

UNIVERSITI TEKNOLOGI MARA

**EXAMINING THE RELATIONSHIP
BETWEEN OWNERSHIP
STRUCTURE, AUDIT QUALITY,
AND TAX AVOIDANCE:
A CROSS-COUNTRY ANALYSIS OF
INDONESIA AND MALAYSIA**

MUHAMMAD SYUKUR

PhD

March 2026

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MUHAMMAD SYUKUR

Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy
(Accountancy)

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CONFIRMATION BY PANEL OF EXAMINERS

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ABSTRACT

Corporate tax avoidance remains a central concern in emerging economies where governance systems and regulatory environments continue to evolve. This study examines the relationship between ownership structure and tax avoidance in publicly listed firms in Indonesia and Malaysia, further assessing the moderating role of audit quality. Five ownership types—family, foreign, government, institutional, and managerial—are analysed using percentage shareholdings as proxies. Audit quality is measured using Big 4 audit firm affiliation and audit report lag, reflecting auditor reputation and audit timeliness. Results reveal contrasting patterns across institutional settings: in Indonesia, family and government ownership show no significant association with tax avoidance, whereas institutional ownership increases avoidance. In Malaysia, family and institutional ownership reduce tax avoidance, suggesting that governance mechanisms encourage compliance. Managerial ownership in both countries is associated with entrenched behaviour, whereby managers may pursue tax avoidance for private benefit. Audit quality exhibits a nuanced moderating effect: greater audit delay reduces tax avoidance among family firms, while Big 4 auditors may facilitate avoidance, particularly in foreign-owned firms. These findings underscore the complex interplay between ownership characteristics and external audit oversight in shaping corporate tax behaviour. Practically, the results provide actionable insights for tax authorities, securities regulators, and audit oversight bodies. In particular, the evidence supports closer monitoring of firms with high foreign or institutional ownership, strengthening enforcement over Big 4 audit practices, and enhancing disclosure requirements for ownership concentration and audit delays to improve transparency and tax compliance. Methodologically, the study contributes by integrating audit timeliness as a proxy for audit quality. Future research should use broader datasets, refined proxies, and longer observation periods to capture evolving tax strategies within diverse institutional environments.

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LIST OF ABBREVIATIONS

Abbreviations

ARL	Audit Report Lag
ASEAN	Association of Southeast Asian Nations
Big 4	Big Four Audit Firms (PwC, Deloitte, EY, KPMG)
BTD	Book-Tax Differences
ETR	Effective Tax Rate
GCG	Good Corporate Governance
GLICs	Government-Linked Investment Companies
ICGM	Indonesia Corporate Governance Manual
MCCG	Malaysian Codes of Corporate Governance
PBV	Price-to-Book Value
ROA	Return on Assets
SETR	Statutory-Effective Tax Rate
SOEs	State-Owned Enterprises

CHAPTER 1

INTRODUCTION

1.1 Research Background

Generally, firms adopt tax avoidance to minimise tax liability. Tax avoidance is within the law limit (thus, legal) and requires expertise, skill, and relevant knowledge to reap the privilege for the firm's benefit. Firms would use available means and engage financial experts for legal advice on the possible legitimate methods to reduce tax liability or maximise tax avoidance. Among the common tax avoidance techniques, firms claim allowable tax deductions, exercise tax credits, and shelter revenue from tax liability by establishing retirement plans. Although tax avoidance can help firms minimise their tax burden, its financial difficulties remain because firms may encounter unanticipated non-tax expenditures. Even though tax avoidance is within the tax laws and not associated with fraudulent activities (Hoseini et al., 2019), it leaves concerns to the government since the avoided tax could have been used for infrastructure development. Consequently, tax avoidance could be a severe issue in developing countries as the governments need income to run the country, and the governments of lower-income countries suffer badly due to tax avoidance (Tax Justice Network, 2020). Also, legal tax avoidance could turn into illegal tax evasion if it is not closely monitored or effectively regulated.

Tax avoidance benefits the firms but is at the stake of government revenue. Since corporate tax is one of the primary sources of government revenue, aggressive tax avoidance might disrupt the development of the economy. The impact is particularly significant for emerging economies but least prevalent for advanced economies. Losing tax revenue would deter the government from channeling funds for poverty eradication and social well-being programs. Although tax avoidance is a widely practiced strategy, when undertaken aggressively, it can potentially cross the threshold into tax evasion, thereby violating legal and regulatory frameworks. Tax evasion is unlawful as it uses illegal methods to conceal income or information from the Inland Revenue Board (IRB) and tax authorities. It can result in fines, penalties, imprisonment, and tarnishing the firm's reputation. The difference between tax avoidance and tax evasion lies in legality and compliance.

Every country experiences tax avoidance, but lower-income countries suffer more than others. As reported by the Tax Justice Network, a UK-based organisation of professionals on tax-related issues, poorer countries are losing more of their total tax revenue due to tax abuse (avoidance and evasion) activities. Higher-income countries (the report refers to high-income and upper-middle-income countries grouped together) failed to collect nearly 400 billion US Dollars, or the equivalent of 10% of their health budgets. On the other hand, lower-income countries lost almost 40 billion US Dollars of tax revenue, equivalent to 50% of their public health budgets (Tax Justice Network, 2021).

In the broader literature, the term tax abuse is often used as an umbrella concept encompassing both legal tax avoidance and illegal tax evasion. Tax abuse refers to practices—whether technically lawful or not—that exploit gaps, mismatches, or weaknesses in tax rules to reduce tax burdens in ways that undermine the intent of the law (Piantavigna, 2011). While tax evasion clearly violates statutory provisions, aggressive tax avoidance may still be regarded as abusive when undertaken primarily for artificial tax benefits rather than substantive economic activity. Therefore, discussions of tax avoidance in emerging economies are frequently linked to concerns regarding practices that may escalate into unlawful evasion without effective monitoring and enforcement. As shown in Table 1.1, Japan's government could not collect almost 10 billion US dollars, and Indonesia collected just half of that of Japan. The 10 billion US Dollars is just 2% of Japan's health budget, while the 5 billion US Dollars is 43% of Indonesia's health budget. A similar scenario is observed in Malaysia, losing just 1.2 billion US dollars of tax revenue, but this number equals 20% of the health budget. With those tax-revenue losses, the governments of Indonesia and Malaysia could have used them to improve public health facilities and increase the quality of public health professionals in rural areas.

Table 1.1
Global tax loss in 2019 – Selected Asian emerging markets

	Annual tax revenue loss (in a million USD)	Tax-revenue loss per public health expenditure
Japan	9,906	2.11%
Canada	5,743	4.32%
Australia	4,198	4.87%
US	89,354	5.82%
South Korea	3,886	6.56%
Norway	2,512	6.98%
France	20,236	8.61%
Malaysia	1,227	19.20%
Indonesia	4,865	42.92%

Source: Tax Justice Network (2020, p. 28-33)

Recently, tax avoidance has become a prominent topic of interest in fields like Accounting, Economics, and Law. In Accounting, researchers have been trying to pinpoint the various factors that influence tax avoidance, leading to multiple studies on this issue. Some of the key factors identified include accounting information (Vintilă et al., 2018), Corporate Social Responsibility (CSR) disclosure (Salhi et al., 2020), and different aspects of corporate governance (Abu Nassar, 2025; Koay & Sapiei, 2025; Salehi et al., 2020; Salhi et al., 2020; Wen et al., 2020). Corporate governance involves mechanisms such as board characteristics and ownership structure, which are particularly interesting in emerging Asian economies where ownership tends to be more concentrated (Claessens et al., 2000). This concentration gives shareholders significant control and the ability to pursue their own interests. Even as research into corporate tax avoidance increases in these emerging markets, much of it has focused on single ownership types—like family or state ownership—while often overlooking how different ownership structures interact. Furthermore, studies in Southeast Asia have seldom utilized Book-Tax Difference (BTD) as a measure of aggressive tax behavior, even though it could offer a deeper insight into tax planning risk. Additionally, the impact of audit quality on the relationship between ownership and tax avoidance is still under-researched, especially for firms outside of family ownership.

In the context of Asia, the ownership is concentrated in a certain group of shareholders, which enables them to navigate the direction of the business. For example, in Indonesia, governments remain the majority shareholders and concentrate their ownership in important industries (International Finance Corporation, 2018), like in banking, energy, telecommunications, and logistics. Furthermore, companies in

Indonesia are typically established as family-owned enterprises and keep family members as majority shareholders to maintain the culture, heritage, and image within the family. Additionally, when we talk about ownership structure and its influence on tax avoidance, foreign shareholders warrant careful consideration in corporate governance analyses, as governments in developing countries tend to actively invite international businesspeople to invest in their countries. It has been empirically proven in the Philippines (Shi et al., 2020), Egypt (Deef et al., 2021), and Jordan (Alkurdi & Mardini, 2020) that foreign investors have a strong influence on corporate tax avoidance.

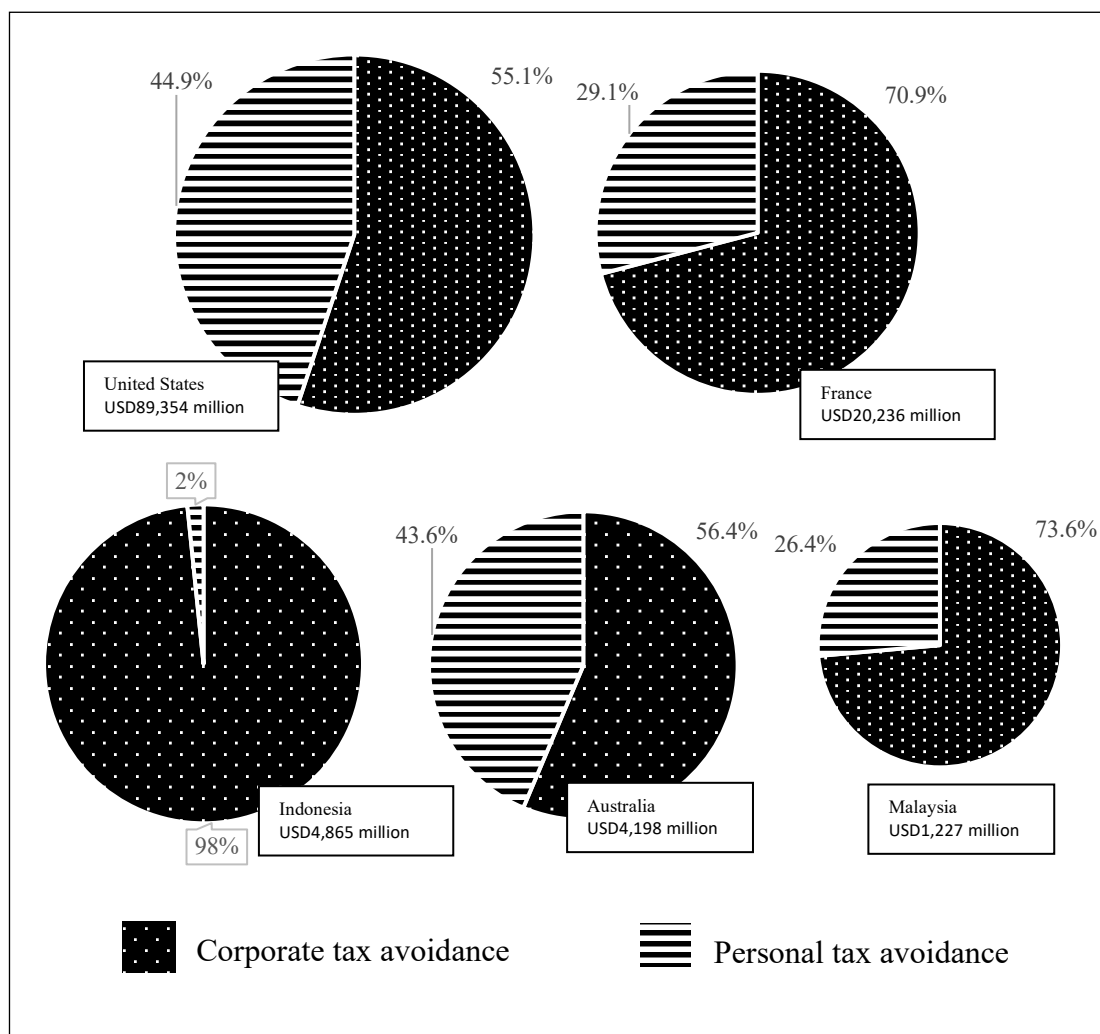


Figure 1.1 Composition of Tax Avoidance (Selected Countries)
 Source: Tax Justice Network (2021)

Tax revenues are the main contributors to local and national governments' budgets, and governments collect taxes from both individual and for-profit organisations, so-called taxpayers. Of these two taxpayers, corporations are the most

significant contributors to the government budget. Based on worldwide data, corporations contribute two-thirds of the global tax avoidance, and in Asia alone, 68% of the tax-revenue loss comes from corporations (Tax Justice Network, 2021). As shown by Figure 1.1, the corporations in the US have contributed 55% of the total tax avoidance, Australia 56.4%, and France 70.9%. Meanwhile, in Malaysia, corporations are involved in 73.6% and 98% in Indonesia of all tax avoidance in the countries.

Tax avoidance could be legal, but its economic impacts are more severe in lower-income countries (Tax Justice Network, 2021). However, tax avoidance could turn illegal if not closely monitored. Governments need to ensure that firms are fair in reporting their financial information and comply with the tax law. The confidence in reporting can be achieved through audit quality, as an independent auditor can help the government to ensure corporate financial statements' fairness, materiality, and conformity (Kanagaretnam et al., 2016). The quality of audit service has been proven to be a determinant of tax avoidance (Kanagaretnam et al., 2016; Madah Marzuki & Muhammad Al-Amin, 2021) and is able to have a moderating role to make family shareholders (Gaaya et al., 2017) behave less aggressively in tax avoidance. This moderation effect of audit quality has not yet been tested on the relationship among other shareholders, such as foreign, governmental, institutional, and managerial shareholders, with tax avoidance.

The level of tax avoidance of Indonesia and Malaysia combined was the highest in Asia, followed by Japan and China (Tax Justice Network, 2021). This soaring level of tax avoidance is mostly caused by corporations, with about two-thirds of the nation's total avoided tax (Tax Justice Network, 2020). However, the topic of corporate tax avoidance remains academically less explored in both countries. The other reason that makes Indonesia and Malaysia interesting to study is that, despite all the similarities (geographical locations and traditional culture) that both countries share, Indonesia and Malaysia have contrasting elements. For example, Indonesia has higher tax morale, whereas Malaysia has lower tax morale (Hasan et al., 2022). From the legal system, Indonesia is a civil-law country, and Malaysia is a common-law country, even though the implementations in both countries are highly influenced by customary traditions. Additionally, Indonesia is applying a dual two-tier board system, while Malaysia and the rest of the countries in Asia follow a single-tier board system (International Finance Corporation, 2018).

1.2 Problem Statement



The governments of Indonesia and Malaysia are experiencing a falling tax revenue trend due to tax avoidance and tax evasion perpetrated specifically from corporate tax revenue (Tax Justice Network, 2020). One of the recent tax avoidance issues in Indonesia is from Adaro Energy, a coal-mining company based in Indonesia. Adaro avoided tax by utilising tax haven incentives allowed by the national tax Act. It reduced its tax liability to USD125 million for eight years, from 2009 to 2017 (Global Witness, 2019). As a result, the Indonesian government could not collect such huge funds that could have been channelled to develop the nation's economy. Meanwhile, in Malaysia, the *Lembaga Hasil Dalam Negeri (LHDN)* or the Inland Revenue Board of Malaysia (IRB) has traced 7,847 companies or organisations (out of a suspected 31,598 entities) that have not yet clearly disclosed their income for the fiscal year (Bernama, 2022). The Board stated that the government approximately lost RM665 million or around USD150 million in tax revenue, and the impact of this loss could potentially shake the country's economic stability if the authority does not keep checking this situation. Thus, avoiding taxes could refer to a lower willingness to participate in maintaining the stability of the country.

The Indonesian government has implemented several strategies, policies, and regulations to minimise tax avoidance, increase tax revenue collection, and boost the awareness of society to pay taxes. The government has several rules and regulations of anti-avoidance that are categorised into General Anti-Avoidance Rules (GAARs) and Specific Anti-Avoidance Rules (SAARs), which are all indicated in Article 18 of the Indonesian Income Tax Law No.36 of 2008. The article says that the tax authorities may adjust a taxpayer's taxable income for related party transactions that are not carried out on an arm's-length basis (no dual pricing for transactions between two related parties and two unrelated parties). In Malaysia, the government amended the 1967 Income Tax Act by providing the specific legal foundations on the "arm's length principle" for transfer pricing purposes in 2009 and then issued the revised transfer pricing audit framework on December 30, 2024 (Inland Revenue Board of Malaysia, 2025). These efforts are expected to have a significant improvement in the governments' income for both Indonesia and Malaysia.

According to the World Bank (2022), the total tax revenues of Indonesia and Malaysia have doubled in the last 10 years (shown in detail in Figures 2.1 and 2.3 of

Chapter 2). In this matter, both governments are successful in collecting taxes: income tax and other taxes. Despite all the efforts made by the governments to improve tax collection from taxpayers, the (personal and corporate) income tax stagnantly contributed around 39% of the total government's revenues in the last six years (2014-2019). The tax-to-GDP ratio of both countries has also fallen in the last (2000-2020) years, as shown in Table 1.2. Moreover, Tax Justice Network (2020) reported that the corporate tax avoidance of Indonesia and Malaysia combined in 2019 is equal to USD5.6 billion, and this number is the biggest in Asia.

Table 1.2
Trends of the Tax-to-GDP ratio of Indonesia and Malaysia

Country	Tax revenue (% of GDP) in 2020	Trend
Indonesia	8.30	
Malaysia	10.90	

Source: World Bank (2022); Trading Economics (<https://tradingeconomics.com>)

Tax avoidance not only impairs the country's government revenue, but also that of other countries through cross-border trade. In this era, economies around the world open their market to create seamless and borderless global trade. Through their multinational divisions/branches, companies can strategically reduce tax liabilities by applying transfer-pricing strategies and shifting their tax from a higher tax-rate country to other countries with a lower tax rate (Klassen et al., 2017). This situation enables companies to avoid tax and shrink the government's revenue globally. Table 1.3 shows that Asia is a strategic location to shift income. Firms in Indonesia and Malaysia are responsible for global tax revenue losses of around 3 billion US Dollars.

Table 1.3
Asian Nations in Global Corporate Tax Avoidance

Country/territory	Inflicted on global corporate tax avoidance in a million USD
Malaysia	1,555
Indonesia	1,412
Japan	1,287
Thailand	960
Macao	781

Source: Tax Justice Network (2020)

Tax avoidance may be a strategy commonly endorsed by shareholders as it can maximize their wealth through after-tax profit maximization. However, managers are also concerned about the decision to implement tax avoidance, which can give a negative perception to society, so it is a risky decision. Managers usually avoid making risky decisions unless they are incentivized (Cabello et al., 2019; Rego & Wilson, 2012). Thus, the presence of shareholders' influence in the company's strategic direction is crucial to anticipate managers exercising their self-interest. This is why it commonly happens that managers are given share ownership as a bonus to make them aligned with the shareholders' goal (Mrad, 2015). Not only that, governments, which are tax collectors, are found to influence the accounting policies in their firms to pay fewer taxes (Mafrolla, 2019), and politically-connected firms are also found to pay fewer taxes than those with no political connection (Sudibyso & Jianfu, 2016).

The degree of shareholder power (indicated by the ownership level) and the type of shareholders determine the direction of the company's operations (International Finance Corporation, 2018). This notion gives an indication that the ownership structure can influence the degree of tax avoidance. In countries with different economic and cultural environments, the correlation may be different. Nevertheless, the relationship between ownership structure and tax avoidance is becoming increasingly intriguing in Asia, where concentrated equity ownership is popular (Claessens et al., 2000; Tran & Le, 2020), thereby allowing particular shareholders to control decisions, including tax avoidance. In this region, studies on ownership structure and tax avoidance have been conducted more extensively in China (Bradshaw et al., 2019; Chen et al., 2018; Jiang et al., 2021; Kovermann & Wendt, 2019; Li et al., 2017) than in other parts of Asia.

Although Indonesia and Malaysia share comparable emerging-market profiles, their institutional environments differ in meaningful ways that affect tax avoidance

incentives. Indonesia operates a civil-law system with a decentralised tax administration and a two-tier board structure, providing greater managerial discretion in monitoring and enforcement. By contrast, Malaysia adopts a common-law framework with centralised tax administration and stricter governance rules, including higher board independence and tenure limits for independent directors. These differences translate into observable contrasts in tax outcomes, including higher effective tax burdens and greater corporate tax loss exposure in Indonesia. Such institutional differences suggest that similar ownership structures may not exert uniform influences across the two countries, thereby motivating a comparative investigation into whether audit quality moderates ownership–tax avoidance dynamics differently in each regulatory setting.

Despite the persistence of corporate tax avoidance in Indonesia and Malaysia, the lack of comprehensive, comparative evidence on the ownership–tax avoidance relationship remains an unresolved research problem. First, for both country settings, research on ownership structure and tax avoidance has exclusively focused on a specific type of ownership, such as governmental (Rahman et al., 2018; Sudibyo & Jianfu, 2016), family (Puji et al., 2019; Sunarto et al., 2021), managerial (Resti Yulistia et al., 2020), foreign ownership (Rahayu et al., 2024; Salihu et al., 2015), and institutional ownership (Tandean & Winnie, 2016; Wahab et al., 2017). Empirical studies that incorporate multiple ownership forms within a unified analytical framework remain scarce, limiting understanding of how overlapping ownership interests influence corporate tax avoidance. Second, existing Indonesian and Malaysian studies (Masripah et al., 2025; Syukur et al., 2024) have overlooked the Book-Tax Difference (BTD) as a tax avoidance proxy, despite its established use in other settings (Chen et al., 2018; Richardson et al., 2016). Companies with greater tax avoidance have large BTD (Syukur et al., 2022), so it can also reflect tax risk (Mills, 1998). The limited application of BTD in Southeast Asia indicates that prior evidence may not fully capture the multidimensional nature of tax avoidance.

