



# THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY, FAMILY OWNERSHIP, AND INSTITUTIONAL OWNERSHIP ON TAX AVOIDANCE FOR MANUFACTURING COMPANIES ON THE INDONESIAN STOCK EXCHANGE 2019-2022

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## Abstract

*The purpose of the study was to examine the influence of Corporate Social Responsibility, Family Ownership, and Institutional Ownership on Tax Avoidance in manufacturing companies from 2019 to 2022. This study employs a form of quantitative research that utilizes secondary data extracted from financial reports and business sustainability reports. The study sample consists of 226 manufacturing companies that were listed on the Indonesian Stock Exchange during the period of 2019-2022. The samples were chosen using the purposive sampling technique, applied to a total of 176 data points collected from 44 company samples throughout a 4-year research period. The data analysis employed double regression analysis techniques to examine the relationship between corporate social responsibility, family ownership, institutional ownership, and tax avoidance. The research findings indicate that these factors have a considerable negative impact on tax avoidance. Therefore, if the corporation implements higher levels of corporate social responsibility, family ownership, and institutional ownership, it will effectively prevent any potential instances of tax avoidance.*

**Keywords:** *Corporate Social Responsibility, Family Ownership, Institutional Ownership, Tax Avoidance.*

## INTRODUCTION

Taxation according to the Act No. 16 section 1 paragraph 1 of 2019 explains that it is a compulsory contribution to the State owed by individuals or bodies of a coercive nature and does not receive compensation directly, but will be reused by the public. The importance of tax receipts in funding income and expenditure budgets can be seen from the amount of increasing proportion of tax revenue in the country's income. The target conditions of the state's tax receipts are volatile and optimistic to be achieved, the achievement of the country's income target one of them comes from the economic sectors that have a significant contribution to the nation's economy, namely companies that operate in the manufacturing sector. Manufacturing companies became one of the taxpayers in Indonesia, the payment of tax by the company based on the gains of the company it is regulated in the Act No. 16 of 2009 that the party concerned is obliged to deposit its liability to the state through tax agencies (Setiawati & Adi, 2020).

The realisation of revenue received by the country is still relatively small compared to some other ASEAN countries, which is considered to be the cause of failure in achieving the target due to the presence of intensify taxation and low level of tax compliance in the sector of manufacturing companies that undertake tax avoidance (Djatnicka et al., 2022).

Companies conducting tax avoidance activities are considered socially irresponsible. Corporate social responsibility is a commitment that contributes to economic growth, employee quality of life, and improvement of community welfare. Companies implement corporate social responsibility to

acquire an image and maintain responsibility and provide benefits such as internship fees, training, education, facility donation, and waste management. (Ernawati et al., 2021) Several previous researchers have linked the factors of corporate social responsibility with tax avoidance, including (Juliana & Stiawan, 2022); (Ahdian & Mulyani, 2020); (Ariwangsa & Trisna, 2023) arguing that CSR (Corporate Social Responsibility) has a positive impact on tax avoidance significantly, whereas partially CSR (Corporate Social Responsibility) has no impact on Tax Avoidance (Ayu Nurulita & Yulianto, 2023).

Kovermann & Wendt, (2019) affirmed that one of the factors that can influence the benefits and costs of tax management activities is the form of ownership of a company that has an important role in the company to carry out tax avoidance. The ownership structure of a company is the ownership structures with the ratio of shares owned by insider ownership and the Institution. This is demonstrated by a survey conducted by PwC in 2021 that stated that more than 95 percent of companies in Indonesia are family. (www.pwc.com). Several previous studies linking the factors of Family Ownership with tax avoidance, including (Kusnadi, 2022); (Astriyani & Safii, 2022); (Kovermann & Wendt, 2019) concluded that family ownership has a significant influence on tax avoidance

