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

Nurul Herawati *, Rahmawati **, Bandi Bandi **, Doddy Setiawan **

* Corresponding author, Faculty of Economics and Business, Universitas Trunojoyo Madura, Bangkalan, Indonesia; Universitas Sebelas Maret, Surakarta, Indonesia

** Faculty of Economics and Business, Universitas Sebelas Maret, Surakarta, Indonesia

Abstract

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

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

Authors’ individual contribution: Conceptualisation — N.H., R., B.B., and D.S.; Methodology — N.H.; Formal Analysis — N.H.; Writing — Original Draft — N.H.; Writing — Review & Editing — N.H., R., B.B., and D.S.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

This study aims to examine the effect of family ownership on tax aggressiveness in Indonesia. The previous study has documented various empirical evidence of tax aggressiveness in family firms. Several previous studies have found that family companies tend to use a less aggressive tax strategy than non-family companies (Chen, Chen, Cheng, & Shevlin, 2010; Moore, Suh, & Werner, 2017; Steijvers & Niskanen, 2014; Martinsen & Schønberg-Moe, 2018; Landry, Deslandes, & Fortin, 2013; Brune, Thomsen, & Watrin, 2019a; Brune, Thomsen, & Watrin, 2019b). Meanwhile, some others found that family companies were more tax aggressive (Kovermann & Wendt, 2019; Gaaya, Lakhal, & Lakhal, 2021).
The corporate governance mechanism is one of the essential mechanisms to protect investors' interests. Independent commissioners become one of the essential elements in corporate governance. Several previous research found mixed results regarding the effectiveness of an independent board (equivalent to a board of commissioners in Indonesia) and tax aggressiveness in some developed countries (Landry et al., 2013; Steijvers & Niskanen, 2014; empowerment of commissioners to consider tax planning manoeuvres in public communication. Therefore, a mechanism is needed to protect investors' interests in the financial and corporate governance structures (La Porta, López-de-Silanes, Shleifer, & Vishny, 2000).

In Indonesia, Yuniarwati, Ardana, Dewi, and Lin (2017) and Purba (2019) found that independent commissioners did not influence tax aggressiveness. In family companies, the election for board members usually comes from a narrow set of candidates that includes family members (Anderson & Reeb, 2003). The commissioners' determination in a family company is controlled by the family owner, where the commissioner's position is entrusted with respect or loyalty and not based on competence and professionalism (Pradita & Utama, 2020). As explained by the socio-emotional wealth theory (hereinafter, SEW), the commissioners in a family company function to monitor the performance of family directors so that the business vision is achieved (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). Therefore, a party is needed to protect the interests of minority shareholders, i.e., independent commissioners (Anderson & Reeb, 2004). This study further examines the effect of family ownership on tax aggressiveness by adding an independent commissioner as a moderating variable.

Previous studies (Chen et al., 2010; Steijvers & Niskanen, 2014; Gaaya et al., 2019; Yu, 2009; Kovermann & Wendt, 2019; Astuti, Rahmawati, Aryani, & Setiawan, 2019) used agency theory in analyzing the relationship between family ownership and tax aggressiveness. Agency theory explains that family owners can adjust the tax strategy according to their preferences. Agency theory explains that family firms are more likely to be tax aggressive than non-family firms if the benefits of tax aggressiveness are higher for family owners than for other firm owners (Kalm & Gomez-Mejia, 2016). Likewise, when it comes to tax aggressiveness, it is the family company that bears the higher costs of tax aggressiveness. However, the results predicted by agency theory are not always in line with existing empirical evidence, which finds that family firms are less tax aggressive than non-family firms (Chen et al., 2010; Landry et al., 2013; Steijvers & Niskanen, 2014; Mafrolla & D'Amico, 2016; Moore et al., 2017; Martinson & Schönberg-Moe, 2018; Bauweraerts, Vandenvoot, & Buchet, 2019; Brune et al., 2019a, 2019b). Meanwhile, others found family firms to be more tax aggressive (López-González, Martínez-Ferrero, & García-Meca, 2019; Kovermann & Wendt, 2019; Gaaya et al., 2019; Yu, 2009). This implies that family firms do not only consider economic factors in deciding their corporate tax strategy. With an Indonesian setting, Astuti et al. (2019) found that family firms have a negative effect on tax aggressiveness using agency theory. Considering the economic benefits and costs, the Indonesian setting provides a high opportunity to get greater benefits from companies' tax aggressiveness activities. However, Astuti et al.'s (2019) findings show that family firms are not tax-aggressive. This implies there are other considerations in family companies. Westhead and Cowling (1997) argue that it is unrealistic to assume that profit maximization is the primary goal of a family business. Therefore, this study uses the theory of SEW. Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes (2007) show that SEW is a non-financial aspect of the company that fulfills the affective needs of the family, such as identity, ability to exercise family influence, and the continuity of the family business. This SEW is an essential factor in managerial decisions, such as the risk-taking in family firms.

