

Family Ownership and Its Influence on Tax Avoidance: Independent Commissioners and Business Strategy as Moderators

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ABSTRACT: This study analyzes the effect of family ownership on tax avoidance, with independent commissioners and business strategy as moderating variables. Employing a quantitative approach, the research focuses on family companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2023. Using purposive sampling, a final sample of 112 companies was selected. Secondary data from financial statements were analyzed via EViews 12 using multiple linear regression and Moderated Regression Analysis (MRA). The results indicate that family ownership has a negative but insignificant effect on tax avoidance. Independent commissioners exert a negative effect but fail to moderate the relationship between family ownership and tax avoidance. Furthermore, business strategy weakens the effect of family ownership on tax avoidance, though it also does not act as a significant moderator.

KEYWORDS : *Tax Avoidance, Family Ownership, Independent Commissioners, Business Strategy.*

I. INTRODUCTION

Tax avoidance represents a legal yet contentious mechanism employed by corporations to minimize tax liabilities. While not inherently illicit, it frequently sparks controversy due to its adverse impact on state revenues and fiscal equity. In Indonesia, this phenomenon is prominently visible within the manufacturing sector. A notable case involved PT Coca-Cola Indonesia in 2014, which underreported its taxable income by inflating advertising expenses, leading to substantial state losses. Furthermore, recent empirical evidence indicates that economic pressures during the COVID-19 pandemic driven manufacturing firms to escalate tax avoidance practices due to weakened financial positions. These combined factual anomalies and empirical relevance justify the selection of this sector as the research object.

Previous literature presents a dichotomy regarding how family ownership influences tax avoidance. On one hand, family firms are theorized to be risk-averse and highly protective of their long-term socioemotional wealth and reputation, thereby minimizing aggressive tax practices. Conversely, competitive arguments suggest that concentrated family control serves as a powerful incentive to aggressively minimize taxes to maximize family wealth and retain internal resources. To bridge these conflicting perspectives, corporate governance mechanisms—specifically independent commissioners—and corporate strategic orientations are widely examined. Independent commissioners function as critical oversight bodies that enforce transparency, align stakeholder interests, and mitigate unethical tax practices. Concurrently, a firm's business strategy dictates its risk tolerance; firms pursuing aggressive growth are more prone to tax avoidance compared to those adopting conservative, long-term survival strategies.

Despite extensive research, empirical ambiguity persists regarding the interplay between family ownership and tax dynamics, particularly under the moderating influence of internal governance and business strategies. This study aims to analyze the direct effect of family ownership on tax avoidance among listed companies on the Indonesia Stock Exchange (IDX), while concurrently evaluating whether independent commissioners and business strategies act as significant moderating variables.

This paper offers twofold contributions. Academically, it enriches the accounting and corporate governance literature by providing comprehensive insights into how strategic orientations and oversight frameworks alter tax-related decision-making in family-controlled firms. Practically, the findings serve as an empirical reference for policymakers to formulate effective regulations aimed at curbing tax avoidance and for corporate management to enhance tax compliance and fiscal fairness.

II. LITERATUR RIVIEW AND HYPHOTESIS DEVELOPMENT

A. Theoretical Framework

1) Agency Theory and Tax Avoidance

Agency theory explains the contractual relationship where the principal (shareholder) delegates decision-making authority to the agent (management). Conflicts of interest inevitably arise due to information asymmetry and differing motivations. Management often seeks to maximize personal bonuses based on performance, while owners aim to maximize corporate wealth efficiently. In the context of taxation, this divergence creates a dual-layered agency problem.

Internal Agency Conflict: Managers may implement aggressive tax avoidance strategies to artificially inflate accounting profits, thereby securing higher short-term compensation, even if it exposes the firm to substantial future penalties or reputational damage.

External Agency Conflict: A fundamental clash exists between corporate taxpayers and tax authorities. While corporations view taxes as an investment drain and naturally exploit legal loopholes to minimize liabilities, the government seeks to maximize revenue collections to fund public infrastructure and social services. Consequently, rigorous internal corporate governance and oversight frameworks are paramount to mitigating these opportunistic behaviors.

