

FAMILY OWNERSHIP AND CORPORATE TAX AGGRESSIVENESS: THE MODERATING EFFECT OF INDEPENDENT COMMISSIONER

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Abstract

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The family firm literature has found that 73% of empirical studies focus on American and European family firms (De Massis, Sharma, Chua, & Chrisman, 2012). De Massis et al. (2012) propose investigating family firms with contextual nuances of family firms in under-represented areas such as Asia. In addition, study on family firms related to tax aggressiveness activities is limited and the mixed results. Therefore, this study aims to explain the effect of family ownership on corporate tax aggressiveness. This study also investigates whether independent commissioners influence the practice of tax aggressiveness by family firms. The study observed 220 manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2015. We found that family ownership has a negative effect on tax aggressiveness. We also found that independent commissioners reinforce the negative influence of family ownership with tax aggressiveness. Our study contributes to the family firm literature in developing countries, particularly in terms of tax aggressiveness. We also provide practical implications for management to consider independent commissioners to provide adequate supervisors and advisors regarding family firm tax strategies.

Keywords: Tax Aggressiveness, Family Ownership, Family Firm, Independent Commissioners, Indonesia

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1. INTRODUCTION

This study aims to examine the effect of family ownership on tax aggressiveness in Indonesia. The previous study has documented various empirical evidence of tax aggressiveness in family firms. Several previous studies have found that family companies tend to use a less aggressive tax

strategy than non-family companies (Chen, Chen, Cheng, & Shevlin, 2010; Moore, Suh, & Werner, 2017; Steijvers & Niskanen, 2014; Martinsen & Schönberg-Moe, 2018; Landry, Deslandes, & Fortin, 2013; Brune, Thomsen, & Watrin, 2019a; Brune, Thomsen, & Watrin, 2019b). Meanwhile, some others found that family companies were more tax aggressive (Kovermann & Wendt, 2019; Gaaya, Lakhali, & Lakhali,

2019; Yu, 2009). The mixed results of the effect of family ownership on tax aggressiveness may be due to different levels of investor protection (Tang, 2015; Atwood, Drake, Myers, & Myers, 2012; Riahi-Belkaoui, 2004) and the transparency of financial communications (Balakrishnan, Blouin, & Guay, 2019). The findings of Balakrishnan et al. (2019) underline the commitment of companies to cover tax planning manoeuvres in public communication. Therefore, a mechanism is needed to protect investors' interests in the financial and corporate governance structures (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000).

The corporate governance mechanism is one of the essential mechanisms to protect investors' interests. Independent commissioners become one of the essential elements in corporate governance. Several previous research found mixed results regarding the effectiveness of an independent board (equivalent to a board of commissioners in Indonesia) and tax aggressiveness in some developed countries (Lanis & Richardson, 2011; Armstrong, Blouin, Jagolinzer, & Larcker, 2015; Minnick & Noga, 2010). In Indonesia, Yuniarwati, Ardana, Dewi, and Lin (2017) and Purba (2019) found that independent commissioners did not influence tax aggressiveness. In family companies, the election for board members usually comes from a narrow set of candidates that includes family members (Anderson & Reeb, 2003). The board of commissioners' determination in a family company is controlled by the family owner, where the commissioner's position is entrusted with respect or loyalty and not based on competence and professionalism (Pradita & Utama, 2020). As explained by the socio-emotional wealth theory (hereinafter, SEW), the commissioners in a family company function to monitor the performance of family directors so that the business vision is achieved (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). Therefore, a party is needed to protect the interests of minority shareholders, i.e., independent commissioners (Anderson & Reeb, 2004). This study further examines the effect of family ownership on tax aggressiveness by adding an independent commissioner as a moderating variable.

