

Do Owners Matter? The Impact of Institutional, Managerial, Foreign, and Family Ownership on Tax Avoidance in Indonesia

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ABSTRACT

This study explores the impact of ownership structure on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2024. The research examines four types of ownership—family, institutional, managerial, and foreign—using purposive sampling. A regression analysis was applied to assess the relationship between ownership structures and tax avoidance, measured by effective tax rates (ETR). A quantitative approach is employed, utilizing secondary data collected from annual reports and financial statements. The findings show that family, institutional, and foreign ownership negatively influence tax avoidance, while managerial ownership has no significant effect. This research provides insights into how ownership types influence tax behavior in an emerging market like Indonesia.

INTRODUCTION

The problem of tax avoidance has attracted considerable attention from regulators, academics, and society due to its substantial economic implications (Sánchez-Ballesta & Yagüe, 2024). A recent World Bank report indicates that Indonesia's tax revenue performance lags behind neighboring countries, with a tax-to-GDP ratio of only around 9%, highlighting significant challenges for the government in ensuring fiscal sustainability and financial independence (Grehenson, 2025). This situation underscores the urgent need for more effective tax policies and enforcement mechanisms to broaden the tax base, reduce avoidance practices, and enhance revenue collection.

The theoretical foundation for understanding tax avoidance behavior lies primarily in agency theory (Jensen & Meckling, 1976) and institutional theory (DiMaggio & Powell, 1983). Agency theory suggests that managers may engage in tax avoidance to increase firm value for shareholders, but might also exploit information asymmetry to pursue tax strategies that serve personal interests rather than organizational objectives (Jensen & Meckling, 1976). Complementing this perspective, institutional theory explains how ownership structures influence corporate behavior through mechanisms of legitimacy and isomorphism (Wang & Sun, 2022). Different ownership types bring distinct monitoring capabilities, risk preference, and governance approaches that shape tax planning decisions (Velte, 2023). According to Syukur et al. (2022), ownership concentration affects the principal agent relationship, potentially altering tax avoidance incentives and capabilities through varying degrees of monitoring effectiveness and information access.

The relationship between various types of ownership and tax avoidance has been examined across multiple contexts, with mixed findings regarding the impact of institutional, managerial, foreign, and family ownership on corporate tax practices. Institutional ownership may enhance monitoring and governance mechanisms, potentially limiting extreme tax avoidance (Dakhli, 2021). However, institutional investors with short-term orientations might encourage tax-saving strategies to maximize immediate returns (Benkraiem et al., 2024). Managerial ownership creates potential alignment of executive interest with shareholders, yet may also lead to risk aversion or entrenchment that influences tax decisions (Niandari et al., 2020). Foreign ownership introduces crossborder considerations and international tax planning opportunities, often resulting in lower effective tax rates through profit shifting and transfer pricing mechanisms (Syukur & Jongsureyapart, 2023). Family ownership typically entails longer investment horizons and greater reputation concerns, which some studies suggest lead to more conservative tax practices (Widiastutik et al., 2024), while others have found family firms engage in greater tax avoidance to preserve family wealth (Khelil & Khlif, 2022).

Despite the growing body of literature on ownership structure and tax avoidance, significant research gaps remain, particularly in the Indonesian context. Previous studies have often focused on developed economies with well-established capital markets and regulatory frameworks, potentially limiting the applicability of their findings to emerging markets with different institutional

environments (Athira & Ramesh, 2024; Gunarto & Adi, 2023; Thomsen & Watrin, 2018). Additionally, most research has examined these ownership types in isolation rather than considering their interactive effects within the complex ownership structures characteristic of Indonesian firms. Furthermore, existing studies have primarily used single measures of tax avoidance, potentially overlooking the multidimensional nature of tax planning strategies (Hanlon & Heitzman, 2010). The dynamic regulatory environment in Indonesia, including recent tax reforms and increased enforcement efforts, creates an opportunity to reassess previously established relationships between ownership and tax behavior. Moreover, prior empirical findings on the relationship between ownership structure and tax avoidance have shown inconsistent results, some studies report a positive association, others find a negative or insignificant relationship, highlighting the need for further investigation to clarify these discrepancies in the Indonesian context (Benkraiem et al., 2024; Dakhli, 2022; Khelil & Khlif, 2022; Niandari et al., 2020; Syukur & Jongsureyapart, 2023; Widiastutik et al., 2024).

