# THE ROLE OF CORPORATE GOVERNANCE IN MITIGATING TAX AVOIDANCE

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## Abstract

This research aims to study the relationship between managerial ownership, institutional ownership, foreign ownership, board gender diversity, and independent commissioner on tax avoidance in Indonesia. The researchers use several control variables which are leverage, solvability, board size and firm size to be used as a benchmark for tax avoidance. The research sample consists of companies in the non-cyclical consumer sector listed on the Indonesian Stock Exchange (IDX). The result of the research shows that both managerial ownership and foreign ownership have a positive and significant effect on tax avoidance. While the presence of independent commissioners has a negative and significant effect on tax avoidance. Moreover, institutional ownership, board gender diversity, board size, leverage, solvency, and firm size have no effect on tax avoidance. The presence of an independent board of commissioners is crucial in preventing tax avoidance practices, whereas the inclusion of female directors does not demonstrate a reduction in tax avoidance within companies. The study holds policy implications for policymakers regarding the design of future tax systems, aiming to minimize the potential involvement in tax avoidance practices.

**Keywords:** Corporate Governance, Ownership Structure, Board Gender Diversity, Independent Commissioners, Tax Avoidance

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## 1. INTRODUCTION

Taxes play a crucial role in supporting the operational costs of a company and are involved in tax avoidance, which can reduce the tax burden on the company (Riguen et al., 2020). In an effort to avoid the reduction of distributable wealth, most companies have employed tax avoidance strategies (Annuar et al., 2014). A company typically engages in tax avoidance through policies set by a leader within the organization (Tandean & Winnie, 2016). One characteristic of taxes is that they are mandatory, but this does not mean that taxes cannot be avoided. Although tax avoidance arrangements are legitimate, there can still be conflicts with laws that must be adhered to (Beebeejaun, 2018). Indonesia is one of the developing countries facing financial deficits. This leads to the process of obtaining the necessary funding for economic and social development, which is a complex process (Al Hadidi, 2017).

The press release by the Deputy for Gender Equality ("G20 empower", 2022) highlights the positive impact of increasing the female workforce on economic participation and growth. It also suggests that companies led by female directors tend to engage in more prudent tax avoidance practices (Rhee et al., 2020) and these companies may employ tax avoidance as a signal of their commitment to ethical and responsible corporate governance. The role of corporate boards, particularly the inclusion of women, is crucial in improving corporate governance, shaping tax policies, and considering sustainability aspects (Yadav & Prashar, 2023). A higher percentage of

female directors can enhance a company's reputation as an ethical and admired entity (Alazzani et al., 2017). Dakhli (2022) conducted a study in France and found that significant gender diversity has a negative impact on tax avoidance, companies are strongly recommended to apply policies that either encourage or require the inclusion of women as board members to take advantage of their expected benefits.

In Indonesia, a two-tier board system, consisting of boards of commissioners and directors, is governed by POJK No. 33/POJK.04/2014. The board of commissioners plays an important role in corporate governance, focusing on the company's legal responsibilities, conflict management, transparency, and accountability (Alhady et al., 2021). Research conducted by Faradisty et al. (2019) illustrates that tax avoidance is affected by the presence of independent commissioners.

Several studies have investigated the influence of various ownership structures on tax avoidance across different countries (Bradshaw et al., 2019; Alkurdi & Mardini, 2020; Hasan et al., 2022). Ownership structure and its impact on financial behavior, operational efficiency, and company performance are crucial considerations (Wang et al., 2021; Oanh et al., 2021). Institutional ownership is instrumental in monitoring tax avoidance (Alkurdi & Mardini, 2020) and reducing agency problems (Ying et al., 2017). Furthermore, tax incentives and lower rates aim to attract foreign investment in Indonesia (Suranta et al., 2020).