Additionally, most of the current published research (Cabello et al., 2019; Chan et al., 2013; Resti Yulistia et al., 2020) employed dummy variables as a proxy to measure ownership, which can only measure the presence or absence of ownership. International Finance Corporation (2018) has mentioned that shareholders' influence over decision-making in a company depends on the size of ownership. This rationale pushes previous researchers from the Western world (Cabello et al., 2019; Khan et al.,

2017; Kovermann & Wendt, 2019; Mafrolla, 2019) to use the ownership percentage as the measure of ownership structure to determine the extent of the ownership influence on tax avoidance. Another gap is that the existing pieces of literature focus on a specific industry despite the fact that there are some potential variations of tax avoidance across industries (Wahab et al., 2017). This study tries to fill these gaps.

The relationship between ownership and tax avoidance can best be explained by the Entrenchment/Alignment Theory. According to the entrenchment theory, shareholders are entrenched in their natural behaviour of avoiding tax. To what extent the shareholders avoid tax depends on their ownership level (Cabello et al., 2019; Deef et al., 2021; Khan et al., 2017; Mafrolla, 2019), and the ownership structure in Indonesia and Malaysia is concentrated (OECD, 2022), making it possible for shareholders to exercise their influence on tax at the maximum level. Meanwhile, the alignment theory explains that an external mechanism can align the interests of shareholders with the interest of other stakeholders. In this case, the external mechanism is the external auditor who ensures that companies do not aggressively avoid tax as aggressive tax avoidance bears some risks, including the firm's image deterioration. Therefore, an external monitoring mechanism can play a role to mitigate aggressive behaviour and its potential impacts. Independent auditors can help ensure corporate financial statements' fairness, materiality, and conformity (Kanagaretnam et al., 2016), and it is proven by Gaaya et al. (2017) that audit quality provided by Big4 auditors can moderate the tax avoidance level done by family firms in Tunisia. Boussaidi and Hamed-Sidhom (2021) suggest that future researchers test the moderating effects of external audit quality in the relationship between ownership structure and tax aggressiveness. Gaaya et al. (2017) explored the interaction of audit quality with family shareholders, while other types of shareholders have not yet been explored.

This study mainly aims to test the influence of ownership structures on tax avoidance in Indonesia and Malaysia. The ownership structure discussed in this study is the ownership level by different type of owners or shareholders, such as foreign, institutional, government, managerial, and family shareholders. Tax avoidance is measured in this study by the STR-GAAP ETR difference and the book-tax difference. This study would also compare the tax avoidance level of Indonesia and Malaysia in order to find evidence that tax avoidance level is significantly various across countries and industries. Additionally, this research hypothesises that there is a moderating role of audit quality on the relationship between ownership structure and tax avoidance. This

study measures audit quality by two measures: (1) a dummy variable by indicating whether the observation is audited by a big 4 auditor (or not) and (2) audit report lag. This study uses panel data from all listed companies in Indonesia and Malaysia across industries in three observation years (2017-2021). The results and findings of this study offer new insights and fresh ideas for academicians, practitioners, and policymakers.

In conclusion, tax avoidance is preferable for shareholders since it can help them maximise their wealth. However, tax avoidance applied in lower-income countries could be considered abusive, considering the countries' critical needs for financial resources and economic stability (Tax Justice Network, 2020, 2021, 2022). Aggressive tax avoidance is not only potentially law-breaching and suspicious for tax authorities, but also can affect the firm's image. Media coverage can deteriorate the image of the company in the public eye since it often gives a negative tone to companies practising tax avoidance (Chen et al., 2019). As shareholders have the power to influence the companies' direction, there is a need for an external mechanism to moderate their aggressiveness and ensure compliance with regulations. This external mechanism (audit quality) is expected to negatively moderate the positive relations between ownership level and aggressive tax avoidance.

1.3 Research Objectives

The research objective is the goal of a study that needs to be achieved. The objectives to be covered in this study are as follows.

- a) To examine the influence of ownership structure (foreign ownership, governmental ownership, institutional ownership, managerial ownership, and family ownership) on tax avoidance in Indonesia and Malaysia.
- b) To examine the moderating role of audit quality on the relationship between ownership structure (foreign ownership, governmental ownership, institutional ownership, managerial ownership, and family ownership) and tax avoidance in Indonesia and Malaysia.

1.4 Research Questions

This study will answer the following questions:

- i. Do ownership structures (foreign ownership, governmental ownership, institutional ownership, managerial ownership, and family ownership)

- influence tax avoidance in Indonesia?
- ii. Do ownership structures (foreign ownership, governmental ownership, institutional ownership, managerial ownership, and family ownership) influence tax avoidance in Malaysia?
 - iii. Does audit quality moderate the relationship between ownership structures (foreign ownership, governmental ownership, institutional ownership, managerial ownership, and family ownership) and tax avoidance in Indonesia?
 - iv. Does audit quality moderate the relationship between ownership structures (foreign ownership, governmental ownership, institutional ownership, managerial ownership, and family ownership) and tax avoidance in Malaysia?

1.5 Significance of the Study

This study provides meaningful significance for policymakers, corporate practitioners, and scholars by examining how ownership structure and audit quality jointly influence tax avoidance in Indonesia and Malaysia. The findings offer important insights for regulators seeking to refine corporate governance (CG) frameworks. In particular, the study demonstrates that ownership structures shape firms' tax behaviour in different ways, suggesting that future CG codes should explicitly consider ownership heterogeneity when formulating governance expectations. Regulators can incorporate this understanding by mandating more detailed and standardised ownership disclosures; by providing clear guidance on best-practice governance mechanisms for concentrated-ownership firms; and by strengthening board and audit committee oversight requirements where certain ownership types are empirically associated with higher tax-aggressive tendencies. These actionable steps show how diverse ownership structures can be integrated into future iterations of governance codes, addressing a key concern raised by examiners regarding the need to specify "how" policy improvements may be implemented.

For corporate practitioners, the study highlights the practical importance of understanding the strategic implications of ownership configuration. Firms with substantial foreign or institutional ownership, particularly in Indonesia, need to be mindful of potential tax-aggressive behaviour that may emerge when governance

mechanisms are insufficient. The results suggest that prioritising audit quality—both in terms of auditor reputation and the level of audit effort, as reflected in audit report lag—can play a crucial role in reducing the risk of aggressive tax planning. Strengthening internal controls, enhancing audit committee vigilance, and integrating ownership-risk indicators into compliance systems can help firms ensure that shareholder incentives do not translate into tax-aggressive outcomes that jeopardise long-term stability or regulatory compliance.

From the perspective of government and public finance, the study underscores the importance of curbing aggressive tax avoidance, particularly in economies where public revenues are essential for national development and social services. Understanding how different ownership types influence tax strategies enables policymakers to identify high-risk corporate profiles and develop targeted enforcement mechanisms. This includes enhancing transfer pricing oversight, increasing disclosure requirements for firms with high-risk ownership patterns, and strengthening collaboration between tax authorities, regulators, and auditors. Such measures can help ensure that companies contribute fairly to public finances and that tax systems operate in a manner consistent with societal equity.

The study also offers significant theoretical contributions by extending agency theory through the entrenchment-alignment framework. The findings show that shareholders are not uniformly motivated by profit maximisation; their preferences may reflect political, reputational, or intergenerational considerations. This challenges the traditional view that concentrated owners inherently promote aggressive tax minimisation and provides a more nuanced understanding of how shareholder incentives differ across ownership types and institutional contexts. In doing so, the study enriches the theoretical discourse on corporate governance by demonstrating that broader contextual factors—such as audit quality and country-specific governance environments—shape the relationship between ownership and tax avoidance.

Finally, this study makes a methodological contribution by incorporating audit report lag as a process-based measure of audit quality. While prior research has focused heavily on Big 4 affiliation, audit report lag captures the depth and thoroughness of the audit process, offering a more comprehensive understanding of audit quality and its moderating role in governance outcomes. The use of PCSE and GLS techniques further enhances the robustness of the empirical analysis in the presence of heteroskedasticity and contemporaneous correlation. Together, these theoretical, practical, and

methodological insights strengthen the relevance of the study for policymakers, corporate leaders, and academics seeking to promote transparent and responsible tax practices in emerging markets.

1.6 Definitions of Terms

In the following chapters and sections, this study uses terminologies or phrases that may not be familiar to several readers. This section explains and defines the terms:

- **Ownership structure:** the ownership structure is the composition of owners/shareholders of a company. Ownership of a company can include those owned by foreign investors, governmental bodies, institutions, managers/insiders, and individual or family members.
- **Foreign ownership:** Foreign ownership is shares owned and held by international investors, which include foreign companies, foreign individuals, and foreign governments.
- **Government ownership:** government ownership is shares owned and held by governmental bodies, regardless of the levels of government, like international, national, federal, or local.
- **Institutional ownership:** Institutional ownership is shares owned and held by institutions, such as companies, banks, or foundations.
- **Managerial ownership:** managerial ownership is shares owned and held by managers, executives, and board members of the company.
- **Family ownership:** Family ownership is shares owned and held by a person or a family member.
- **Entrenchment theory:** Entrenchment theory explains that entrenched shareholders are pushing their interests against the interest of executives.
- **Tax avoidance:** Tax avoidance is a situation where companies avoid paying much tax. Prior researchers quantify the level of aggressiveness by measuring the difference between accounting income and fiscal income or by comparing the effective tax and statutory tax rates.

1.7 The Organization of the Study

This study is structured into seven comprehensive chapters, each contributing to the systematic exploration of the research topic. Chapter 1 serves as the introduction, providing an overview of the study's background, problem statements, research objectives, and significance. Additionally, it defines key phrases and terminologies that recur throughout the dissertation to ensure clarity and consistency.

Chapter 2 delves into the institutional background of Indonesia and Malaysia, discussing their political economy, tax avoidance levels, and trends in government tax revenue. This chapter sets the contextual foundation for understanding the research environment.

Chapter 3 presents a detailed literature review, covering the theoretical frameworks and definitions of key variables. It explores how ownership structure influences tax avoidance and examines the role of audit quality as a moderating variable in this relationship, supported by existing empirical evidence.

Chapter 4 focuses on hypothesis development and the theoretical framework. The proposed hypotheses are derived from the contextual realities of Indonesia and Malaysia, as well as insights from previous studies. The theoretical framework visually illustrates these hypotheses and their interconnections.

Chapter 5 outlines the research methodology. It describes the population, sampling methods, and the overall approach adopted and adapted for this study, providing a robust foundation for empirical investigation. Together, these chapters form a cohesive structure to address the research questions and objectives.

Chapter 6 presents the empirical findings of the study, focusing on the results of the panel regression analysis. This chapter also includes supporting test results, such as descriptive statistics and correlation analyses, to provide a comprehensive understanding of the data and ensure the robustness of the regression outcomes.

Finally, Chapter 7 concludes the dissertation by summarizing the key findings, discussing the limitations of the study, and offering suggestions for future research. This chapter also provides recommendations for stakeholders, including policymakers, practitioners, and academics, to address the implications of the study and enhance the understanding and management of ownership structures and tax avoidance.

CHAPTER 2

INSTITUTIONAL BACKGROUND

2.1 Introduction

This chapter provides an in-depth examination of the institutional background of Indonesia and Malaysia, offering critical context for the study. A thorough understanding of the political economy, corporate governance frameworks, and tax systems of both countries is essential to analyzing their respective approaches to tax avoidance. This chapter begins by outlining the political economy of Indonesia and Malaysia, focusing on the composition of government revenues, which include taxation, non-tax revenue, and other sources of public finance. A comparative discussion of the corporate governance structures in both countries follows, highlighting the distinct regulatory frameworks that shape business practices, investor protections, and corporate accountability. Next, the chapter explores the trend of government revenue as a percentage of GDP in Indonesia, Malaysia, and selected neighboring countries. This section provides a macroeconomic perspective on how these economies generate and manage public funds, reflecting their fiscal policies and reliance on taxation. A comparative analysis of tax-to-GDP ratios within the region offers insights into the effectiveness of tax administration and the extent to which these governments depend on tax revenue to finance national development. The final section of this chapter delves into the issue of tax avoidance in Indonesia and Malaysia, with a particular focus on corporate tax practices. It examines how businesses in both countries engage in tax avoidance strategies, the regulatory loopholes that facilitate such activities, and the broader economic consequences of reduced tax compliance. The discussion is supported by empirical data, including tax revenue losses, corporate effective tax rates, and international tax avoidance trends. Additionally, the role of multinational corporations, financial secrecy jurisdictions, and cross-border investment structures in influencing tax avoidance behaviors is assessed.

2.2 Institutional Background of Indonesia

2.2.1 The Socio-Institutional Context of Indonesia

Indonesia's legal and governance framework is rooted in a civil law system, shaped by a combination of historical, customary, and religious influences. According to the Law of the Republic of Indonesia Number 19 of 1964 on the Basic Provisions of Judicial Power (*Undang-Undang Republik Indonesia Nomor 19 Tahun 1964 Tentang Ketentuan-Ketentuan Pokok Kekuasaan Kehakiman*), the country adheres to a civil law system inherited from the Dutch colonial era. However, Indonesia's legal framework is also significantly influenced by local customary laws (*adat*) and religious principles, particularly Islamic jurisprudence. Despite its formal civil law foundation, the incorporation of customary traditions ensures that legal interpretations remain flexible and contextually relevant to the nation's cultural diversity. As the world's largest Muslim-majority country, with over 230 million followers of Islam, Islamic teachings exert considerable influence on lawmaking, governance, and social norms. The Indonesian constitution mandates that all citizens must adhere to one of the six officially recognized religions—Islam, Protestantism, Catholicism, Hinduism, Buddhism, and Confucianism—reflecting the country's approach to religious pluralism. However, remnants of indigenous beliefs, including animism and dynamism, continue to persist in various regions, particularly in rural and tribal communities (Haryanto, 2019; Saragih, 2019). These indigenous spiritual practices coexist alongside the major religions, reflecting the deep-seated historical and cultural syncretism that characterizes Indonesian society.

In addition to religious diversity, Indonesia is home to an extensive range of ethnic groups, with over 300 distinct ethnicities and sub-ethnic communities. Major ethnic groups include the Javanese, Sundanese, Batak, Minangkabau, and Balinese, each with its own linguistic, cultural, and social traditions. Ethnic identity plays a pivotal role in shaping Indonesia's governance and economic activities, as local customs and cultural norms often influence business practices, legal interpretations, and political dynamics. The preservation of traditional customs and regional autonomy is legally recognized through Indonesia's decentralization policies, which grant significant authority to local governments in managing economic resources, taxation, and legal affairs. The intersection of ethnic diversity, religious influence, and legal pluralism creates a complex political and economic landscape in Indonesia.

Governance structures must navigate the challenge of balancing national unity with regional autonomy, ensuring that policies remain inclusive and reflective of the country's diverse demographic composition. This intricate socio-political fabric has significant implications for economic policies, corporate governance, and tax regulations, as businesses and policymakers must align their strategies with both national laws and localized cultural expectations.

2.2.2 Indonesia's Tax System and Revenue Trends

Indonesia stands as the largest industrialized economy in Southeast Asia and plays a pivotal role in the regional market. Since the reform era commenced in 1998, the nation has embraced a more open-market economy underpinned by a liberalized regulatory framework, which has contributed to steady economic growth, averaging around 4% annually. The government is instrumental in sustaining this economic progress, primarily relying on tax revenue as the chief source of state income. According to the Ministry of Finance, bolstered by data from BPS-Statistics Indonesia (2020) (detailed in Table 2.1), tax revenues consistently represent the majority of the governmental income, accounting for approximately 78% to 82% of total public finances from 2019 to 2024. Table 2.1 provides a detailed breakdown of Indonesia's government revenues, spotlighting the composition of tax and non-tax revenues. Income tax emerges as the most substantial component within the spectrum of tax revenues, which has seen an increase from 39.4% in 2019 to 40.7% in 2024, highlighting an increasing dependence on income tax receipts. The Value-Added Tax (VAT) holds the position of the second-largest revenue source, fluctuating between 26.1% and 29%, which underscores the government's strategies aimed at bolstering consumption-based tax collection. Moreover, excise duties play an essential role, varying from 8.6% to 10.7%, primarily driven by taxes on tobacco, alcoholic beverages, and other regulated goods.

A notable pattern observed in the table is the progressive rise in total tax revenue over the years, reaching 82.4% in 2024, demonstrating the government's increasing reliance on taxation to fund public services and infrastructure. Meanwhile, non-tax revenue—including revenue from natural resources, state-owned enterprises, and regulatory fees—has gradually declined, dropping from 20.9% in 2019 to 17.6% in 2024. This shift indicates an increasing emphasis by the government on tax-based

revenue collection rather than relying on non-tax sources such as natural resource extraction and dividends from state-owned enterprises. Another noteworthy observation is the gradual decline in grants, which accounted for 0.3% of total revenues in 2019 but are projected to reach 0% by 2024. This trend suggests that Indonesia is becoming less dependent on foreign aid or international financial assistance, reinforcing its fiscal independence and self-sufficiency in revenue generation.

Table 2.1
Sources of Indonesian Government Revenues for 2019-2024

Source of revenues:	2019	2020	2021	2022	2023	2024
public finance						
Total government revenues (%)	100.0	100.0	100.0	100.0	100.0	100.0
Details:						
Income tax	39.4	36.1	35.4	38.0	39.5	40.7
Value added tax	27.1	27.3	28.9	26.1	28.2	29.0
Excise duties	8.8	10.7	10.5	8.6	8.6	8.8
Other taxes	3.6	3.9	4.4	4.6	4.1	4.0
Tax revenues (%)	78.9	78.0	79.3	77.4	80.4	82.4
Non-tax revenues (%)	20.9	20.9	20.6	22.6	19.6	17.6
Grants (%)	0.3	1.1	0.2	0.2	0.1	0.0

Source: BPS-Statistics Indonesia (2020)

In terms of tax collection mechanisms, Indonesia employs a decentralized approach, with tax revenues collected at both the central and local government levels. The central government is responsible for collecting key tax components such as income tax, VAT, and excise duties, while local governments oversee regional tax collections, including property tax, motor vehicle tax, and entertainment tax. This structure allows for a more equitable distribution of fiscal resources while ensuring that local administrations have financial autonomy to support regional development initiatives. Despite the steady increase in tax revenues, challenges persist in ensuring efficient tax collection and compliance. Indonesia still grapples with issues related to tax evasion, informal economic activities, and administrative inefficiencies that hinder optimal revenue generation. Efforts to address these challenges include digitalizing the tax system, strengthening enforcement mechanisms, and implementing tax reforms aimed at broadening the tax base. Overall, the data presented in Table 2.1 underscores the fundamental role of taxation in Indonesia's economic framework. The increasing

reliance on tax revenues reflects the government's strategic fiscal policies and commitment to sustainable economic growth.

The Indonesian government's annual tax revenue has shown a steady increase over the past 12 years, doubling from \$70.09 billion in 2013 to an estimated \$150.28 billion in 2024, as illustrated in Figure 2.1. A major contributing factor to this revenue increase was the 2016–2017 tax amnesty program, which allowed taxpayers to declare previously undisclosed assets at reduced penalty rates. Implemented in three phases, the program incentivized early declarations by imposing lower redemption fees for participants who disclosed assets earlier (Hajawiyah et al., 2021). This initiative resulted in a notable boost in tax revenues in 2018, as many taxpayers took advantage of the program to regularize their tax status. This upward trajectory underscores the government's efforts to enhance tax collection through various fiscal policies, regulatory reforms, and improved enforcement mechanisms. However, the trend was temporarily disrupted in 2020, with tax revenue declining to \$83.61 billion, primarily due to the economic slowdown caused by the COVID-19 pandemic. During this period, businesses faced reduced profitability, unemployment levels surged, and the government introduced various tax relief measures to support economic recovery. Despite these challenges, Indonesia's tax revenues quickly rebounded in 2021 and continued their strong growth, reaching an estimated \$150.28 billion in 2024. This recovery highlights the resilience of Indonesia's tax system and the effectiveness of post-pandemic economic policies.