This study offers novelty by examining the Indonesian manufacturing sector, which present unique characteristics that distinguish it from previous research settings. Manufacturing firms in Indonesia operate within a complex web of business groups, political connections, and family networks that create distinctive governance dynamics not commonly observed in Western context. Additionally, Indonesia's tax administration has undergone significant modernization efforts and enforcement enhancements in recent years, creating an evolving regulatory landscape that may reshape tax planning incentives. This research is unique in its comprehensive approach to analyzing multiple ownership dimensions simultaneously while controlling for their potential interdependencies and considering the specific characteristics of manufacturing firms, including their capital intensity, export orientation, and value chain complexity, which create distinct tax planning opportunities and constraints.

This study contributes to both theory and practice in several ways. Theoretically, it enhances our understanding of the relationship between ownership structures and tax avoidance in the context of emerging markets, offering insights that extend agency and institutional theories by incorporating cultural and regulatory contingencies specific to Indonesia. From a policy perspective, the findings may inform regulatory design by identifying ownership patterns associated with more aggressive tax avoidance, enabling more targeted compliance efforts and governance reforms. For practitioners, this research provides insights into how different ownership configurations might influence tax risk assessment and management strategies, helping financial executives and advisors develop more effective tax planning approaches within Indonesia's unique business environment. Furthermore, by focusing specifically on manufacturing firms, the study provides sector specific knowledge about tax practices in an industry crucial to Indonesia's economic development and industrial policy objectives.

THEORETICAL REVIEW

Agency Theory

Agency theory explains corporate tax behavior through the lens of principal-agent relationships, where the separation of ownership and control creates information asymmetry that affects tax decisions (Jensen & Meckling, 1976). This framework suggests that managers may use tax planning to enhance shareholder value but might also exploit complex tax structures for personal benefit when monitoring is weak (Guan et al., 2018). Different ownership configurations modify monitoring capabilities and incentive alignments, creating varied tax avoidance environments where the benefits of tax savings must be balanced against potential costs including reputational damage, penalties, and agency problems (Velte, 2023). In the Indonesian manufacturing context, agency problems may be particularly pronounced due to complex business group structures and concentrated ownership that can exacerbate information asymmetry between controlling and minority shareholders (Claessens et al., 2000)

Institutional Theory

Institutional theory addresses how organizations respond to regulatory, normative, and cultural cognitive pressures regarding tax practices, recognizing that firms seek legitimacy within their institutional environment beyond purely economic considerations (Horodnic, 2018). Different ownership types bring distinct institutional logics based on home-country norms, professional standards, or family values that influence their approach to tax compliance within Indonesia's evolving regulatory landscape (Tarmidi et al., 2022). The country's tax amnesty programs, enhanced enforcement mechanisms, and changing social expectations regarding corporate citizenship create institutional pressures that different owners may interpret and respond to differently based on their legitimacy concerns and risk preferences (Feng et al., 2023). This perspective is particularly relevant for understanding how various ownership structures navigate Indonesia's manufacturing sector regulations, including tax incentives for export-oriented production and special economic zones (Effendi & Prima, 2023).

Tax Avoidance

Tax avoidance encompasses legally permissible strategies to reduce tax liability while potentially contradicting the spirit of tax law, ranging from clearly legitimate tax positions to more aggressive interpretations (Hanlon & Heitzman, 2010). These strategies include income shifting to low tax jurisdictions, strategic debt financing, exploitation of tax law ambiguities, and utilization of preferential tax provisions, with determinants extending beyond financial considerations to include governance mechanisms, ownership structures, and institutional environments (Effendi & Prima, 2023). The measurement of tax avoidance relies primarily on effective tax rates, book tax differences, and discretionary permanent differences, each capturing different dimensions of a firm's tax reduction activities within Indonesia's unique context of developing economy

status, significant family business groups, and evolving tax enforcement capabilities.

