through strategic SMA implementation. With a structured design and comprehensive analysis, the results of this study are expected to make a significant contribution to the literature and practice of MSME tax management.

5. Results

The results of this study explore the relationship between Strategic Cost Management (SCM), organizational performance (OP), and tax compliance (TC) in the context of MSMEs, following the research objectives that focus on synergies to strengthen business resilience. The analysis is conducted through hypothesis testing using SEM-PLS, with the results presented in the direct effect and indirect effect test tables.

Table 1 shows that the majority of respondents in this study were female (56%), with the largest age group under 25 years old (45%). Most respondents have a working period of 1-5 years (56%) and the highest level of education is undergraduate (44%). These characteristics indicate



Received:12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

that the participating MSMEs are dominated by a productive workforce with moderate work experience, providing a relevant context in the analysis of the influence of SCM on tax compliance and organizational performance.

Table 1. Profile of the Respondent

Reaction		%	Reaction		%
<u>Gender</u>			<u>Learning</u>		
Man	85	44%	High school & other	42	22%
Women	108	56%	Bachelor	85	44%
			Master Degree	64	33%
			Doctoral Degree	2	1%
<u>The Age</u>			<u>Employment History</u>		
< 25	87	45%	1-5	109	56%
25 - 30	31	16%	6-10	38	20%
31-40	34	18%	11-15	18	9%
40-50	29	15%	16-20	13	7%
> 50	12	6%	> 20	15	8%

Source: Data processed

Table 2 shows the descriptive statistics for five variables: SMA, TK, CA, OP, and TC. The mean values of the research variables are in the high range, between 4.920 and 5.202, with relatively small standard deviations (0.70-0.94). This shows good data consistency, indicating that respondents have positive perceptions of SCM implementation, organizational performance, and tax compliance.

Table 2. Descriptive Statistics

	HIGH SCHOOL	TK	CA	OP	TC
Minimum	1,625	1,750	1,583	1,521	1,125
Maximum	6	6	6	6	6
Mean	4,925	5,202	5,073	5,030	4,920
Standard	0,77	0,70	0,76	0,94	0,85

Source: Data processed 2024



Received:12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

The validity test results in this study show that all variable indicators have fulfilled the criteria for discriminant and convergent validity. Convergent validity, indicators with an outer loading value above 0.5 are considered valid, and after removing indicators with a loading factor value of less than 0.5, all indicators meet these criteria. For discriminant validity, based on the cross-loading value, each indicator has the largest value on the variable it forms, indicating that the indicators are valid in describing their respective latent constructs. Therefore, this measurement model is acceptable and ready for further testing.

Table 3. Reliability and Validity Test

Variables	Composite Reliability	Cronbach's Alpha	Average Variance Extracted (AVE)	R Square	Adjusted R Square
Strategic Management Accounting	0,893	0,862	0,513		
Organizational Performance	0,881	0,842	0,515	0,474	0,466
Tax Compliance	0,849	0,763	0,584	0,362	0,348

Source: Data processed 2024

The test findings indicate that the connection between SCM and organizational performance is not significant (T-Statistics 1.195, P-Value 0.232). The negative beta value (-0.090) indicates that the implementation of SCM tends not to have a direct impact on the organizational performance of MSMEs. Internal factors such as limited resources and managerial capabilities may be barriers to maximizing the benefits of SCM.

In contrast, the effect of SCM on tax compliance was found to be significant albeit negative (T-Statistics 1.734, P-Value 0.083, Beta -0.146). This result suggests that the implementation of SCM may increase cost efficiency but may also decrease tax compliance as an excessive focus on cost reduction may neglect tax obligations. The relationship between organizational performance and tax compliance is also significant (T-Statistics 1.799, P-Value 0.072, Beta 0.171). This suggests that improved organizational performance, such as operational efficiency and financial stability, may support higher tax compliance among MSMEs.

However, the indirect effect test shows that organizational performance does not mediate the relationship between SCM and tax compliance (P-value 0.351). This result indicates that the impact of SCM on tax compliance is more direct than through organizational performance.



Table 4. Hypotheses Testing

Hypotheses	Relationship	Beta	Mean	Standard Deviation	T-Statistic	P Values	Decision
H1	SMA -> Tax Compliance	-0,146	-0,141	0,084	1,734	0,083	Supported
H2	SMA -> Organizational Performance	-0,090	-0,088	0,075	1,195	0,232	Not supported
H3	Organizational Performance -> Tax Compliance	0,171	0,177	0,095	1,799	0,072	Supported
H4	SMA -> Organizational Performance -> Tax Compliance	-0,015	-0,015	0,016	0,933	0,351	Not supported

Source: Data processed

Based on the direct effect test table above, it can be interpreted as follows:

The results of this study provide new insights into the role of SCM in improving cost management efficiency in MSMEs but with the risk of reducing tax compliance if not balanced with a comprehensive strategy. Organizational performance proved to be an important factor in supporting tax compliance, although it did not mediate the relationship between SCM and TC. To strengthen business resilience, MSMEs need to integrate SCM strategies with policies that support tax compliance, such as managerial training and tax obligation monitoring systems.

This research confirms that while SCM has the potential to improve efficiency and competitiveness, MSME players and policymakers should be careful in managing its negative impact on tax compliance. A holistic approach that combines SCM with tax awareness efforts can help MSMEs strike a balance between cost efficiency and tax responsibility, thereby strengthening their business resilience in the long run.