Previous studies (Chen et al., 2010; Steijvers & Niskanen, 2014; Gaaya et al., 2019; Yu, 2009; Kovermann & Wendt, 2019; Astuti, Rahmawati, Aryani, & Setiawan, 2019) used agency theory in analyzing the relationship between family ownership and tax aggressiveness. Agency theory explains that family owners can adjust the tax strategy according to their preferences. Agency theory explains that family firms are more likely to be tax aggressive than non-family firms if the benefits of tax aggressiveness are higher for family owners than for other firm owners (Kalm & Gomez-Mejia, 2016). Likewise, when it comes to tax aggressiveness, it is the family company that bears the higher cost. Family companies will weigh the benefits and costs of tax aggressiveness. However, the results predicted by agency theory are not always in line with existing empirical evidence, which finds that family firms are less tax aggressive than non-family firms (Chen et al., 2010; Landry et al., 2013; Steijvers & Niskanen, 2014; Mafrolla & D'Amico, 2016; Moore et al., 2017; Martinsen & Schönberg-Moe, 2018; Bauweraerts, Vandernoot, & Buchet, 2019; Brune et al., 2019a, 2019b). Meanwhile, others found family firms to be more tax aggressive (López-González, Martínez-Ferrero, & García-Meca, 2019; Kovermann & Wendt,

2019; Gaaya et al., 2019; Yu, 2009). This implies that family firms do not only consider economic factors in deciding their corporate tax strategy. With an Indonesian setting, Astuti et al. (2019) found that family firms have a negative effect on tax aggressiveness using agency theory. Considering the economic benefits and costs, the Indonesian setting provides a high opportunity to get greater benefits from companies' tax aggressiveness activities. However, Astuti et al.'s (2019) findings show that family firms are not tax-aggressive. This implies there are other considerations in family companies. Westhead and Cowling (1997) argue that it is unrealistic to assume that profit maximization is the primary goal of a family business. Therefore, this study uses the theory of SEW. Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes (2007) show that SEW is a non-financial aspect of the company that fulfils the affective needs of the family, such as identity, ability to exercise family influence, and continuity of the family dynasty. This SEW is an essential factor in managerial decisions, such as the risk-taking in family firms.

Our research contributions cover two areas. First, our study contributes to the family firm literature in developing countries, particularly tax aggressiveness. A comprehensive review of De Massis et al. (2012) in 33 journals in 1996-2010 found a trend towards knowledge of Western family firms (America and Europe). De Massis et al. (2012) call for further investigation into family firms' contextual nuances in under-represented regions such as Asia. This approach is intended to test the robustness and generalization of theories, the current study findings and build new applicable knowledge to family firms around the world (De Massis et al., 2012). In addition, several previous studies that analyzed internationally stated that Indonesia (part of Asia) is a country with a low level of tax compliance (Riahi-Belkaoui, 2004), low tax enforcement (Atwood et al., 2012; Lin, 2006), low quality of law enforcement (Leuz, Nanda, & Wysocki, 2003; Riahi-Belkaoui, 2004), lack of infrastructure and expertise in tax administration is generally weak (Lin, 2006) and is a country that has a higher power distance culture associated with higher rates of tax evasion across countries (Tsakumis, Curatola, & Porcano, 2007). Indonesian setting provides a very high opportunity in carrying out corporate tax aggressiveness. Therefore, it is interesting to examine tax activity in family companies in Indonesia. In Indonesia, family companies face the ease of carrying out tax aggressiveness and non-financial issues in running a family business.

Second, this investigation extends previous research by adding independent commissioners as a moderating variable for the association between corporate tax aggressiveness and family ownership. A previous study investigated the effect of independent commissioners on the practice of companies' tax aggressiveness (Lanis & Richardson, 2011; Armstrong et al., 2015; Minnick & Noga, 2010; Yuniarwati et al., 2017; Purba, 2019). Independent commissioners are considered as one of the important governance features that might moderate the relationship between family ownership and tax aggressiveness. In addition, independent commissioners have an essential role in overcoming problems generated by conflicts of interest between companies and their shareholders (Richardson, Taylor, & Lanis, 2013).

The samples of this study are the manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2015. Based on the estimated generalized least squares (GLS) regression model, this study finds that family firms in Indonesia are less interested in tax aggressiveness. This finding is in line with SEW theory, which also proves in this study that independent commissioners effectively reduce tax aggressiveness by family firms.

The structure of this paper is as follows. Section 2 develops a literature review and hypothesis development. Section 3 presents the research methodology. Section 4 summarizes the findings followed by a discussion in Section 5. The final section is conclusion.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Tax aggressiveness

In line with Frank, Lynch, and Rego (2009) and Chen et al. (2010), this study defines tax aggressiveness as the management taxable income reduction through tax planning activities. Tax aggressiveness in this study includes legal tax planning activities, which may fall into a grey area, and illegal activities. Thus, aggressive tax activity does not necessarily indicate that the company has done something inappropriate. Aggressive tax actions can be classified into two views: traditional and contemporary (Desai & Dharmapala, 2009). The traditional point of view suggests that firm value should increase with tax avoidance. Meanwhile, according to the contemporary point of view, tax avoidance activities can create a shield for managerial opportunism and rent extraction.