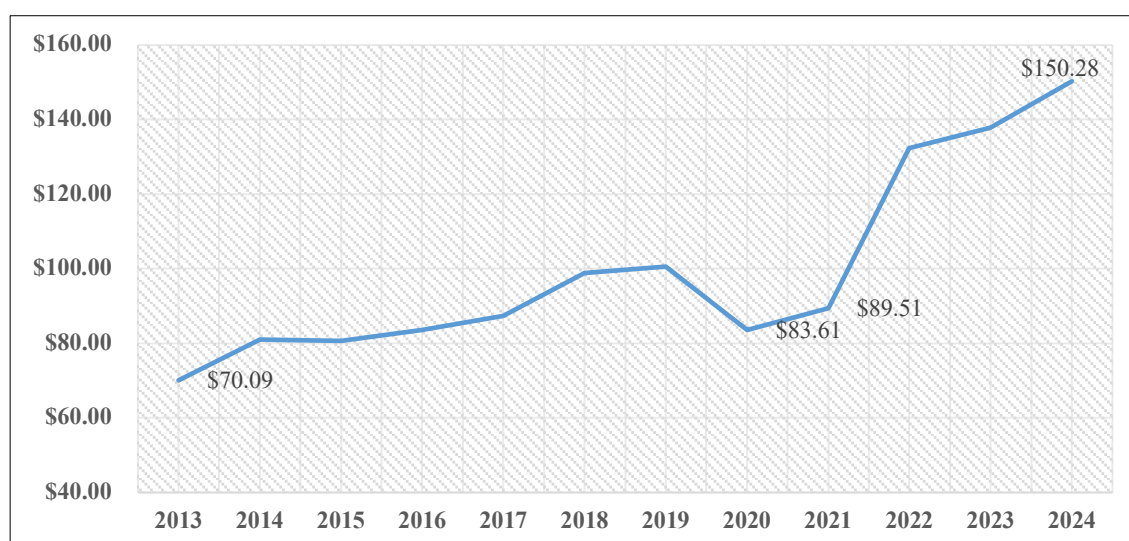


Figure 2.1 Indonesian Government's Tax Revenue in Billion USD (2013-2024)
Source: BPS-Statistics Indonesia (2020)

In addition to tax amnesties, structural tax reforms have been key in improving revenue collection. The digitalisation of tax administration, including the introduction of e-filing systems, e-invoicing, and stricter enforcement against tax evasion, has significantly enhanced tax compliance. The government has also expanded its tax base by improving VAT collection and ensuring higher compliance among corporate taxpayers. While Indonesia's tax revenue has grown nominally, its tax-to-GDP ratio remains relatively low compared to other ASEAN countries, indicating potential for further tax system improvements. Moving forward, continued policy refinements, tax enforcement strategies, and economic growth will be crucial in sustaining Indonesia's tax revenue expansion while maintaining a business-friendly environment.

In Indonesia, the government imposes two primary types of taxes on resident taxpayers, both individuals and corporations: national taxes and local taxes. The Directorate General of Taxes (DGT) under the Ministry of Finance is responsible for administering national taxes, ensuring compliance, and overseeing tax collection at the central level. National taxes include personal income tax (PIT) and corporate income tax (CIT), which form the backbone of government revenue. Other national taxes include value-added tax (VAT), sales tax on luxury goods (STLG), stamp duty, and land and building tax applicable to plantations, forestry, and mining sectors. Meanwhile, local taxes are regulated by provincial and regional governments and managed through the Local Revenue Offices (Dinas Pendapatan Daerah). These taxes include motor vehicle tax, hotel tax, restaurant tax, entertainment tax, advertisement tax, and street lighting tax. The delegation of tax collection authority reflects Indonesia's decentralized fiscal system, where local governments are given financial autonomy to generate revenues and finance regional development. Among all tax categories, personal and corporate income taxes contribute the most to Indonesia's central government revenue, reinforcing their vital role in national fiscal planning. This dual taxation structure reflects the government's fiscal strategy to balance national and regional tax collection, ensuring that both levels of administration have sufficient financial resources to sustain public expenditures and infrastructure development.

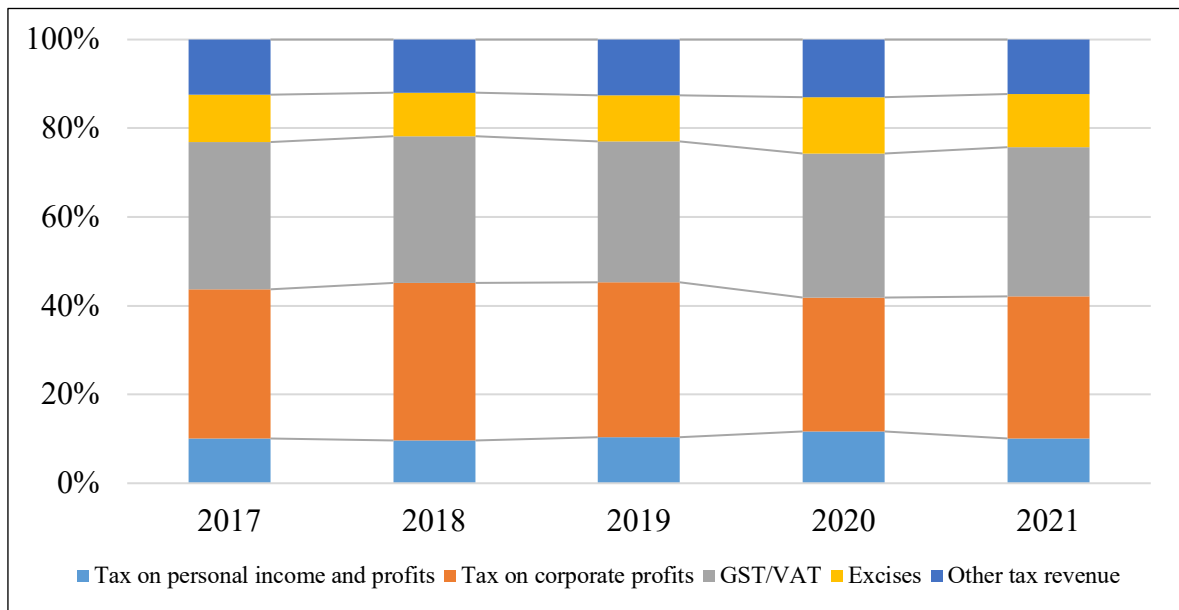


Figure 2.2 Composition of Indonesian Government's Tax Revenues (2017-2021)
Source: OECD Datasets on Global Revenue Statistics

As shown in Figure 2.2, which illustrates the composition of Indonesian Government's tax revenues from 2017 to 2021, income taxes from both individuals and corporations collectively contribute around 40% of total tax revenues. This underscores their critical role in budgetary planning and economic policy formulation. The second-largest tax revenue source is value-added tax (VAT) and goods and services tax (GST), which accounts for approximately 30% of total government revenue. VAT is particularly significant as it applies broadly to most goods and services, ensuring a steady revenue stream regardless of fluctuations in corporate profits or personal income levels. These two primary revenue sources are collected directly by the central government through tax offices nationwide, reflecting their importance in Indonesia's macro-fiscal strategy. Corporate tax income remains a key component of government revenue. Since 2010, Indonesia maintained a corporate tax rate of 25%, which positioned the country competitively within the ASEAN region. However, in response to the economic downturn caused by the COVID-19 pandemic, the government introduced a tax rate reduction to 22% from the fiscal year 2020 onwards, aiming to ease the financial burden on businesses and stimulate economic recovery.

When benchmarked against other ASEAN-5 economies, Indonesia's corporate tax rate remains relatively moderate. It is lower than Malaysia (24%) and the Philippines (25%) but higher than Singapore (17%) and Thailand (20%). This

comparative positioning highlights Indonesia's policy strategy of balancing fiscal sustainability while maintaining an attractive investment climate. The government's decision to lower corporate tax rates aligns with its broader goal of fostering economic resilience, improving business competitiveness, and ensuring long-term fiscal sustainability.

2.2.3 The Two-tier system in Indonesian Corporate Governance

Under Indonesian Company Law (ICL), all companies operating within Indonesian jurisdiction are legally required to adopt a two-tier corporate governance system. This structure, commonly found in civil law countries such as Germany, the Netherlands, and much of continental Europe, distinctly separates supervisory and managerial functions to enhance corporate accountability and prevent conflicts of interest (OECD, 2015). Indonesia's adoption of this governance framework aligns with international best practices aimed at strengthening oversight, ensuring transparency, and protecting shareholder interests (Claessens & Yurtoglu, 2013). The two-tier system establishes a clear distinction between the Board of Commissioners (BoC) and the Board of Directors (BoD). The BoC functions primarily as a supervisory entity, overseeing the performance and decision-making of the BoD. Its responsibilities include monitoring compliance with corporate policies, evaluating business risks, and ensuring ethical governance practices (International Finance Corporation, 2018). Unlike unitary board structures, where executive and non-executive directors work together, the BoC in a two-tier system remains entirely separate from the executive management (BoD) and does not engage in day-to-day operations. Conversely, the BoD is responsible for the operational and strategic management of the company. It executes business strategies, makes financial and investment decisions, and ensures corporate sustainability. The segregation of roles between the BoC and BoD is legally enforced, meaning individuals cannot hold positions on both boards simultaneously. This separation is designed to enhance corporate governance quality by creating a strong system of checks and balances, thereby reducing managerial entrenchment and self-dealing risks (Shleifer & Vishny, 1997).

The Board of Commissioners (BoC) plays a crucial role in Indonesian corporate governance, serving as the primary oversight body that ensures companies operate in compliance with shareholder expectations, regulatory requirements, and ethical

standards. One of its key responsibilities is maintaining alignment with the resolutions passed during the General Meeting of Shareholders (GMS) and ensuring adherence to the company's Articles of Association (AoA). This function reinforces the BoC's role as the guardian of shareholder interests, safeguarding against managerial opportunism and promoting corporate accountability (Popkova et al., 2020). A significant responsibility of the BoC is the review and approval of reports prepared by the Board of Directors (BoD). These reports must accurately reflect the company's financial performance, governance practices, and compliance status. This review process is essential to prevent misrepresentation, financial misconduct, and regulatory breaches, ensuring that the company adheres to best practices in corporate governance (Claessens & Yurtoglu, 2013). In addition, the BoC plays a pivotal role in recommending independent or external auditors for shareholder approval at the GMS. The appointment of external auditors is a critical safeguard against financial misreporting, as external audits help enhance the credibility of financial statements, thereby strengthening investor confidence (International Finance Corporation, 2018).

While Indonesia's two-tier corporate governance system provides robust oversight mechanisms, it is not without its challenges and trade-offs. One of the primary advantages of this system is its ability to mitigate conflicts of interest, particularly in firms with high ownership concentration, where controlling shareholders might otherwise exert undue influence over managerial decisions (La Porta et al., 2000). The strict separation between the supervisory (BoC) and managerial (BoD) functions allows for stronger checks and balances, reducing the likelihood of insider control abuses and improving corporate transparency (OECD, 2019). However, this rigid separation can also slow down decision-making processes, as strategic approvals require multiple layers of oversight. In fast-paced business environments, where adaptability and responsiveness are crucial, companies operating under a unitary (one-tier) board system—such as those in the United States, the United Kingdom, and Australia—may have a competitive advantage. In these systems, executive and non-executive directors work together, enabling faster communication, greater managerial discretion, and more efficient decision-making (Licht, 2018).

Indonesia mandates a two-tier governance structure comprising a Board of Commissioners (BoC) and a Board of Directors (BoD), as outlined in the Indonesia Corporate Governance Manual (ICGM, 2018). This structure reflects the country's emphasis on regulatory oversight, transparency, and investor protection by separating

supervisory and managerial responsibilities to mitigate agency conflicts and strengthen ethical conduct (OECD, 2015).

A central feature of this model is the requirement that publicly listed firms appoint at least 30% independent commissioners, ensuring objective decision-making and safeguarding minority shareholders (ICGM, 2018; OECD, 2019). However, the strict division between the BoC and BoD may slow decision-making, especially when disagreements arise (Licht, 2018). Critics argue that unitary board systems, as in the UK and US, offer greater flexibility, whereas supporters of the two-tier model contend that enhanced oversight outweighs efficiency concerns—particularly in emerging markets such as Indonesia, where enforcement challenges persist (La Porta et al., 2000).

2.3 Institutional Background of Malaysia

2.3.1 The Socio-Institutional Context of Malaysia

Malaysia's legal and governance framework is rooted in a common law system, a legacy of British colonial rule, while also incorporating elements of Islamic jurisprudence and local customary laws. According to Article 121(1) of the Malaysian Constitution, the country adheres to a dual legal system, where civil courts operate alongside Shariah courts to adjudicate matters related to Islamic law, particularly in areas such as family law, inheritance, and finance. Unlike its neighbor Indonesia, which embraces Pancasila as its foundational ideology without endorsing a state religion, Malaysia officially recognizes Islam as the religion of the federation, while simultaneously upholding freedom of religion for its diverse population. This dual legal framework underscores Malaysia's unique approach to governance, balancing secular and religious influences in its legal and economic policies. The Shariah courts are present in all 13 states and represent the three federal territories, ensuring that Islamic law is administered within the parameters of the constitution.

Beyond its legal structure, Malaysia is a multi-ethnic and multi-religious society, where Malay, Chinese, and Indian communities form the majority of the population, alongside indigenous groups such as the Orang Asli in Peninsular Malaysia and the Dayak, Kadazan-Dusun, and Iban in East Malaysia. The Malays, who make up the largest ethnic group, are constitutionally defined as Muslims, and Islam plays a central role in shaping the country's governance, cultural identity, and public policies. The Chinese and Indian communities, predominantly Buddhist, Christian, and Hindu,

respectively, have historically been influential in Malaysia's commercial and economic sectors. Indigenous groups in Sabah and Sarawak have distinct customary laws and land rights, which the government has sought to preserve through legal frameworks such as the Native Court system and Bumiputera policies. This ethnic and religious diversity has shaped Malaysia's political, economic, and legal landscape, requiring a governance approach that balances the interests of various communities while maintaining national unity.

Malaysia's economic policies reflect a strong government interventionist approach, particularly through the implementation of the New Economic Policy (NEP) in 1971, which aimed to reduce economic disparities between ethnic groups and promote the economic participation of the Bumiputera (ethnic Malays and indigenous peoples). This policy led to the establishment of government-linked companies (GLCs), affirmative action in education and employment, and preferential business opportunities for Bumiputera entrepreneurs. Over time, Malaysia has transitioned into an upper-middle-income economy, with strong sectors in manufacturing, services, finance, and digital industries, making it one of Southeast Asia's most developed economies. However, debates persist regarding the role of ethnic-based economic policies, as the country seeks to balance equitable growth with economic competitiveness in an increasingly globalized market. Governance structures in Malaysia are deeply intertwined with ethnic representation, as political parties are largely formed along ethnic lines, leading to a unique but complex political landscape. The Barisan Nasional (BN) coalition, which ruled Malaysia for over six decades, was composed of parties representing the Malay, Chinese, and Indian communities, reflecting a consociational governance model where power-sharing was emphasized. The government continues to implement reforms to modernize the tax system, enhance corporate governance, and strengthen investor protections, making Malaysia a competitive yet uniquely structured economy in the ASEAN region. As the country progresses towards its Vision 2030 development goals, it remains committed to maintaining economic resilience, social cohesion, and governance stability while adapting to evolving domestic and global challenges.

2.3.2 Malaysia's Tax System and Revenue Trends

Malaysia, classified as an upper-middle-income country, boasts one of the highest GDP per capita levels in the ASEAN region, following Singapore and Brunei. Despite its relatively strong economic standing, Malaysia's tax revenue collection remains among the lowest in Southeast Asia (Bernama, 2024). This phenomenon has raised concerns regarding the country's fiscal sustainability and its dependence on alternative revenue sources, such as state-owned enterprises (SOEs), natural resource revenues, and consumption-based taxes. A well-functioning tax system is essential for sustaining public expenditure, infrastructure development, and social welfare programs. Unlike some economies with decentralized tax structures, where local governments manage portions of tax collection, Malaysia's tax system is highly centralized. All major taxes—including personal and corporate income tax, the goods and services tax (GST) or sales and services tax (SST), and excise duties—are collected and administered at the federal level. The Royal Malaysian Customs Department (RMCD) and the Inland Revenue Board of Malaysia (IRBM) oversee the implementation and enforcement of tax policies. While this centralized approach facilitates uniform tax administration and policy consistency, it also limits the fiscal autonomy of state and local governments, which rely on federal allocations for their budgets.

A defining characteristic of Malaysia's taxation framework was its territorial tax system prior to January 2022, which imposed tax liability only on income and profits accrued or derived within the country. This means foreign-sourced income (FSI) remained exempt from taxation, even when repatriated to Malaysia. This approach aligned with Malaysia's broader economic strategy of fostering foreign direct investment (FDI) and maintaining its position as a regional business hub. The exemption of foreign-sourced income limited Malaysia's ability to tax global wealth and corporate earnings derived outside its borders, potentially encouraging tax avoidance practices or capital outflows. After 2022, the exemption applies only to foreign dividend income and only if the new "economic substance" or "participation exemption" conditions are met; other FSIs are now taxable (Inland Revenue Board of Malaysia, 2022). Moreover, the country's tax base remains narrow, with significant reliance on indirect taxation through consumption-based levies such as GST (which was replaced by SST on 1 June 2018 by the new Malaysian government) and excise

duties. Unlike countries with broad-based income tax systems, Malaysia's revenue collection depends on a limited pool of taxpayers, particularly corporations and high-income individuals.

The structural limitation in the tax system necessitates continuous reforms in tax compliance, enforcement, and policy adjustments to ensure fiscal sustainability. Policymakers must balance the need to maintain an investor-friendly tax regime with the necessity of strengthening public finances through diversified revenue streams. Potential measures include broadening the tax base, reducing tax leakages, strengthening enforcement against tax evasion, and reassessing the effectiveness of the territorial tax system in light of evolving global tax trends, such as the OECD's Base Erosion and Profit Shifting (BEPS) framework. As Malaysia advances toward its Vision 2030 goals, tax policy reforms will play a crucial role in shaping the country's economic resilience, revenue sufficiency, and long-term growth trajectory. Effective tax administration, coupled with transparent and progressive fiscal policies, will be critical to ensuring that Malaysia's economic prosperity translates into sustainable public financing and inclusive development.

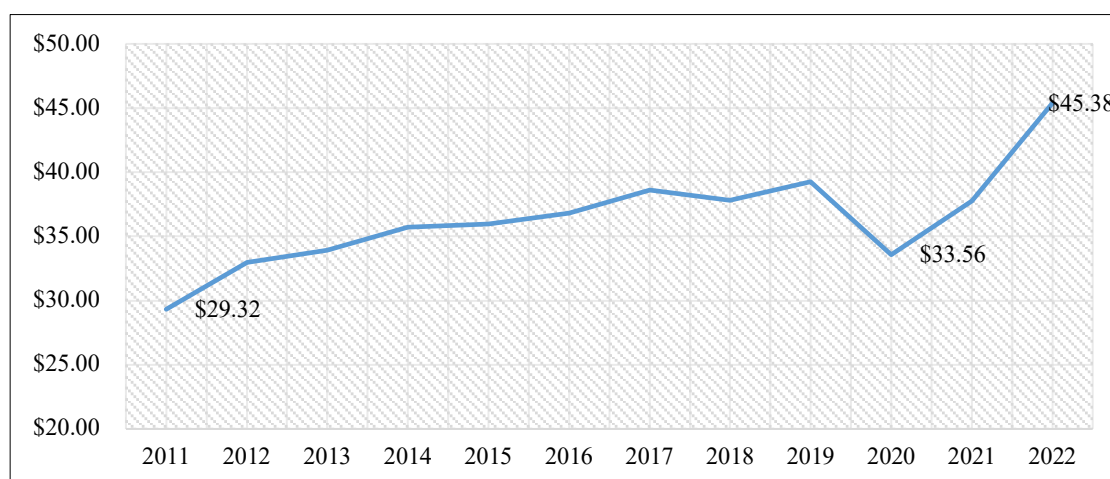


Figure 2.3 Malaysia's Tax Revenue in Million USD (2011-2022)
Source: OECD Data Explorer (<https://data-explorer.oecd.org>)

Figure 2.3 illustrates the trajectory of Malaysia's tax revenue collection from 2011 to 2022, showing an overall upward trend in revenue generation despite periods of fluctuation. In 2011, Malaysia's tax revenue stood at approximately \$29.32 billion, and over the following years, the country experienced a steady increase in tax collection, reaching its first peak in 2019. This steady growth can be attributed to

economic expansion, rising corporate profits, and improved tax administration efforts by the Malaysian government. However, in 2020, a noticeable decline occurred, with tax revenues dropping to approximately \$33.56 billion, reflecting the economic disruptions caused by the COVID-19 pandemic. The pandemic led to reduced business activities, lower corporate earnings, and government-introduced tax relief measures to support individuals and businesses affected by lockdowns and economic restrictions. Following this decline, a strong recovery is evident in 2021 and 2022, with tax revenues rebounding significantly. By 2022, Malaysia’s tax revenue had surged to \$45.38 billion, and in 2023 to \$52.44 billion, marking the highest level recorded during the observed period. This sharp increase suggests post-pandemic economic recovery, enhanced government tax collection efforts, and the potential reintroduction or revision of tax policies aimed at strengthening Malaysia’s fiscal position. The country’s ability to sustain revenue growth in recent years signals resilience in its tax system and economic policies. However, continued tax policy adjustments and improved compliance mechanisms will be critical for ensuring sustainable revenue collection in the future.