Institutional Ownership

Institutional ownership influences corporate tax strategies through the distinctive characteristics of professional investors such as mutual funds, pension funds, and insurance companies, whose impact depends critically on their investment horizons (Kałdoński & Jewartowski, 2024). In Indonesia, institutional investors often include state-owned enterprises and domestic financial institutions that may align more closely with national development goals and regulatory compliance compared to their western counterparts, creating a unique dynamic in their influence on corporate tax practices (Kadek & Suryatna, 2023). Therefore, institutional ownership in Indonesia presents a distinct influence on corporate tax strategies, shaped by its alignment with national interests and regulatory expectations rather than purely profit driven motives.

Managerial Ownership

Managerial ownership creates dual incentives regarding tax avoidance decisions, as executives simultaneously benefit from tax savings as shareholders while personally bearing reputational and career risks as managers. This relationship appears non-linear, with moderate levels of ownership potentially encouraging more aggressive tax planning than either very low levels (where incentive alignment is minimal) or very high levels (where risk aversion due to undiversified wealth may dominate) (Niandari et al., 2020; Wongsinhirun et al., 2024). In Indonesia's corporate landscape, managerial ownership often overlaps with family control, creating complex incentive structures further influenced by cultural pressures regarding tax compliance in the country's collectivist and relationship-based business environment (Fan et al., 2022).

Foreign Ownership

Foreign ownership introduces cross border dimensions to tax planning through multinational enterprises' ability to exploit international tax differentials and treaty networks, typically resulting in lower reported tax burdens compared to domestically owned firms (Syukur & Jongsureyapart, 2023). The competing "tax efficiency" and "liability of foreignness" hypotheses suggest foreign owners may either leverage their multinational presence to minimize global tax burdens or practice conservative tax strategies to avoid regulatory scrutiny and establish local legitimacy (Suranta et al., 2020). Indonesia's territorial tax system, extensive treaty network, and strengthened anti-avoidance measures create a unique environment for foreign investors, potentially moderating their ability to engage in aggressive cross-border tax planning despite power imbalances between multinational corporations and local tax authorities.

Family Ownership

Family ownership creates distinctive incentives regarding tax avoidance through concentrated control, long investment horizons, and the intertwining of family reputation with business identity (Chalevas et al., 2024). Literature presents competing perspectives on this relationship: the “reputation and wealth preservation” view suggests family firms accept higher tax burdens to avoid potential non-tax costs of aggressive planning (C.-S. Kuo, 2022), while the “family utility maximization” perspective emphasizes that concentrated control enables implementation of tax strategies that might face resistance in more diffusely owned firms (Kovermann & Velte, 2019). Indonesia’s prevalence of family business groups operating through pyramid structures creates both unique opportunities and motivation for tax planning, further influenced by cultural values emphasizing harmony and conflict avoidance, which might discourage overly aggressive strategies while simultaneously motivating tax planning to preserve resources for future generations.

Hypothesis Development

The Effect of Institutional Ownership and Tax Avoidance

Institutional ownership refers to the portion of a company’s shares held by large entities such as mutual funds, pension funds, insurance companies, or state-owned enterprises. These institutions often possess greater monitoring capabilities due to their access to resources, expertise, and investment in governance mechanisms. In general, institutional investors are expected to discourage aggressive tax avoidance practices due to reputational concerns and the desire for long-term value creation (Dakhli, 2022). However, short-term oriented institutions may prioritize immediate financial returns and thus support aggressive tax planning to boost net income in the short run (Benkraiem et al., 2024). In the Indonesian context, where many institutional investors are government-affiliated, the tendency might lean toward compliance and reputational legitimacy, potentially limiting aggressive tax avoidance (Kadek & Suryatna, 2023). Therefore, the influence of institutional ownership may be nuanced, depending on institutional objectives and alignment with regulatory standards.

H1: Institutional ownership is negatively associated with tax avoidance.