Apart from family ownership that has a long-term focus on the company and holds the majority shares or direct control over the company, institution ownership also has the same thing that involves stock investments by large financial institutions that can influence the company. Institutional ownership is the ownership of a company's shares by a domestic or foreign institution. (Sumekar et al., 2023) Institutional ownership of shares owned by government, insurance companies, foreign investors or banks. Because of the corporate responsibility to shareholders, the institutional owner has the incentive to ensure that the management of the company makes decisions that will maximize the welfare of the shareholder. (Kwok & Kwok, 2020) Institutional (foreign) ownership of a company constitutes a more efficient management in improving corporate governance by increasing the company's value. Previous research examining the relationship between institutional ownership and tax avoidance suggested (Alkurdi & Mardini, 2020) that institutional shareholders holding foreign-owned shareholder shares perform greater or more positive tax avoidance. (Sumekar et al., 2023) argued that partially institutionalized ownership has a negative impact on tax avoidance.

#### Research Question

1. Does Corporate Social Responsibility have an impact on tax avoidance?
2. Does Family Ownership have an impact on tax avoidance?
3. Does Intitutional have an impact on tax avoidance?

## **THEORITICAL REVIEW**

### ***Stakeholder Theory***

Theory of stakeholders is an approach based on the identification of observations and analyses used as the basis for decision-making and action in corporate activities especially in business. Social and environmental disclosure is considered as a dialogue between the company and stakeholders, some things to bear in mind or stakeholder reasons: 1. The era of globalization can encourage eco-friendly products when traded; 2. Companies that implement or have an environmental plan policy will tend to be noticed by investors; 3. NGOs and environmental observers are increasingly speaking, criticising companies that do not care too much about the environment (Dewi et al., 2021).

### ***Tax Avoidance***

Tax Avoidance is a strategy to transfer wealth from the government to a company that has to effectively improve the company's reputation. Tax evasion has negative effects such as getting implementation costs, reputation damage, and state punishment when proven to do tax avoidance that will affect the corporate image. Tax avoidance takes action in minimizing the income tax burden that companies have to pay to the state through government intermediaries and is done legally using applicable tax laws.

### ***Corporate Social Responsibility***

Corporate Social Responsibility, as defined by the World Business Council for Sustainable Development, refers to the dedication of firms to fostering sustainable economies via cooperation with employees, their families, and the community.

### ***Family Ownership***

Family ownership is divided into two categories: familyowned enterprise and family business enterprise. (Prayogio et al., 2020). (Hidayati & Diyanty, 2018) says that 50 percent of companies in Indonesia are owned by families as permanent ownership. The importance of having a good reputation is due to the family's view that the company is an asset that is passed on to future generations.

### ***Institutional Ownership***

Institutional ownership of a company promotes enhanced supervision of management performance. Institutional investors, who possess larger shares compared to other shareholders, exert significant influence in monitoring management policies. Consequently, the greater the institutional control, the more robust the external control over the company (Hendrianto, 2022) The presence of institutional investors is regarded as an effective mechanism for monitoring management decisions (Sihombing & Dalimunthe, 2022).

## **METHOD**

The type of research is quantitative research. The data used is secondary data in the form of an annual report and a sustainability report, which was successively published in 2019-2022. The population of this study is 226 companies, through the number of the population used purposive sampling method as determination of samplings. The amount of data processed is 176 data/financial reports obtained from 44 samples of companies with a period of 4 years of research. This research uses Tax Avoidance as a dependent variable and 3 independent variables Corporate Social Responsibility, Family Ownership, Institutional Ownership.

### ***Tax Avoidance***

Measurement of tax avoidance measured using ETR (Effective Rate Tax).

$$ETR = \frac{\text{Total beban pajak (Tax Expense)}}{\text{Laba Sebelum pajak (Pre - Tax Income)}}$$

### ***Corporate Social Responsibility***

CSR disclosure is measured using the GRI (Global Reporting Initiative) Standards indicator which has 117 items of CSR criteria. The calculation of the variable disclosures CSR is done by giving value 1 when the company discloses each item, and given value 0 when not disclosed, then all values per item are summed up and divided by 117 items.