Tax avoidance has become one of the issues discussed at the G20 High-Level Conference in 2022, this indicates that the issue of tax avoidance often occurs in companies across all countries, especially in Indonesia (Kurniati, 2023). Based on data sourced from the State Revenue and Expenditure Budget of the Ministry of Finance (*Anggaran Pendapatan dan Belanja Negara Kementerian Keuangan*[1]), the national revenue through tax receipts in the year 2018 amounted to 1,518,789.8 billion Indonesian rupiahs, in 2019 it reached 1,546,141 billion Indonesian rupiahs, and in 2020 it declined to 1,285,136.3 billion Indonesian rupiahs. Subsequently, in 2021, the revenue increased to 1,547,841.1 billion Indonesian rupiahs, and in 2022, it further rose to 2,034,552.4 billion Indonesian rupiahs. From the information we can observe that in 2022, tax receipts experienced an increase compared to previous years. However, Indonesia still faced a financial deficit amounting to 2.38% of the State Revenue and Expenditure Budget. Data obtained from the Organization for Economic Cooperation and Development (OECD) indicates that Indonesia's tax ratio remains below the average when compared to other countries in the Asia-Pacific region. The average tax ratio in Asia and the Pacific in 2021 was 34.0%, while Indonesia's tax ratio was only 10.9% (OECD, 2024). Ministry of Finance of Republic of Indonesia (2022) has revealed that in the upcoming year 2023, infrastructure development will be a focus of government policy aimed at supporting increased productivity in the economic transformation towards Indonesia's Vision 2045. This is the reason for the author's interest in studying tax avoidance because corporate tax avoidance can reduce the state revenue that should be used for infrastructure development.

This research aims to investigate the influence of managerial ownership, institutional ownership, foreign ownership, and female representation on the board of directors on corporate tax avoidance. The data encompass non-cyclical consumer sector companies listed on the Indonesian Stock Exchange (IDX) from 2018 to 2022. This sector focuses on essential and routine consumer products and services, making it relatively stable even during periods of economic instability, especially in 2020 during the COVID-19 pandemic. The research holds policy implications for policymakers in shaping future tax systems, with the objective of minimizing potential engagement in tax avoidance practices and can be utilized to enhance awareness among various owners in developing countries. Additionally, it's anticipated to contribute novel insights into tax avoidance specifically within the non-cyclical consumer industry.

The subsequent sections of this paper are structured as follows. Section 2 reviews prior literature related to determinants influencing tax avoidance and develops hypotheses regarding the relationship between managerial ownership, institutional ownership, foreign ownership, board gender diversity, and independent commissioners on tax avoidance. In Section 3, we present our sample and research design. Descriptive statistics of our sample and the results of the baseline regression are provided in Section 4, we also provide the results of sub-sample analyses in the same section. Section 5 discusses the results. Finally, the paper concludes in Section 6.

## 2. LITERATURE REVIEW

The signal theory consists of four main aspects: 1) the sender, 2) the signal, 3) the receiver, and 4) feedback (Bergh et al., 2014). Signal theory is based on the idea that senders possess deeper internal information that is unknown to the public or not yet received by the signal receiver, with the quality of the signal being equally important (Spence, 1973). Previous literature has explored various signals, but they have typically all focused on information asymmetry (Yasar et al., 2020). Medhioub and Boujelbene (2024) found that tax-avoiding companies incur higher debt costs due to information asymmetry and agency problems. Tax avoidance in companies in recent years has often been associated with corporate governance, as evidenced by studies (Chouaibi et al., 2022). One mechanism of corporate governance is ownership structure, which can help reduce tax avoidance levels (Shi et al., 2020). The prevalence of management affects a company's decisions, including in the context of tax avoidance (Nugroho & Agustia, 2017). According to agency theory, there is a conflict of interest between owners and managers in a company. Therefore, monitoring of management in companies is necessary to ensure they perform their duties in the best interest of the company owners, thus reducing agency costs and minimizing the risk of loss (Gwala & Mashau, 2022; Ulfah et al., 2022; Kurniati, 2019). Agency problems typically arise due to differences in asymmetric information and interests among management, shareholders, and other parties (Jensen & Meckling, 1976).

[1] https://data-apbn.kemenkeu.go.id/data-series

### 2.1. Managerial ownership

Weak corporate governance can lead to tax avoidance and increase the potential for conflicts of interest (Anindita et al., 2022; Deef et al., 2021). Managerial ownership can help reduce conflicts of interest between management and shareholders because managers typically have low levels of diversification (Cabello et al., 2019). It's important for stakeholders to recognize that growing managerial ownership can help reduce agency problems and limit involvement in tax avoidance practices (Alkurdi & Mardini, 2020). This aligns with signal theory, suggesting that management needs to demonstrate a healthy financial condition to send positive signals to external parties (Tamburaka et al., 2022).