The Effect of Managerial Ownership and Tax Avoidance

Managerial ownership aligns the interests of executives with those of shareholders, theoretically encouraging managers to act in the best interest of the firm, including reducing tax expenses through avoidance strategies (Niandari et al., 2020). However, this alignment can also lead to managerial entrenchment, where executives prioritize personal risk minimization over aggressive tax planning due to reputational or legal risks. Empirical findings suggest a non-linear relationship where moderate levels of ownership are associated with higher tax avoidance, while very high or low levels show more conservative behavior (Wongsinhirun et al., 2024). In Indonesia, where managerial ownership often intersects with family control and cultural norms, the effect of such

ownership structures on tax behavior may be even more complex, shaped by both self-interest and collectivist pressures.

H2: Managerial ownership is positively associated with tax avoidance.

The Effect of Foreign Ownership and Tax Avoidance

Foreign ownership brings cross-border capabilities and incentives for international tax planning, including the use of transfer pricing, treaty shopping, and income shifting to low-tax jurisdictions (Syukur & Jongsureyapart, 2023). Multinational firms often have the expertise and structural flexibility to engage in more sophisticated forms of tax avoidance. However, the “liability of foreignness” hypothesis posits that foreign investors may avoid aggressive tax strategies to mitigate regulatory risks and build legitimacy in host countries (Suranta et al., 2020). Given Indonesia’s improved enforcement mechanisms and scrutiny over foreign entities, foreign investors may strategically balance between efficiency and legitimacy. Nevertheless, the overall expectation remains that foreign ownership facilitates more aggressive tax minimization practices due to access to global tax planning tools.

H3: Foreign ownership is positively associated with tax avoidance.

The Effect Family Ownership and Tax Avoidance

Family ownership, characterized by concentrated control and long-term orientation, creates distinct governance dynamics. On one hand, family firms may avoid aggressive tax practices to protect family reputation and intergenerational wealth (Kuo et al., 2020) (Kuo, 2022). On the other hand, the concentration of power may reduce resistance to tax avoidance from external stakeholders, leading to more aggressive strategies (Khelil & Khlif, 2022). In Indonesia, the prevalence of family-owned business groups with pyramid ownership structures can facilitate complex tax strategies, but cultural values emphasizing harmony and social responsibility may also restrain excessively aggressive behavior (Chalevas et al., 2024). This duality suggests a context-dependent relationship.

H4: Family ownership is positively associated with tax avoidance.

Conceptual Framework

To better understand the relationship between ownership structure and corporate tax avoidance, this study develops a conceptual framework based on insights from agency theory and prior empirical research. The framework illustrates how different types of ownership, namely institutional, managerial, foreign, and family ownership, may influence a firm’s tax avoidance behavior through varying incentives, monitoring effectiveness, and risk preferences. This model serves as the foundation for formulating the study’s hypotheses and guides the empirical testing process.

