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Analysis Of The Influence Of Family Ownership, Corporate Governance, Company Size And Gender Diversity On Tax Aggressivity Of Mining Companies In Indonesia

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Abstract:

Using corporate governance as a moderating variable, this study attempts to examine the effects of firm size, institutional ownership, family ownership, and gender diversity on tax aggression. This study uses quantitative methods. The IDX-registered mining and CPO enterprises make up the study's population. Purposive sampling was the method employed by the researcher to choose the sample gathering strategy. Through documentation and a review of the literature, the researcher gathered data for this investigation. The data analysis approach employs hypothesis testing, data quality testing, and descriptive statistics based on the goals of the research. The study's findings provide important new information about the variables influencing tax aggressiveness in the corporate setting. First, the study shows that tax aggression is highly influenced by the size of the company. Second, corporate tax aggression is significantly shaped by institutional ownership. Furthermore, it has been demonstrated that family ownership affects tax aggression. Findings, however, indicate that management decisions about tax aggressiveness are not significantly impacted by gender diversity. It's interesting to note that the effects of corporate governance differ according to the independent variables that are measured. Corporate governance cannot increase the impact of gender diversity or family ownership on tax aggression, but it also cannot increase the impact of firm size. Corporate governance, however, has the power to amplify institutional ownership. These findings provide in-depth insight into the complexity of factors that influence tax aggressiveness practices in companies and can be a basis for developing management strategies and company policies in the future.

Keywords: company size, institutional ownership, corporate governance, management, strategies.

Introduction

Individuals and entities owe a mandatory contribution to the state through taxes, which are coercive and do not provide direct compensation. The state uses these taxes to fund programs that will maximize the prosperity of the populace. Taxes are paid directly by people and organizations to the state treasury, which funds public spending. However, society also has a responsibility to contribute to the fulfillment of its roles, which it can do by engaging in governmental funding, which offers security (Anderson & Reeb, 2023). Because tax donations account for a bigger share of the State Revenue and Expenditure Budget revenue post than other sources of revenue, tax revenues in Indonesia provide a sizable portion of the funds needed to undertake development. Businesses are accountable for paying their own taxes since they are corporate taxpayers. However, taxes are one expense that can cut into a company's profits; therefore, in an effort to maximize profits, corporations aim to minimize their tax burden. Because the company's profits will decline in proportion to the amount of taxes paid. The business uses a variety of strategies to lower its tax liability, including legitimate tax avoidance that does not break any laws. A corporation that engages in tax avoidance runs the danger of facing penalties and damage to its reputation from the public. Tax avoidance is an aggressive tax strategy (Ratnawita et al., 2023).

Large companies that earn large profits will also attract the attention of the government, which will tax them accordingly. Consequently, a larger corporation will make greater efforts to evade taxes. Due to a lower effective tax rate brought on by a lighter tax burden relative to pre-tax profit, the company might become more tax-aggressive as it gets bigger. Large businesses have more space for tax planning to lower ETR, which can lead to tax aggressiveness. In order to boost market confidence and attract investment and sustainably build the country's economy, businesses must become more competitive both domestically and globally (Boussaidi & Hamed, 2020). The International Monetary Fund and the Indonesian government adopted the idea of good corporate governance (GCG) in relation to this. The degree to which a corporation complies with its tax duties is directly correlated with its corporate governance practices. Thus far, GCG has proven to be a worthwhile topic for scholars, business professionals, and legislators to keep researching. Over time, opinions on corporate governance procedures keep changing. GCG serves as a performance standard for businesses. In addition, GCG makes ensuring that company governance in the tax domain stays inside the lines of legitimate tax avoidance rather than illicit tax evasion (Nafisa et al., 2023).

Family ownership structure is one of the variables that can influence a company's aggressive actions. Smaller conflicts between owners and managers and more conflicts between majority and minority shareholders are the issues facing family businesses. Being the founder of the company and the largest shareholder might also justify aggressive tax activities, or corporate tax aggression. The percentage of shares that institutional shareholder own in each company is known as institutional ownership (Puspitasari, 2021). Foundations, banks, insurance firms, investment firms, pension funds, limited liability companies, and other institutions are examples of institutions that have institutional ownership. The substantial institutional ownership suggests that the corporation is subject to stringent external oversight. In order to protect their investment in the business, institutional owners must properly oversee and monitor management. Additionally, institutional owners understand how important it is to pay their taxes. The degree of tax aggression exhibited by family businesses versus non-family businesses is determined by the magnitude of the advantages or disadvantages resulting from aggressive taxation for founding family members of the business or for managers in non-family businesses. This occurs because it is believed that family owners would prefer to pay greater taxes than incur tax penalties and risk having their company's reputation tarnished by a tax authorities' examination. Officers of tax audits are tax authorities (Lestari, 2022).