Previous studies have found that managerial ownership has a significant negative impact on tax avoidance, as it reduces the use of tax avoidance strategies (Ratnawati et al., 2018) with managers less motivated to engage in tax avoidance due to their ownership stakes (Alkurdi & Mardini, 2020). However, some studies indicate a positive effect of managerial ownership on tax avoidance (Deef et al., 2021; Hasan et al., 2022; Qawqzeh, 2023) with managers increasing ownership for business sustainability and enhancing firm value as part of tax avoidance strategies (Austin & Wilson, 2017). Others found no significant relationship between managerial ownership and tax avoidance (Khamisan & Christina, 2020). Based on this discussion, the hypothesis can be formulated as follows:

*H1: Managerial ownership has a significantly negative impact on tax avoidance.*

### 2.2. Institutional ownership

The relationship between institutional shareholders and tax avoidance has been established in prior research (Zolotoy et al., 2021). Institutional ownership refers to shares held by entities like pension funds, insurance companies, and investment funds (Moradi et al., 2022). It plays a crucial role in corporate governance (Wang et al., 2011). Shareholders who are more risk-averse may be concerned about potential damage to a company's reputation due to public knowledge of tax avoidance, which could lead to a decline in the company's value (Wang et al., 2020). In agency theory, institutional ownership plays a significant role in agency problems (Jensen & Meckling, 1976), with higher institutional ownership motivating managers to comply with tax regulations (Maharani & Baroroh, 2020).

Some researchers have found a significantly negative impact of institutional ownership on tax avoidance (Souguir et al., 2023). Handoyo et al. (2022) suggest that institutional ownership in a company optimizes management oversight and incentivizes adherence to government regulations as institutions are concerned about the company's reputation and public image. However, this study contrasts with findings from other researchers indicating that increased institutional ownership can lead to greater tax avoidance practices (Chen et al., 2019; Qawqzeh, 2023).

*H2: Institutional ownership has a significantly negative impact on tax avoidance.*

### 2.3. Foreign ownership

Foreign investors are expanding their investments globally, particularly in low-tax regimes of developing countries, to maximize their returns (Hassan et al., 2022). Foreign investments are an attractive source of funding and a driving force for economic and business growth in developing countries (Alkurdi & Mardini, 2020). Foreign investors carefully monitor company behavior to minimize tax avoidance opportunities and management opportunism (Deef et al., 2021). Companies influenced by foreign investors have more chances for tax planning and wiser tax strategies to maximize their revenue (Shi et al., 2020). Agency theory reveals that foreign ownership can reduce agency conflicts within companies (Shi et al., 2020). Foreign ownership is effective in challenging the control of powerful shareholders, as foreign institutions can act as majority shareholders with the ability to choose foreign directors and significant voting rights (Yoo & Koh, 2014).

Previous findings show a connection between foreign ownership and tax avoidance strategies (Bradshaw et al., 2019), with a negative relationship between foreign ownership and tax avoidance techniques in general (Hasan et al., 2022). Foreign investors can oversee management through their voting rights in company accounting and tax policies, which negatively impact tax avoidance practices (Badertscher et al., 2013). However, Suranta et al. (2020) reveal a positive relationship between foreign ownership and tax avoidance.

*H3: Foreign ownership has a significantly negative impact on tax avoidance.*

### 2.4. Board gender diversity

Several countries have implemented policies to regulate and increase the proportion of women on corporate boards (Pucheta-Martínez et al., 2018). Companies led by female directors can reduce risks due to the closer relationship between female directors and colleagues (Faccio et al., 2016). Agency theory is one of the theories explaining the relationship between gender diversity in boards and tax avoidance (Riguen et al., 2020). This theory suggests that the presence of women on corporate boards is more effective in decision-making oversight (Jarboui et al., 2020), which enhances managerial supervision and leads to better decisions in reducing agency problems (Yahya et al., 2021). Several studies (Ain et al., 2020; Amin et al., 2022; Chen & Hassan, 2022) have discussed the relationship between female directors and agency theory. Corporate boards are required to have clear criteria for constructive and meaningful task execution (Zaid et al., 2020).

Gender diversity is crucial as board members have different perspectives and judgments in running a company (Rhee et al., 2020; Yilmaz et al., 2021). According to Palareti et al. (2016), companies with diverse boards tend to pay higher audit fees and prefer specialist auditors compared to their counterparts. This research suggests that boards with female directors tend to expect higher audit quality to protect the company's reputation and avoid legal obligations (Riguen et al., 2020).

McGee et al. (2015) revealed that gender has a positive influence on tax avoidance. This contrasts with Dakhli's (2022) finding that significant gender diversity negatively affects tax avoidance. The presence of female directors can reduce tax avoidance in companies and make companies more effective, consequently minimizing tax avoidance (Rakia et al., 2023). This contradicts findings that female directors tend to reduce the effective tax rate (ETR) paid, suggesting the possibility of higher tax aggressiveness (Zirgulis et al., 2022).