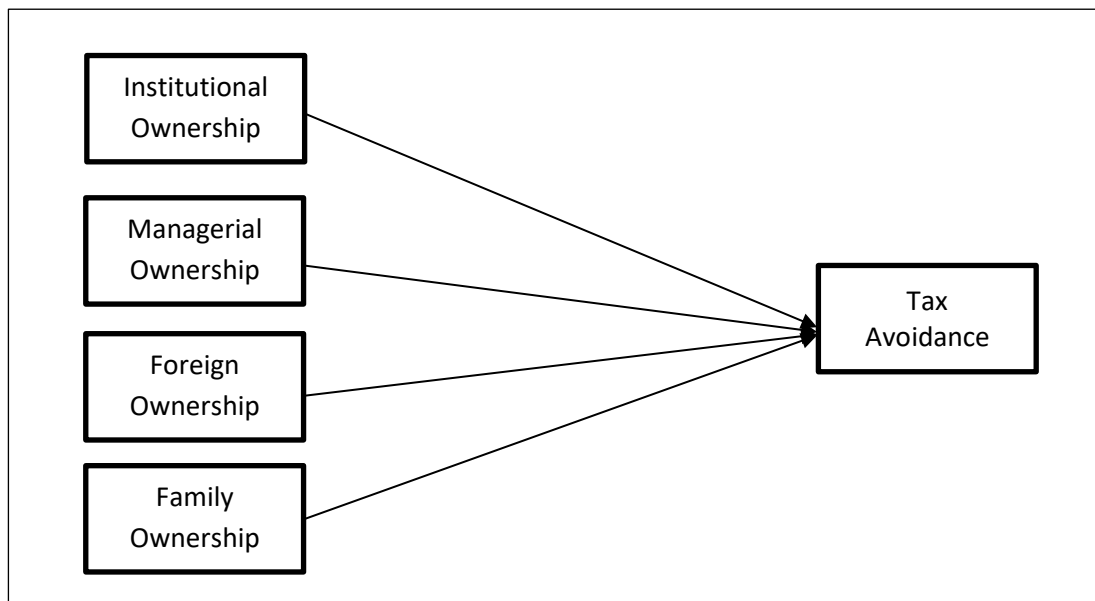


Figure 1. Conceptual Framework

METHODOLOGY

This study employs a quantitative research approach using secondary data to examine the influence of ownership structure on corporate tax avoidance. The sample consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2024. Data analysis is conducted using multiple linear regression with the help of EViews 12 software. The analytical procedures include descriptive statistics, classical assumption testing (normality, multicollinearity, heteroscedasticity, and autocorrelation), and multiple regression analysis to assess the relationship between different types of ownership and tax avoidance.

Data Collection and Sample Selection

The study utilizes secondary data obtained from the companies’ annual reports, financial statements, and ownership structure disclosures published on the IDX website and company websites. The sample is selected using a purposive sampling method, with the following criteria:

Table 1. Purposive Sampling

The company is classified under the manufacturing sector.	750
The company consistently published complete annual reports from 2020 to 2024.	500

The company disclosed ownership structure data and relevant tax information.	475
The company did not report negative earnings, to ensure the validity of ETR measurement.	225
Total sample	250

Source: Processed by Researchers (2025)

Variable Measurement

Dependent Variable:

Tax Avoidance is measured using the Effective Tax Rate (ETR), calculated as:

$$ETR = \frac{\text{Income Tax Expense}}{\text{Earnings Before Tax (EBT)}}$$

A lower ETR indicates higher levels of tax avoidance (Widiastutik et al., 2024).

Independent Variables:

1. **Institutional Ownership** is measured by the percentage of shares held by institutional investors, such as mutual funds, pension funds, or insurance companies.
2. **Managerial Ownership** is measured by the percentage of shares held by company executives or board members.
3. **Foreign Ownership** is measured by the percentage of shares held by foreign investors or entities.
4. **Family Ownership** is measured by the percentage of shares held by founding family members or their affiliates.

Regression Equation

To examine the effect of various types of ownership structure on tax avoidance, a multiple linear regression analysis was conducted. The regression model includes family ownership, institutional ownership, managerial ownership, and foreign ownership as independent variables, while tax avoidance—measured by the effective tax rate (ETR)—serves as the dependent variable. The following is the resulting regression equation:

$$ETR = a + \beta_1\text{Institutional} + \beta_2\text{Managerial} + \beta_3\text{Foreign} + \beta_4\text{Family} + \varepsilon$$

Explanation:

ETR : Effective Tax Rate (Tax Avoidance)
 Institutional : Institutional Ownership
 Managerial : Managerial Ownership
 Foreign : Foreign Ownershio
 Family : Family Ownership

\hat{a} : Constanta
 β : Coefficient
 ε : Error

RESULTS

Descriptive Statistics

The descriptive statistics provide an overview of the data used in the study. The variables analyzed include Effective Tax Rate (ETR), Family Ownership, Institutional Ownership, Managerial Ownership, and Foreign Ownership.

Table 2. Descriptive Statistics

Variable	N	Mean	Std. Dev	Min	Max
ETR	250	0.256	0.062	0.12	0.45
Institutional Ownership	250	0.328	0.162	0.00	0.72
Managerial Ownership	250	0.081	0.093	0.00	0.45
Family Ownership	250	0.215	0.147	0.00	0.68
Foreign Ownership	250	0.182	0.129	0.00	0.51

Source: Processed by Eviews 12 (2025)

Descriptive statistics provide an overview of the distribution and characteristics of the data used in this study. The variables analyzed include tax avoidance (measured by ETR), family ownership, institutional ownership, managerial ownership, and foreign ownership. A total of 250 firm-year observations from manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2024 were used. Each ownership structure variable is measured as a proportion of total shares held by a specific ownership type. Since total ownership equals 1 (or 100%), the values of these four ownership variables are expressed as proportions ranging between 0 and 1.