There are at least three advantages derived from aggressive tax activities, both for the owners or shareholders and managers (Chen et al., 2010) including:

- 1) The existence of tax savings paid by companies to the state, so owners or shareholders get a bigger portion.
- 2) There is a bonus or compensation that the owner or shareholder may give to the manager for the aggressive tax action and becomes an advantage for the owner or shareholder.
- 3) There is an opportunity for managers to carry out rent extraction. Rent extraction was action from the manager not to maximize the owner's interests but for personal gain. This action can be in the form of preparing aggressive financial statements or doing transactions with particular parties.

Tax aggressiveness also raises costs for the company. The potential penalty imposed by the IRS is the product of the possibility of being audited and discovered by the IRS and the expected fine once it is discovered (Chen et al., 2010). In addition, the potential price discount is imposed by other shareholders if they feel that decision-makers use tax aggressiveness to extract (Desai & Dharmapala, 2006).

Some of the ways in which companies can plan taxes (or become tax aggressive), are as follows

- 1) take advantage of the rules as they are written;
- 2) when making a transaction, make sure that every opportunity is done in order to minimize tax is taken;
- 3) take advantage of variations in

the definition of taxable income or debt versus equity based on different tax regimes; 4) when operating in a regime where the tax law is uncertain or open to interpretation, take the more favourable tax position; and 5) the transaction structure in which the current values are clean due to tax savings (Blouin, 2014).

2.2. Tax aggressiveness and family companies in Indonesia

Indonesia is an emerging market and a group of countries with low law enforcement quality (Leuz et al., 2003; Riahi-Belkaoui, 2004). Regarding tax avoidance, Atwood et al. (2012) found that, on average, the existence of more vigorous tax enforcement makes companies less tax evasive. This is based on the argument that the manager will deal with two obstacles in tax avoidance: a high probability of detection and the potential to impose fines when the Government is strong enough in enforcing its tax regulations (Atwood et al., 2012). It implies that when the tax authorities are sharp in detecting tax fraud and firmly imposing tax fines, then tax aggressiveness activities are suppressed by the manager. Therefore, companies in Indonesia have more incentives for tax aggressiveness because the quality of law enforcement is low.

As an emerging market and low tax alignment country, Indonesia allows companies in Indonesia to be more courageous in taking advantage of their tax reporting's aggressiveness because of the low possibility of being penalized. Tsakumis et al. (2007) found that high tax evasion is identified with the powerful distance culture in a country, and Indonesia has a high power distance culture. Riahi-Belkaoui (2004) also found that Indonesia is still relatively under its tax compliance level. The findings of Riahi-Belkaoui (2004) are confirmed by the findings, which show an increasing trend of tax avoidance in Indonesia trend (Astuti & Aryani, 2016).

In Indonesia, most controllers in companies registered with IDX are family (Claessens, Djankov, & Lang, 2000). The PWC (2014) survey also confirmed this condition. Furthermore, the PWC (2018) survey stated that 44% of Indonesian family businesses have one dominant owner. Zhuang, Edwards, and Capulong (2001) also claim this condition.

2.3. Existence of independent commissioners (outside directors) in Indonesia (in other markets)

Indonesian corporate governance has a dual board system. The advisory and supervisory functions are the duties of the commissioners, while the executive function is the board of directors' authority. OJK Regulation Number 33/POJK.04/2014 (Otoritas Jasa Keuangan [OJK], 2014) in article 20 regulates the membership of the commissioners, i.e.: "1) *The Board of Commissioners consists of at least two members of the Board of Commissioners;* 2) *If the Board of Commissioners consists of two members of the Board of Commissioners, one of whom is an Independent Commissioner;* 3) *If the Board of Commissioners consists of more than two members of the Board of Commissioners, the number of Independent Commissioners must be at least thirty per cent of the total members of the Board of Commissioners;* 4) *one of the members of the Board*

of Commissioners is appointed as the main commissioner or president commissioner.”