Apart from corporate governance and ownership type, gender diversity within a company provides a valuable contribution as a source of knowledge, new ideas, and insights that can help solve various problems. Gender diversity can improve a company's strategic planning by bringing new knowledge, points of view, and diverse experiences. One of the positive impacts of gender diversity is the potential for more effective tax avoidance. When looking at the complexity of company activities, tax avoidance is a complex action, requiring consideration of the potential costs and benefits that may arise (Setiawan et al., 2023). Tax avoidance actions also face uncertainty and potential legal consequences in the future from a risk perspective. If companies are proven to have committed illegal tax evasion, they can face the risk of significant fines when dealing with the Directorate General of Taxes. Therefore, the presence of a gender perspective in company decision-making can help mitigate this risk because it can bring various holistic and responsible points of view regarding legal and ethical aspects of company strategy. Thus, gender diversity can be considered a valuable asset in facing the complexity of tax avoidance and its risks in the business environment (Ardiyanto, 2020).

Literature Review

Tax aggressiveness is the planning involved in efforts to reduce the effective tax rate. Even though this action aims to minimize corporate taxes, this is not in accordance with public opinion and is also detrimental to the government. Tax aggressiveness measures aim to minimize corporate taxes. Since tax aggression harms the government and is out of step with community expectations, it is currently causing concern among the public. The ultimate level on a spectrum of tax planning practices is tax aggressiveness (Achmad et al., 2022). Companies engage in tax aggressiveness because they desire to maximize their firm value through tax planning strategies that reduce their tax burden. Businesses can reduce their tax requirements in a number of ways, such as by complying with tax laws through tax avoidance or by breaking the law through tax evasion tactics meant to lower their tax liability. A firm's size can be determined by looking at its total assets, market capitalization, share market value, and other metrics. This is known as company size. The size of a corporation is a direct indicator of its level of operational activity. The activity increases with the size of the company. The business's high activity level and income tax payments are connected (Sidanti, 2020).

Company ownership structures are grouped into two categories: distributed ownership structures and concentrated ownership structures. A distributed ownership structure occurs when outsider equity is owned by many investors, and each investor has a relatively small equity value. On the other hand, under a concentrated ownership structure, a small number of people or groups own the majority of the shares, giving them a comparatively dominant number of shares in relation to other shareholders. Through cross-ownership, pyramid ownership structures, and their involvement in the business, majority shareholders can enhance their ownership stake. The ability of the majority shareholders to control the company increases with ownership. This study's ownership structure highlights how concentrated share ownership is (Lestari & Rachmayanda, 2022). The percentage of ownership concentration in the family ownership type and the institutional ownership type will be the two perspectives from which this research will analyze the ownership structure. Different ownership types may result in different tax behaviors and better outcomes. A family business is one in which the ownership, senior management, and board of directors all exercise their influence over the organization and strategy of the company. Moreover, the performance of the business and management choices are positively impacted by the founding family's presence. Based on rules, laws, and moral principles, corporate governance is a process and framework that business organs use to improve business performance and accountability in order to realize shareholder value over the long run while also taking other stakeholders' interests into consideration (Rachmayanda & Lestari, 2022).

Methodology

This research adopts a quantitative approach with a focus on CPOs listed on the Indonesia Stock Exchange (BEI). The population in this study includes all these business entities, providing a rich investigative source for understanding the dynamics of this sector. A sample of 100 was selected through a purposive sampling technique, ensuring relevant representation and being in accordance with the research objectives. Data collection methods consist of documentation and literature study, utilizing historical information and related literature as the basis for research. We carried out data analysis using descriptive statistical methods, data quality testing, and hypothesis testing. We chose a quantitative approach to provide a comprehensive picture, measure variability, and evaluate relationships between variables. It is hoped that the results of this research will not only contribute to the general understanding of the sector but also provide valuable insight for decision-makers and those involved in the industry. This research aims to open up space for further research and the development of more effective strategies in the dynamic world of CPO business in Indonesia.