The average ETR is 0.256, indicating that on average, firms pay about 25.6% of their pre-tax income in taxes. This shows a moderate level of tax compliance. The minimum ETR of 0.12 reflects significant tax avoidance, while the maximum of 0.45 suggests some firms pay relatively higher effective tax rates.

The mean value of family ownership is 0.215, indicating that, on average, 21.5% of company shares are held by family members. This suggests that family control is present but not dominant in most firms. A higher family ownership may lead to either tax conservatism or tax aggressiveness, depending on governance.

Institutional ownership has an average of 0.328, meaning institutional investors hold approximately 32.8% of the shares. This level indicates a moderate influence of institutions, which may contribute to better monitoring and lower tax avoidance.

The average managerial ownership is 0.081, showing that managers own around 8.1% of the company's shares. This relatively low level suggests limited alignment of managers' and shareholders' interests, which could influence tax strategies depending on agency incentives.

Foreign investors hold about 18.2% of shares on average. This level of foreign ownership reflects a moderate presence, which may affect tax behavior due to cross-border tax planning or stricter governance expectations from international stakeholders.

Classical Assumption Test Results

Before conducting the regression analysis, classical assumption tests were performed to ensure that the data met the required conditions for multiple linear regression analysis. These tests include normality, multicollinearity, heteroscedasticity, and autocorrelation.

Table 3. Classical Assumption Test Results

Assumption Test	Results	Interpretation
Normality Test	Jarque-Bera: 1.054 (p-value = 0.591)	Data is normally distributed
Multicollinearity Test	VIF: < 10	No multicollinearity detected
Heteroscedasticity Test	Glejser: p-value = 0.086	No heteroscedasticity detected
Autocorrelation Test	Durbin-Watson: 2.156	No autocorrelation detected

Source: Processed by Eviews 12 (2025)

The normality test results show a Jarque-Bera value of 1.054 with a p-value of 0.591, which is greater than 0.05. This indicates that the residual data is normally distributed, thus satisfying the normality assumption. The multicollinearity test results show that the VIF (Variance Inflation Factor) values for all independent variables are below 10, indicating that there is no multicollinearity issue between the independent variables in this regression model. The heteroscedasticity test results using the Glejser test show a p-value of 0.086, which is greater than 0.05. Therefore, no heteroscedasticity is found in this model, meaning that the error variance is constant (homoscedastic). The Durbin-Watson value of 2.156 indicates that there is no autocorrelation in the residuals of the model, as the value falls within the acceptable range (1.5–2.5).

Regression Analysis

This section presents the results of multiple linear regression analysis, which aims to examine the influence of ownership structure on corporate tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. The analysis was performed using EViews 12, and the regression output is summarized as follows:

Table 4. Regression Analysis

Variable	Coefficient	t-Statistic	p-Value
Institutional Ownership	-0.057	-3.012	0.003

Managerial Ownership	-0.021	-1.256	0.212
Foreign Ownership	-0.049	-2.778	0.007
Family Ownership	-0.042	-2.134	0.035
Constant	0.251	9.876	0.000
R²	0.348		
F-Statistic	10.243		0.000

Source: Processed by Eviews 12 (2025)

The multiple linear regression analysis was conducted to examine the effect of different types of ownership structure on corporate tax avoidance. The following table presents the coefficients, t-statistics, and p-values for each independent variable, along with the model's overall goodness-of-fit indicators.

1. Institutional Ownership also has a negative and significant effect (p-value = 0.003 < 0.05), indicating that companies with greater institutional ownership are likely to avoid taxes less aggressively.
2. Managerial Ownership shows a negative but not significant effect (p-value = 0.212 > 0.05), meaning its influence on tax avoidance is statistically insignificant in this study.
3. Foreign Ownership has a negative and significant effect (p-value = 0.007 < 0.05), suggesting that foreign shareholders are associated with lower tax avoidance practices.
4. Family Ownership has a negative and significant effect on tax avoidance (p-value = 0.035 < 0.05). This suggests that an increase in family ownership tends to reduce the level of tax avoidance, as measured by a higher ETR.