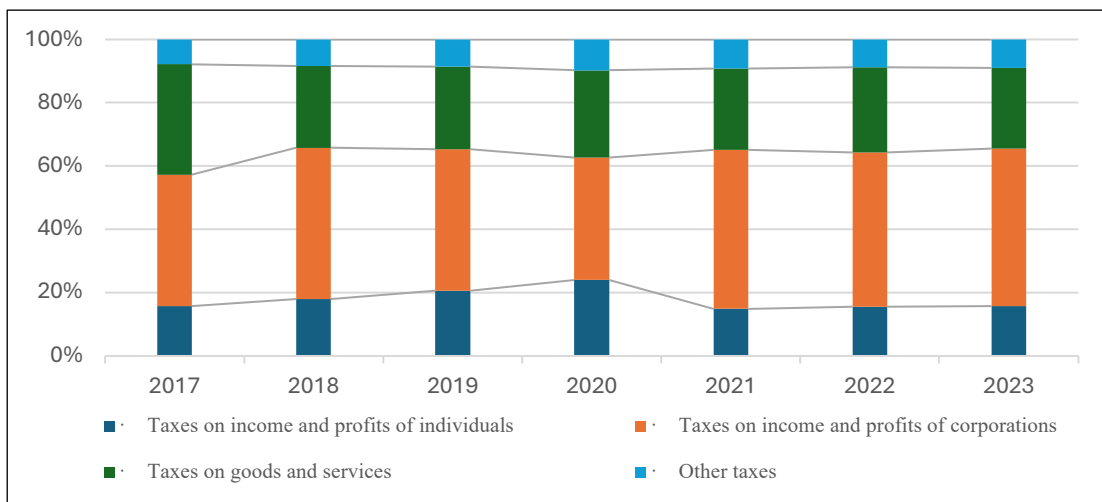


Figure 2.4 Composition of Malaysian Government's Tax Revenue (2017-2023)
 Source: OECD Datasets on Global Revenue Statistics

Figure 2.4 shows the composition of Malaysia’s tax revenue from 2010 to 2019¹, highlighting the proportional contributions of different tax components to the total tax collection. Over this period, income tax (both corporate and personal) consistently emerged as the largest contributor to government revenue, accounting for

¹ Source: OECD Statistics

an average of more than 60% of total tax receipts annually. Within this segment, corporate income tax (CIT) has played a dominant role, contributing approximately two-thirds of total income tax revenue, while personal income tax accounts for the remaining one-third. The Goods and Services Tax (GST) represent the second-largest source of tax revenue, contributing approximately 25-30% annually. This category has remained a critical component of Malaysia's fiscal policy, particularly following the introduction of the GST system in 2015, which was later replaced by the Sales and Services Tax (SST) in 2018. The transition between tax systems led to revenue fluctuations, reflecting policy changes and adjustments in the tax structure. Excise duties and other indirect taxes, including levies on fuel, tobacco, alcohol, and luxury goods, accounted for a smaller yet stable share of total tax revenue, ranging between 5-10% annually. These taxes serve not only as revenue sources but also as policy tools to regulate consumption patterns and influence public health and environmental outcomes.

The smallest contributor to Malaysia's tax revenue throughout the observed period has been the Social Security fund, which consistently generated the least revenue in comparison to other tax sources. Despite its low contribution, social security taxes are essential in financing pension schemes and social welfare programs, ensuring financial security for retirees and vulnerable groups in the workforce. Overall, the composition of Malaysia's tax revenue reflects the country's strong reliance on income tax, particularly corporate taxation, as a primary revenue driver. However, policy shifts, global economic trends, and domestic tax compliance efforts influence revenue collection trends. Going forward, diversifying revenue sources and strengthening compliance mechanisms will be essential for ensuring sustainable tax collection and long-term fiscal stability in Malaysia.

2.3.3 The Single-Tier System in Malaysian Corporate Governance

Corporate governance structures vary globally, with common law jurisdictions predominantly adopting a single-tier (unitary) board system, while civil law jurisdictions, such as Germany and Indonesia, often implement a two-tier system (Telke, 2019; Warganegara et al., 2023). Malaysia, as a former British colony, aligns with the common law tradition, mandating a single-tier board system under the Companies Act 2016 and the Malaysian Code on Corporate Governance (MCCG)

2021. The unitary board structure integrates governance and executive decision-making within a single board of directors, comprising executive and non-executive members who collectively oversee corporate affairs (OECD, 2023). The Malaysian Code on Corporate Governance (MCCG) 2021 highlights that corporate governance should serve not only shareholder interests but also broader stakeholder expectations, including those of employees, consumers, regulators, and society at large (Securities Commission Malaysia, 2021). Board composition and independence play crucial roles in maintaining governance integrity. The MCCG recommends that at least 50% of the board should consist of independent non-executive directors, while large publicly listed firms should maintain a majority of independent directors to ensure effective oversight. This aligns with global governance trends, particularly within OECD nations, where independent directors mitigate the risk of management entrenchment and enhance shareholder protection (OECD, 2023).

A key aspect of Malaysia's corporate governance framework is the separation of roles between the Chairman and the Chief Executive Officer (CEO). The Chairman, as the head of the board, is responsible for corporate governance and strategic oversight, while the CEO oversees daily operations and business execution (MCCG, 2021). This division is vital in preventing excessive concentration of power and enhancing board accountability (Fama & Jensen, 1983). The MCCG further stipulates that the Chairman must not hold any executive positions, thereby ensuring the independence of board leadership (Securities Commission Malaysia, 2021). Additionally, the MCCG also requires that the Chairman should not be a member of critical board committees, such as the Audit Committee, Nomination Committee, or Remuneration Committee, to prevent conflicts of interest. This governance safeguard ensures independent oversight of financial reporting, executive compensation, and board appointments, preventing potential conflicts that could arise from overlapping responsibilities (Securities Commission Malaysia, 2021). The single-tier board system in Malaysia is designed to balance efficiency with accountability, ensuring that companies remain competitive and investor-friendly while maintaining robust corporate governance (OECD, 2023).

Malaysia has strengthened its corporate governance framework by mandating independent directors and enforcing strict separation of roles, aligning it with international best practices. However, challenges remain, particularly in ensuring transparent reporting, minority shareholder protection, and enforcement of governance policies (Al-Hiyari, 2017; Mustafa Khan et al., 2024). The Malaysian corporate

governance landscape will continue to evolve, adapting to emerging risks such as ESG (Environmental, Social, and Governance) compliance, digital transformation, and shareholder activism (Securities Commission Malaysia, 2023). With continuous refinements in board oversight mechanisms, governance structures, and regulatory frameworks, Malaysia seeks to position itself as a leading ASEAN hub for corporate governance excellence.

The effectiveness of a board is contingent on the diversity, expertise, and independence of its members. A well-structured board fosters robust discussions, strategic oversight, and sound decision-making, ensuring that corporate governance remains effective and aligned with long-term business objectives. The Malaysian Code on Corporate Governance (MCCG 2021) underscores the necessity of board diversity and independence, recognizing their impact on mitigating groupthink, bias, and management entrenchment (Securities Commission Malaysia, 2021). The presence of directors with diverse backgrounds—including expertise in finance, law, risk management, sustainability, and technology—enhances the board's ability to navigate complex business challenges and drive long-term corporate sustainability (OECD, 2022).

A key feature of Malaysia's single-tier corporate governance system is the emphasis on board independence as a safeguard against managerial dominance. The MCCG requires at least 50% independent directors, with large-cap listed firms required to maintain a majority-independent board to ensure objective oversight of managerial decisions (Fama & Jensen, 2019). To preserve independence and avoid familiarity risks, the MCCG imposes a nine-year tenure limit for independent directors. Any extension requires justification and shareholder approval; without approval, the director is reclassified as non-independent (Malaysian Code of Corporate Governance, 2021). This policy seeks to mitigate entrenchment and reinforce accountability. By mandating board independence and tenure limits, Malaysia aligns with international good governance practices and aims to enhance investor confidence, protect minority shareholders, and strengthen board oversight (Malaysian Code of Corporate Governance, 2021).

The effectiveness of Malaysia's governance reforms can be seen in its improved rankings in global corporate governance indices, which reflect higher levels of transparency, reduced corruption risks, and stronger legal protections for investors (OECD, 2023). However, challenges remain, particularly in ensuring full compliance

across all listed companies and addressing gaps in enforcement mechanisms. Malaysia's corporate governance framework has undergone significant improvements over the past two decades, aligning itself with international standards while addressing local business needs. By integrating independence, diversity, and transparency, the MCCG serves as a foundation for sustainable corporate governance in Malaysia. Moving forward, continued reforms in ESG (Environmental, Social, and Governance) reporting, shareholder activism, and digital governance will be critical in enhancing the resilience and competitiveness of Malaysian companies in the global market.

2.4 Tax Governance and Investor Protection

2.4.1 Tax Revenue of Indonesia and Malaysia

Tax revenue as a percentage of GDP is a critical indicator that reflects the proportion of a government's revenue collection relative to its overall economic output. It demonstrates the extent to which a government controls and mobilizes resources within the economy. A higher tax-to-GDP ratio signifies a more efficient tax system and indicates the government's greater capacity to collect revenue for funding public services, infrastructure, and economic development. Conversely, a lower tax-to-GDP ratio does not necessarily imply poor economic performance or inefficiency. Instead, it may suggest a policy preference for reduced government intervention and an emphasis on fostering private sector freedom, particularly in tax management. This approach can highlight a government's stance on limiting its reliance on tax revenue to stimulate economic activity and empower private enterprises. Interestingly, among the 38 OECD (Organization for Economic Co-operation and Development) member countries, the United States ranked among the top 10 countries with the lowest tax-to-GDP ratio in 2019, reflecting its economic model, which leans heavily toward private sector-driven growth with a relatively lower tax burden compared to other developed nations. This diversity in tax-to-GDP ratios across economies underscores the varying fiscal strategies and policy priorities adopted by governments globally.

Table 2.2
Trends of Tax Revenues (% of GDP) of Indonesia, Malaysia, and Neighbouring Countries (2014-2022)

Country Name	2014	2015	2016	2017	2018	2019	2020	2021	2022
Indonesia	11.84	10.75	10.33	9.88	10.23	9.75	8.31	9.09	11.60
Malaysia	14.84	14.06	13.55	12.95	12.02	11.94	10.88	11.22	11.63
Philippines	13.02	13.02	13.09	13.59	14.05	14.49	13.95	14.13	14.62
Singapore	13.56	13.14	13.28	13.97	13.01	13.18	12.74	12.74	11.78
Thailand	16.50	16.85	16.10	15.52	15.70	15.40	15.19	15.08	15.14

Source: World Bank Open Data (<https://data.worldbank.org>)

Table 2.2 presents the trend in tax revenue as a percentage of GDP for Indonesia, Malaysia, and neighboring ASEAN countries between 2014 and 2022. The data reveal a noticeable decline in tax-to-GDP ratios for both Indonesia and Malaysia over the period, especially between 2014 and 2020. For instance, Indonesia's tax ratio dropped from 11.84% in 2014 to 8.31% in 2020, while Malaysia's declined from 14.84% to 10.88% over the same period. Although slight recoveries occur in 2021–2022, the ratios remain lower than earlier-year levels. This downward trend indicates growing challenges in mobilizing tax revenue, which is a common issue in emerging economies. Scholars attribute such declines primarily to weaknesses in tax administration systems, limited enforcement capacity, and expanding tax incentives that erode the tax base (Amir et al., 2013). Lower tax-to-GDP ratios are often linked to ineffective tax collection, tax avoidance and evasion risks, and administrative inefficiencies. These figures also stand below those of several neighboring ASEAN countries, such as the Philippines and Thailand, suggesting comparatively weaker revenue mobilization capacity in Indonesia and Malaysia. Strengthening tax administration, broadening the tax base, and improving compliance monitoring remain critical priorities for both countries to reverse declining tax revenue trends and ensure sustainable fiscal capacity. This inefficiency underscores the need for reforms in tax administration and policy to enhance revenue collection while balancing the demands for economic liberalization.

2.4.2 Tax Avoidance in Indonesia and Malaysia².

Larger economies generally experience higher nominal levels of tax avoidance due to their expansive tax bases, complex financial transactions, and the presence of multinational corporations that can leverage tax planning strategies. In this regard, understanding the extent of tax avoidance in Indonesia and Malaysia requires a comparative assessment with other economies in the region. Table 2.3 presents tax avoidance levels in Indonesia, Malaysia, and their comparable neighbouring ASEAN countries for 2019, 2020, and 2022, offering a broader perspective on regional tax compliance trends. The tax avoidance levels in these countries reflect not only the effectiveness of their tax enforcement mechanisms but also the prevailing regulatory frameworks, corporate governance practices, and investor behaviors.

Indonesia consistently records the highest potential corporate tax revenue loss in absolute terms, reaching USD 4.865 billion in 2019 and remaining above USD 2.2 billion in subsequent years. More than 97% of Indonesia’s total estimated tax loss derives from corporate taxpayers, underscoring the role of corporate tax planning in eroding national revenue. Malaysia exhibits lower absolute losses but still shows a high corporate contribution to tax leakage, ranging between 72.77% and 76.10%. In the Philippines and Vietnam, corporate entities are also responsible for the majority of tax losses, exceeding 70% in most years. By contrast, the Kingdom of Thailand reports both smaller corporate loss ratios (as low as 26.32% in 2022) and lower absolute values relative to peers. The figures collectively demonstrate that corporate tax avoidance represents a substantial fiscal risk in emerging Southeast Asian economies—particularly Indonesia and Malaysia—reinforcing the need to investigate potential determinants and mitigators of aggressive tax behavior.

Table 2.3
Tax Avoidance due to Corporations

Indicator	Year	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Potential tax loss (in million US\$)	2019	4,865	1,227	2,135	1,165	420
	2020	2,275	1,379	4,149	1,670	1,503
	2022	2,806	1,065	3,223	880.8	1586.6
Due to corporations (%)	2019	98.40%	75.00%	87.96%	36.48%	87.38%
	2020	97.40%	76.10%	94.67%	61.90%	96.61%
	2022	97.54%	72.77%	71.24%	26.32%	95.90%

Source: Tax Justice Network (2020, 2021, 2023)

² All information related to tax avoidance in this section is derived from the State of Tax Justice reports published by the Tax Justice Network.

The Tax Justice Network published its influential report, *The State of Tax Justice*, offering a comprehensive analysis of global tax abuse perpetrated by corporations and individuals. The 2020 report, in particular, garnered widespread international attention due to its reliance on 2019 data—ensuring that its findings were not distorted by the economic disruptions brought about by the COVID-19 pandemic. This allowed for a clearer assessment of structural tax avoidance practices without the confounding effects of emergency fiscal measures introduced during the crisis. According to the report, China, Japan, and Indonesia ranked among Asia's top five biggest tax losers, experiencing significant revenue losses due to aggressive tax avoidance and profit shifting. The findings indicate that multinational corporations (MNCs) and high-net-worth individuals strategically exploit legal loopholes, preferential tax treatments, and weak enforcement mechanisms in these jurisdictions to minimize their tax liabilities. This issue is especially prevalent in emerging economies such as Indonesia and Malaysia, where tax enforcement frameworks are still evolving, leaving room for tax planning strategies that significantly erode national revenues.

Notably, the report underscored that corporate tax avoidance levels in Indonesia and Malaysia remained persistently high throughout the periods, highlighting the systemic challenges these economies face in curbing aggressive tax planning and ensuring equitable tax compliance. The persistence of high tax avoidance suggests that existing tax policies and enforcement mechanisms may be insufficient to deter firms from engaging in profit shifting or exploiting gaps in the tax system. Given the increasing reliance of developing economies on tax revenues to fund essential public services, this trend raises concerns about fiscal sustainability, income inequality, and economic fairness. The findings from the *State of Tax Justice* reports serve as a call to action for policymakers, emphasizing the urgent need for enhanced regulatory frameworks, stronger international cooperation, and more robust tax enforcement mechanisms to combat tax avoidance effectively. Addressing these issues requires not only domestic policy reforms, such as improved transparency and stricter anti-avoidance laws, but also multilateral initiatives to counteract base erosion and profit shifting (BEPS), ensuring that corporate taxation aligns more closely with actual economic activities in each country.

In 2019, Indonesia's corporate and personal income tax rates were set at 25% and 30%, respectively, while Malaysia's tax rates were slightly lower at 24% for corporate taxpayers and 28% for personal taxpayers. Despite the relatively similar

statutory tax rates between the two nations, the effective tax rates (ETRs) reveal significant discrepancies, with Indonesia's ETR standing at 21.18% and Malaysia's notably lower at 15.69%. This considerable gap between statutory and effective tax rates indicates the prevalence of tax avoidance strategies employed by businesses and individuals in both countries, allowing them to significantly reduce their actual tax liabilities. Interestingly, while corporate taxpayers account for the bulk of tax avoidance, the share of personal taxpayers in overall tax revenue loss remains relatively small, contributing less than 25% in Indonesia and Malaysia. Specifically, corporate tax avoidance in Indonesia accounted for 98.4% of the total potential tax loss, compared to only 1.6% from personal taxpayers. Similarly, in Malaysia, corporate taxpayers were responsible for 75% of total tax losses, with personal taxpayers contributing 25%. These statistics illustrate the scale of corporate tax avoidance and its implications for government enforcement capacity as large-scale businesses continue to exploit regulatory loopholes, profit-shifting mechanisms, and tax planning strategies to reduce their tax burden. Given the scale of revenue loss, enhancing enforcement mechanisms, improving corporate tax transparency, and strengthening anti-tax avoidance regulations are imperative to narrowing the gap between statutory and effective tax rates.

Beyond domestic tax avoidance, international tax avoidance via illicit financial flows presents a significant concern for both countries. Taxpayers in Indonesia and Malaysia engage in cross-border tax avoidance practices through four main financial channels: trade mispricing (exports and imports), banking transactions (claims and liabilities), foreign direct investment (FDI—both inward and outward), and portfolio investment flows (outward and inward investments). These mechanisms allow companies and high-net-worth individuals to shift profits, underreport taxable earnings, or strategically allocate assets across jurisdictions with more favorable tax regimes, thereby minimizing their overall tax liabilities. As shown in Table 2.4, Malaysian taxpayers potentially avoided paying over USD 1 billion in taxes and inflicted a tax loss of USD 4.5 billion on other countries in 2023. This underscores the extent of profit shifting and offshore tax avoidance strategies used by Malaysian businesses and individuals. Similarly, Indonesian taxpayers are estimated to have avoided approximately USD 2.8 billion through various mechanisms and inflicted a tax loss of USD 602 million on other countries. In this case, Malaysian taxpayers more often use international tax loopholes to shift their taxable profits and assets from other countries.

Table 2.4
 Descriptions of Tax Avoidance in Indonesia and Malaysia

Description	Indonesia	Malaysia
Income tax rate (2020): Corporate	25%	24%
Personal ³	30%	28%
Effective tax rate (2020)	21.18%	15.69%
Potential tax loss (in million US\$) (2023)	2,806	1,065
Potential tax loss (2023): corporate	98%	73%
personal	2%	27%
Tax loss inflicted on other countries (in million USD) (2023)	602	4,538
Most responsible for	Timor Leste	Solomon Islands Brunei
Trading partner most responsible for the vulnerability	Singapore Netherlands Japan	Singapore Japan US

Source: State of Tax Justice Report (2020, 2023)

In addition to outbound tax avoidance, Indonesia and Malaysia are also vulnerable to international tax avoidance through inward foreign direct investment (FDI). Foreign investors, including multinational corporations (MNCs), strategically position their investments in Indonesia and Malaysia while structuring their tax liabilities in low-tax jurisdictions or countries with beneficial tax treaties. The major trading partners most responsible for tax vulnerability in Indonesia and Malaysia include Singapore, the Netherlands, Japan, and the United States, which are known for their established financial hubs and multinational corporate headquarters. These countries serve as key intermediaries for tax planning structures, where businesses reallocate profits or structure their investments in a way that reduces taxable income within Indonesia and Malaysia. Given these findings, it is evident that both Indonesia and Malaysia face substantial tax revenue leakages due to corporate and international tax avoidance. To mitigate this, governments must implement more stringent regulations on tax disclosures, improve cross-border tax enforcement, and enhance coordination with international regulatory bodies such as the OECD's Base Erosion and Profit Shifting (BEPS) initiative. Strengthening corporate governance frameworks, increasing transparency in multinational transactions, and reinforcing tax compliance policies will be critical in curbing the erosion of national tax revenues and ensuring fiscal sustainability for both economies.

³ It refers to the top marginal tax rate.

2.4.3 Investor Protection in Indonesia and Malaysia

Investor protection is a critical component of corporate governance in Indonesia and Malaysia, shaping how ownership groups exercise control and how managerial decisions are monitored. In emerging markets with high ownership concentration, disparities in investor rights can allow controlling shareholders to dominate decision-making, increasing the risk of opportunistic behavior—including tax-aggressive strategies—that disadvantage minority shareholders and weaken overall market transparency. Understanding investor protection is therefore essential to this thesis, as it provides the institutional backdrop within which ownership structures interact with managerial incentives and tax-related decisions.

Minority shareholders are defined as those who are neither part of a firm's board, supervisory, or management team nor hold more than 5% of the firm's shares, whether individually or collectively (Feng et al., 2021). Unlike controlling shareholders, minority shareholders face considerable constraints, including restricted access to a firm's internal information, limited voting power due to their smaller ownership stakes, and higher costs associated with attending on-site general shareholder meetings (Claessens et al., 1999, 2000). These limitations are further compounded in environments characterized by concentrated ownership structures, such as those prevalent in Indonesia and Malaysia, where majority shareholders wield disproportionate power and influence. This imbalance often leaves minority shareholders with minimal capacity to influence corporate decision-making, fostering a governance landscape that may heighten the risk of minority shareholder expropriation and undermine equitable corporate practices. Moreover, this disparity can discourage active participation by minority investors, eroding trust and confidence in the governance frameworks of these markets.

Developing countries are frequently characterized by inadequate legal protections for minority shareholders, coupled with widespread dominance of concentrated ownership structures. The lack of robust protections for minority investors creates an environment of uncertainty and risk, often leading potential investors—particularly those with smaller investments—to hesitate or avoid participation due to

concerns over expropriation and lack of influence (Dahya et al., 2008). This hesitancy perpetuates a cycle where concentrated ownership structures dominate, granting significant control to a few shareholders while sidelining minority interests. While this concentration of ownership poses risks, it can also serve as a corporate governance mechanism in economies with weak regulatory frameworks. In such settings, concentrated ownership can act as a substitute for underdeveloped regulatory structures, with controlling shareholders taking on the responsibility of monitoring management and safeguarding the firm's interests (Hoai Tran & Dat Le, 2017; Nguyen et al., 2015; Shleifer & Vishny, 1997). However, this arrangement is a double-edged sword. While it may mitigate some governance risks in weak institutional environments, it also raises serious concerns about power imbalances and the potential for abuse, as controlling shareholders may prioritize personal or group interests over the equitable treatment of minority shareholders.