Article 20 includes the rules for membership of an independent commissioner. Several mandatory rules regarding the membership of the independent commissioner are stipulated for the responsibilities to function effectively. The implementation of good corporate governance is the main task of independent commissioners. In Indonesia, boards of commissioners, including independent commissioners, function the same way as directors in other markets (Harymawan, Nasih, & Nowland, 2020). Siregar and Utama (2008) state that the role of independent commissioners in Indonesia is the same as non-executive board members in a one-board system.

The function of independent commissioners in Indonesia has been extensively explored, and the results are mixed. Prabowo and Simpson (2011) relate it to company performance. Siregar and Utama (2008), Siagian and Tresnaningsih (2011), Setiawan, Taib, Phua, and Chee (2019) link it to earnings management. Prabowo and Simpson (2011), Siregar and Utama (2008), and Setiawan et al. (2019) found the ineffective function of independent commissioners in Indonesia. These findings are in line with Kamal (2008) and Tabalujan (2002). However, Siagian and Tresnaningsih (2011) found that independent commissioners performed well in reducing earnings management. Related to tax aggressiveness, Yuniarwati et al. (2017) and Purba (2019) found that independent commissioners' existence does not affect tax aggressiveness.

2.4. Family ownership and tax aggressiveness

Westhead and Cowling (1997) state that the family business's main objective to maximize profit is unrealistic. The most important field of family business study is the relevance of non-financial goals. An essential factor in the managerial decisions of family companies is SEW (Gómez-Mejía et al., 2007). SEW is considered a non-financial aspect of the company (family affective needs), including identity, continuity of the family dynasty, and the ability to carry out the family vision. Several previous studies have predicted family companies' decisions using the loss aversion of family companies associated with family SEW, such as the preservation of SEW. Gómez-Mejía et al. (2014) found that family companies took fewer investment strategies in R&D in high-tech industries. Gómez-Mejía et al. (2007) found that family companies were less likely to join industrial cooperatives due to avoiding the loss of SEW in the form of losing control. Family companies tend not to use corporate diversification strategies (Gómez-Mejía, Makri, & Kintana, 2010). Family businesses avoid engaging in polluting activities (Berrone et al., 2010). Likewise, it is also used to predict the decisions of family companies related to tax aggressiveness, such as López-González et al. (2019), Bauweraerts et al. (2019), Brune et al. (2019a, 2019b), and Landry et al. (2013). Maciejovsky, Schwarzenberger, and Kirchner (2012) make a proposition that supports the SEW model; economic variables cannot fully explain tax aggressive behaviour decisions. Therefore, the hypothesis we propose is:

H1: Family ownership has a negative influence on tax aggressiveness.

2.5. Independent commissioner, family ownership, and tax aggressiveness

Studies on tax aggressiveness in family companies still provide mixed findings. These findings allow for other variables related to the impact of family ownership on tax aggressiveness. Tax strategy decisions in family companies raise potential problems between family controllers and minority shareholders. Family companies have the opportunity to benefit from the choice of their tax strategy regardless of minority shareholders. On the other hand, Indonesian issuers tend to have independent boards of commissioners to maintain their legitimacy in public perception. Previous studies related to tax aggressiveness and board of directors (sharing the same duties as independent commissioners in Indonesia) have been conducted in several developed countries, and the findings are still mixed. Minnick and Noga (2010) found that board independence and tax aggressiveness had no significant effect. Furthermore, Minnick and Noga (2010) found an independent director who mostly manages taxes that tend to be related to foreign taxes. Lanis and Richardson (2011), with an Australian setting, found that independent directors minimize the possibility of aggressive tax action. Armstrong et al. (2015) found that if tax avoidance is low, board independence has a positive effect on tax avoidance, but empirical evidence suggests otherwise if the level of tax avoidance is high. In Indonesia, it is not proven that there is no significant effect between independent commissioners and tax aggressiveness (Yuniarwati et al., 2017; Purba, 2019). Therefore, the hypothesis we propose is:

H2: The existence of independent commissioners strengthens the negative influence of family ownership and tax aggressiveness.