The R² value of 0.348 indicates that 34.8% of the variation in tax avoidance can be explained by the ownership structure variables in this model. The F-statistic of 10.243 with a significance level of 0.000 shows that the overall model is statistically significant.

DISCUSSION

This study investigates the effect of various ownership structures on corporate tax avoidance among manufacturing firms listed on the IDX from 2020 to 2024. The results provide insights into how different types of ownership influence tax-related decisions.

Institutional Ownership and Tax Avoidance

The finding that institutional ownership negatively affects tax avoidance is consistent with both agency theory and institutional theory. According to agency theory, institutional investors, particularly those with a long-term investment horizon, are more likely to act as monitors, encouraging firms to minimize risk, including reputational risks tied to aggressive tax avoidance strategies (Velte, 2023). This is aligned with the role of institutional ownership in ensuring the alignment of management actions with shareholder interests, which includes minimizing agency costs such as tax evasion or avoidance that might attract regulatory scrutiny.

Moreover, institutional theory explains how institutional owners are guided by external pressures, such as regulations, norms, and societal expectations (Horodnic, 2018). In Indonesia, where institutional ownership often involves state-affiliated entities or domestic financial institutions, the emphasis on regulatory compliance and alignment with national development goals further discourages aggressive tax avoidance strategies (Kadek & Suryatna, 2023). Therefore, institutional ownership appears to reduce the likelihood of tax avoidance in Indonesia, as these investors are more concerned with maintaining legitimacy and long-term compliance, rather than focusing purely on short-term tax benefits.

Managerial Ownership and Tax Avoidance

The lack of a significant effect of managerial ownership on tax avoidance is an interesting finding that does not entirely support the traditional view from agency theory. Agency theory suggests that managerial ownership should align managers' incentives with those of shareholders, thereby encouraging tax avoidance as a strategy to maximize shareholder value (Jensen & Meckling, 1976). However, the results indicate that managerial ownership in Indonesia does not significantly influence tax avoidance, suggesting that other factors, such as managerial entrenchment or risk aversion, play a stronger role than agency theory predicts.

In the Indonesian context, managerial ownership often overlaps with family control, further complicating the relationship between ownership and tax behavior. Family control can create more conservative behavior due to reputational concerns and cultural expectations around business conduct (Fan et al., 2022). As a result, managerial ownership may not lead to increased tax avoidance, particularly when cultural norms and the need to preserve family reputation act as constraints on aggressive tax behavior. The non-significant relationship between managerial ownership and tax avoidance could be interpreted as a reflection of this complexity, where managerial decisions are not solely driven by ownership structures but also by social and cultural factors within family-owned firms.

Foreign Ownership and Tax Avoidance

The negative relationship between foreign ownership and tax avoidance aligns with both agency theory and the liability of foreignness hypothesis. While agency theory would predict that foreign ownership could lead to tax avoidance due to multinational firms' access to international tax planning tools (Syukur & Jongsureyapart, 2023), the liability of foreignness hypothesis suggests that foreign investors may avoid aggressive tax avoidance strategies to mitigate regulatory risks and establish legitimacy in the host country (Suranta et al., 2020).

In the case of Indonesia, foreign investors are subject to a regulatory environment with increasing enforcement mechanisms and scrutiny. The results indicate that foreign ownership in Indonesia is associated with more conservative tax strategies, likely as a response to these institutional pressures and the desire to maintain a good reputation and minimize risks (Effendi & Prima, 2023). Therefore, while foreign firms may have the resources and expertise to engage in

sophisticated tax planning, the need to comply with local regulations and avoid reputational damage outweighs the benefits of aggressive tax avoidance.

Family Ownership and Tax Avoidance

The finding that family ownership is negatively associated with tax avoidance challenges the common view that family businesses are more inclined to engage in aggressive tax planning due to their concentrated control (Kuo et al., 2020). Instead, this study suggests that family firms in Indonesia tend to avoid aggressive tax avoidance strategies, likely due to their long-term orientation and the desire to protect family reputation and intergenerational wealth (Chalevas et al., 2024).