In response to these challenges, both Indonesia and Malaysia have made significant strides in enhancing minority investor protections and strengthening their corporate governance frameworks. In Indonesia, the government and regulatory bodies have implemented a series of reforms to improve transparency, accountability, and the rights of minority investors. Key initiatives include the establishment of the Indonesian Institute for Corporate Directorship (IICD) and the adoption of the Indonesian Corporate Governance Manual (ICGM). These measures are designed to promote better governance practices, enhance board accountability, and protect minority shareholders' rights. The Capital Market and Financial Institution Supervisory Agency (OJK) has played a pivotal role in monitoring compliance with these regulations, further reinforcing the framework for investor protection. Collectively, these reforms aim to create a more equitable and transparent investment climate, which is essential for attracting both domestic and foreign investment and fostering trust in Indonesia's corporate sector.

Minority shareholders in Indonesia benefit from several key protections designed to safeguard their interests and instill confidence in the investment environment. These rights include the ability to vote on significant corporate matters during shareholder meetings, access to timely and reliable company information, and the legal authority to file lawsuits against firms that violate their rights. Additionally, the Indonesian Stock Exchange (IDX) has introduced regulations to promote fairness and transparency, such as requiring listed companies to establish investor relations

departments and to disclose related-party transactions in a transparent manner. These measures are vital in building investor confidence and ensuring a level playing field for all shareholders.

Malaysia, similarly, has made substantial progress in strengthening its legal and institutional frameworks to protect minority investors and enhance corporate governance practices. Under the guidance of the Securities Commission Malaysia (SC), the regulatory framework places significant emphasis on transparency, accountability, and equitable treatment of shareholders. The Malaysian Code on Corporate Governance (MCCG) provides comprehensive guidelines on best practices, ensuring that minority shareholders are treated fairly and are equipped with the necessary information to make informed decisions. The SC actively monitors compliance with these governance standards and has introduced initiatives like the Corporate Governance Monitor, which assesses the performance of listed companies in adhering to these guidelines. These efforts reflect Malaysia's commitment to creating a robust and investor-friendly corporate environment.

Minority shareholders in Malaysia also enjoy a range of protections aimed at ensuring their interests are respected and their confidence in the market is upheld. These include the right to participate and vote in general meetings, access to relevant and timely corporate information, and the ability to take legal action against companies that infringe on their rights. The SC's oversight and the implementation of measures like mandatory disclosures and stricter governance standards help create a more balanced corporate environment. Additionally, the MCCG emphasizes the importance of transparency in related-party transactions and requires companies to provide detailed information about their ownership structures, further supporting minority shareholder interests.

Both Indonesia and Malaysia recognize that protecting minority investors is crucial for attracting foreign investment and fostering a competitive, transparent business environment. These countries have undertaken significant reforms to strengthen investor protection through improved transparency, enhanced corporate governance, and stricter enforcement of regulations. While Indonesia has focused on building institutional frameworks such as the IICD and ICGM, Malaysia has emphasized monitoring compliance and implementing best practices through the SC and MCCG. Although these efforts have laid a strong foundation, there remains room for improvement. Specific challenges, such as concentrated ownership structures and

the potential for abuse by controlling shareholders, continue to highlight the need for more comprehensive protections and enforcement mechanisms.

These institutional reforms have implications beyond corporate governance and investor confidence. Strengthened minority shareholder protection in Indonesia and Malaysia can contribute to improved tax compliance and greater transparency in firms' financial reporting. When minority shareholders have enforceable rights to information and the ability to challenge managerial decisions, opportunities for opaque practices that enable aggressive tax strategies—such as transfer mispricing, earnings manipulation, or exploiting regulatory loopholes—are reduced. Enhanced disclosure and stronger oversight indirectly support tax authorities by improving the quality and credibility of reported financial information, thereby lowering the risk that revenues are shifted or concealed. Conversely, weak minority protection may allow dominant shareholders to pursue opportunistic behavior, including tax-aggressive strategies that erode the corporate tax base. In this way, reforms to protect minority investors complement government efforts to curb tax avoidance and strengthen corporate tax revenue collection.

Ultimately, these initiatives aim to foster trust and confidence among investors, encouraging broader participation and creating a more inclusive and equitable investment landscape. Both countries are gradually working towards balancing the interests of controlling and minority shareholders, ensuring that corporate governance systems are not only robust but also reflective of international best practices. Such measures are essential for the long-term sustainability of their economies and for establishing themselves as competitive players in the global market.

2.5 Summary of the Institutional Contexts and Relevance

Indonesia and Malaysia provide a compelling basis for cross-country comparative analysis due to their contrasting institutional environments across legal, fiscal, and corporate governance dimensions—each of which plays a critical role in shaping firms' tax behavior. Table 2.5 summarizes these institutional contexts, highlighting key distinctions between the two countries. While Indonesia operates under a civil law system with decentralized tax collection and a two-tier governance structure, Malaysia functions within a common law system supported by centralized tax administration and a single-tier board model. These foundational differences reflect

varying degrees of enforcement capability, transparency expectations, and accountability mechanisms—factors that are directly relevant to how ownership structures engage in tax-related decisions.

The contrast in effective tax rates (21.18% in Indonesia vs. 15.69% in Malaysia) and tax-to-GDP ratios (8.3% vs. 10.9%) further suggests systemic variation in both tax compliance and collection efficiency. Likewise, governance frameworks differ: Indonesia mandates 30% board independence under its two-tier model, whereas Malaysia enforces 50% board independence and limits the tenure of independent directors under the MCCG. Both countries face severe corporate tax avoidance risks, but the scale and nature of avoidance differ—Indonesia loses 98.4% of its tax loss through corporate mechanisms, while Malaysia's loss is 75%, highlighting potential variation in regulatory robustness and firm-level behavior.

These differences are not merely institutional characteristics—they represent structural conditions that could moderate or amplify the effects of ownership concentration and audit quality on corporate tax avoidance. Hence, by comparing Indonesia and Malaysia, this study aims to uncover whether similar ownership structures produce consistent tax outcomes across distinct regulatory settings. This cross-country design provides a richer understanding of how national institutions interact with corporate governance mechanisms in influencing aggressive tax planning, offering theoretical and practical contributions to both regional and international tax policy discourse.

Table 2.5
Summary of the Institutional Contexts

Aspect	Indonesia	Malaysia
Legal System	Civil law system with influences from Dutch law, Islamic principles, and local <i>adat</i> /customs	Common law system influenced by British law; dual system with Shariah courts for Muslim law
Religious Influence	Pluralistic, with strong Islamic influence but state remains secular (Pancasila ideology)	Islam is the official religion; Shariah courts operate alongside civil courts
Ethnic Composition	Very diverse (300+ ethnic groups); decentralization grants autonomy to local governments	Multi-ethnic (Malay, Chinese, Indian, Indigenous groups); governance influenced by ethnicity
Tax System Type	Decentralized: national and local taxes collected separately	Centralized: all major taxes collected at federal level
Statutory Corporate Tax Rate	25% (reduced to 22% post-COVID-19)	24%
Effective Tax Rate (ETR)	21.18%	15.69%
Tax-to-GDP Ratio	8.3%	10.9%
Main Tax Revenue Sources	Income tax (40%), VAT (29%), Excise (8–10%)	Income tax (60%+), GST/SST (25–30%), Excise (5–10%)
Corporate Governance System	Two-tier: Board of Commissioners (BoC) supervises Board of Directors (BoD)	Single-tier: Board of Directors includes both executive and non-executive members
Board Independence Rules	At least 30% of BoC must be independent (for listed firms)	At least 50% of board must be independent; 9-year term limit for independent directors
Investor Protection Reforms	ICGM, IICD, OJK regulations; legal rights for minority investors	MCCG, Securities Commission (SC); Corporate Governance Monitor and mandatory disclosures
Vulnerability to Tax Avoidance	High corporate avoidance (98.4% of tax loss), illicit flows via Timor-Leste and Singapore	High corporate avoidance (75%), avoidance via Brunei, Solomon Islands, and Singapore

Source: Author's work

CHAPTER 3

LITERATURE REVIEW

3.1 Introduction

This chapter reviews the theoretical and empirical foundations underpinning the study of ownership structure, audit quality, and corporate tax avoidance in Indonesia and Malaysia. It begins by outlining the research paradigm and theoretical positioning (Section 3.2), which frames the study within a positivist, deductive approach appropriate for hypothesis testing using panel data. Building on this positioning, Section 3.3 introduces the entrenchment effect within agency theory as the core theoretical lens to explain how ownership concentration may generate incentives for opportunistic, tax-aggressive behavior. To clarify conceptual boundaries, Section 3.4 distinguishes between tax avoidance, tax aggressiveness, and tax evasion, emphasizing differences in legality, intent, and ethical implications. Section 3.5 conceptualizes ownership as a key corporate governance mechanism that shapes managerial monitoring, information asymmetry, and strategic decision-making.

Section 3.6 reviews the literature on ownership structure and tax avoidance, focusing on five ownership types examined in this study—family, foreign, government, institutional, and managerial (Sections 3.6.1–3.6.5). These subsections synthesize prior findings and identify divergences that motivate further empirical inquiry in emerging markets. The role of audit quality as an alignment mechanism is examined in Section 3.7, followed by Section 3.8, which reviews studies exploring how audit quality moderates the ownership–tax avoidance relationship. The chapter concludes in Section 3.9 by synthesizing the gaps identified across the theoretical and empirical literature, and by justifying the need for this study’s cross-country design, moderating framework, and panel-data methodology. Together, these sections establish the conceptual basis for the hypotheses and guide the empirical modelling presented in the subsequent chapters.

3.2 Research Paradigm and Theoretical Positioning

This study adopts a positivist research paradigm. Positivism assumes that social and economic phenomena—including corporate tax behavior—exist objectively and

can be measured through empirical research, statistical methods, and, often, the pursuit of general laws of social life that can be tested against experience (Outhwaite, 2015). Consistent with the positivist stance, this study employs a deductive reasoning approach in which theoretical propositions inform the specification of testable hypotheses (Creswell and Plano Clark, 2011). Agency theory and the Alignment–Entrenchment Effects framework provide the theoretical basis for predicting the direction of relationships between ownership structures, audit quality, and tax avoidance. These theories inform variable selection, expected coefficient signs, and moderation logic. Once hypotheses are formulated conceptually, they are empirically tested using panel-data econometric techniques applied to observable secondary data obtained from Refinitiv Datastream and audited annual reports.

The positivist paradigm supports the methodological choices adopted in this thesis—namely, the use of quantitative measures, structured modelling procedures, diagnostic testing, and statistical inference to evaluate whether the observed effects are systematic rather than incidental. This paradigm also aligns with established research traditions in corporate governance and tax avoidance studies, which routinely apply large-sample deductive approaches to identify governance mechanisms influencing tax planning behavior. Therefore, positioning the study within positivism ensures coherence among theory development (Chapter 3), hypothesis formulation (Chapter 4), and empirical methods (Chapter 5).

3.3 Underpinning Theory of Tax Avoidance – The Entrenchment Effect of Agency Theory

The agency theory explains that agents (managers) in running day-to-day operations have conflicts/problems with shareholders (principals) as the owners of the company. The problem is not limited to agents and principals but has extended to creditors, major shareholders, and minor shareholders. Therefore, the agency theory has been expanded to three types, as depicted in Figure 3.1. Type I is a problem between shareholders and managers (agents). Type II is the problem between controlling and non-controlling shareholders. Type III explains how companies operate, whether in favor of shareholders or other stakeholders, e.g., creditors. Previous researchers, including Alkurdi et al. (2020), Cabello et al. (2018), and Shi et al. (2020), employed the agency theory to explain the relationship between tax avoidance and ownership

structure. The issue of the relationship between the multiple types of shareholders and corporate tax avoidance could be the main product of agency theory type II. According to Flayyih and Khiari (2023), agency problems (type II) mostly happen because the majority shareholders with high voting rights make decisions in the companies, while the minority shareholders merely cooperate. This decision may include plans initiated by majority shareholders for future profitable risky projects that minority shareholders do not have an interest in.

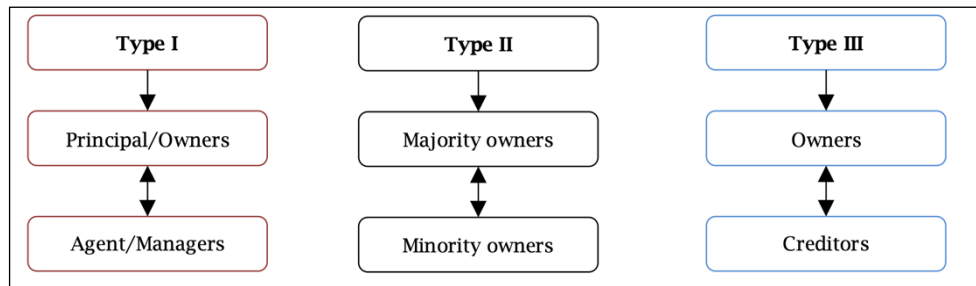


Figure 3.1 Types of Agency Problems
Source: Panda and Leepsa (2017)

Tax avoidance is legal but a risky corporate decision that necessitates extensive deliberation among internal stakeholders. According to Hasan et al. (2014), tax avoidance has a relationship with reporting transparency, which bears high agency costs, such as financial and organizational complexity, impairing investors' ability to understand the firm's activities (Balakrishnan et al., 2019). Kim et al. (2011) also discovered a positive correlation between tax avoidance and the chance of a stock market catastrophe, which is supported by management offering opaque financial reports in order to avoid tax authorities auditing them. Financial reports are the primary source of information used by external parties to make decisions (Chen et al., 2018; Gassen & Schwedler, 2010), and opaque reporting produces unclear information to potential investors.

The agency theory posits the existence of two opposing hypotheses or effects: (i) the entrenchment hypothesis and (ii) the alignment hypothesis (or the convergence of interests hypothesis) (Attia et al., 2023). Entrenchment is a situation in which shareholders are entrenched in their positions, pursuing private interests at the expense of other shareholders' and managers' interests (Chen & Chuang, 2009). In the context of tax avoidance, entrenched shareholders are paying less tax to achieve their targeted after-tax earnings. Higher after-tax earnings increase the value of shareholders'

investments. Generally, all shareholders are entrenched to pay less tax because they invest to get their wealth appreciated, and they exercise their power to choose tax avoidance. In relation to the agency problem, the entrenchment effect signifies that a group of shareholders is less concerned with the interests of other shareholders (Tahir et al., 2020).

Acquiring effective control of a company enables the controlling owner to exert substantial influence over the company's operations, particularly the profit distribution among shareholders. Although minority shareholders are entitled to cash-flow rights proportional to their shareholdings, an entrenched controlling shareholder may opportunistically strip them of these rights (Fan & Wong, 2002). An outcome of controlling owner entrenchment is benefit expropriation, which can include wealth maximization and personal benefits. Managers, who usually have conflicts with shareholders, could become entrenched shareholders when they own shares and are increasingly less subject to governance by the firm's board of directors (Fan and Wong, 2002; Richardson et al., 2016).

In typical settings with concentrated ownership, owners can intensify their influence. The shareholders can run their strategic plans, including tax avoidance. In making a decision, shareholders and management usually have conflicts of interest. Shareholders could be eager to run the strategy even for a higher-risk decision. The management stays away from risky decisions as they are concerned with the image-damaging effects of implementing such decisions, unless they are offered more incentives taking more risk (Rego & Wilson, 2012). So, it is normal that shareholders and managers have conflicts, and shareholders need to pull managers to be in their side. This is why, according to the alignment theory, managers can align to the shareholders' interests, including tax avoidance. One of the strategies to align managers is by increasing the managerial ownership level.

Shareholders can choose to be less entrenched when they have other goals, such as social goals, that can maintain their reputation in public. Governments and family members as shareholders are found not to be motivated by tax avoidance, in which their ownership level negatively correlated with tax avoidance (S. Chen et al., 2010; Minnick & Noga, 2010; Rahman et al., 2018). As shareholders are the owner (the principal) of companies, we should not recognize that there is shareholders' alignment with the managers' interest. Alignment is applicable to managers' alignment with the

shareholders' interest. Therefore, it is still an entrenchment if shareholders avoid doing tax management.

3.4 Tax Avoidance, Tax Aggressiveness, and Tax Evasion

In the literature, three terms are regularly used to explain efforts or activities to reduce tax payments. They are tax avoidance, tax aggressiveness, and tax evasion. The differences among these terminologies are in their legality and compliance. The framework provided by Lietz (2013) gives a comprehensible figure in distinguishing these identical names. Tax evasion is an effort to evade tax, which is clearly illegal, and is intended to defraud the tax system. As it is illegal and deemed fraud, tax evasion attracts heavy penalties, ranging from monetary fines to life imprisonment, depending on the jurisdiction (Kurauone et al., 2021). In tackling tax evasion, Di Nola et al. (2021) suggested that increasing the penalty from 75% to 125% of evaded tax reduces future misreporting for the business and dramatically increases tax revenues for the government. In order to trigger social reactions that can affect firms' intention to do tax evasion, governments need to run media campaigns targeted at changing public attitudes and the population's civic sense towards tax evasion to give deterrent effects for other firms (Di Gioacchino & Fichera, 2020; Luttmer & Singhal, 2014).

Tax aggressiveness and tax avoidance are very hard to demarcate. Tax aggressiveness is within unfavorable tax compliance and a grey area of legality. It has weaker legal support for a firm's tax position and decreased favorable compliance with the tax system. The major obstacle is how to objectively define a cut-off point of legality and compliance to sufficiently question one's action as tax aggressiveness or tax avoidance. While the demarcation point to express the legality and compliance is subjective, Lietz (2013) suggests an explicit "more-likely-than-not" (MLTN), the threshold for distinguishing between non-aggressive and aggressive tax avoidance. It is tax aggressiveness if a business is doing tax planning so aggressively that it invites suspicion from authorities. If tax officers/investigators are more likely (a greater than 50% chance) to question the legality and compliance of such tax planning actions, the firm is tax "aggressive".

Within the framework of Lietz (2013), tax avoidance is broadly defined as the reduction of a company's explicit taxes, and it uses legal means to minimize an individual's or business's income tax liability (Oktaviani et al., 2019). Generally, tax

avoidance is accomplished by claiming as many deductions and credits as possible by prioritising tax-advantaged investments, such as municipal bonds (Mahdi Salehi et al., 2019) or by manipulating the amount of tax payable or the timing of an event in order to minimize taxes under applicable taxation provisions. Tax avoidance is not prohibited by tax regulations, even though it frequently receives negative connotations or is perceived as less nationalistic.

The tax planning activities are depicted in Figure 3.2, ranging from illegal to legal strategies. There is no reason to doubt the legality of many straightforward forms of tax avoidance. Firms that limit their tax avoidance to a combination of perfectly legal activities should be classified as non-aggressive tax avoiders. Within the scope of tax avoidance, the taxpayer’s primary objective is to avoid paying more taxes than is required without breaching tax law. Governments and regulators presumably pursue specific socially desired objectives by exempting certain asset classes from taxation or incorporating tax-favored depreciation provisions into the law. Thus, a certain degree of explicit tax avoidance is desirable as long as authorities view straightforward legal tax avoidance favorably. Any preventive action for tax avoidance is unessential, unlike tax evasion.

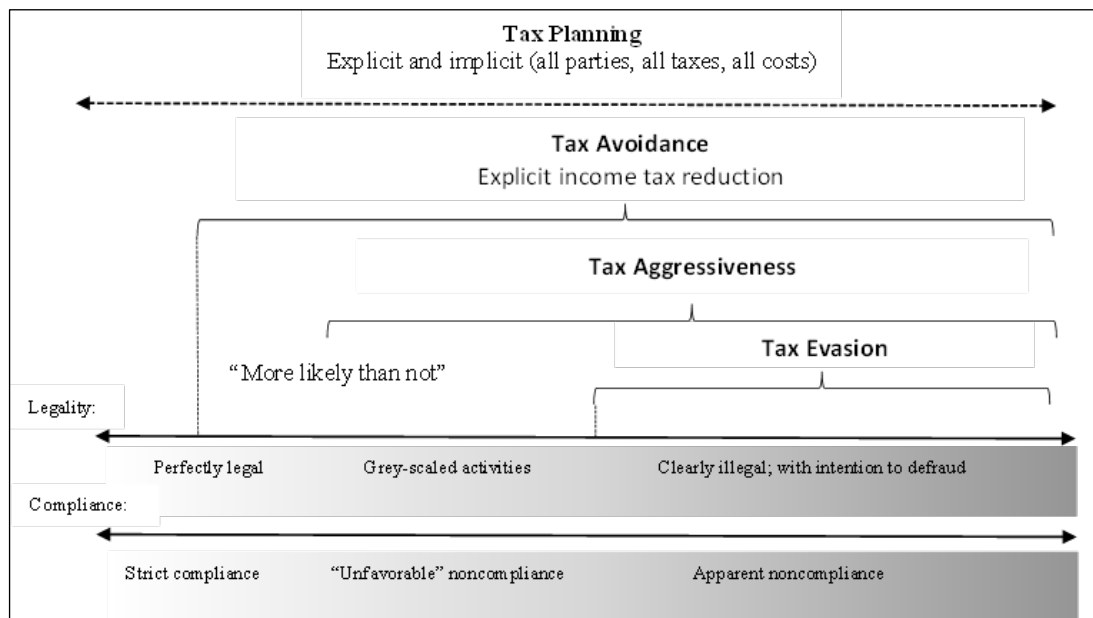


Figure 3.2 Types of Tax Planning
Source: Lietz (2013)

There are several reasons firms apply tax avoidance as the foremost strategy to increase shareholders' wealth. The benefit of tax avoidance is the cash savings associated with the avoided taxes (Annuaire et al., 2014). Minimizing tax expense results in increased net profit, which leads to improved earnings per share and attracts more investors. With a better image in the market, potential investors will likely offer a higher share price, which causes an improved existing investors' investment value. The tax savings also enable companies to make additional investments for business expansion, thereby improving the company's balance sheet. Additionally, managers can benefit from these benefits, given the compensation associated with effective tax management.