3. RESEARCH METHODOLOGY

Manufacturing firms listed on IDX in 2011-2015 are the samples of this study. This study uses secondary data in financial statements and annual reports of companies listed on the IDX. The data was obtained from IDX's official website. The sample selection criteria with the purposive sampling method are as follows:

1. The company uses the rupiah (IDR) or other currency that states the value equivalent to IDR.

2. Companies that experience losses are excluded from the sample. This is because Law No. 36 of 2008 concerning income tax, article 6, paragraph 2, states that if a loss is found, the loss can be compensated with income starting from the following year in a row up to five years (fiscal loss compensation). Therefore, companies that experience losses are not subject to income tax.

3. The company has an effective tax rate (hereinafter, ETR) with a range of 0-1 (Gul, Khedmati, & Shams, 2020; Kerr, Price, & Roman, 2016; Gupta & Newberry, 1997). The final sample of the study was 220 observations (44 companies, five years). The research sample selection process can be seen in Table 1.

Table 1. Research sample selection

Criteria	Total
Companies listed on the IDX (2011-2015)	523
Non-manufacturing sector companies and non-family manufacturing sector companies	261
Companies with incomplete data	98
Financial statements are expressed in US dollars	37
Companies that experience losses	64
Companies that have a negative ETR and/or > 1	19
Number of samples	44
Year	5
Observations	220

The tax aggressiveness variable (*TAXAGG*), *ETR*, is the dependent variable. *ETR* is the total tax burden divided by profit before tax (Chen et al., 2010; Lanis & Richardson, 2012; Chyz, Leung, Li, & Rui, 2013; Gaaya et al., 2019; Bauweraerts et al., 2019; Astuti et al., 2019). The independent variable of this study is the family ownership variable (*FAMILY*). Family ownership is measured using the proportion of the family ownership variable (Chen et al., 2010). The proportion of family ownership is the ownership of individuals and companies where at least > 5% of the ownership must be recorded (Astuti et al., 2019; Arifin, 2003).

Independent commissioner (*INDCOM*) is the moderating variable. The board and management structure in Indonesia is different from other markets. Indonesia adopts a two-board system. The board of commissioners oversees the management of the company and includes independent members. Therefore, a board of commissioners in Indonesia is a board of directors in other markets. The independent commissioner's role is to reduce the potential for the expropriation of the rights of minority shareholders. The proportion of independent commissioners in the board of commissioners is a variable measurement of independent commissioners (Siregar & Utama, 2008; Setiawan et al., 2019; Prabowo & Simpson, 2011).

This study uses several control variables, i.e., profitability (*ROA*), leverage (*LEV*), and company size (*SIZE*). Return on assets (*ROA*) measures the company's profitability. *ROA* is measured by the formula for a profit before tax divided by total assets (Lanis & Richardson, 2012). Total debt divided by total assets is a formula for measuring *LEV* (Astuti et al., 2019). *SIZE* is also controlled because tax avoidance can vary depending on company size (Zimmerman, 1983). The natural logarithm of total assets measures firm size.

This study uses the regression model used by Frucot and Shearon (1991) to test the effect of

moderation, i.e., the absolute difference value model of the independent variable, with the following regression formula:

$$TAXAGG_{it} = \beta_0 + \beta_1 FAMILY_{it} + \beta_2 INDCOM_{it} + \beta_3 |FAMILY - INDCOM|_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \beta_6 SIZE_{it} + \varepsilon_{it} \quad (1)$$

where, *TAXAGG*: tax aggressiveness; *FAMILY*: family ownership; *INDCOM*: independent commissioner; $|FAMILY - INDCOM|$ is moderation measured by the absolute value of the difference between family ownership and independent commissioners; and ε is an error.

4. RESULTS

4.1. Descriptive statistics

Descriptive statistics of each variable are shown in Table 2. The variable *ETR* for five years has a mean (median) of 0.297599 (0.252715). The *ETR* of family companies in this sample ranges from 0.024862 as the minimum value and 0.931611 as the maximum value. A low *ETR* value represents a higher level of tax aggressiveness. This indicates that the average tax aggressiveness of family companies is high. The variable *FAMILY* for five years has a mean (median) of 56.94623 (57.00000). Indonesia's average family percentage of family ownership is above 50% (a maximum value of 98.18000 and a minimum value of 7.200000). This indicates that the average family ownership in Indonesia has half the control proportion in the company.