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

Second, this investigation extends previous research by adding independent commissioners as a moderating variable to examine corporate tax aggressiveness and family ownership. A previous study investigated the effect of independent commissioners on the practice of companies' tax aggressiveness (Lanis & Richardson, 2011; Armstrong et al., 2013; Minnick & Noga, 2010; Yuniarwati et al., 2017; Purba, 2019). Independent commissioners are considered as one of the important governance features that might moderate the relationship between family ownership and tax aggressiveness. In addition, independent commissioners have an essential role in overcoming problems generated by conflicts of interest between companies and their shareholders (Richardson, Taylor, & Lanis, 2013).
The samples of this study are the manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2015. Based on the estimated generalized least squares (GLS) regression model, this study finds that family firms in Indonesia are less interested in tax aggressiveness. This finding is in line with SEW theory, which also proves in this study that independent commissioners effectively reduce tax aggressiveness by family firms.

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

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Tax aggressiveness

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

There are at least three advantages derived from aggressive tax activities, both for the owners or shareholders and managers (Chen et al., 2010) including: 1) The existence of tax savings paid by companies to the state, so owners or shareholders get a bigger portion. 2) There is a bonus or compensation that the owner or shareholder may give to the manager for the aggressive tax action and becomes an advantage for the owner or shareholder. 3) There is an opportunity for managers to carry out rent extraction. Rent extraction was action from the manager not to maximize the owner's interests but for personal gain. This action can be in the form of preparing aggressive financial statements or doing transactions with particular parties.

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

Some of the ways in which companies can plan taxes (or become tax aggressive), are as follows 1) taking advantage of the rules; 2) when making a transaction, make sure that every opportunity is done in order to minimize tax is taken; 3) take advantage of variations in the definition of taxable income or debt versus equity based on different tax regimes; 4) when operating in a regime where the tax law is uncertain or open to interpretation, take the more favourable tax position; and 5) the transaction structure in which the current values are clean due to tax savings (Blouin, 2014).

2.2. Tax aggressiveness and family companies in Indonesia

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

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

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

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

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

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

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

2.4. Family ownership and tax aggressiveness

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

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

2.5. Independent commissioner, family ownership, and tax aggressiveness

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

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

3. RESEARCH METHODOLOGY

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

1. The company uses the rupiah ( IDR) or other currency that states the value equivalent to IDR.
2. Companies that experience losses are excluded from the sample. This is because Law No. 36 of 2008 concerning income tax, article 6, paragraph 2, states that if a loss is found, the loss can be compensated with income starting from the following year in a row up to five years (fiscal loss compensation). Therefore, companies that experience losses are not subject to income tax.
3. The company has an effective tax rate (hereinafter, ETR) with a range of 0–1 (Gul, Khedmati, & Shams, 2020; Kerr, Price, & Roman, 2016; Gupta & Newberry, 1997). The final sample of the study was 220 observations (44 companies, five years). The research sample selection process can be seen in Table 1.
The tax aggressiveness variable (TAXAGG), ETR, is the dependent variable. ETR is the total tax burden divided by profit before tax (Chen et al., 2010; Lanis & Richardson, 2012; Chyz, Leung, Li, & Rui, 2013; Gaaya et al., 2019; Bauweraerts et al., 2019; Astuti et al., 2019). The independent variable of this study is the family ownership variable (FAMILY). Family ownership is measured using the proportion of the family ownership variable (Chen et al., 2010). The proportion of family ownership is the ownership of individuals and companies where at least > 5% of the ownership must be recorded (Astuti et al., 2019; Arifin, 2003).