Case studies

The study's findings suggest that the t-value for the company size variable is -3.2. The findings support hypothesis 1, showing that the firm size variable has a substantial impact on tax aggression. Put another way, a company's propensity to engage in tax-aggressive behavior increases with its size. This result is in line with other studies that show a clear relationship between a company's size and its overall sales or assets. Enhanced revenue generation has the potential to positively influence a company's earnings, subsequently influencing the tax liability of the enterprise. In the meantime, a company's assets are seen as a measure of its size; nevertheless, annual depreciation can lower net profit and, consequently, lower tax obligations. Moreover, the intricacy of the transactions within a firm increases with its size. This intricacy may turn into a gap that the management of the company uses to pursue aggressive tax strategies. As a result, the study's findings significantly advance our knowledge of the connection between business size and tax aggressiveness, which in turn strengthens the basis for managerial decision-making.

Meanwhile, the lack of influence of company size on aggressive tax actions could be due to the fact that the phenomenon of aggressive tax actions is not only possible for large companies to carry out; even medium to small companies are able to carry them out, so that large or small company size does not have an impact on tax aggressive actions. The study's findings are consistent with the agency hypothesis, which holds that the owner and agent management have an agreement. The owner gives management the authority to run the company in order to achieve the desired targets. However, because management has the authority from the owner to run the company, management understands more about the internal affairs and events that occur within the company. Information asymmetry occurs when management does not fully report all events that occur and tends to act only for personal gain. Therefore, the owner needs agency costs to monitor and control management activities so that they continue to run as expected by the owner.

According to study findings, the institutional ownership variable has a t-value of 2.3. As a result, it is determined that the institutional ownership variable has an effect on tax aggression, supporting hypothesis 2. The study's findings support earlier studies that found a relationship between institutional ownership and tax aggression. A company's tax burden increases with its level of institutional ownership. This is due to the decreased likelihood of tax-aggressive activities by institutions-owned businesses. Due to their substantial voting rights, institutional owners have the power to compel management to prioritize financial performance over chances for self-serving behavior. Organizations that keep a close eye on investment trends have considerable control over management decisions, which discourages aggression. The presence of institutional owners suggests the management of the company is under pressure to impose aggressive taxation in order to maximize earnings. The study's findings support the agency hypothesis, which holds that the institutional owner acts as the principal and grants management the power to operate the business as an agent and produce financial reports that are both objective and true to the situation. Institutional owners can monitor management activities professionally so that they can run as expected by the institutional owner and avoid activities that can benefit management itself, one of which is tax aggressiveness.

The research results show that the institutional ownership variable has a t-value of 2.4. The impact of the family ownership variable on tax aggression is confirmed by the acceptance of Hypothesis 3. The present study's findings are consistent with other studies indicating that family-owned businesses are more inclined to use aggressive tax strategies. By doing this, businesses can reduce their tax liabilities and have more cash on hand for more lucrative ventures. Family businesses believe that tax benefits outweigh any possible hazards associated with aggressive taxation. The study's findings are consistent with agency theory; however, in this instance, family ownership suggests that the business has a concentrated form of ownership, with the family owning a greater percentage of the company than non-family owners, the family acting as the company's majority and controlling shareholder while the non-family is its minority shareholder and lacks control. Therefore, the conflict that occurs in agency theory in this case occurs between controlling and non-controlling shareholders.

According to study findings, the institutional ownership variable has a t-value of -1.4. The findings disprove hypothesis 4, demonstrating that tax aggression is unaffected by the gender diversity variable. The findings of this study refute earlier findings that suggest having more women on a board of directors can lower aggressive tax rates.

Prior studies indicate that the inclusion of female directors, who are thought to be more circumspect in their actions and decision-making, can help establish and uphold ethical standards, support financial oversight, and apply more stringent tax strategies, all of which will eventually lead to a reduction in tax aggressiveness. The findings of this study, however, are consistent with prior research showing that gender diversity on the board of directors has little influence on tax planning as determined by ETR. The research results had no effect due to the low percentage of female directors. Male directors dominate tax planning, making it difficult for differences in opinion, knowledge, and experience to minimize company taxes. In the research, men were considered more skilled at minimizing company taxes and using tax strategies. These results challenge feminist theory, which posits gender equality, by revealing a significant underrepresentation of female directors compared to their male counterparts in this investigation.