*H4: Board gender diversity has a significantly negative impact on tax avoidance.*

### 2.5. Independent commissioners

Prior research on corporate governance and tax aggressiveness indicates that the effectiveness of the board largely depends on its level of independence (Menchaoui & Hssouna, 2022). Boards with financial expertise and greater independence can reduce the relatively extreme levels of tax avoidance (Duhoon & Singh, 2023). Independent board members have the potential to provide valuable insights based on their personal experiences regarding tax avoidance decisions (Chen et al., 2019).

Independent members of the board of commissioners tend to reduce the level of corporate tax avoidance because tax avoidance practices entail substantial margin costs (Armstrong et al., 2015). Agency theory suggests that an increase in the number of independent commissioners can lead to better performance (Sonia & Suparmun, 2019). Independent commissioners who oversee management actions related to opportunistic behavior can lead to improved performance (Jensen & Meckling, 1976).

A study by Faradisty et al. (2019) demonstrates that independent commissioners influence tax avoidance. The more independent commissioners a company has, the lower the level of tax avoidance, resulting in an increase in the ETR. Conversely, other studies have found that independent commissioners do not influence tax avoidance (Yuniarwati et al., 2017).

*H5: Independent commissioners have a significantly negative impact on tax avoidance.*

## 3. RESEARCH METHODOLOGY

In this section, we present our sample and the design of our research. Specifically, we discuss our sample in subsection 3.1. subsection 3.2 shows the research design we use to examine the relationship between managerial ownership, institutional ownership, foreign ownership, board gender diversity, and independent commissioner on tax avoidance.

### 3.1. Sample selection process

The study employed a quantitative research method, specifically using secondary data. The data source consisted of companies in the non-cyclical consumer sector listed on the IDX that remained operational from 2018 to 2022. A purposive sampling technique was utilized to select samples that met the predefined criteria. The total population of non-cyclical consumer sector companies was 122, but only 46 companies met the criteria. Observational data for five years were collected, amounting to 230 data points, with 62 outliers. Consequently, the total data available for analysis was 168. Alternative methods that would be suitable for conducting the research as explanatory methods and descriptive methods to make descriptions, picture in a systematic and accurate manner regarding the properties, facts, and relationships between the phenomena being investigated. The explanatory methodology endeavors to examine multiple hypotheses employing a quantitative framework, utilizing both multiple linear regression and panel data regression techniques employing the fixed effect model methodology.

### 3.2. Variable measurement

In this research, the dependent variable is *tax avoidance*, measured using *ETR* (Hoseini et al., 2019; Toumi et al., 2022) to explore various tax strategies, both legal and illegal (Barros & Sarmento, 2020). *ETR* is calculated as income tax expense divided by income before tax.

Furthermore, there are several independent variables in this study, including *managerial ownership* (*MO*), which is determined by the number of shares owned by company management divided by the number of shares outstanding (Alkurdi & Mardini, 2020; Deef et al., 2021). *Institutional ownership* (*INO*) is measured as the number of shares owned by institutions divided by the number of shares outstanding (Hassan et al., 2022). *Foreign ownership* (*FO*) refers to the number of shares owned by foreigners divided by the number of shares outstanding (Suranta et al., 2020). For measuring *board gender diversity* (*BGD*), the variable is calculated as the number of female directors in a company (Jarboui et al., 2020; Pareek et al., 2023). *Independent commissioners* (*INCOM*) are determined as the number of independent commissioners on the board divided by the total board of commissioners (Rizqia & Lastiati, 2021).

Additionally, control variables consist of *board size* (*BSIZE*), which is measured by the total number of board members per year (Alkurdi & Mardini, 2020). *Leverage* (*LEV*) is computed as total liabilities divided by total equity (Toumi et al., 2022). *Solvency* (*SOL*) is defined as the ratio of total equity divided by total assets (Barros & Sarmento, 2020), and *firm size* (*FSIZE*) is measured by the natural logarithm of assets (Pamungkas & Fachrurozie, 2022).

### 3.3. Baseline model

The structural equation model used in the study is as follows:

$$ETR_{it} = \beta_0 + \beta_1 MO_{it} + \beta_2 INO_{it} + \beta_3 FO_{it} + \beta_4 BGD_{it} + \beta_5 INCOM_{it} + \beta_6 BSIZE_{it} + \beta_7 LEV_{it} + \beta_8 SOL_{it} + \beta_9 FSIZE_{it} + \varepsilon_{it} \quad (1)$$

where,

- $\beta_0$ = regression coefficient equation;
- $\beta_1$–$\beta_9$ = coefficients of change in value;
- $\varepsilon$ = error;
- *it* = company at a specific time period;
- *ETR* (dependent) = tax avoidance;
- *MO* (independent) = managerial ownership;
- *INO* (independent) = institutional ownership;
- *FO* (independent) = foreign ownership;
- *BGD* (independent) = board gender diversity;

- *INCOM* (indep.) = independent commissioners;
- *BSIZE* (control) = board size;
- *LEV* (control) = leverage;
- *SOL* (control) = solvency;
- *FSIZE* (control) = firm size.