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

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

This study uses the regression model used by Frucot and Shearon (1991) to test the effect of moderation, i.e., the absolute difference value model of the independent variable, with the following regression formula:

$$\text{TAXAGG}_{it} = \beta_0 + \beta_1 \text{FAMILY}_{it} + \beta_2 \text{INDCOM}_{it} + \beta_3 (\text{FAMILY} - \text{INDCOM})_{it} + \beta_4 \text{ROA}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{SIZE}_{it} + \epsilon_{it}$$

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

4. RESULTS

4.1. Descriptive statistics

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

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

| Variable | Observations | Mean | Median | Std. Dev. | Minimum | Maximum |
|----------|--------------|------|--------|-----------|---------|---------|
| ETR      | 220          | 0.297599 | 0.24117 | 0.357894 | 0.024862 | 0.931611 |
| FAMILY   | 220          | 0.407593 | 0.363063 | 0.117500 | 0.166607 | 0.931611 |
| INDCOM   | 220          | 0.407593 | 0.363063 | 0.117500 | 0.166607 | 0.931611 |
| ROA      | 220          | 0.418047 | 0.124143 | 24.84431 | 9.01E-06 | 174.9969 |
| LEV      | 220          | 12.23698 | 0.405240 | 61.67084 | 4.21E-07 | 445.2570 |
| SIZE     | 220          | 23.55395 | 26.33869 | 1.134530 | 11.34129 | 30.24816 |

4.2. Hypothesis testing

This section presents the relationship between the variable FAMILY on our dependent variables, i.e., TAXAGG and INDCOM on the relationship of FAMILY to TAXAGG. We provide empirical results in Table 3. We found that the FAMILY coefficient is -8.945921, significant at the 5% level. These results conclude that our first hypothesis (H1) is confirmed.
Table 3. The regression results of the moderating variable for independent commissioners

| Variable         | Predict. Sign | TAXAGG Coefficient | P-value |
|------------------|---------------|---------------------|---------|
| FAMILY           | -             | -8.945921           | 0.034** |
| INDCOM           | +             | 1.762555            | 0.244   |
| FAMILY – INDCOM  | +             | 5.918043            | 0.038** |
| ROA              | -             | -0.4619215          | 0.000***|
| SIZE             | -             | 0.0668263           | 0.404   |
| Constant         |               | 1.75.6457           | 0.000   |

R-squared 0.1885

| Variable | TAXAGG Coefficient | P-value |
|----------|--------------------|---------|
| Within   | 0.1333             |         |
| Between  | 0.2612             |         |
| Overall  | 0.1885             |         |
| Observations | 220                 |         |

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

The H1 test shows that family ownership has a negative effect on tax aggressiveness. The greater the proportion of family ownership, the lower the tax aggressiveness. These findings support previous studies of Chen et al. (2010), Martinsen and Schonberg-Moe (2018), Moore et al. (2017), Bauweraerts et al. (2019), Setiawan et al. (2019), Kovermann and Weng (2019), Gaaya et al. (2019), Yud (2009), in which family companies have more tax aggressiveness. These results indicate that the company's earnings management. Meanwhile, the effectiveness of the independent commissioners in Indonesia in carrying out their supervision type is different, i.e., earnings management.

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

6. CONCLUSION

This paper investigates the effect of family ownership on tax aggressiveness and the moderating role of independent commissioners on the relationship between family ownership and tax aggressiveness. We found that family firms were less tax aggressive based on 44 manufacturing companies listed on the IDX from 2011 to 2015. We further provide new evidence that the existence of independent commissioners moderates corporate tax aggressiveness in family firms. We document
that the existence of independent commissioners strengthens family firms to be less tax aggressive. We find that the function of independent commissioners in Indonesia as supervisors and advisors to directors in tax aggressiveness has been effectively implemented. Thus, our results inform business owners that independent commissioners constitute adequate supervision and monitoring regarding corporate tax strategy.