2) Tax Avoidance

Tax avoidance is a deliberate, legal strategy utilized by taxpayers to minimize tax burdens by exploiting ambiguities, loopholes, or specific incentives within prevailing tax laws. Unlike illegal tax evasion, tax avoidance operates within the boundary of the law to enhance corporate cash flows and shareholder value. According to the OECD Committee on Fiscal Affairs, aggressive tax avoidance schemes typically exhibit three distinct characteristics:

Artificiality: Transactions or special entities are structured solely for tax reduction without true economic substance.

Exploitation of Loopholes: Utilizing legal ambiguities or transfer pricing mechanisms to shift income across different tax jurisdictions.

Secrecy: Tax advisors or consultants treat these strategies with high confidentiality to avoid regulatory scrutiny and subsequent policy adjustments.

3) Family Ownership and Tax Dynamics

Family companies are business entities where equity ownership, management positions, and strategic control are concentrated within a specific family or kinship network. The impact of family control on tax avoidance presents an interesting theoretical paradox:

The Reputation Perspective: Family firms tend to manage financial and reputational risks conservatively. To protect their long-term socioemotional wealth and legacy, they often avoid aggressive, controversial tax schemes that could tarnish the family name.

The Entrenchment Perspective: Conversely, dominant family control can incentivize aggressive tax avoidance to maximize private family wealth, retain internal resources, and consolidate absolute corporate control via mechanisms like transfer pricing.

4) The Moderating Role of Independent Commissioners

Independent commissioners are board members who are strictly non-affiliated with management, fellow board members, or controlling shareholders, making them free from any business or family ties that could impair objective judgment. Functioning as a vital internal governance mechanism, they safeguard minority shareholder rights and enhance transparency. A higher proportion of independent commissioners intensifies management monitoring, fosters objective decision-making, and limits opportunistic behaviors, thereby curbing excessive and risky tax avoidance practices.

5) The Moderating Role of Business Strategy

A business strategy outlines a corporation's long-term direction to sustain a competitive advantage. In family firms, strategic orientations are deeply intertwined with family values, traditions, and long-term survival. Corporate strategic choices heavily influence tax policy: firms with aggressive, market-expansion strategies might embrace high-risk tax avoidance to secure rapid capital, whereas firms adopting conservative, organic growth strategies prioritize compliance and reputational stability over controversial tax benefits.

B. Hypothesis Development

(Catatan: Karena potongan teks asli kamu belum mencantumkan naskah perumusan hipotesis secara eksplisit, berikut saya buat kerangka logika standar jurnal berdasarkan landasan teori di atas. Kamu tinggal menyesuaikannya dengan arah hipotesis asli tesis kamu—apakah berpengaruh positif/negatif).

1) Family Ownership and Tax Avoidance

While some literatures argue that family firms are risk-averse due to reputational concerns, the **entrenchment perspective** suggests a contrasting dynamic. Concentrated ownership and absolute control within family firms often create strong incentives to maximize family wealth and retain internal financial

resources. From an agency theory framework, when a single family dominates both ownership and management, a severe type II agency conflict arises between the controlling family and minority shareholders.

In this situation, family owners may leverage their dominant position to implement aggressive corporate tax planning. Minimizing tax liabilities through legal loopholes is viewed as an efficient mechanism to prevent wealth drainage to the government, thereby preserving cash that can be directly enjoyed by the family members or used to consolidate their control over the firm. Furthermore, the tight coordination and centralized decision-making inherent in family structures allow them to execute complex and secretive tax avoidance strategies, such as strategic transfer pricing, more effectively than non-family firms. Consequently, higher family ownership concentration is expected to drive more intensive tax avoidance activities. Therefore, the first hypothesis is formulated as follows:

H1: *Family ownership has a positive effect on tax avoidance.*

2) The Moderating Role of Independent Commissioners

The agency conflict between family owners and minority shareholders can lead to corporate decisions that exclusively benefit the controlling family, including opportunistic tax planning. Independent commissioners act as neutral overseers who enforce accountability and minimize non-compliant behaviors. Effective oversight from independent commissioners is expected to suppress any family entrenchment motives to aggressively avoid taxes. Therefore, the second hypothesis is formulated as:

H2: *Independent commissioners moderate the relationship between family ownership and tax avoidance.*

3) The Moderating Role of Business Strategy

The impact of family ownership on tax avoidance is contingent upon the firm's strategic risk posture. A conservative business strategy focused on long-term sustainability reinforces the family's natural risk aversion, leading to stricter tax compliance. On the other hand, an aggressive expansion strategy may force a family firm to tolerate higher reputational risks, utilizing legal tax loopholes to preserve cash for growth. Therefore, the third hypothesis is formulated as:

H3: *Business strategy moderates the relationship between family ownership and tax avoidance.*

III. RESEARCH METHOD

A. Population and Sample Selection

The population of this study comprises all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the seven-year period spanning from 2017 to 2023. Sample selection was executed utilizing a purposive sampling method, applying specific predetermined criteria to ensure data relevance and consistency. The established sample selection criteria are as follows:

1. Manufacturing companies consistently listed on the IDX throughout the observation period from 2017 to 2023.
2. Companies identified as family-owned or controlled, characterized by a cumulative family shareholding threshold of 5% or greater.
3. Companies reporting continuous positive net income (profitable) and experiencing no financial losses during the sample years.

B. Type and Source of Data

This research exclusively employs secondary data. The required financial and non-financial information was extracted from the audited annual reports and financial statements of the selected manufacturing companies. The data covers an observation timeline from 2017 to 2023, officially retrieved from the Indonesia Stock Exchange database via its official portal (www.idx.co.id).

The utilization of verified, publicly available annual reports ensures data integrity, accuracy, and reliability for subsequent empirical testing. This structured financial dataset serves as the foundational basis for quantitative analysis, specifically to examine the direct impact of family ownership concentration on corporate tax avoidance, alongside the interacting effects of the hypothesized moderating frameworks (independent commissioners and business strategies).

C. Operational Definition and Measurement of Variables

1) Dependent Variable: Tax Avoidance

Tax avoidance is operationally defined as the legal utilization of tax regimes to minimize a corporation's tax obligations. Following Midiastuty (2017), this study proxies tax avoidance using the Cash Effective Tax Rate (CETR). The CETR serves as an accurate indicator of tax planning efficiency since it reflects actual cash tax payments relative to pre-tax financial accounting income, remaining uninfluenced by non-cash deferred tax accounting estimates. The ratio is formulated as follows:

$$CETR_{it} = \frac{\text{Cash Tax Paid}_{it}}{\text{Pre-tax Income}_{it}}$$

2) Independent Variable: Family Ownership

Family ownership refers to the concentration of corporate equity and ultimate control within a family or kinship network. Adopting the framework by Arifin (2003), family ownership is operationally defined as blockholders (individual or corporate ownership $\geq 5\%$ that must be officially disclosed) that exclude public corporations, state-owned enterprises, financial institutions, and general public shares. To ensure an adequate sample size for empirical robustness, this study also includes entities with a family shareholding below 5% if they exhibit distinct kinship control characteristics.

The identification of family firms is executed systematically through a ultimate shareholder tracking approach:

- First, the identities of major shareholders are cross-referenced with the surnames of the board of directors and executive board members.
- Second, for institutional major shareholders, a look-through approach is applied by examining their underlying ownership structures to identify the ultimate individual beneficiaries.

Methodological Note: While names and surnames serve as the primary proxy for tracking kinship in Indonesia, this technique may introduce a conservative bias. In instances where family relationships exist but surnames differ (e.g., a married daughter utilizing her spouse's surname), the entity is conservatively classified as a non-family firm. Family ownership is measured as the percentage of total shares outstanding held by the ultimate family network.