Apart from the benefits, tax avoidance bears some risks. Since the majority of tax avoidance activities are unseen, the tax avoidance case is left to moral judgment and viewed as immoral behavior (Lenz, 2020; Payne & Raiborn, 2018; Prebble & Prebble, 2012). In addition to the agency costs associated with tax avoidance and the potential decline of internal control, corporate tax avoidance activities incur additional non-tax costs, such as the opportunity costs for tax management and the likelihood of a penalty imposed by the tax authority (Chen et al., 2010). The firm's cash flow may also be impacted by the tax authority's imposition of additional tax payments and penalties. Besides those mentioned, the reputational risks associated with tax avoidance can also immediately impact the firm.

The public has begun to call into question the firm's organizational legitimacy. The tax is viewed by the public as a legitimate corporate action and socially responsible since it contributes to the prosperity of the community in which the firm currently runs (Christensen & Murphy, 2004; Zeng, 2019). Thus, avoiding tax could jeopardize the firm's image if the public notices such social irresponsibility. Second, other shareholders may discount the firm's stock if they believe the managers conceal rent extraction through tax avoidance activities (Desai & Dharmapala, 2006). Due to this, even though they benefit from tax savings associated with avoided taxes, the shareholders are always in a quandary when choosing to implement tax avoidance practices (Annuaire et al., 2014). Thus, shareholders frequently view tax avoidance as a rent extraction platform (Chen et al., 2010).

Another risk of tax avoidance is a drastic drop in stock prices following public disclosures (Hanlon & Slemrod, 2009). In concentrated ownership environments, such as those in emerging markets, shareholders' reactions may be neglected. Meanwhile, in a less concentrated situation, such as those in markets with adequate minority

shareholder protection, shareholders' reactions are more noticeable. Thus, the risks of aggressive tax avoidance differ according to the firm's ownership structure and the institutional backgrounds of the market. This is why ownership structure is a possible predictor of tax avoidance, as suggested by Shackelford and Shevlin (2001). To summarize, while tax avoidance offers benefits to the corporation and its shareholders, it bears significant non-tax risks, such as decreasing internal control efficiency, rent extraction agency costs, the possibility of a penalty, the possibility of a price discount, and diminished organizational legitimacy (Annuar et al., 2014).

3.5 Ownership as Corporate Governance Mechanisms

Separation of ownership and control issues develops because of a principal-agent conflict between owners and those managing their wealth (Aguilera & Crespi-Cladera, 2016; Fama & Jensen, 1983; Zhang & Kyaw, 2016). This issue was first raised by Mitnick (1975) and Stephen (1973), and since then, numerous pieces of published literature have discussed the agency conflicts between shareholders and managers and the ways to align their interests. The shareholders and managers are just part of corporate governance mechanisms that consist of internal mechanisms (such as the board of directors, managerial shareholders, and executive compensation) and external mechanisms (such as the political-economic situation and the market for products and services). The corporate governance mechanisms work simultaneously to promote goal alignment within firms, and their effectiveness is shaped by political and institutional environments. Given this theoretical grounding, ownership structures are conceptualized as key governance mechanisms through which agency conflicts manifest and influence strategic decisions—such as tax avoidance. This framing motivates the focus in Sections 3.6.1–3.6.5 on distinct ownership types and their expected effects on tax behavior.

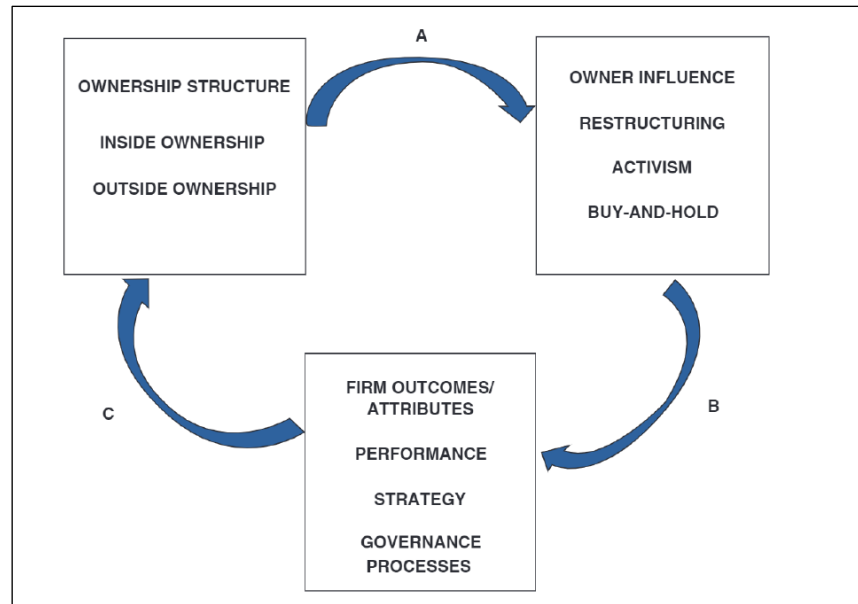


Figure 3.3 Ownership as Corporate Governance
Source: Connelly et al. (2010)

The extent to which the interests of owners and managers are aligned is largely determined by the ownership structures (Connelly et al., 2010). In order to integrate the vast literature on ownership as a form of corporate governance, Connelly et al. (2010) have linked ownership structure, the actions owners take, and firm attributes in a descriptive model, as depicted in Figure 3.3. In Path A and Path B, the figure illustrates a firm's ownership mix that can influence firm outcomes, such as strategies, through restructuring, activism, and buy-and-hold actions. Additionally, Path C highlights that investors take ownership stakes in their companies depending on firms' attributes.

Businesses may be held by a diverse group of investors to achieve their financial objectives. Various owners may employ a variety of strategies depending on their objectives, organizational traits, and power. However, a different group of shareholders has dissimilar investment strategies and capacity for gathering and processing information. For example, if shareholders disagree with executive decision-making, they can sell out their ownership share and leave the firm. As blockholders are strategic shareholders, leaving the shareholders group can cause many costs and uncertainties. Instead of leaving, shareholders, to meet their objectives and interests, can persuade other shareholders to join their voices to influence managerial conduct through various forms of activism. Typically, each owner interprets business conditions differently and employs a variety of methods, resulting in a mixed effect on firm behavior (Connelly

et al., 2010). Therefore, the possibility for business owners to influence corporate governance and strategy persists.

While public businesses have thousands of individual shareholders, specific owners frequently own most of the stock. These large institutional owners are well-capitalized and acquire a big chunk of ownership in a single stock. Unsurprisingly, they are far more knowledgeable than the average investor about the market in which they invest. Examples of these investors are insurance companies, commercial banks, hedge funds, mutual funds, and asset management firms. The investors own enormous resources and talent, so their investment decision brings risks and imposes high costs on smaller investors. Their influence not only can impact the price of individual securities, but also the broader market's direction.

As a result, concentrated ownership is common in countries where capital is owned by some giant companies. The consequences of this situation are frequently hampered by a weak legal system, bad law enforcement, and corruption. Claessens et al. (2000) note that most East Asian businesses, including those in Indonesia and Malaysia, are characterized not only by concentrated ownership but also by affiliation with a business group. The group's largest ultimate shareholder, who has overall authority, can distribute funds across their associated enterprises (Richardson et al., 2016).

3.6 Ownership Structure and Tax Avoidance

The ownership structure is an issue in Asian economies as the main feature of these markets is concentrated ownership. Concentrated ownership means the dominance of one primary owner who controls the firm's governance (Chen et al., 2011). There is limited legal protection for minority shareholders in these emerging economies (Rakayana et al., 2021). The market automatically creates concentrated ownership as there is a finite capital provider in developing countries, and it may be challenging to attract foreign investors. Also, that concentrated ownership is the solution to secure the shareholder's cash-flow rights in low shareholder protection economies. With concentrated ownership, controlling shareholders possess greater influence over managerial and strategic decisions (Mrad, 2015), which may enable them to secure preferential access to financing opportunities—such as improved credit terms or capital market access—relative to firms with dispersed ownership.

Where managers and investors are segregated, the agency problem has been an important influence. The degree of separation influences whether management is more or less inclined to engage in non-value-maximizing behaviors (Jensen & Meckling, 1976). The agency problem's nature changes from manager-shareholder conflict to disputes between controlling owners and minority shareholders (Fan & Wong, 2002). In this instance, the dominant shareholder may expropriate other shares through self-dealings, which may disadvantage the remaining stockholders (Morck et al., 1988; Shleifer & Vishny, 1997; McConnell & Servaes, 1990). Increased managerial ownership can jeopardize the board of directors' control and, as a result, the firm's overall value (Fan & Wong, 2002). According to the literature, managers with concentrated ownership are more likely to engage in tax evasion and seek out tax reduction measures (Bird & Karolyi, 2017). Due to its intricacy, concentrated ownership can disguise business transactions and often expropriate financial benefits from minority shareholders with full voting power and cash-flow rights (Desai & Dharmapala, 2006).

The level of tax avoidance is seen differently based on who belongs to the ownership. Governments, by concept, are tax collectors, which means they expect companies not to engage in tax avoidance. However, as shareholders, Italian government-owned firms avoid tax to a greater level than private shareholders (Mafrolla, 2019). However, Malaysian government-linked companies maintain the mechanism of monitoring tax avoidance and protect government revenues by avoiding tax planning (Rahman et al., 2018). Foreign shareholders in developing countries tend to exploit their host companies and intensify wealth-maximization (Mardini, 2020; Shi et al., 2020). In China, the institutional shareholders act as traders in the A-shares stock market as short-term investments (Jiang et al., 2021). While in Jordan, the institutional shareholders do not look for tax avoidance strategies as the costs and risks of doing tax avoidance outweigh the benefits (Alkurdi & Mardini, 2020).

Tax avoidance is an effort to minimize tax paid to produce a more favorable profit after tax. While managers prefer mountable profitability, shareholders focus on whatever it takes to reduce tax. This so-called agency problem of interest is usually discussed with the agency theory. Furthermore, these days, agency theory has been expanded to three types. Type I is a problem between managers and shareholders. Type II is the problem between controlling and non-controlling shareholders. Type III explains how companies operate, whether in favor of shareholders or the other

stakeholders. Most researchers, including Alkurdi and Mardini (2020), Cabello et al. (2019), Shi et al. (2020), used the agency theory to explain the relationship between shareholders and tax avoidance. Corporate tax avoidance could be the main product of agency problems resulting from the shareholders-managers conflict. Shareholders, as the owners of a business, target higher after-tax income. Therefore, shareholders are always willing to cut costs and expenses where possible, including tax.

The following sub-chapters discuss how different shareholder groups influence tax avoidance, with their effects shaped by underlying incentives and the institutional settings in Indonesia and Malaysia. This study focuses on five ownership types—family, foreign, government, institutional, and managerial ownership—because they represent the most salient governance actors in both countries and capture distinct channels of influence over tax decisions (e.g., controlling-family power, external monitoring by institutions and foreign investors, political objectives in state-linked ownership, and incentive alignment/entrenchment under managerial ownership). Accordingly, this study examines these five ownership dimensions jointly to provide a more comprehensive understanding of how ownership structures interact with institutional frameworks to shape corporate tax behavior in these emerging economies.

3.6.1 Family Ownership and Tax Avoidance

Tax savings from avoided taxes or rent extraction benefit the family members as shareholders and managers of the family business (Chen et al., 2010; Gaaya et al., 2017). However, if the tax avoidance is so aggressive that it invites suspicion from authorities and investigators, this situation will harm the image and organizational legitimacy of the business. Thus, there is a possibility of a share price fall and penalties from the authorities. While this may affect the cash flow of family businesses, the reputational consequences appear to be less severe because they seek minimal funds from the market due to large owners who provide the necessary finances. However, family businesses might be aggressive in tax planning as the costs inherent in tax avoidance are negligible to the benefits received by the family shareholders (Annuar, 2014).

Conflicts of interest in family firms impact the costs and benefits of corporate tax avoidance (Rakayana et al., 2021). Family groups are usually majority shareholders in a business, but the conflict inside is not limited to the principal-principal agency

conflict. The conflicts are so unique that they require further investigation (Annuar, 2014). The family shareholders appoint family members to a strategic position of firms, such as executives (Jiang & Peng, 2011), particularly in countries where investor interests are weakly protected (Gaaya et al., 2017). As the majority shareholder and controller of the firm, the family can easily influence management policies as the management is a member of the controlling family (Nuritomo et al., 2020). It makes the family shareholders can grasp control over the company and can involve in corporate decisions (Gaaya, 2017). In the end, the family shareholders are likely to profit from corporate control.

Family businesses have a stronger concentration of ownership, fewer diversification plans, longer-term ambitions, and greater concern about their image (Chen et al., 2010). This reason is why family firms have the most efficient organizational structure with the lowest agency costs (Andres, 2008; Randøy & Goel, 2003). Additionally, families behave less opportunistically and are more inclined to shun risky activities, such as tax avoidance (Steijvers & Niskanen, 2014). The agency conflict is less serious in family businesses since shareholders (ownership) and managements (control) are usually parts of the family members (Kovermann & Wendt, 2019). The family owners exercise significant control over management and on the boards of directors, harmonizing management and control interests (Anderson & Reeb, 2004).

Families often prioritize their reputation and legacy over short-term financial gains, making them less inclined to adopt aggressive tax strategies. The preservation of the "family name" (Gaaya, 2017) and the desire to pass their businesses on to future generations (James, 1999) motivate family owners to focus on the long-term sustainability and value of their enterprises. This perspective reduces their incentive to engage in aggressive tax planning, as the potential penalties and reputational damage from being detected by tax authorities outweigh the immediate financial benefits of tax avoidance. Consequently, family owners tend to avoid strategies that could jeopardize their legacy or harm their reputation. Based on this reasoning, family ownership is hypothesized to result in less aggressive tax behaviors, aligning with the broader goal of maintaining the business's integrity and long-term value (Gaaya, 2017).

Conversely, an opposing perspective suggests that family businesses are inclined to engage in tax avoidance strategies. This view highlights the inherent conflicts of interest between majority family shareholders and minority shareholders,

where families often act as controlling owners with the potential to prioritize their own interests over those of minority investors (Shleifer & Vishny, 1986). In such cases, family owners may expropriate private benefits by leveraging their control to implement tax avoidance maneuvers that increase their personal rents at the expense of minority shareholders. This behavior aligns with findings from Steijvers and Niskanen (2014), who argue that family businesses may exploit tax planning opportunities to maximize their financial gains, even if such actions compromise equitable treatment within the ownership structure. This perspective underscores the dual nature of family ownership, where the pursuit of private benefits can lead to aggressive tax strategies.

Kartika and Martani (2010) investigated the relationship between ownership characteristics, corporate governance, and tax aggressiveness in Indonesian manufacturing firms listed on the Indonesian Stock Exchange (2005–2008). Their study highlights how family ownership and corporate governance interact to influence tax aggressiveness. They employed multiple measures, including effective tax rate (ETR), cash effective tax rate (CETR), and book-tax difference (BTD), to evaluate tax aggressiveness. These findings indicate that family firms in Indonesia may perceive tax savings and rent extraction as outweighing reputational or regulatory risks, potentially due to weaker enforcement mechanisms or cultural norms. This behavior may be attributed to Indonesia's unique socio-cultural and regulatory contexts.

Puji et al. (2019) also supported the notion of a positive relationship between family ownership and tax avoidance in Indonesia. This study focuses on manufacturing firms listed on the Indonesian Stock Exchange from 2011 to 2017. Employing the Effective Tax Rate (ETR) as a measure of tax aggressiveness. Unlike the other point of view that family firms prioritize reputational concerns and avoid risky practices, the findings highlight a context where family ownership prioritizes wealth preservation and tax savings, potentially exploiting weaker regulatory environments in Indonesia. These findings diverge from studies like Chen et al. (2010) and Rego and Wilson (2012).

Kovermann and Wendt (2019) highlight the significant role private firms play in Germany's national economy and investigate the relationship between family ownership and corporate tax avoidance. Their study, which analyzed 678 large private firms, provides insights into the dynamics of concentrated ownership in a country characterized by a low level of investor protection. In such environments, concentrated ownership structures, such as those dominated by family shareholders, have greater opportunities to exploit tax avoidance benefits. The findings reveal a positive

correlation between family ownership and tax avoidance, indicating that family-owned firms are more likely to engage in tax planning strategies. Moreover, the researchers observed that family firms tend to avoid more tax than their non-family counterparts, suggesting that family ownership structures may prioritize tax minimization as a means of maximizing private benefits, particularly in settings with weaker safeguards for minority investors.

Syukur et al. (2024) investigate the relationship between ownership structure, specifically family ownership, and tax avoidance in Indonesian listed firms, with a focus on the moderating role of audit report lag (ARL). Their findings reveal a nuanced relationship: a positive correlation between family ownership and SETR (Statutory Effective Tax Rate) and a negative correlation with ETR (Effective Tax Rate). These results indicate that higher levels of family ownership are associated with greater tax avoidance. Family-owned firms appear more inclined to leverage their concentrated ownership to implement tax-saving strategies, reflecting the entrenchment effect. This suggests that controlling family shareholders prioritize personal wealth maximization, often at the expense of corporate transparency and tax compliance. Moreover, the study highlights how entrenched family owners can use their influence over management to pursue aggressive tax planning, potentially sidelining broader stakeholder interests. These findings affirm the hypothesis that family ownership positively influences tax avoidance, shedding light on the role of governance dynamics in shaping tax behavior in emerging markets such as Indonesia.

Raditya et al. (2025) also examined the influence of family ownership on corporate tax avoidance in Indonesia, with a focus on the period following the 2015–2016 Indonesian tax amnesty program. The study's methodology employed three tax avoidance measures—effective tax rate (ETR), cash effective tax rate (CETR), and book-tax difference (BTD)—and incorporated control variables such as firm size, profitability, and leverage. Using a sample of 49 non-state-owned, non-financial private firms listed on the Indonesian Stock Exchange, the study revealed that family firms were more aggressive in tax avoidance than their non-family counterparts, as reflected by a lower cash effective tax rate (CETR). The tax amnesty program did not significantly alter tax avoidance behaviors for either group. Results suggested that high family ownership correlates with increased tax avoidance, aligning with the notion that family-controlled firms prioritize wealth preservation through aggressive tax strategies.

However, the ineffectiveness of the tax amnesty program in reducing tax avoidance raises questions about the program's design and enforcement.

Similarly, Gaaya et al. (2017) from North Africa investigated the effect of family ownership on corporate tax avoidance. According to the observations on 55 Tunisian listed firms, they have found that family shareholders benefit from tax avoidance at the expense of other shareholders. The researchers highlighted that similar results might appear in other countries with a low level of investor protection and less developed financial markets. In addition, Mafrolla and D'Amico (2016) concluded that too much involvement of family members in company decision-making results in higher aggressive tax planning. Their observation is on 183 listed firms in Italy. They found that family firms in Italy avoid less tax than non-family firms. However, they found a more interesting finding that at some highest points, the family firms might avoid tax as much as non-family firms; this relationship is a so-called parabolic relationship.

Taken together, the mixed empirical evidence demonstrates that the relationship between family ownership and tax avoidance is context-dependent, shaped by institutional environments, cultural norms, investor protection, and firm-level governance mechanisms. Studies in Indonesia and comparable emerging markets tend to show a positive association, consistent with entrenchment perspectives, whereas findings from settings with stronger enforcement or reputational pressures report reduced aggressiveness or risk-averse tax positions. These inconsistencies highlight a theoretical ambiguity that warrants further empirical investigation, particularly in jurisdictions with concentrated ownership structures such as Indonesia and Malaysia. Building on the Alignment–Entrenchment agency effects, the present study tests whether higher family ownership levels are associated with greater tax avoidance and whether audit quality moderates this relationship. By examining two Southeast Asian economies under comparable institutional pressures, this study contributes to resolving debate in the literature and advances understanding of whether entrenched family control exacerbates or mitigates corporate tax avoidance.

3.6.2 Foreign Ownership and Tax Avoidance

International investors face greater relational (agency) costs in comparison to domestic investors when their investee enterprises participate in the effort for tax

avoidance. These foreign investors are less likely to notice the tax avoidance behavior of the local managers well enough and to have confidence in their ability to act in their best interests (Hasan et al., 2022). In other words, foreign shareholders are less certain and trusting of managers' tax avoidance activity. The foreign shareholders must monitor the firm's manager to avoid such agency conflicts, which increase monitoring costs before or while carrying out their tax avoidance plans. Thus, increased tax avoidance is related to increased levels of information asymmetry and managers' opportunistic behavior. (Balakrishnan et al., 2019) since tax avoidance by foreign-owned firms incurs higher relational (agency) costs.

Foreign shareholders could be unfamiliar with foreign countries where their investees are located (Mezias, 2002; Gaur & Lu, 2007). In extended scopes, foreign investors might have knowledge limitations on the regulatory framework and political landscape of the host country. Indeed, tax systems are inherently difficult and greatly varied across countries (Atwood et al., 2012). Even a domestic investor needs time and effort to understand tax regulations that frequently change. Firms, regardless of who owns them, must have a thorough understanding of local tax regulations in order to design tax avoidance techniques without triggering legal obligations.