## 4. RESULTS

### 4.1. Descriptive statistics analysis

Table 1 shows our sample statistical characteristics. It shows that the average value for the tax avoidance variable (*ETR*) is 0.2337, with a minimum value of 0.1746 and a maximum value of 0.3417. The average value for the board gender diversity (*BGD*) is 0.6126, with a minimum of 0 and a maximum of 1.000. The average value for the independent commissioner (*INCOM*) is 0.1743, with a minimum of 0 and a maximum of 0.9152. The average value for the managerial ownership (*MO*) is 0.1402, with a minimum of 0.0000 and a maximum of 0.5000. The average value for the institutional ownership (*INO*) is 0.3990, with a minimum of 0 and a maximum of 0.6000. The average value for foreign ownership (*FO*) is 0.0313, with a minimum of 0.0000 and a maximum of 0.5020. The average value for board size (*BSIZE*) is 5.2798, with a minimum of 2.0000 and a maximum of 12.0000. The average value for leverage (*LEV*) is 1.0074, with a minimum of 0.1085 and a maximum of 4.2279. The average value for solvency (*SOL*) is 0.5767, with a minimum of 0.1913 and a maximum of 0.9021. The average value for firm size (*FSIZE*) is 9.6898, with a minimum of 7.4438 and a maximum of 11.2563.

**Table 1.** Descriptive statistics

| ***Variables*** | ***N*** | ***Minimum*** | ***Maximum*** | ***Mean*** | ***Std. deviation*** |
|---|---|---|---|---|---|
| *ETR* | 168 | 0.1747 | 0.3417 | 0.2337 | 0.0295 |
| *MO* | 168 | 0.0000 | 0.5000 | 0.1402 | 0.1678 |
| *INO* | 168 | 0.0000 | 0.6000 | 0.3990 | 0.0986 |
| *FO* | 168 | 0.0000 | 0.5020 | 0.0313 | 0.0997 |
| *BGD* | 168 | 0.0000 | 1.0000 | 0.6126 | 0.2821 |
| *INCOM* | 168 | 0.0000 | 0.9152 | 0.1743 | 0.2847 |
| *BSIZE* | 168 | 2.0000 | 12.0000 | 5.2798 | 2.0905 |
| *LEV* | 168 | 0.1085 | 4.2279 | 1.0074 | 0.8782 |
| *SOL* | 168 | 0.1913 | 0.9021 | 0.5767 | 0.1962 |
| *FSIZE* | 168 | 7.4438 | 11.2563 | 9.6898 | 0.7183 |
| Valid N (listwise) | 168 | | | | |

*Source: Processed secondary data, 2023.*

### 4.2. Classical assumption test

The results of the test from Table 2 indicate that the tested data is normally distributed, as evident from the value of asymptotic significance, which is 0.200. In the one-sample Kolmogorov-Smirnov test, data is considered to be normally distributed if the asymptotic significance value is above 0.05.

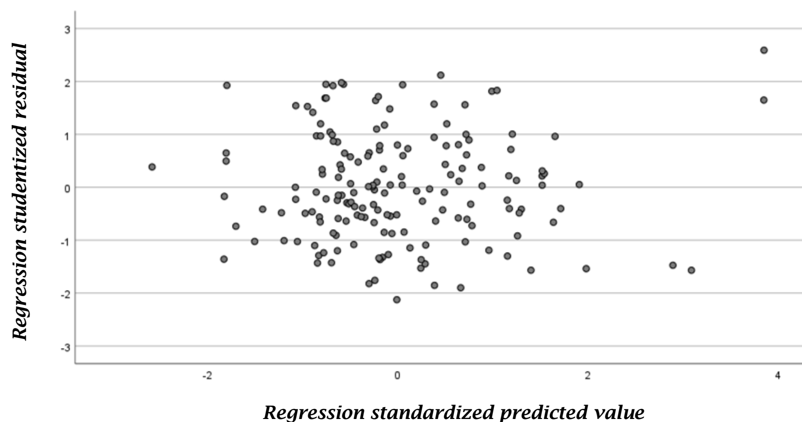
The results of the test from Figure 1 show that the data under examination does not exhibit heteroskedasticity. This can be observed from the results of the test, where there is no discernible pattern such as waves, widening, and narrowing, and the points are scattered above and below the 0 line.