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

REFERENCES

1. Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: Evidence from the S&P 500. *Journal of Finance*, 58(3), 1301-1327. https://doi.org/10.1111/1540-6261.00567
2. Anderson, R. C., & Reeb, D. M. (2004). Board composition: Balancing family influence in S&P 500 firms. *Administrative Science Quarterly*, 49(2), 209-237. https://doi.org/10.2307/4131472
3. Ariffin, Z. (2003). *Masalah agensi dan mekanisme kontrol pada perusahaan dengan struktur kepemilikan terkonsentrasi yang dikontrol keluarga: Bukti dari perusahaan publik di Indonesia* (Disertasi Program Studi Ilmu Manajemen Pascasarjana, Fakultas Ekonomi, Universitas Indonesia).
4. Armstrong, C. S., Blouin, J. L., Jagolinzer, A. D., & Larcker, D. F. (2015). Corporate governance, incentives, and tax avoidance. *Journal of Accounting and Economics*, 60(1), 1-17. https://doi.org/10.1016/j.jacceco.2015.02.003
5. Astuti, T. P., & Aryani, Y. A. (2016). Tren penghindaran pajak perusahaan manufaktur di Indonesia yang terdaftar di BEI tahun 2001-2014. *Jurnal Akuntansi*, 20(3), 375-388. https://doi.org/10.24912/j.a.v2013.4
6. Astuti, T. P., Rahmawati, R., Aryani, Y. A., & Setiawan, D. (2019). The effect of family ownership on aggressive tax avoidance in Indonesia. *Ejurnal of Tax Research*, 1(1), 105-117. Retrieved from https://www.unsw.edu.au/business/sites/default/files/Documents/The_effect_of_family_ownership_on_aggressive_tax_avoidance_in_Indonesia.pdf
7. Atwood, T. J., Drake, M. S., Myers, J. N., & Myers, L. A. (2012). Home country tax system characteristics and corporate tax avoidance: International evidence. *The Accounting Review*, 87(6), 1831-1860. https://doi.org/10.2308/accr-50222
8. Balakrishnan, K., Blouin, J. L., & Guay, W. R. (2019). Tax aggressiveness and corporate transparency. *The Accounting Review*, 94(1), 45-69. https://doi.org/10.2308/acrr-52130
9. Baweraerts, J., Vandernoot, J., & Buchet, A. (2019). Family firm heterogeneity and tax aggressiveness: A mixed gamble approach. *Canadian Journal of Administrative Sciences*, 37(2), 149-163. https://doi.org/10.1002/cjas.1528
10. Berrone, P., Cruz, C., Gomez-Mejia, L. R., & Larraza-Kintana, M. (2010). Socioemotional wealth and corporate responses to institutional pressures: Firms pollute less? *Administrative Science Quarterly*, 55(1), 82-113. https://doi.org/10.2189/asaq.v2010i55.1.82
11. Blouin, J. (2014). Defining and measuring tax planning aggressiveness. *National Tax Journal*, 67(4), 875-899. https://doi.org/10.17130/ntj.2014.4.06
12. Brune, A., Chua, J. H., Pearson, W. A., & Barnett, T. (2012). Family involvement, family influence, and corporate tax avoidance. *Journal of Finance*, 57(1), 41-61. https://doi.org/10.1111/j.1540-6520.2009.00881.x
13. Carney, M. (2005). Corporate governance and competitive advantage in family-controlled firms. *Entrepreneurship Theory and Practice, 29*(3), 249-265. https://doi.org/10.1111/1540-6520.2005.00081.x
14. Chen, S., Chen, X., Cheng, Q., & Shevlin, T. (2010). Are family firms more tax aggressive? *Journal of Financial Economics*, 95(1), 41-61. https://doi.org/10.1016/j.jfineco.2009.02.003
15. Chrisman, J. J., Chua, J. H., Pearson, W. A., & Barnett, T. (2012). Family involvement, family influence, and family-centered non-economic goals in small firms. *Entrepreneurship: Theory and Practice*, 36(2), 267-293. https://doi.org/10.1111/j.1540-6520.2010.00407.x
16. Chyz, J. A., Leung, W. S. C., Li, O. Z., & Rui, O. M. (2013). Labor unions and tax aggressiveness. *Journal of Financial Economics*, 108(3), 675-698. https://doi.org/10.1016/j.jfineco.2013.01.012