The variable *INDCOM* for five years has a mean (median) of 0.407593 (0.363636). Thus, the average of independent commissioners on the board is 40.7593%, starting from 16.6667% as the minimum proportion to 80% as the maximum proportion. This shows that the companies in this study's sample have presented independent commissioners on the board of commissioners. Therefore, on average, family companies in Indonesia have complied with OJK Regulation No. 33/POJK.04/2014 (OJK, 2014), article 20, regarding the regulation of the minimum number of independent commissioners on the board of commissioners. Those arrangements are meant to reduce the potential for the expropriation of the rights of minority shareholders. Regarding the control variable, the *ROA* variable for five years has a mean (median) of 4.818047 (0.124143). The variable *LEV* has a mean (median) of 12.23698 (0.405240). The variable *SIZE* has a mean (median) of 23.55395 (26.33869).

Table 2. Descriptive statistics

Variable	Observations	Mean	Median	Std. Dev.	Minimum	Maximum
<i>ETR</i>	220	0.297599	0.252715	0.157894	0.024862	0.931611
<i>FAMILY</i>	220	56.94623	57.00000	20.77974	7.200000	98.18000
<i>INDCOM</i>	220	0.407593	0.363636	0.117500	0.166667	0.800000
<i>ROA</i>	220	4.818047	0.124143	24.84431	9.01E-06	174.9969
<i>LEV</i>	220	12.23698	0.405240	61.67084	4.21E-07	445.2570
<i>SIZE</i>	220	23.55395	26.33869	5.134530	11.94159	30.24816

4.2. Hypothesis testing

This section presents the relationship between the variable *FAMILY* on our dependent variables, i.e., *TAXAGG* and *INDCOM* on the relationship of

FAMILY to *TAXAGG*. We provide empirical results in Table 3. We found that the *FAMILY* coefficient is -8.945921, significant at the 5% level. These results conclude that our first hypothesis (*H1*) is confirmed.

Table 3. The regression results of the moderating variable for independent commissioners

Variable	Predict. Sign	TAXAGG	
		Coefficient	P-value
FAMILY	-	-8.945921	0.034**
INDCOM	-	1.762555	0.244
FAMILY - INDCOM	+	5.918043	0.038**
ROA		-0.4619215	0.000***
LEV		0.0668263	0.404
SIZE		-0.0933644	0.338
Constant		175.6457	0.000
R-squared			
Within			0.1333
Between			0.2612
Overall			0.1885
Observations			220

Note: **, *** significant at the 5% and 1% levels, respectively.

The *H1* test shows that family ownership has a negative effect on tax aggressiveness. The greater the proportion of family ownership, the lower the tax aggressiveness. These findings support previous studies of Chen et al. (2010), Martinsen and Schönberg-Moe (2018), Moore et al. (2017), Bauweraerts et al. (2019), Steijvers and Niskanen (2014), Brune et al. (2019a, 2019b), Landry et al. (2013). However, the finding is different from the research conducted by López-González et al. (2019), Kovermann and Wendt (2019), Gaaya et al. (2019), Yu (2009), in which family companies have more tax aggressiveness.

Table 3 also shows the results of the *H2* test that the coefficient |FAMILY - INDCOM| is 5.918043, significant at the 5% level. These results conclude that our *H2* is confirmed. The findings show that independent commissioners' existence strengthens the negative influence of family ownership on tax aggressiveness. The findings regarding the functioning of independent commissioners as supervisors in corporate tax aggressiveness are consistent with this Lanis and Richardson (2011) and Armstrong et al. (2015). For the Indonesian setting, the effectiveness of the independent commissioners in carrying out their roles is in line with Siagian and Tresnaningsih (2011), but not in line with Prabowo and Simpson (2011), Siregar and Utama (2008), Setiawan et al. (2019), Kamal (2008), and Tabalujaan (2002); although the supervision was in different activities, i.e., company performance and corporate earnings management. Meanwhile, the effectiveness of independent commissioners in Indonesia in carrying out their supervision regarding tax aggressiveness does not support the findings of a study conducted by Yuniarwati et al. (2017) and Purba (2019).

Table 3 also shows the control variables on tax aggressiveness. The *ROA* variable shows a coefficient value of -0.4619215, significant at the 1% level. These results indicate that the company's profitability has a negative influence on its tax aggressiveness. Bauweraerts et al. (2019) and Astuti et al. (2019) also support this finding. Meanwhile, the *LEV* and *SIZE* variables show a coefficient value of 0.0668263 and -0.0933644 and are not significantly proven.