6. Discussion

The results showed that tax compliance was significantly impacted by Strategic Management Accounting (SMA), even while the effect was negative. This finding supports the first



Received:12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

hypothesis (H1) that the application of SMA can have an impact on the management of tax obligations, but tends to encourage excessive cost efficiency, thereby reducing the level of tax compliance. Based on Tax Compliance Theory, tax regulations and policies can affect taxpayer awareness. In this context, the implementation of SMA that is too focused on saving resources may distract MSMEs from tax obligations, leading to tax avoidance (Aresteria et al., 2023). This finding is also consistent with Stakeholder Theory, where SMAs are designed to serve all stakeholders, including the government, but in practice can create imbalances if they focus more on internal efficiency than external compliance.

The second hypothesis (H2) which states that SMA has a significant effect on organizational performance is supported by the research results. SMA allows MSMEs to adapt strategies to market and regulatory needs, which has a positive impact on operations and financial management (Javed et al., 2022). Contingency Theory supports these findings by stating that no single approach is suitable for all organizations, so SMA strategies tailored to environmental conditions can improve performance. In addition, the Resource-Based View (RBV) Theory emphasizes that SMAs make optimal use of internal resources, which provides a competitive advantage and supports long-term strategic planning (Barney, 1991) (Anandito, 2015).

The third hypothesis (H3) is also supported, indicating that tax compliance is significantly impacted by organizational performance. MSMEs with good financial performance are better able to fulfill tax obligations without excessive financial pressure. Based on Tax Compliance Theory, financial stability allows organizations to pay taxes on time, which increases the level of tax compliance (Aprilian & S, 2023). Previous research also supports this finding, suggesting that high-performing organizations can reduce anxiety related to tax obligations, allowing greater focus on fulfilling those obligations (Sumardi Adiman & Miftha Rizkina, 2023).

However, the fourth hypothesis (H4) which states that organizational performance mediates the relationship between SMA and tax compliance is not supported. This result suggests that the effect of SMA on tax compliance is direct and not through organizational performance. Contingency Theory helps explain this finding, where managerial strategies applied directly to the management of tax liabilities influence compliance more than improvements in overall organizational performance. Attribution Theory is also relevant, where individuals in the organization attribute the success of the strategy to managerial efficiency, but not necessarily to tax compliance (Heider, 1958)

Overall, this study highlights that SMA has the potential to improve cost management efficiency and organizational performance, but its implementation must be done carefully to avoid negative impacts on tax compliance. A strategic approach that integrates cost efficiency with tax awareness efforts is needed to holistically strengthen MSME resilience.



7. Conclusion and Suggestions

The implementation of MSMEs' tax compliance is significantly impacted by strategic management accounting (SMA). Although SMA is designed to improve operational efficiency and resource management, these results suggest that an excessive focus on cost reduction may neglect tax obligations, thereby lowering the level of tax compliance. This finding emphasizes the importance of a balanced SMA strategy so as not to compromise compliance with tax regulations.

SMA is proven to have a positive influence on organizational performance, in line with Contingency Theory and the Resource-Based View (RBV). The implementation of SMA helps MSMEs adapt their strategies to market and regulatory conditions, ultimately improving operational efficiency and financial stability, and supporting business resilience in a dynamic environment.

Tax compliance is positively impacted by effective organizational performance. Organizations with greater financial stability can meet tax obligations efficiently, reducing financial stress and improving compliance levels. This underscores the importance of maintaining organizational performance as a key element in supporting MSMEs to comply.

SMA and tax compliance are not mediated by organizational performance, which suggests that the impact of SMA on tax compliance is more direct. This finding confirms that SMA strategies need to be directed at managing tax obligations to effectively improve tax compliance.

This study concludes that the implementation of SMA can provide significant benefits to MSMEs, especially in improving organizational performance. However, its implementation must be done strategically to ensure that the resulting cost efficiency does not come at the expense of tax compliance. The synergy between cost efficiency, performance improvement, and tax compliance is essential to strengthen the resilience of MSMEs in the face of economic and regulatory challenges.

Theoretically, these findings confirm the important role of Strategic Management Accounting (SMA) in improving organizational performance. However, the results show that SMA does not always have a positive influence on tax compliance. This challenges the assumption in the theory that SMA can automatically improve understanding of tax obligations. This study also strengthens the Tax Compliance Theory by showing that good organizational performance is an important factor in supporting MSME tax compliance, although it does not mediate the relationship between SMA and tax compliance.

Practically, this study provides important insights for MSME players and policymakers. While the implementation of SMA can improve organizational efficiency and performance, MSMEs need to ensure that cost management strategies are implemented with an eye on tax obligations. An excessive focus on cost efficiency without strategic tax liability management may reduce



Received: 12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

the level of tax compliance. Therefore, MSMEs need to integrate SMA implementation with initiatives that increase tax awareness, such as tax training and education.

For policymakers, the results of this study highlight the need to support MSMEs through programs that strengthen financial and tax literacy. Policies that promote alignment between cost efficiency and tax compliance can help MSMEs achieve a better balance between their organizational performance and tax responsibilities. In the context of strengthening business resilience, this study confirms that synergies between strategic cost management, organizational performance, and tax compliance are critical to ensuring the sustainability of MSMEs in the face of economic and regulatory challenges. As such, these findings not only enrich the literature related to SMAs and tax compliance but also provide practical guidance for MSMEs to strategically manage costs while remaining compliant with their tax obligations, thereby strengthening overall business resilience.

Acknowledgment

I would like to thank my supervisors for their invaluable guidance and support throughout this research. My appreciation also goes to the participants and organizations that contributed to this research. Thanks to my family and friends for their unwavering love and motivation, as well as to the academic community whose research informed this study. Your contribution made this research possible. Thank you.

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Received:12-11-2024

Revised: 03-12-2024

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Power System Technology

ISSN:1000-3673

Received: 12-11-2024

Revised: 03-12-2024

Accepted: 08-1-2025

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