17. Claessens, S., Djankov, S., & Lang, L. H. P. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58(1-2), 81-112. https://doi.org/10.1016/S0304-405X(00)00067-2
19. De Massis, A., Sharma, P., Chua, J. H., & Chrisman, J. J. (2012). Family business studies: An annotated bibliography. https://doi.org/10.4337/9781781002988
20. Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. Journal of Financial Economics, 79(1), 145–179. https://doi.org/10.1016/j.jfineco.2005.02.002
21. Desai, M. A., & Dharmapala, D. (2009). Corporate tax avoidance and firm value. The Review of Economics and Finance, 49(3), 537–549. https://doi.org/10.3366/2013.9.3.537
22. Frank, M. M., Lynch, J. L., & Rego, S. O. (2009). Tax reporting aggressiveness to aggressive and its relation financial reporting. The Accounting Review, 84(2), 467–496. https://doi.org/10.2308/accr.2009.84.2.467
23. Frucot, V., & Shearon, W. T. (1991). Budgetary participation, locus of control, and Mexican managerial performance and job satisfaction. Accounting Review, 66(1), 80–99. Retrieved from https://www.jstor.org/stable/247707
24. Gaaya, S., Lakhal, N., & Lakhal, F. (2019). Does family ownership reduce corporate tax avoidance? The moderating effect of audit quality. Managerial Auditing Journal, 32(7), 731–744. https://doi.org/10.1080/MAJ-02-2017-1530
25. Gómez-Mejía, L. R., Campbell, J. T., Martin, G., Hoskisson, R. E., Makri, M., & Simons, D. G. (2014). Socioemotional wealth as a mixed gamble: Revisiting family firm R&D investments with the behavioral agency model. Entrepreneurship: Theory and Practice, 38(6), 1351–1374. https://doi.org/10.1111/etap.12083
26. Gómez-Mejía, L. R., Haynes, K. T., Núñez-Nickel, M., Jacobson, K. J. L., & Moyano-Fuentes, J. (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. Administrative Science Quarterly, 52(1), 106–137. https://doi.org/10.2189/assq.52.1.106
27. Gómez-Mejía, L. R., Makri, M., & Kintana, M. L. (2010). Diversification decisions in family-controlled firms. Journal of Management Studies, 47(2), 223–252. https://doi.org/10.1111/j.1467-6486.2009.00889.x
28. Gul, F. A., Khedmati, M., & Shams, S. M. M. (2020). Managerial acquisitiveness and corporate tax avoidance. Pacific Basin Finance Journal, 64, 101056. https://doi.org/10.1016/j.pbfj.2018.08.010
29. Gupta, S., & Newberry, K. (1997). Determinants of the variability in corporate effective tax rates: Evidence from longitudinal data. Journal of Accounting and Public Policy, 16(4), 437–466. https://doi.org/10.1016/S0278-4594(00)00055-3
30. Habbershon, T. G., Williams, M., & MacMillan, I. C. (2003). A unified systems perspective of family firm performance. Journal of Business Venturing, 18(4), 451–465. https://doi.org/10.1016/S0883-9026(03)00053-3
31. Harymawan, I., Nasih, M., & Nowland, J. (2020). Top management team meetings and firm performance. Accounting Research Journal, 3(8), 691–708. https://doi.org/10.1080/ARJ-03-2020-0062
32. Kalm, M., & Gómez-Mejía, L. R. (2016). Socioemotional wealth preservation in family firms. Revista de Administración, 51(4), 409–411. https://doi.org/10.1016/j.rausps.2016.08.002
33. Kamal, M. (2008). The new Indonesian company law: Does it support good corporate governance? MgBL, 6(40), 347–366. https://doi.org/10.2139/ssrn.1215867
34. Kerr, J. N., Price, R., & Roman, F. J. (2016). The effect of corporate governance on tax avoidance: Evidence from governance reform. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association, 109, 1–50. Retrieved from https://www.jstor.org/stable/26816589