Additionally, anecdotal data indicate that foreignness is connected with a greater risk of inspection (Mezias, 2002), owing to the fact that local governments monitor foreign investments due to their national security and economic implications (Kirkland Alert, 2017). Foreign stockholders would incur increased fees if they were found due to their lack of local ties (e.g., Ferreira & Matos, 2008; Aggarwal et al., 2011). Corporate tax avoidance operations have been under public attention and government concern in recent years (Graham et al., 2014; Dyreng et al., 2016). Without sufficient knowledge of how firms in host nations engage in tax avoidance in a manner that avoids detection, foreign investors would face increased unfamiliarity costs if their investee firms increased their tax avoidance operations.

The increase in foreign ownership reflects the positive economic fundamentals (Rachman, 2017). Most countries, especially developing countries, are working hard to look healthy and stable to attract foreign investors (Zhang, 2013) since foreign shareholders are likely not to invest in poorly governed firms and countries with weak institutions (Leuz, Lins, & Warnock, 2009). Other than the invested capital, there are several reasons why companies need foreign investors. Foreign investors can monitor and enhance firm performance (Alkurdi, 2020), so the firms could have high levels of

efficiency and profitability (Resti, 2020; Annuar et al., 2014). They also have incentives to supervise managerial behavior intensely (Deef, 2021); thus, they can mitigate agency conflicts with the managers (Yoo & Koh, 2014). Foreign owners also can help to understand better a firm's strategies, including tax avoidance (Barros & Sarmiento, 2020). However, they always maintain fairness in determining policy in tax planning (Rakayana, 2021).

Empirical research on the relationship between foreign ownership and tax avoidance remains relatively scarce. This topic is particularly relevant for developing countries, which often rely on equity capital from foreign investors in resource-rich nations to support their economic growth. The findings in the available literature (e.g., Alkurdi & Mardini, 2020; Deef et al., 2021; Shi et al., 2020; Syukur and Jongsureyapart, 2023) are characterized by significant debate and inconsistencies. Shi et al. (2020) examined the impact of foreign ownership on corporate tax avoidance in the Philippines, focusing on 90 non-financial firms listed on the Philippine Stock Exchange (PSE) from 2009 to 2015. The study found that foreign ownership significantly increases the level of tax avoidance, suggesting that foreign investors may encourage aggressive tax planning strategies to maximize returns. The findings were attributed to the broader opportunities for tax planning that foreign influence brings, including the ability to leverage international tax differentials and exploit tax regulation loopholes. Additionally, the separation between foreign investors and local management creates governance complexities, where foreign directors prioritize profit maximization, sometimes at the expense of regulatory compliance. The researchers argue that such behavior can be detrimental to the country's fiscal health, as aggressive tax avoidance undermines government revenue collection. Based on these findings, Shi et al. recommend that the national government strengthen regulations governing foreign participation in private sectors.

Suranta et al. (2020) examine the influence of foreign ownership structure and the presence of foreign commissioners on corporate tax avoidance. Using data from 53 non-financial firms listed on the Indonesia Stock Exchange (2012–2016), the research employs the Effective Tax Rate (ETR) as a proxy for tax avoidance, recognizing that a higher ETR indicates lower levels of tax avoidance. The study tests hypotheses within the framework of legitimacy theory, providing insights into the relationship between foreign interests and tax behavior. The study found a significant positive relationship between foreign ownership and ETR, indicating that firms with higher foreign

ownership engage in less tax avoidance. Foreign investors prioritize compliance with tax regulations to maintain legitimacy and reputation in host countries, reflecting their aversion to reputational risks and the potential for sanctions. This aligns with legitimacy theory, which posits that organizations seek societal acceptance by adhering to regulatory and societal norms. The presence of foreign commissioners on corporate boards does not significantly influence tax avoidance. This may be due to the relatively low proportion of foreign commissioners (average 41.58%), limiting their capacity to effectively monitor and influence tax strategies. The findings support legitimacy theory by demonstrating that foreign ownership aligns with societal expectations through tax compliance. However, the role of foreign commissioners does not contribute significantly to reducing tax avoidance, suggesting limitations in their oversight capabilities.

Alkurdi and Mardini (2020) investigate the influence of ownership structure—specifically managerial, institutional, and foreign ownership—on tax avoidance in the context of Jordanian companies. Their study focuses on firms listed on the First Market of the Amman Stock Exchange (ASE), which are subject to stringent regulatory requirements. The final sample includes 58 firms across financial, manufacturing, and service sectors, observed from 2012 to 2017. The findings indicate that ownership structures significantly shape tax avoidance behaviors. Foreign ownership exhibits a positive relationship with tax avoidance, implying that foreign shareholders may incentivize the implementation of aggressive tax strategies to enhance profitability and shareholder wealth. These results underscore the complexities of ownership dynamics in emerging markets like Jordan, where foreign investors' influence might amplify tax planning efforts. The study contributes to understanding how different ownership types affect tax behavior in developing economies, providing implications for policymakers to design tax systems that address ownership-driven variations in corporate tax practices.

Cahyani and Larasati (2024) examine how directors with foreign experience and foreign institutional ownership can affect tax avoidance within Indonesia's manufacturing firms. Tax avoidance is measured using Abnormal Book-Tax Differences (ABTD), which is considered a robust proxy as it captures the discretionary actions of management that influence tax planning. Directors with foreign experience likely to perceive the benefits of tax avoidance as outweighing the risks, given the low reputational costs associated with tax strategies in this regulatory context. These

"returnee directors" leverage their international insights and knowledge to employ strategies that minimize tax obligations, prioritizing shareholder wealth maximization. This finding aligns with cost-benefit theory, where directors weigh the benefits of reduced tax liabilities against potential costs like reputational risks. Weaker tax enforcement in Indonesia allows these directors to exploit loopholes, thus increasing tax avoidance practices. However, the study found no significant relationship between foreign institutional ownership and tax avoidance. This result suggests that foreign investors may prioritize returns over the operational strategies employed to achieve them, including tax-related decisions. This aligns with findings that institutional investors, particularly in emerging markets, may focus more on financial outcomes than corporate governance practices like tax compliance.

Deef et al. (2021) investigated the effect of foreign ownership on tax avoidance within the Egyptian context, focusing on non-financial companies listed on the EGX100 index. Using a final sample of 69 firms from 2015 to 2019, the study employed the Effective Tax Rate (ETR) as the sole measure of tax avoidance. In contrast to findings in other developing economies, the study revealed no significant relationship between foreign ownership and tax avoidance. This suggests that the presence of foreign investors does not necessarily translate into more aggressive tax planning or enhanced tax compliance within Egyptian firms. The researchers attribute this outcome to the unique institutional and regulatory framework of the Egyptian stock market, where foreign ownership may not exert sufficient influence to alter firms' tax strategies. The study provides valuable insights into the dynamics of ownership structures and underscores the need for tailored regulatory policies to address tax avoidance in the context of foreign investment.

Syukur and Jongsureyapart (2023) investigate the relationship between foreign ownership and tax avoidance in Thailand, focusing on the 100 most profitable companies over a five-year period (2015–2019). Using effective tax rate (ETR) and cash-flow ETR as measures of tax avoidance, the study meticulously collected foreign ownership data from 500 annual reports to ensure accuracy and comprehensiveness. The findings reveal a significant positive correlation between foreign ownership and tax avoidance, indicating that firms with greater foreign shareholder stakes are more likely to engage in aggressive tax planning strategies. This relationship highlights the influence of foreign investors, who often prioritize profit maximization and leverage their ownership power to implement complex tax strategies, particularly in emerging

economies like Thailand, where governance and regulatory mechanisms may provide opportunities for tax avoidance. The study underscores the broader implications of such practices, emphasizing the need for policymakers to actively monitor and regulate foreign ownership levels to mitigate aggressive tax avoidance and protect national fiscal health. By doing so, governments can balance the benefits of attracting foreign investment with the imperative to ensure sustainable economic growth and equitable tax contributions.

Nurchaya et al. (2024) investigated the influence of foreign ownership, foreign boards of commissioners, and foreign boards of directors on tax avoidance in Indonesian firms listed on the IDX80 index during 2018–2021. The IDX80 consists of 80 strong companies in liquidity and fundamentals. Using Book-Tax Differences (BTD) as a proxy for tax avoidance, the research employs a quantitative approach and panel regression analysis to examine the relationship between foreign interests and corporate tax strategies. The study found a positive and significant relationship between foreign ownership and tax avoidance. This suggests that companies with higher foreign ownership tend to engage in aggressive tax planning, possibly due to the prioritization of maximizing returns for foreign investors. Foreign ownership increases the propensity of firms to report lower taxable income relative to pre-tax accounting income, reflecting their ability to exploit cross-border tax planning opportunities. Additionally, the presence of foreign individuals in supervisory or managerial roles does not directly impact the company's tax strategy. The study's emphasis on regulatory frameworks highlights the need for stricter oversight for closely monitored firms.

Puji et al. (2024) examines the influence of foreign ownership and leverage on tax avoidance in telecommunication companies listed on the Indonesia Stock Exchange (IDX) during 2018–2022. The researchers employ a quantitative method, analyzing data from 35 observations using multiple linear regression. Tax avoidance is measured using Book-Tax Differences (BTD), a common proxy for aggressive tax planning. A positive and significant relationship was found between foreign ownership and tax avoidance. Companies with substantial foreign ownership are more likely to engage in tax avoidance strategies. This behavior is attributed to the foreign owners' preference for maximizing returns through reduced tax liabilities. Moreover, foreign shareholders may employ strategies like transfer pricing to shift profits to jurisdictions with lower tax rates, further facilitating tax avoidance. The study highlights the need for targeted regulatory policies to address tax avoidance practices among foreign-owned firms,

particularly in sectors like telecommunications, which play a critical role in the digital economy.

The relationship between foreign ownership and tax avoidance remains a contested topic, with findings varying across different economies. Studies such as Shi et al. (2020) in the Philippines, Alkurdi and Mardini (2020) in Jordan, and Syukur and Jongsureyapart (2023) in Thailand, reveal a positive association, suggesting that foreign ownership can incentivize aggressive tax planning for shareholder wealth maximization, while others, like Deef et al. (2021) in Egypt, found no significant relationship due to unique regulatory and institutional frameworks. These studies collectively highlight the complexities of ownership dynamics and regulatory frameworks in shaping tax behavior, particularly in emerging markets.

In conclusion, while foreign ownership brings much-needed capital and expertise to developing economies, its influence on corporate tax practices presents challenges for fiscal policy and governance. The varied findings emphasize the importance of context-specific factors, such as institutional frameworks, governance structures, and regulatory oversight, in determining the impact of foreign ownership on tax avoidance. Policymakers must balance fostering a favorable environment for foreign investment with implementing robust mechanisms to mitigate aggressive tax practices.

3.6.3 Government Ownership and Tax Avoidance

Shareholders typically focus on wealth maximization by minimizing expenses, including tax expenses, to report higher profits. However, governments as shareholders face a unique dilemma regarding tax avoidance. Unlike private shareholders, governments must balance their role as business owners with their broader social and political objectives (Mafrolla, 2018). Tax avoidance is often perceived as socially irresponsible behavior that can have detrimental consequences for a government's political reputation and raise significant reputational concerns (Fisher, 2014; Krieg & Li, 2021; Syalwa et al., 2024). For this reason, governments are generally inclined to avoid engaging in tax avoidance practices, as their focus extends beyond profit maximization to achieving social and political goals (Shleifer and Vishny, 1994). Furthermore, tax avoidance undermines national tax revenue collection (Crocker and Slemrod, 2005), directly conflicting with the government's role as a tax collector. Thus,

government-owned firms are often more tax-compliant to align with the government's dual objectives of public accountability and fiscal responsibility.

The government still maintains controlling ownership, particularly in essential industries such as banking, energy, transportation, natural resources and telecommunication in Asian developing countries (Liu and Lu, 2007). As the government holds the major ownership share in the highly-regulated industries, the government-owned companies always get people's attention on their activities, especially the ones related to social activities. Due to this reason, it is common for managers of government-controlled firms to have incentives to make tax decisions favourable to the government as tax collectors rather than maximising the interests of investors (Tang, 2020). Government-owned companies have unique agency conflicts (Rakayana, 2021; Chan, 2013). They are eager to protect government goals by avoiding aggressive tax planning as such tax planning will benefit other shareholders at the government's expense (Bradshaw et al., 2019; Shevlin et al., 2012; Chan et al., 2016). However, these managers also have incentives to avoid taxes to maximise the corporate resources under their control (Wenwu et al., 2023).

Tax avoidance, on the other hand, results in tax savings for the firm, which benefits total cost reduction and profit maximization whilst, at the same time, enabling the possible scenario of insider rent extraction (Bushman et al., 2004). Managers of government-owned firms are more keenly aware of the desire to reduce costs and maximize resources under their control, as well as the resulting rent extraction than managers of non-government-owned firms (Bushman and Piotroski, 2006; Guedhami et al., 2009). When the government is the primary owner, the conflict between the majority and minority shareholders over resource control is exacerbated (Dharwadkar et al., 2000).

Through the shareholder salience of the government, particularly within its regulatory power, this agency can have a huge influence on the managerial decision process (Liu & Lu, 2007). Within the scenario of state ownership, a firm would commonly be privileged of close-knit political connections during the process of corporate tax planning, prior to analysing the firm resources over government monitoring (Wang et al., 2008). And though the privilege of political networks, according to Faccio et al. (2006), firms are associated positively with tax aggressiveness. Consequentially, under the process of the low-risk tax audit, transparency will be far less ignored as the companies are making aggressive moves in

their tax planning (Yu & Yu, 2011). At the same time, the poor enforcement of government, with limited oversight agents, has also enabled more aggressive tax avoidance (La Porta et al., 1999); while in parallel, potential law enforcement and punishment are seemingly not in place when it comes to tax audit examination as political connections justified all the possible misconducts (Faccio et al., 2006).

Tax avoidance can bolster cash flows and provide resources for strategic investments or enhanced employee compensation, particularly for top management (Xiaomei et al., 2022). These advantages may be offset by reputational risks, increased pay inequality, and adverse effects on public finances. Annuar (2014), Salihu et al. (2014), and Septiya (2018) note that Malaysian GLCs often perceive the financial benefits of tax minimization as outweighing potential costs, especially given their relative insulation from capital market scrutiny (Mohd Ghazali & Weetman, 2006). Mafrolla (2018) further observes that government-owned firms may engage in long-term and sometimes aggressive tax planning to achieve political or operational objectives. This behavior reflects the broader corporate landscape in many developing economies, where relationship-based capitalism prevails, and state involvement in business remains significant (Adhikari et al., 2006). However, as governance expectations and stakeholder scrutiny intensify, particularly regarding fiscal responsibility and income equity, the long-term sustainability of such tax strategies becomes increasingly questionable.

Governments, as shareholders, benefit regardless of the tax strategies adopted by state-owned enterprises (SOEs), as they either maximize profits through tax avoidance or achieve political goals by increasing tax payments. This dual advantage allows governments to secure favorable outcomes, whether the focus is on economic or political objectives. In larger economies like China, where local and regional governments often hold ownership stakes in businesses, significant differences emerge in tax strategies between national and local government-owned firms. Local government-owned firms, particularly in less-developed regions, often receive preferential tax treatments, such as reduced tax rates, to stimulate economic development (Wu et al., 2013), yet they engage in higher levels of tax avoidance due to weaker corporate governance mechanisms in these areas (Chan et al., 2013). These practices reflect a prioritization of economic competitiveness over tax compliance, contrasting with the broader fiscal goals of the national government. However, such distinctions between federal and local ownership are less relevant in Southeast Asia's

smaller economies, where centralized ownership structures dominate, reflecting the policies of the central government rather than regional variations.

Sudibyo and Jianfu (2016) conducted an in-depth study examining the correlation between state-owned enterprise (SOE) status and tax avoidance practices in Indonesia, using data from 171 manufacturing firms listed on the Indonesian Stock Exchange between 2007 and 2013. Their research revealed a significant distinction in tax behavior between politically connected and non-connected firms, with politically connected firms paying notably lower taxes. The study utilized the Cash Effective Tax Rate (CETR) as a proxy for tax avoidance, finding that government ownership and political connections were associated with more aggressive tax planning strategies. State-owned enterprises, in particular, demonstrated an ability to manage taxes more effectively, benefiting from political connections that facilitated favorable tax treatments and regulatory leniency. Sudibyo and Jianfu highlighted that this behavior aligns with relationship-based business environments prevalent in many developing countries, where political ties play a critical role in shaping corporate strategies. The findings contribute to the understanding of how political dynamics and government ownership influence tax behavior, emphasizing the need for regulatory policies that mitigate tax avoidance and enhance state revenues in such contexts.

Mafrolla (2019) conducted a comprehensive study examining the tax avoidance practices of government-owned and privately-owned firms in Italy, offering valuable insights into the Western perspective on this issue. Analyzing a sample of 183 non-financial firms from 2006 to 2011, the study uncovered two significant findings. First, the level of government ownership was positively associated with increased tax avoidance, indicating that firms with greater government involvement tended to engage more in tax minimization strategies. Second, the study highlighted that government-owned firms, particularly those under local government ownership, demonstrated more aggressive tax avoidance behaviors compared to their national government counterparts and privately-owned firms. This distinction is attributed to the unique tax collection framework in Italy, where local governments are not direct collectors of corporate income taxes and thus face less pressure to ensure compliance. Instead, local governments prioritize profit maximization and cost reduction, which benefits shareholders and potentially aligns with political objectives. Mafrolla's findings emphasize the complexities of government ownership in shaping corporate tax

strategies, contrasting with the conventional expectation that government-controlled entities prioritize tax compliance to uphold broader social responsibilities.

Rahman et al. (2018) explored the relationship between government institutional ownership and tax aggressiveness in Malaysia, focusing specifically on Government-Linked Companies (GLCs) owned by federal government-linked investment companies (GLICs). Using a sample of 25 federal GLCs, the study employed the effective tax rate (ETR) as one measure of tax aggressiveness. The findings revealed that these firms were less likely to engage in tax avoidance, showcasing a commitment to government revenue contributions and aligning with the government's social and political objectives. This outcome reflects the effectiveness of GLICs in mitigating tax-aggressive behaviors, potentially influenced by their monitoring functions and alignment with long-term national goals. However, Rahman et al. highlighted that their findings might differ if state-owned entities were included in the analysis. State ownership could introduce varying dynamics, as different layers of government may exert distinct pressures and objectives on tax strategies. This distinction underscores the complexity of ownership structures and their implications for tax behavior, suggesting that future research could benefit from a broader inclusion of government ownership at both federal and state levels.

In China, the performance evaluation systems established by national and provincial governments for state-owned enterprises (SOEs) have a significant impact on their tax behavior. Of the 34 provinces, 30 use earnings before tax (EBT) as the primary metric to assess company performance, while the remaining four adopt after-tax profit as the standard. Chen et al. (2018) hypothesized that these differing evaluation criteria influence SOEs' approaches to tax obligations. Drawing on data from 937 non-financial firms over an eight-year period (2007–2015), the study found that SOEs evaluated based on after-tax profit are more likely to engage in tax avoidance compared to those assessed using EBT. This suggests that performance metrics tied to after-tax outcomes create stronger incentives for managers to reduce tax liabilities to enhance reported profits. Notably, the substantial ownership and direct involvement of both national and provincial governments in these enterprises distinguish China's context from that of other developing nations, highlighting the unique role of governance structures and performance metrics in shaping corporate tax strategies.

Ninow et al. (2021) explore the tax avoidance behaviors of German state-owned enterprises (SOEs) and the factors influencing such practices, revealing that SOEs

engage in aggressive tax avoidance strategies, often surpassing those of their private-sector counterparts. A key driver is the extent of state ownership, with higher ownership stakes correlating with increased tax avoidance, possibly due to reduced external pressure for transparency and accountability. Additionally, SOEs operating in highly competitive industries are more likely to adopt tax avoidance strategies to maintain profitability and market position. The study also emphasizes the role of governance structures and state-imposed performance evaluation criteria, which often focus heavily on financial efficiency and profitability, inadvertently encouraging tax avoidance to meet performance targets. These findings highlight a misalignment between the fiscal behaviors of SOEs and their broader public service mandates, as aggressive tax strategies can undermine public revenue objectives. Ninow et al. argue for policymakers to reassess regulatory and governance frameworks to ensure SOEs align with both fiscal responsibility and public welfare, suggesting revisions to performance criteria and enhanced oversight to curb aggressive tax practices while supporting equitable tax contributions.

Research across various contexts highlights the intricate relationship between government ownership, corporate governance, and tax avoidance strategies in state-owned enterprises (SOEs). Governments, as shareholders, benefit from SOEs through profit maximization or increased tax revenue, depending on their strategic goals. In China, performance metrics tied to after-tax profit incentivize higher tax avoidance among local SOEs, especially in less-developed regions with weaker governance (Chen et al., 2018; Wu et al., 2013; Chan et al., 2013). Similarly, in Germany, higher state ownership and competitive pressures drive aggressive tax avoidance, emphasizing the need for better regulatory oversight (Ninow et al., 2021). Italy's SOEs also demonstrate higher tax avoidance, particularly at the local government level, where profit motives often outweigh tax compliance due to non-collector status (Mafrolla, 2019). In Malaysia, however, government-linked companies prioritize revenue contributions, aligning with social and political objectives (Rahman et al., 2018). Indonesia presents another dimension, with politically connected SOEs leveraging relationships for favorable tax treatments and aggressive tax planning in a relationship-based business environment (Sudibyo & Jianfu, 2016). Together, these studies underscore the critical role of governance structures, ownership dynamics, and performance criteria in shaping tax behaviors, highlighting the importance of tailored regulatory frameworks to balance fiscal responsibilities with economic objectives.