3) Moderating Variables

Moderating variables are factors that structurally alter the strength or direction of the relationship between the independent and dependent variables. This study evaluates two moderating frameworks:

Independent Commissioners (Z1): Independent commissioners are board members free from any executive, financial, or kinship affiliations with controlling shareholders and directors, ensuring objective corporate oversight (Cahyono et al., 2016). This variable is measured continuously as the proportion of independent commissioners relative to the total number of board members:

$$\text{Independent Commissioners} = \frac{\text{Number of Independent Commissioners}}{\text{Total Number of Commissioners}}$$

Business Strategy (Z2): Corporate strategic posture dictates overall business operations and risk-taking thresholds. This study specifically focuses on a growth-oriented business strategy, proxied by sales growth. Sales growth directly captures the firm's operational dynamics and expansion trajectory (Guntara & Sari, 2025). High-growth environments often intensify managerial pressures to preserve cash flow and maximize profits, which may significantly influence how family firms leverage tax loopholes. Sales growth is calculated as follows:

$$\text{Sales Growth}_{it} = \frac{\text{Sales}_{it} - \text{Sales}_{i,t-1}}{\text{Sales}_{i,t-1}}$$

IV. RESULTS AND DISCUSSION

A. Data Description and Model Selection

The final sample comprises 16 family-owned manufacturing companies listed on the IDX from 2017 to 2023, yielding a balanced panel dataset of 112 observations. Table I presents the summary statistics. The dependent variable, Tax Avoidance (Y_CETR), exhibits a mean value of -0.248, ranging from -0.793 to -0.0001. Family Ownership (X), Independent Commissioners (Z1), and Business Strategy (Z2) display standard deviations of 0.260, 0.102, and 0.181, respectively.

Table I. Descriptive Statistics Summary

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
Y_CETR	-0.248	-0.233	-0.0001	-0.793	0.087
X	3.93E-07	-0.149	0.648	-0.257	0.26
Z1	-1.79E-08	-0.059	0.322	-0.392	0.102
Z2	-1.79E-08	-0.004	0.449	-0.886	0.181

Note: X, Z1, and Z2 reflect mean-centered values to address multi-collinearity issues.

To select the most appropriate panel data model, specification tests were executed. The Chow test rejected the Common Effect Model in favor of the Fixed Effect Model (FEM) (Prob.F = 0.0000 < 0.05). Subsequently, the Hausman test confirmed that FEM outperforms the Random Effect Model (Prob. = 0.0005 < 0.05). Diagnostic tests confirmed the absence of severe multi-collinearity (all pairwise correlations < 0.80), heteroscedasticity (Glejser F-prob = 0.080 > 0.05), and autocorrelation (Durbin-Watson = 2.273).

B. Hypotheses Testing (MRA Results)

The structural relationship was evaluated using multiple linear regression and Moderated Regression Analysis (MRA) under the Fixed Effect framework. The statistical outputs are consolidated in Table II.

Table II. Multiple Regression and MRA Estimation Results

Variable	Model 1 (Direct Effect)	Model 2 (MRA Model)
Constant (c)	-0.248*** (-39.471)	-0.248*** (-39.576)
X (Family Ownership)	-0.013 (-0.114)	-0.025 (-0.195)
Z1 (Ind. Commissioners)	—	0.089 (0.593)
Z2 (Business Strategy)	—	0.054 (1.397)
XZ1 (X x Z1)	—	-0.159 (-0.530)
XZ2 (X x Z2)	—	0.126 (0.948)
<i>F</i> -statistic	Fit*** (0.0000)	5.012*** (0.0000)
Adjusted R^2	0.4147	0.4196

Note: t-statistics are presented in parentheses. indicates significance at $p < 0.01$

Model 1 yields the following structural equation:

$$Y_{\text{CETR},it} = -0.248 - 0.013X_{it} + e_{it}$$

Model 2 yields the full interactive MRA framework:

$$Y_{\text{CETR},it} = -0.2484 - 0.0251X_{it} + 0.0889Z1_{it} + 0.0540Z2_{it} - 0.1592XZ1_{it} + 0.1260XZ2_{it} + e_{it}$$