35. Kovermann, J., & Wendt, M. (2019). Tax avoidance in family firms: Evidence from large private firms. Journal of Contemporary Accounting & Economics, 15(2), 145–157. https://doi.org/10.1016/j.jcae.2019.04.003
36. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Investor protection and corporate governance. Journal of Financial Economics, 58(1–2), 211–256. https://doi.org/10.1016/S0304-405X(00)00065-9
37. Landry, S., Deslandes, M., & Fortin, A. (2013). Tax aggressiveness, corporate social responsibility, and ownership structure. Journal of Accounting, Ethics & Public Policy, 14(3), 611–645. https://doi.org/10.2139/ssrn.2304653
38. Lanis, R., & Richardson, G. (2011). The effect of board of director composition on corporate tax aggressiveness. Journal of Accounting and Public Policy, 30(1), 50–70. https://doi.org/10.1016/j.jaccpubpol.2010.09.003
39. Lanis, R., & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. Journal of Accounting and Public Policy, 31(1), 86–108. https://doi.org/10.1016/j.jaccpubpol.2011.10.006
40. Lando, D., & Weisbach, M. S. (2003). Earnings management and investor protection: An international comparison. Journal of Financial Economics, 69(3), 505–527. https://doi.org/10.1016/S0304-405X(03)00121-1
41. Lin, K. Z. (2006). The impact of tax holidays on earnings management: An empirical study of corporate reporting behavior in a developing-economy framework. International Journal of Accounting, 41(2), 163–175. https://doi.org/10.1016/j.intacc.2006.04.006
42. Lopez-Gonzalez, E., Martinez-Ferrero, J., & Garcia-Meca, E. (2019). Does corporate social responsibility affect tax avoidance? Evidence from family firms. Corporate Social Responsibility and Environmental Management, 26(4), 819–831. https://doi.org/10.1002/csr.1723
43. Maciejovsky, B., Schwarzenberger, H., & Kirchler, E. (2012). Rationality versus emotions: The case of tax ethics and compliance. Journal of Business Ethics, 109(3), 339–350. https://doi.org/10.1007/s10551-011-1132-2
44. Mafrolla, E., & D’Amico, E. (2016). Tax aggressiveness in family firms and the non-linear enforcement effect. Journal of Family Business Strategy, 7(3), 178–184. https://doi.org/10.1016/j.jfbs.2016.08.003
45. Martens, M. J., & Schonberg-Moe, K. (2018). Are family firms more tax aggressive than non-family firms, especially if they have a male CEO? Retrieved from https://biopen.bi.no/no/xmlui/bitstream/handle/11250/2577174/2040410.pdf?sequence=1
46. Ministry of Law and Human Rights. (2008). Law no. 36 income tax, Republic of Indonesia. Retrieved from https://www操场.or.id/info/2008-IncomeTaxSDDS-Admn.pdf
47. Minnick, N., & Noga, T. (2010). Do corporate governance characteristics influence tax management? Journal of Corporate Finance, 16(5), 703–718. https://doi.org/10.1016/j.jcorfin.2010.08.005
48. Moore, J. A., Suh, S. H., & Werner, E. M. (2017). Dual entrenchment and tax management: Classified boards and family firms. Research, 79, 161–172. https://doi.org/10.2139/ssrn.748200
49. Otoritas Jasa Keuangan (OJK). (2014). Otoritas jasa keuangan regulation number 33/POJK.04/2014. Retrieved from https://www.ojk.go.id/en/kanal/paras-modal/regulasi/peraturan-ojk/Pages/OJK-Regulation-Concerning-The-Board-of-Directors-and-The-Board-of-Commissioners-of-Issuers-of-Public-Companies.aspx
50. Prabowo, M., & Simpson, J. (2011). Independent directors and firm performance in family controlled firms: Evidence from Indonesia. Asian-Pacific Economic Literature, 25(1), 121-132. https://doi.org/10.1111/j.1467-8411.2011.01276.x