**Table 2.** One-sample Kolmogorov-Smirnov test

| ***Kolmogorov-Smirnov test*** | | | ***Unstandardized residual*** |
|---|---|---|---|
| N | | | 168 |
| Normal parameters[a,b] | Mean | | 0.0000 |
| | Std. deviation | | 0.0268 |
| Most extreme differences | Absolute | | 0.051 |
| | Positive | | 0.051 |
| | Negative | | -0.046 |
| Test statistic | | | 0.051 |
| Asymp. Sig. (2-tailed) | | | 0.200[c] |
| Monte Carlo Sig. (2-tailed) | Sig. | | 0.357 |
| | 99% confidence interval | Lower bound | 0.344 |
| | | Upper bound | 0.369 |

*Note: a — Test distribution is mormal. b — Calculated from data. c — This is a lower bound of the true significance.*
*Source: Processed secondary data, 2023.*

**Figure 1.** Heteroskedasticity




*Note: Dependent variable: ETR.*
*Source: Processed secondary data, 2023.*

The results of the collinearity statistics presented in Table 3 indicate that there is no correlation among the variables being examined. This can be observed through the variance inflation factor (VIF) values, which are below 10. In this test, it is considered free from multicollinearity when the VIF values are below 10.

The autocorrelation test in this study used the Breusch-Godfrey test. The test results indicate that there is no autocorrelation in the tested data. This can be observed through the significance value of LAG2, which shows a value of 0.475. If the regression results for the parameter coefficients of residual LAG2 have a significance value > 0.05, it means that there is no autocorrelation issue.

**Table 3.** Collinearity statistics and autocorrelation test

| | | *Collinearity statistics* | | *Autocorrelation* | |
|---|---|---|---|---|---|
| *Model* | | *Tolerance* | *VIF* | *t* | *Sig.* |
| 1 | (Constant) | | | -0.016 | 0.987 |
| | *BGD* | 0.802 | 1.247 | -0.042 | 0.967 |
| | *INCOM* | 0.846 | 1.182 | 0.209 | 0.835 |
| | *MO* | 0.663 | 1.508 | 0.067 | 0.947 |
| | *INO* | 0.662 | 1.511 | 0.049 | 0.961 |
| | *FO* | 0.899 | 1.113 | 0.015 | 0.988 |
| | *BSIZE* | 0.644 | 1.553 | -0.206 | 0.837 |
| | *LEV* | 0.138 | 7.265 | 0.207 | 0.788 |
| | *SOL* | 0.131 | 7.613 | 0.159 | 0.874 |
| | *FSIZE* | 0.711 | 1.407 | -0.141 | 0.888 |
| | LAG1 | | | 3.287 | 0.001 |
| | LAG2 | | | -0.717 | 0.475 |

*Source: Processed secondary data, 2023.*

### 4.3. Linear regression analysis

The coefficient of determination can be observed through the adjusted R-square value. The results of the test from Table 4 indicate that the independent variables in the study, which are board gender diversity, the presence of independent commissioners on the board, managerial ownership, institutional ownership, and foreign ownership, explain 12.6% of the dependent variable, while 88.4% is explained by other variables.

**Table 4.** Coefficient of determination test ($R^2$)

| *Model* | *R* | *R-square* | *Adjusted R-square* | *Std. error of the estimate* |
|---|---|---|---|---|
| 1 | 0.416[a] | 0.173 | 0.126 | 0.027594568044543 |

*Note: a — Predictors: (Constant), MO, INO, FO, BGD, INCOM.*
*Source: Processed secondary data, 2023.*

The results of this test indicate that the F-value is 3.670 with a probability of 0.001, which is less than 0.05. This signifies that, collectively, the tax avoidance variable can be explained by the variables of board gender diversity, independent board commissioners, managerial ownership, institutional ownership, and foreign ownership.