5. DISCUSSION

The *H1* is proven that family ownership has a negative effect on affects tax aggressiveness. This implies that greater family ownership leads to lower

tax aggressiveness. The finding suggests that more family ownership uses less tax aggressiveness strategies. This finding indicates that the benefits of a less aggressive tax strategy outweigh the costs. In other words, the benefits of tax savings (tax aggressiveness) are not a priority for family companies in Indonesia despite the fact that the Indonesian setting provides a great opportunity for companies to take advantage of aggressive tax actions. There are other benefits that family companies are pursuing in choosing their tax strategy.

This finding is also in line with the concept of loss aversion of family companies in decision-making related to motivation to preserve family SEW. Non-financial aspects (the ability to carry out the vision, the dynasty, and family identity) can be essential in deciding a family company tax strategy (Gómez-Mejía et al., 2007). This is following the findings of studies conducted by Landry et al. (2013), Bauweraerts et al. (2019), Brune et al. (2019a, 2019b), and Mafrolla and D'Amico (2016). This finding is in line with SEW theory that the tax strategy decisions of family firms do not only focus on economic benefits but also non-economic benefits.

The *H2* provides empirical evidence that independent commissioners' existence strengthens the negative influence of family ownership on tax aggressiveness. This implies that independent commissioners have empowered family companies to adopt a non-aggressive tax strategy. These results support the findings of Lanis and Richardson (2011) and Armstrong et al. (2015). For Indonesia's setting, these findings are consistent with Siagian and Tresnaningsih (2011) that the independent commissioner has performed their role well even though the supervision type is different, i.e., earnings management.

The Indonesian setting, which implements corporate governance with a two-board system, places the commissioners to supervise and advise the directors. The commissioners can be the driving force of the directors in running the company. The tax strategy decision that the company will choose cannot be separated from the results of the joint formulation between the stakeholders, including the board of commissioners. Family firms often place family members as the commissioners to achieve the family's business vision (Berrone et al., 2010). Therefore, the existence of independent commissioners is essential to ensure the creation of good governance principles in family firms. This study provides empirical evidence that independent commissioner carries out their responsibilities to protect minority shareholders from the tax aggressive losses of family firms.

6. CONCLUSION

This paper investigates the effect of family ownership on tax aggressiveness and the moderating role of independent commissioners on the relationship between family ownership and tax aggressiveness. We found that family firms were less tax aggressive based on 44 manufacturing companies listed on the IDX from 2011 to 2015. We further provide new evidence that the existence of independent commissioners moderates corporate tax aggressiveness in family firms. We document

that the existence of independent commissioners strengthens family firms to be less tax aggressive. We find that the function of independent commissioners in Indonesia as supervisors and advisors to directors in tax aggressiveness has been effectively implemented. Thus, our results inform business owners that independent commissioners constitute adequate supervision and monitoring regarding corporate tax strategy.

The findings of this study should be interpreted by considering several limitations. First, this study uses a small sample because the tax aggressiveness proxy requires the company with no loss, and the ETR value ranges from 0 to 1. Therefore, further study can explore the other measures of tax aggressiveness in order to increase the number of research samples. Second, family firms only focus on using a proxy of the family ownership percentage. Future studies can also consider various family involvement in business, such as the presence of family members on the board of commissioners and the board of directors and family ownership by the first or future generations (second, third, fourth, and so on).

The existence of independent commissioners further hinders family companies from carrying out tax aggressiveness. For practitioners, our findings suggest that governance control, especially regarding independent commissioners, is a relevant issue on tax aggressiveness in family firms. Minority shareholders and other stakeholders in family firms can conclude that to prevent the selection of an aggressive tax strategy that can harm them; an independent commissioner is essential in the company. Therefore, the existence of independent commissioners must be considered. For academics, studies on tax aggressiveness in family firms are potential for further exploration. In order to preserve family SEW in the company, heterogeneity of family firms can be considered a factor that affects corporate tax aggressiveness. Sources of heterogeneity of family firms can include the following things: governance structure (Carney, 2005), resources (Habbershon, Williams, & MacMillan, 2003), and objectives (Chrisman, Chua, Pearson, & Barnett, 2012).

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