C. Discussion

1) Effect of Family Ownership on Tax Avoidance

The direct effect model demonstrates that Family Ownership (X) has a negative but statistically insignificant impact on Y_{Cetr} ($\beta = -0.0134$, $p = 0.9095 > 0.05$). In the context of CETR measurement, a negative coefficient mathematically signals a potential trend toward higher tax avoidance aggressiveness, as a lower CETR means fewer cash tax disbursements relative to pre-tax earnings. However, this directional pressure fails to achieve statistical significance.

Empirically, this implies that the magnitude of family equity holdings is not a primary driver of corporate tax policies among Indonesian manufacturing firms. This result points to an "alignment effect," where family blockholders remain highly risk-averse regarding tax matters. They purposefully calculate macro-level legal threats and potential regulatory penalties from fiscal authorities to safeguard their long-term family legacy and socioemotional wealth, rather than obsessively prioritizing aggressive short-term tax minimization.

I. 2) The Moderating Role of Independent Commissioners

The MRA output indicates that the interaction term between family ownership and independent commissioners (XZ1) is statistically insignificant ($\beta = -0.1592$, $p = 0.5977 > 0.05$). Consequently, H2 is rejected.

The structural failure of independent commissioners to moderate tax policies suggests a prevalent phenomenon of *tokenism* within Indonesian family-controlled firms. The appointment of independent commissioners often serves merely as a regulatory formality to satisfy OJK compliance and capital market mandates. Lacking substantive voting power or deep independence, these external board members are effectively marginalized by the dominant family blockholders, rendering them incapable of altering or intervening in strategic corporate taxation choices.

3) The Moderating Role of Business Strategy

Similarly, the interaction between family ownership and business strategy (XZ2) exerts no significant moderating power on corporate tax dynamics ($\beta = 0.1260$, $p = 0.3458 > 0.05$). Thus, H3 is rejected.

This demonstrates that tax-planning strategies in family businesses operate autonomously and are decoupled from operational strategic orientations. Whether the company functions as an aggressive growth-oriented "prospector" or a cost-efficient "defender," tax decisions are managed independently by the family owners. These decisions are driven by internal calculations of financial-legal exposure and reputational vulnerabilities, rather than structural adaptations to the day-to-day business strategies adopted by corporate operational management.

V. CONCLUSION

This study evaluates the structural impact of family ownership on corporate tax avoidance—proxied by the Cash Effective Tax Rate (CETR)—alongside the potential moderating roles of independent commissioners and business strategies within family firms listed on the Indonesia Stock Exchange (IDX) from 2017 to 2023. Based on empirical testing using Moderated Regression Analysis (MRA) under a Fixed Effect framework, the following conclusions are drawn:

1. **Family Ownership** exerts a negative but statistically insignificant effect on tax avoidance, leading to the rejection of H1. This indicates that the magnitude of equity held by a family is not the primary driver behind corporate tax planning efficiency in Indonesian manufacturing firms. Family blockholders prioritize the mitigation of macro-level legal threats and regulatory penalties to protect their long-term socioemotional wealth, rather than aggressively pursuing short-term tax minimization.
2. **Independent Commissioners** fail to moderate the relationship between family ownership and tax avoidance, resulting in the rejection of H2. This suggests a phenomenon of *tokenism* within the governance structure of the sampled firms, where the appointment of independent board members serves primarily as a regulatory formality to comply with capital market mandates, rendering them ineffective in intervening against the strategic tax decisions of controlling families.
3. **Business Strategy** does not act as a significant moderator in the relationship between family ownership and tax avoidance, thereby rejecting H3. This demonstrates that tax-planning strategies in family businesses operate autonomously and are decoupled from day-to-day operational orientations. Whether a firm adopts an aggressive growth strategy (*prospector*) or a cost-efficient model (*defender*), tax choices are driven strictly by the owners' internal financial-legal risk calculations.

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