**Table 5.** Simultaneous hypothesis F-test

| *Model* | | *Sum of squares* | *df* | *Mean square* | *F* | *Sig.* |
|---|---|---|---|---|---|---|
| 1 | Regression | 0.025 | 9 | 0.003 | 3.670 | < 0.001[a] |
| | Residual | 0.120 | 1158 | 0.001 | | |
| | Total | 0.145 | 167 | | | |

*Note: a — Predictors: (Constant), MO, INO, FO, BGD, INCOM.*
*Source: Processed secondary data, 2023.*

Before conducting panel data regression analysis, Chow test and Hausman test were performed to determine the best model among common effect model (CEM), fixed effect model (FEM), or random effect model (REM). In the Chow test, the result of prob > F was 0.0049, while in the Hausman test, prob > F was found to be 0.0000. The results indicated that FEM is the optimal model. The result in Table 6 shows that prob > F is 0.0023, indicating that the independent variables collectively have a significant impact on the dependent variable, namely tax avoidance.

In Table 7, the results of the t-test are presented, which will be further elaborated in the discussion section.

**Table 6.** Fixed effect model

| Model | | Coefficients | Std. error | t | P > \|t\| |
|---|---|---|---|---|---|
| 1 | BGD | -0.278 | 0.020 | -1.36 | 0.177 |
| | INCOM | -0.062 | 0.029 | -0.2.09 | 0.038 |
| | MO | 0.051 | 0.042 | 1.20 | 0.0231 |
| | INO | 0.012 | 0.013 | 0.97 | 0.333 |
| | FO | 0.010 | 0.011 | 0.90 | 0.367 |
| | BSIZE | -0.000 | 0.001 | -0.30 | 0.766 |
| | LEV | 0.005 | 0.007 | 0.67 | 0.501 |
| | SOL | -0.025 | 0.038 | 0.65 | 0.519 |
| | FSIZE | -0.008 | 0.005 | -1.77 | 0.078 |
| | cons | 0.001 | 0.057 | 6.05 | 0.000 |
| Prob. > F | | 0.0023 | | | |
| Obs. | | 168 | | | |

*Source: Processed secondary data, 2023.*

**Table 7.** Partial test (T-test)

| Model | | Unstandardized Beta | Coefficients std. error | Standardized coefficients Beta | T-test | |
|---|---|---|---|---|---|---|
| | | | | | t | Sig. |
| 1 | (Constant) | 0.255 | 0.044 | | 5.779 | < 0.001 |
| | BGD | -0.003 | 0.014 | -0.015 | -0.185 | 0.854 |
| | INCOM | -0.059 | 0.024 | -0.198 | -2.517 | 0.013 |
| | MO | 0.069 | 0.026 | 0.235 | 2.641 | 0.009 |
| | INO | 0.014 | 0.009 | 0.137 | 1.536 | 0.126 |
| | FO | 0.023 | 0.008 | 0.223 | 2.925 | 0.004 |
| | BSIZE | 0.001 | 0.001 | 0.073 | 0.814 | 0.417 |
| | LEV | -0.001 | 0.007 | 0.038 | -0.192 | 0.848 |
| | SOL | -0.039 | 0.030 | 0.256 | -1.284 | 0.201 |
| | FSIZE | 0.001 | 0.004 | 0.016 | 0.181 | 0.856 |

*Source: Processed secondary data, 2023.*

## 5. DISCUSSION

Significant data is indicated by a significance value below 0.05, while a significance value above 0.05 means the data is not significant. The results of the study in Table 7 show that managerial ownership has a t-value of 2.641, which is greater than the t-table value of 1.974, and a significance level of 0.009. This means that managerial ownership significantly and positively influences tax avoidance, contrary to the initial hypothesis. From a managerial perspective, there may be a desire to maximize individual profits (Ribeiro et al., 2015) with tax avoidance strategies (Ratnawati et al., 2018), indirectly impacting the company's value negatively (Armstrong et al., 2015). The agency theory perspective highlights the agency problem when there is a misalignment of interests between managers and shareholders, even when management owns a significant portion of the company's shares, leading to motivations for increasing personal gains through modified transactions and complex organizational structures (Alkurdi & Mardini, 2020). The results of the study indicate that institutional ownership has a t-value of 1.536, which is less than the t-table value of 1.974, and a significance level of 0.126. This means that institutional ownership does not significantly influence tax avoidance, contradicting the initial hypothesis. This finding aligns with previous research conducted by Hassan et al. (2022). Maharani and Baroroh (2020) noted a contradiction in agency theory, which suggests that institutional ownership plays a role in monitoring a company's managerial performance. Since institutions are external entities to the company, their presence may not directly impact management in terms of tax avoidance actions (Falistiani Putri & Suryarini, 2017). The results of the study indicate that foreign ownership has a t-value of 2.925, which is greater than the t-table value of 1.974, with a significance level of 0.004. This means that foreign ownership significantly and positively affects tax avoidance, contrary to the initial hypothesis. These findings are consistent with previous research conducted by several researchers (Suranta et al., 2020). Developing countries offer foreign investors easier access to resources, affordable labor markets, and favorable tax policies, providing these investors with bargaining power in various company decisions, including tax planning (Hassan et al., 2022). The results of the study show that gender diversity on the board has a t-value of -0.185, which is less than the t-table value of 1.974, with a significance level of 0.854. This indicates that gender diversity on the board does not have a significant impact on tax avoidance, contradicting the initial hypothesis. Men tend to make decisions more easily due to their higher risk-taking tendencies compared to women. Additionally, men often prioritize the company's development goals through various means (Prakoso & Hudiwinarsih, 2018). The results of the study indicate that the independent board of commissioners has a t-value of -2.517, which is greater than the t-table value of 1.974, with a significance level of 0.013. This means that independent board of commissioners significantly negatively influences tax avoidance, supporting the initial hypothesis. This aligns with the findings of Maharani and Suardana (2014), where the presence of an independent board of commissioners plays a crucial role in preventing tax avoidance practices.