The research results show that the interaction variable between corporate governance and company size has a t-value of 0.6. The findings disprove hypothesis 5, demonstrating that factors related to corporate governance are unable to bolster the association between tax aggression and firm size. Good corporate governance cannot make the association between firm size and tax aggression stronger; rather, it can only mitigate the relationship between aggressive tax measures and company size. This study contradicts earlier research that suggests corporate governance can mitigate the association between tax aggression and firm size. In the meantime, the findings of this study corroborate those of prior studies that found corporate governance was ineffective in reducing the association between tax aggression and firm size. Moreover, as businesses expand, their transactions get more complicated, which raises the possibility that illegal activity will occur in the spaces between these complex transactions. The lack of background knowledge and complexity within the company means that independent commissioners, who are a sign of excellent corporate governance in this study, are not conversant with the intricacies involved in looking at tax-agency actions that are carried out by company management. As a result, corporate governance is unable to increase the impact of firm size on tax aggression.

The study's findings indicate that there is a 2.2 t-value for the interaction variable between institutional ownership and corporate governance. The acceptance of hypothesis 6 demonstrates that factors related to company governance reinforce the connection between institutional ownership and aggressive taxation. The study's findings indicate that corporate governance has the potential to both boost and reduce the association between institutional ownership and tax aggression. Moreover, earlier studies revealed that tax aggressiveness might be influenced by business governance. According to this research, a corporation with a high number of independent parties is more likely to engage in regulatory-compliant operations since the independent parties are unable to interfere. Corporate governance is mediated by independent commissioners. in terms of making choices. Corporate governance can help institutional ownership maintain its position of power by keeping an eye on or regulating every move made by management and preventing activities that serve the interests of management alone, such as tax avoidance. Consequently, corporate governance has the potential to amplify the impact of institutional ownership on tax aggression. By having institutions as company owners, institutional ownership, and independent commissioners work together, this can reduce agency costs that can be borne by the company to control management activities.

The research results show that the interaction variable between corporate governance and family ownership has a t-value of 1.6. It is evident from the t-value of 1.6 that hypothesis 7 is rejected, indicating that the company governance variable is unable to bolster the association between tax aggressiveness and family ownership. The study's findings indicate that company governance is unable to mitigate the link between tax aggressiveness and family ownership. This suggests that family ownership's influence on tax aggression cannot be amplified by sound business governance. Family-owned businesses work harder to engage in tax-aggressive practices so they can keep more cash on hand and use it for more lucrative ventures. As a result, independent commissioners are less acquainted with the assertive actions that the management of the company is engaging in. The competence and integrity of the commissioner are not taken into consideration when assigning independent commissioner seats. Usually, this placing is done merely as a thank you or tribute. Furthermore, the insufficient understanding of the company's main business by the independent board of commissioners impedes the most effective oversight of its operations. Based on the descriptive statistical analysis in this research, on average, mining and CPO companies have a proportion of independent commissioners of 37%, which indicates that these companies are simply complying with existing regulatory requirements.

The study's findings indicate that there is a 1.2 t-value for the interaction variable between gender diversity and corporate governance. Because of this, hypothesis 8 is disproved, demonstrating that tax aggressiveness is unaffected by the company size variable. Based on the research findings, it can be concluded that corporate governance has no effect on moderating the relationship between tax aggression and gender diversity, or even strengthening it. Since there are not as many female directors as male directors in a corporation, their presence cannot have a major impact on every decision made by management. If linked to the theory of feminism in this research, namely the theory of gender equality between men and women, then this theory suggests that a company should not prioritize men over women when appointing commissioners and directors.

Conclusion

The study's findings provide some important insights into the variables influencing a company's tax aggression. First, when larger businesses engage in more complicated transactions that present potential for aggressive action, the research findings show that firm size strongly influences tax aggressiveness. Second, the degree of tax aggression is also significantly influenced by institutional ownership. Businesses whose institutions own the bulk of the shares typically choose for regulatory compliance, play it safe, and stop management from pursuing aggressive tax strategies. However, family ownership also represents another important factor, since family businesses typically save cash for better-performing investments, which leads to aggressive taxation. Nonetheless, the lack of a discernible impact from gender diversity may be explained by the predominance of men in the company's roles as commissioners and directors. It's interesting to note that research has shown that, although institutional ownership can be strengthened, corporate governance does not increase the impact of firm size on tax aggression. Corporate governance, however, has no effect on how gender diversity and family ownership affect tax aggression. These findings provide valuable insights for company managers and relevant regulators in improving tax compliance and maintaining integrity in corporate financial management.

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