51. Pradita, N. N., & Utama, C. A. (2020). The effect of ownership structure and board independence towards overinvestment behavior of family firm in Indonesia. Paper presented at the International Conference on Economics, Business and Economic Education 2019, 2020. https://doi.org/10.18502/kss.v4i46.6666

52. Purba, H. (2019). Effect of corporate governance and profitability on tax avoidance (Empirical study of sharia banking companies listed on the Indonesia Stock Exchange 2012-2016). Research Journal of Finance and Accounting, 10(18), 140–151. Retrieved from https://www.iiste.org/Journals/index.php/RJFA/article/view/49682

53. PWC. (2014). Survey bisnis kelaarga 2014 Indonesia. Retrieved from https://www.pwc.com/id/en/publications/assets/indonesia-report-family-business-survey-2014.pdf

54. PWC. (2018). Family business survey 2018: Indonesia report. Retrieved from https://www.pwc.com/id/en/epc/fbs-2018-indonesia.pdf

55. Riahi-Belkaoui, A. (2004). Relationship between tax compliance internationally and selected determinants of tax morale. Journal of International Accounting, Auditing and Taxation, 13(2), 135-143. https://doi.org/10.1016/j.jiaat.2004.09.001

56. Richardson, G., Taylor, G., & Lanis, R. (2013). The impact of risk management and audit characteristics on corporate tax aggressiveness: An empirical analysis. Journal of Chemical Information and Modeling, 53(9), 1-42. Retrieved from https://escholarship.org/uc/item/6fz8t9zg

57. Setiawan, D., Taib, F. M., Phua, L-K., & Chee, H-K. (2019). IFRS and earnings management in Indonesia: The effect of independent commissioners. International Journal of Business and Society, 20(1), 37-58. Retrieved from http://www.ijbs.unimas.my/index.php/content/abstract/all-issues/65-vol-20-no-1-2019/549-IFRS-and-earnings-management-in-indonesia-the-effect-of-independent-commissioners

58. Siagian, F. T., & Tresnaningsih, E. (2011). The impact of independent directors and independent audit committees on earnings quality reported by Indonesian firms. Asian Review of Accounting, 19(3), 192-207. https://doi.org/10.1108/13217341111185128

59. Siregar, S. V., & Utama, S. (2008). Type of earnings management and the effect of ownership structure, firm size, and corporate-governance practices: Evidence from Indonesia. International Journal of Accounting, 43(1), 1–27. https://doi.org/10.1016/j.intacc.2008.01.001

60. Steijvers, T., & Niskanen, M. (2014). Tax aggressiveness in private family firms: An agency perspective. Journal of Family Business Strategy, 5(4), 347-357. https://doi.org/10.1016/j.jfbs.2014.06.001

61. Tabah, C. B. (2002). Family capitalism and corporate governance of family-controlled listed companies in Indonesia. https://doi.org/10.2139/ssrn.323948

62. Tang, T. Y. H. (2015). Does book-tax conformity deter opportunistic book and tax reporting? An international analysis. European Accounting Review, 24(3), 441–469. https://doi.org/10.1080/09638180.2014.932297

63. Tsakumis, G. T., Curatola, A. P., & Porcano, T. M. (2007). The relation between national cultural dimensions and tax evasion. Journal of International Accounting, Auditing and Taxation, 16(2), 131-147. https://doi.org/10.1016/j.jiaat.2007.06.004

64. Westhead, P., & Cowling, M. (1997). Performance contrasts between family and non-family unquoted companies in the UK. International Journal of Entrepreneurial Behavior & Research, 3(1), 50–52. http://doi.org/10.1108/1355255071070892

65. Yu, L. (2009). Founding family ownership and corporate tax-sheltering activities: Evidence from China. Proceedings of the 2009 6th International Conference on Service Systems and Service Management, ICSSSM ’09, 841–845. https://doi.org/10.1109/ICSSSM.2009.5174998

66. Yuniawati, Y., Ardana, I. C., Dewi, S. P., & Lin, C. (2017). Factors that influence tax avoidance in Indonesia Stock Exchange. Chinese Business Review, 16(10), 510–517. https://doi.org/10.17265/1537-1506/2017.10.005

67. Zhuang, J., Edwards, D., & Capulong, M. V. A. (Eds.) (2001). Corporate governance and finance in East Asia: A study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand. Retrieved from http://hdl.handle.net/11540/6222

68. Zimmerman, J. L. (1983). Taxes and firm size. Journal of Accounting and Economics, 5, 119-149. https://doi.org/10.1016/0165-4101(83)90008-3