Family ownership in Indonesia is often intertwined with cultural values that emphasize social responsibility, reputation preservation, and conflict avoidance (Fan et al., 2022). This cultural context likely reduces the incentive for family firms to engage in aggressive tax avoidance strategies, as the potential damage to family reputation and future wealth outweighs the short-term financial benefits of tax savings. Additionally, family businesses in Indonesia often operate within a framework of pyramid ownership structures, which further complicates their decision-making process (Kovermann & Velte, 2019). The findings suggest that family firms are more likely to prioritize long-term business stability and social harmony over aggressive tax practices, in line with the broader cultural values in Indonesia.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study investigates the influence of different ownership structures – institutional ownership, managerial ownership, foreign ownership, and family ownership – on corporate tax avoidance within the Indonesian manufacturing sector. The results indicate that institutional ownership, foreign ownership, and family ownership are negatively associated with tax avoidance, while managerial ownership does not show a significant effect on tax avoidance.

The findings suggest that institutional and foreign investors, who are more focused on long-term value creation and regulatory compliance, tend to avoid aggressive tax strategies due to reputational concerns and institutional pressures. Family ownership, with its long-term orientation and cultural values emphasizing reputation preservation, also discourages aggressive tax avoidance practices. On the other hand, the absence of a significant relationship between managerial ownership and tax avoidance reflects the complexity of ownership structures in Indonesia, where factors such as managerial entrenchment, cultural norms, and the overlap with family control may play a more dominant role in shaping tax behavior.

These results align with agency theory and institutional theory, providing insights into how ownership structures interact with institutional and cultural contexts to influence tax behavior in a developing economy like Indonesia.

Recommendations

Policy Implications:

1. For regulators: The findings suggest that regulatory authorities should tailor their tax policies to consider the unique dynamics of ownership structures, especially in family-owned and foreign-invested firms. Enhanced enforcement and monitoring mechanisms could further encourage compliance, particularly among family and foreign firms that may face reputational risks.
2. For tax authorities: Given the role of institutional investors in discouraging aggressive tax avoidance, tax authorities should engage institutional investors in promoting best practices for tax compliance, ensuring that long-term investment horizons align with regulatory expectations.

Implications for Managers and Firms:

1. For family-owned firms: Family businesses should recognize the reputational risks associated with aggressive tax avoidance. By focusing on long-term business stability and sustainability, family businesses can foster a positive public image and long-term growth without resorting to tax evasion.
2. For foreign investors: Foreign investors should be mindful of the institutional pressures within Indonesia's evolving regulatory landscape. While international tax planning may offer opportunities for tax efficiency, foreign firms must balance these strategies with the need to establish legitimacy and avoid regulatory scrutiny.

FURTHER STUDY

While this study provides valuable insights into the relationship between ownership structures and tax avoidance, several areas remain unexplored that could offer deeper understanding and enhance the generalizability of the findings. Future research could build upon the results of this study by addressing the following key avenues of investigation:

1. Examining the Impact of Ownership Concentration on Tax Avoidance:
While this study focused on different types of ownership, future research could explore the effect of ownership concentration—especially in firms with highly concentrated family or institutional ownership—on tax avoidance strategies. Understanding how the level of control within a firm influences tax decisions can provide deeper insights into ownership's role in corporate tax behavior. Additionally, the interplay between institutional investors and family ownership in shaping corporate tax strategies remains an under-explored area.
2. Role of Cultural and Social Norms in Tax Compliance:
This study briefly touched upon cultural values, especially in family-owned businesses, as they relate to tax avoidance. Further studies could delve deeper into how Indonesian cultural values, such as collectivism, harmony, and social responsibility, influence tax planning behaviors. A comparative study examining cross-cultural differences in tax avoidance practices could

shed light on how culture interacts with ownership structures in shaping corporate behavior, particularly in emerging economies.

3. Exploring the Impact of Corporate Governance Mechanisms:

Future research could further explore the role of corporate governance mechanisms in moderating the relationship between ownership structures and tax avoidance. Governance factors such as the presence of independent directors, audit committees, and transparency in financial reporting may significantly influence how different ownership groups engage in tax planning. Examining governance's role could provide more nuanced insights into how internal control mechanisms affect tax avoidance behavior.

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