### ***Family Ownership***

The family is the whole of individuals and companies whose ownership is registered (ownership above 5% is required to carry out registration, except for public companies, financial institutions, and BUMN).

$$FOROWN = \frac{\text{Total saham yang dimiliki}}{\text{Total saham yang beredar}}$$

### ***Institutional Ownership***

Institutional Ownership is the percentage of shares owned by an institution (insurance, investment company, 37 and other institution ownership) and is an institution that has a major interest in investments made including stock investments (Ayu Nurulita & Yulianto, 2023)

## **RESULTS AND DISCUSSION**

### ***The Influence of Corporate Social Responsibility on Tax avoidance***

This research finds that Corporate Social Responsibility (CSR) has a significant negative influence on tax avoidance. This means that the higher the level of social responsibility carried out by a company, the less likely the company is to avoid tax. The CSR concept requires companies to not

only focus on profits, but also pay attention to the social and environmental impacts of their operational activities. Thus, companies that are committed to CSR tend to be more transparent and compliant with tax regulations, because they realize the importance of their contribution to society and the wider environment.

In addition, companies that are serious about implementing CSR usually have high ethical standards and tend to avoid detrimental business practices, including tax avoidance. They understand that a company's reputation and long-term desirability depend on the trust and support of various stakeholders, including government and society. Therefore, these companies are more likely to ensure their compliance with tax regulations as part of their social responsibility. In conclusion, implementing strong CSR in a company can be an important mechanism for reducing tax avoidance practices, with an emphasis on transparency, ethics and social responsibility in business operations.

### ***The Influence of Family Ownership on Tax avoidance***

Research shows that family ownership has a significant negative influence on tax avoidance, which means that the greater the family ownership in a company, the less likely the company is to avoid tax. This is due to the long-term orientation that family-owned companies generally have. Family owners tend to focus more on maintaining the reputation and sustainability of their business, with the aim of passing on a healthy and stable company to the next generation. This long-term orientation encourages them to avoid detrimental business practices, such as tax avoidance, which can damage their reputation and good relations with the government and society.

Additionally, family-owned companies often prioritize ethical values and integrity in their operations. Family owners are more likely to be directly involved in company management and have greater control over strategic decisions, including compliance with tax regulations. They tend to avoid the legal and reputational risks that can arise from tax avoidance, because the negative impacts can last a long time and damage the company's image in the eyes of the public. Thus, family ownership plays an important role in creating a more transparent and ethical business environment, which in turn reduces incentives to engage in tax avoidance.

### ***The Influence of Institutional Ownership on Tax avoidance***

This research shows that institutional ownership has a significant negative influence on tax avoidance, which means that the greater the institutional ownership in a company, the less likely the company is to avoid tax. Institutional ownership generally involves large investors such as pension funds, insurance companies, and investment funds, who have the capacity and resources to conduct in-depth analysis and close supervision of the companies in which they invest. These institutional investors usually have a team of professionals who monitor the company's legal and ethical compliance, including tax aspects, to protect and optimize their investments.

Additionally, institutional ownership tends to encourage greater transparency and accountability within the company. Institutional investors often prioritize compliance with regulatory and ethical standards as part of their fiduciary responsibilities to shareholders and other stakeholders. They have the ability to pressure company management to comply with good business practices, including in matters of taxation, because they have significant voting power in shareholder meetings and strategic decision making. Thus, institutional ownership plays an important role in creating a business environment that is more compliant with regulations and reduces incentives to engage in tax avoidance, thereby contributing to more ethical and sustainable business practices.

## CONCLUSION

This research concludes that Corporate Social Responsibility (CSR), family ownership, and institutional ownership have a significant negative influence on tax avoidance. High CSR in a company reduces the possibility of tax avoidance, because socially responsible companies not only focus on profits but also pay attention to the social and environmental impacts of their operations. Family ownership also shows a significant negative influence on tax avoidance, where companies with family ownership tend to avoid this practice in order to maintain reputation and ensure business continuity for the next generation. In addition, institutional ownership plays a role in reducing tax avoidance because these institutions have the capacity and resources to carry out in-depth analysis and close supervision of companies. They have a team of professionals who monitor legal and ethical compliance, including taxation, to protect their investments. Overall, this research shows that CSR, family ownership, and institutional ownership contribute significantly to preventing tax avoidance, by strengthening monitoring mechanisms and long-term orientation in business management.

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