The results of the study indicate that board size has a t-value of 0.814, which is less than the t-table value of 1.974, with a significance level of 0.417, suggesting that board size does not significantly affect tax avoidance. While board size can enhance corporate governance, it does not guarantee an impact on companies practicing tax

avoidance (Jelena & Chandra, 2022). Regarding the leverage variable measured by the debt-to-equity ratio, it has a t-value of -0.192, which is less than the t-table value of 1.974, with a significance level of 0.848, indicating that leverage does not significantly influence tax avoidance. Companies tend to optimize debt usage to reduce their tax burden, so higher debt ratios are associated with lower levels of tax avoidance (Darsani & Sukartha, 2021). The solvency variable, measured by the equity-to-asset ratio, has a t-value of -1.284, which is less than the t-table value of 1.974, with a significance level of 0.201, indicating that solvency does not significantly affect tax avoidance. Additionally, the firm size variable has a t-value of 0.181, which is less than the t-table value of 1.974, with a significance level of 0.856, suggesting that firm size does not significantly influence tax avoidance. This aligns with the research conducted by Tandean and Winnie (2016), indicating that the size of a company does not impact tax avoidance practices (Pamungkas & Fachrurozie, 2022).

## 6. CONCLUSION

This research aimed to investigate the relationship between managerial ownership, institutional ownership, foreign ownership, board gender diversity, and independent commissioners on tax avoidance, with control variables such as board size, leverage, solvency, and firm size. Managerial ownership was found to have a significant positive impact on tax avoidance, contrary to initial expectations, suggesting a managerial inclination towards maximizing individual profits through tax avoidance strategies. Institutional ownership, however, showed no significant influence on tax avoidance, aligning with prior research indicating a limited role in directly impacting managerial decisions related to tax avoidance. Foreign ownership emerged as a significant factor positively affecting tax avoidance, reflecting the influence of foreign investors in leveraging resources and favorable tax policies in developing countries. Gender diversity on the board and board size were found to have no significant impact on tax avoidance, highlighting the complexity of corporate decision-making processes. Interestingly, the presence of the independent board of commissioners was found to significantly negatively influence tax avoidance, emphasizing their crucial role in curbing such practices. Additionally, variables such as leverage, solvency, and firm size were found to have no significant effect on tax avoidance, reinforcing existing literature on these aspects. These findings underscore the importance of effective corporate governance mechanisms, particularly the presence of independent oversight, in mitigating tax avoidance practices. The implications of these results extend to policymakers and stakeholders in designing and implementing strategies to promote transparency and accountability within corporate entities, ultimately contributing to fairer and more ethical business practices.

The study conducted by the author has some limitations. Firstly, the author only examined one sector, namely non-cyclical consumers, from 2018 to 2022, considering the economic instability in Indonesia due to the 2020 pandemic. However, the non-cyclical sector is relatively stable compared to other sectors. Secondly, some companies in the research lacked complete annual reports for the years 2018–2022. Lastly, the study focused on exploring a few corporate governance mechanisms concerning tax avoidance. There are more corporate governance variables that can be further explored.

Based on the identified limitations, it is recommended to enhance the generalizability of the results by expanding the research scope to other sectors. By collecting data from various sectors and diverse time periods, future research is expected to provide a comprehensive understanding of tax avoidance in a dynamic economic context. Additionally, future research can delve deeper into a more diverse range of corporate governance mechanisms that influence tax avoidance practices. This will allow for a more profound understanding of the factors affecting tax avoidance practices within a more complex corporate governance context.

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