In summary, the relationship between institutional ownership and tax avoidance is multifaceted and shaped by the governance role institutional investors assume within different market contexts. While institutional ownership is often theorized to strengthen corporate governance and curb aggressive tax behavior by monitoring managerial actions, empirical evidence presents a mixed picture. Studies from diverse jurisdictions—including the United States (Khan et al., 2017), China (Jiang et al., 2021), and Jordan (Alkurdi & Mardini, 2020)—highlight that institutional investors may both facilitate and constrain tax avoidance depending on factors such as ownership concentration, investment horizons, and the quality of internal and external monitoring mechanisms. In emerging markets such as Indonesia and Malaysia, where regulatory enforcement can vary and ownership structures are frequently concentrated, institutional investors may prioritize short-term financial gains over long-term governance objectives. In these contexts, institutional investors may facilitate tax minimization strategies, especially when regulatory scrutiny is inconsistent. However, when coupled with strong governance mechanisms—including high-quality external audits—the alignment effect may prevail, mitigating aggressive tax practices and promoting compliance. Therefore, the influence of institutional ownership on tax avoidance must be evaluated in light of market-specific governance dynamics, regulatory frameworks, and investor behaviors.

3.6.4 Institutional Ownership and Tax Avoidance

Institutional ownership refers to the proportion of a company's shares held by institutions such as insurance companies, banks, corporate pension funds, mutual funds, hedge funds, and boutique asset management firms. While companies may have hundreds or even thousands of individual shareholders, it is common for a few institutional investors to hold the majority of shares, significantly influencing corporate decisions (Sunarto et al., 2021). These institutional investors are typically highly capitalized and often acquire millions of shares in a single stock, leveraging their substantial resources and expertise to play a critical role in corporate governance and oversight. Their advanced financial knowledge and capacity to monitor investments set them apart from ordinary investors, allowing them to exert considerable influence on corporate strategies, including decisions related to financial performance and tax practices.

Institutional shareholders play a critical role in monitoring managerial behavior and ensuring that corporate outcomes align with shareholder interests. By focusing on corporate policies and governance, institutional investors help mitigate agency conflicts and reduce tax avoidance activities. These shareholders prioritize enhancing the company's performance and value, urging management to work diligently toward these objectives (Salehi et al., 2016). The greater the proportion of institutional ownership, the stronger the incentive for these investors to maximize the company's worth (Abedin et al., 2022). Furthermore, institutional ownership enhances the effectiveness of managerial supervision, creating an environment of accountability and improved oversight (Liu & Hou, 2022; Baghdadi et al., 2018; Waluyo, 2018). Consequently, managers are compelled to prioritize corporate performance and value creation, aligning their actions with shareholder expectations (Annuar et al., 2014; Suryanto & Wekke, 2017). Institutional investors' presence fosters a culture of responsibility and long-term strategic focus, ultimately benefiting the organization and its stakeholders.

Institutional investors often acquire significant blocks of publicly traded corporate stock, granting them substantial influence over corporate management and decision-making processes (Chabachib, Fitriana, Hersugondo, Pamungkas, & Udin, 2020). These investors play a crucial role in shaping and controlling management policies, functioning as an effective governance mechanism through rigorous monitoring processes (Alzoubi, 2016; Ratnawati, 2019). Their large ownership stakes provide a strong incentive to ensure that managerial decisions align with their interests, focusing on enhancing the company's performance and, ultimately, their financial prosperity (Pitoyo, 2018). Institutional ownership also acts as a check on managerial behavior, reducing the likelihood of self-serving actions and personal benefit activities by managers. As institutional ownership increases, so does the intensity and quality of oversight, compelling managers to make decisions that are in the best interests of shareholders. This dynamic ensures that institutional investors significantly contribute to improving corporate governance and accountability.

Increased institutional ownership is often associated with higher levels of tax avoidance (Eskandar & Ebrahimi, 2020; Jiang et al., 2021; Kałdoński & Jewartowski, 2024). Institutional shareholders actively monitor company management, exercising significant oversight that can lead to more strategic and optimal control of tax avoidance practices (Tandean, 2016). Previous research has also established a significant correlation between institutional ownership and tax avoidance (Bird and Karolyi, 2017;

Khan et al., 2017). These studies argue that institutional investors, leveraging their expertise in tax planning, make tax strategies more effective and efficient. By utilizing tax shelters and other mechanisms, institutional investors can enhance the company's tax planning activities, potentially reducing tax liabilities while maximizing shareholder value. This dual role of monitoring and strategizing underscores the nuanced influence of institutional ownership on corporate tax behaviors.

While institutional shareholders have the potential to encourage tax avoidance, they may also act as a moderating force by limiting tax avoidance to a level where the associated risks and costs outweigh the benefits (Kovermann & Velte, 2019). Institutional ownership can enhance the effectiveness of corporate oversight by increasing managerial discipline and accountability (Khurana & Moser, 2013). Institutional investors are expected to fulfill their fiduciary responsibilities by closely monitoring the investments of their contributors, leveraging their substantial capital, expertise, and financial resources to play a credible governance role within firms. Their active involvement in governance mechanisms helps align managerial actions with long-term corporate and shareholder interests, reducing the likelihood of aggressive tax strategies. Furthermore, the presence of professionally managed institutions ensures rigorous supervision of management decisions, significantly enhancing the control over managerial actions and curbing tax avoidance practices (Fadhilah, 2014). By maintaining stringent oversight and holding management accountable, institutional investors strike a balance between optimizing financial performance and mitigating the risks associated with aggressive tax planning, thereby fostering sustainable corporate practices.

Alkurdi and Mardini (2020), Jiang et al. (2021), and Khan et al. (2017) represent some of the latest contributions to the growing body of literature examining the relationship between institutional shareholders and corporate tax avoidance. Khan et al. (2017) specifically investigated the influence of institutional investors on tax avoidance within the context of the United States, focusing on companies listed on the Russell 1000 index, which includes the largest market-capitalized firms in the U.S. market. Their study found that higher levels of institutional ownership were positively associated with increased tax avoidance. This relationship suggests that institutional investors in the U.S., particularly those managing significant capital, may prioritize short-term financial gains, including tax minimization strategies, to maximize shareholder value. The findings align with the broader perspective that institutional

investors can drive aggressive tax planning when their focus is primarily on maximizing returns, highlighting the importance of regulatory oversight and governance mechanisms to balance these behaviors with long-term corporate accountability and compliance. These insights, when compared with those from other contexts such as Jordan (Alkurdi & Mardini, 2020) and China (Jiang et al., 2021), underscore the varying influence of institutional investors on tax behavior across different markets and regulatory environments, reflecting the critical role of governance structures in shaping these outcomes.

Jiang et al. (2021) examined the influence of institutional investors on corporate tax avoidance in China, analyzing data from 1,108 A-share listed firms between 2009 and 2017. Their findings reveal that institutional ownership promotes tax avoidance, driven by short-term investment behaviors and frequent trading patterns that prioritize immediate profitability over long-term risks such as reputational damage or regulatory penalties. The relatively low participation of institutional investors in corporate governance, coupled with the dominance of majority shareholders in China, limits the implementation of robust oversight. Notably, institutional investors have a stronger influence on tax avoidance in firms with lower ownership concentration, where their governance role is more significant. The study highlights unique features of the Chinese market, including high ownership concentration and government intervention, which create agency conflicts and shape the tax behavior of institutional shareholders. Jiang et al. emphasize the need for regulatory reforms to address the influence of institutional investors on tax practices, promoting sustainable, long-term investment strategies while ensuring better alignment between institutional ownership and effective corporate governance.

Li et al. (2021) examine the impact of reduced monitoring by dedicated institutional investors (DIIs) on firms' tax planning strategies in Hong Kong, China. The research demonstrates that during periods of diminished DII oversight, firms significantly increase temporary tax avoidance, as reflected in lower cash effective tax rates and higher total book-tax differences. This effect is particularly pronounced in firms with less transparent information environments and weaker internal governance structures. They provide evidence that the impact of loosened DII monitoring on tax avoidance is more pronounced for firms with more volatile stock returns, firms with higher analysts' forecast error, firms with lower accruals quality, and firms with less voting power controlled by outside directors. These results are consistent with the view

that firms are more likely to take responsive actions to reduced DII monitoring on tax avoidance when the information environment is less transparent and when they are subject to weaker internal governance. These contributions deepen our understanding of the interplay between institutional investors, corporate governance, and tax policy.

Alkurdi and Mardini (2020) conducted a study in Jordan to investigate the relationship between institutional ownership and corporate tax avoidance, using 348 firm-year observations from companies listed on the First Market of the Amman Stock Exchange (ASE). The findings reveal that institutional shareholders tend to discourage the adoption of tax avoidance strategies. Institutional investors are aware of the potential risks and costs associated with aggressive tax planning, which often outweigh the perceived benefits. These risks include potential regulatory penalties, reputational damage, and adverse effects on the firm's long-term financial health and stakeholder trust. As a result, institutional owners prioritize sustainable governance practices and compliance with tax regulations over short-term financial gains through tax avoidance. Their presence is associated with enhanced oversight and a focus on mitigating risks that could jeopardize the firm's stability and public perception. Alkurdi and Mardini's findings contribute to the broader literature on corporate governance and tax behavior in emerging markets, emphasizing the importance of strong institutional investor involvement in promoting compliance and reducing exposure to the risks associated with tax avoidance.

Although prior studies provide valuable insights, empirical evidence on institutional ownership and tax avoidance remains inconclusive. Some research reports that large institutional investors intensify tax planning to enhance returns, while others find a mitigating effect due to stronger monitoring incentives and aversion to regulatory or reputational risk. These divergent findings suggest that institutional ownership may produce either alignment or entrenchment effects depending on contextual governance conditions, legal enforcement, and ownership concentration. Given that Indonesia and Malaysia exhibit concentrated ownership structures and evolving institutional investor participation, the effect of institutional ownership on tax avoidance may differ from that observed in Western markets. Hence, this study empirically examines whether higher levels of institutional ownership lead firms to adopt more aggressive tax strategies and whether audit quality constrains such behavior. By testing these relationships in two emerging markets with comparable regulatory developments, this

research extends institutional ownership literature and helps resolve inconsistencies in prior findings regarding its role in shaping corporate tax behavior.

3.6.5 Managerial Ownership and Tax Avoidance

Managerial ownership reflects the dual role of managers as both principals and agents, influencing their decision-making and alignment with shareholder interests. When managers hold only a small number of shares, their actions are often driven by personal and managerial interests rather than the broader interests of shareholders (Rakayana, 2021; Resti, 2020). Conversely, as managers increase their ownership stake in the company, their interests tend to align more closely with those of the shareholders, promoting decisions that maximize shareholder value (Alzoubi, 2016; Wenwu et al., 2023), especially when the audit quality is low (Gul et al., 2020). Previous studies have shown that managerial ownership can have significant individual effects on tax avoidance practices. Some research suggests that the presence of managerial ownership is associated with greater tax avoidance, as managers may leverage their influence to pursue strategies that enhance firm value through reduced tax liabilities (Alkurdi & Mardini, 2020; Annuar et al., 2014; Badertscher et al., 2013; Dyreng et al., 2017). However, other researchers have found contrasting results, indicating that increased managerial ownership can lead to higher risk aversion, causing managers to avoid high-risk activities such as aggressive tax avoidance (Hanlon & Heitzman, 2010; Rego & Wilson, 2012; Badertscher et al., 2013). This divergence in findings highlights the complex relationship between managerial ownership and tax avoidance, suggesting that the extent of managerial ownership and contextual factors may play critical roles in shaping these outcomes.

The board of directors bears collective responsibility for overseeing management performance, safeguarding shareholder interests (Tandean, 2016), and ensuring the adherence to Good Corporate Governance principles (Indonesia National Committee on Governance Policy, 2006). Among the board members, independent directors play a crucial role in shaping the company's long-term strategy and periodically reviewing its implementation. Their oversight helps mitigate excessive risk-taking behaviors, including reducing tax avoidance practices (Tandean, 2016). Effective governance mechanisms, such as a well-structured and independent board, can address potential agency problems and discourage aggressive tax strategies,

fostering greater transparency and accountability (Wahab et al., 2017). By aligning the interests of management with those of shareholders and other stakeholders, such mechanisms enhance overall corporate integrity and performance..

The dynamics of managerial ownership differ from those of board ownership due to their distinct roles within corporate governance. Managers are responsible for overseeing the daily operations of the company, while the board of directors plays a supervisory role, ensuring that managers act in the best interests of shareholders and curbing opportunistic behaviors (Hooghiemstra et al., 2019). Madah Marzuki and Syukur (2021) found that board ownership may have limited applicability in developing hypotheses related to managerial ownership and tax avoidance, given the differing responsibilities and influences of these two groups. Board ownership serves as a hybrid corporate governance mechanism, combining internal and external elements. This is because the board typically includes a mix of executive (managerial), non-executive, and independent directors, each bringing unique perspectives and governance roles. The interaction between these roles adds complexity to the governance framework.

Managers can become shareholders in their companies by purchasing shares through the stock market or receiving shares as part of their bonus or compensation packages, typically holding a minority stake in the ownership composition. Cabello et al. (2019) investigated the relationship between managerial ownership concentration and tax avoidance in a study spanning 15 years and covering 107 Brazilian non-financial firms. The researchers employed three measures of managerial ownership: the percentage of ownership, dummy variables indicating ownership presence, and an interaction term combining the percentage with dummies. Their findings revealed that varying levels of managerial ownership correspond to different degrees of tax avoidance. Specifically, managerial owners in Brazilian firms exhibited risk-averse behavior, opting to avoid high-risk strategies such as aggressive tax avoidance. This risk aversion aligns with the managers' prioritization of stability and compliance over potential financial gains from tax planning, highlighting the nuanced role of managerial ownership in corporate decision-making.

One of the research objectives of Alkurdi and Mardini (2020) is to explore the impact of managerial ownership on the level of tax avoidance. They found a similar finding in the Jordan setting that managerial ownership is negatively correlated with tax avoidance. Managerial owners in Jordan are aware of the exceeded potential costs over the benefits of tax avoidance. Contrarily, a study from Deef et al. (2021) on 69

non-financial firms indexed in EGX100 has found that managerial owners in Egypt are motivated to conduct tax avoidance. In this case, the advantages of tax avoidance exceed the risk, motivating managers with ownership portions to reduce tax amounts for their benefits. Hsu and Liu (2018) mentioned that managerial shareholders could expropriate wealth in the most leisurely manner and in legitimate activities that require a great deal of risk and effort on the manager's part (Bertrand and Mullainathan, 2003).

Taken together, the mixed evidence demonstrates that the relationship between managerial ownership and tax avoidance remains inconclusive and appears contingent on institutional environments, monitoring strength, and managerial risk preferences. Existing studies vary in country context, measurement of ownership stakes, and proxies for tax avoidance, limiting comparability across markets. Moreover, few studies have examined how external monitoring—particularly audit quality—may condition managerial owners' incentives to engage in tax-aggressive strategies. This study addresses these gaps by analysing managerial ownership as a continuous variable alongside two tax avoidance proxies (SETR and BTM) in a cross-country setting (Indonesia and Malaysia), and by incorporating audit quality as a moderating mechanism. By doing so, the study provides a more nuanced understanding of how managerial shareholding interacts with external governance to influence corporate tax behavior in emerging markets.

3.7 The Alignment Effect of Audit Quality

Audit quality refers to the degree of assurance provided about the reliability, accuracy, and transparency of a company's financial statements (Rajgopal et al., 2021). High-quality audits significantly enhance the credibility of financial reporting by ensuring that financial statements present an accurate and fair representation of a company's financial condition and performance. This increased transparency is crucial in reducing information asymmetry, which often exists between controlling shareholders and minority shareholders, thereby helping to mitigate agency conflicts and fostering a more equitable balance of power within the firm. In the context of tax avoidance, high audit quality serves as a critical governance mechanism, ensuring that tax strategies and financial practices are conducted in compliance with regulations while maintaining ethical standards. By promoting greater oversight and accountability, high-quality audits help align the interests of various stakeholders, protecting the

integrity of the organization and contributing to responsible tax behavior that balances corporate objectives with societal expectations.

Aggressive tax avoidance is widely regarded as harmful to governments and society, as it undermines the ability of governments to collect sufficient revenue to fund essential public services, infrastructure, and social programs. The alignment theory suggests that the interests of controlling and minority shareholders can be harmonized through effective corporate governance mechanisms; audit quality plays a crucial role in mitigating these negative effects. High-quality audits provide a level of assurance regarding the reliability, transparency, and accuracy of financial statements, thereby improving the credibility of financial reporting and reducing information asymmetry between controlling shareholders and minority shareholders (Rajgopal et al., 2021). This reduction in information asymmetry minimizes agency conflicts by ensuring that corporate decisions, including tax-related strategies, serve the interests of all stakeholders rather than favoring a select few. By reinforcing corporate governance and enhancing the oversight of financial reporting and tax-related activities, high audit quality limits the ability of controlling shareholders to engage in aggressive tax planning that benefits them at the expense of minority shareholders. Furthermore, the improved transparency and accountability fostered by high-quality audits promote adherence to tax regulations and discourage tax avoidance practices that could harm the firm's reputation or result in legal and financial penalties. Acting as a moderating factor, audit quality strengthens the relationship between ownership structure and responsible tax behavior, particularly in contexts with concentrated ownership, where controlling shareholders may exert significant influence over tax decisions.

Audit quality functions as a critical external governance mechanism that reinforces the alignment effect by curbing managerial opportunism and enhancing the reliability of financial reporting. High-quality auditors, particularly Big 4 firms, possess the competence and independence necessary to detect and deter aggressive financial practices, such as earnings management and tax avoidance, thereby aligning managers' actions with the interests of shareholders and stakeholders (DeAngelo, 1981; Francis & Krishnan, 1999; Caramanis & Lennox, 2008). The study by Fakhfakh and Jarboui (2021) confirms that audit quality moderates the relationship between audit opinion and earnings management by reducing managers' discretionary behavior, consistent with agency theory's prediction that external audits mitigate information asymmetries and opportunistic actions (Jensen & Meckling, 1976). By imposing rigorous scrutiny and

maintaining reputational concerns, high-quality auditors diminish the scope for managers to manipulate earnings or engage in aggressive tax strategies, thereby fostering greater transparency and promoting alignment between corporate decisions and long-term value creation (Lopes, 2018; Kim et al., 2011).

Audit quality plays a critical alignment role by enhancing the reliability of financial reporting and constraining opportunistic managerial behavior. Recent studies emphasize that external auditors serve as important monitors in reducing information asymmetry between management and shareholders (DeFond, 1992; Oroud et al., 2023). High-quality audits not only increase the credibility of financial statements but also assure investors that firms' reported performance aligns with economic reality, thereby reducing the risks of aggressive financial or tax reporting (Okolie, 2014). The moderating role of audit quality has been empirically confirmed in various contexts, including the Middle East, where audit firm size (such as Big 4 affiliation), auditor fees, and auditor opinions significantly influence the relationship between firm performance and market outcomes (Oroud et al., 2023). These findings align with agency theory, which posits that high-quality audits reduce agency costs by curbing managerial opportunism and aligning the interests of managers, shareholders, and external stakeholders (Watts & Zimmerman, 1986; Eisenhardt, 1989). Therefore, incorporating audit quality as a moderating mechanism provides a robust governance tool that enhances financial transparency and promotes sustainable corporate practices.

Audit quality plays a critical role as an external governance mechanism that can reinforce the alignment of interests between shareholders and management. High-quality auditors, especially those from Big 4 firms, are more likely to detect and report material misstatements and tax-related irregularities, thereby discouraging managers and dominant shareholders from engaging in opportunistic practices such as aggressive tax avoidance (Mutmainnah & Wardhani, 2013; Himawan, 2019). The study by Iklima and Molina (2024) further demonstrates that audit quality strengthens the positive influence of governance structures—such as audit committees and firm size—on the integrity of financial reporting, enhancing transparency and accountability. This moderating role of audit quality aligns with agency theory, which suggests that rigorous external audits reduce information asymmetry and limit managerial discretion, ultimately promoting better compliance and protecting stakeholder interests.

Audit quality (AQ) plays a pivotal role in enhancing transparency, accountability, and firm performance, particularly in environments where agency

problems and information asymmetry are pronounced. Sattar et al. (2020) provide empirical evidence from Pakistani manufacturing firms, demonstrating that high audit quality is positively associated with improved firm performance, especially in highly competitive markets. This relationship is interpreted through the lens of agency theory, where robust audit practices mitigate agency conflicts between managers and shareholders by ensuring the accuracy and reliability of financial reporting. The study further highlights that in competitive markets, firms are compelled to adopt high-quality audits not only to comply with regulatory expectations but also to maintain credibility and investor confidence. The findings underscore that audit quality acts as an external governance mechanism that aligns managerial actions with shareholder interests, fostering better financial outcomes and reducing the potential for opportunistic behavior.

A key mechanism through which audit quality influences tax avoidance is its ability to reinforce corporate governance. High-quality audits provide robust oversight of financial reporting and tax-related activities, significantly reducing the opportunities for controlling shareholders to engage in aggressive tax planning that could disproportionately benefit them while harming other stakeholders. By applying rigorous auditing practices, discrepancies in financial statements that may indicate tax avoidance schemes can be identified and addressed, effectively deterring such behavior. This enhanced monitoring not only discourages tax avoidance but also ensures that the actions of controlling shareholders are aligned with the broader interests of minority shareholders and other stakeholders. The improved governance resulting from high-quality audits fosters greater accountability, transparency, and trust within the organization, promoting a fairer and more responsible approach to corporate taxation. This alignment between governance mechanisms and stakeholder interests ultimately supports the long-term sustainability and ethical operation of the firm.

Furthermore, high audit quality significantly enhances a firm's accountability to external stakeholders, including regulators, investors, and society at large. This heightened level of accountability serves as a powerful deterrent against aggressive tax avoidance, which not only poses legal and financial risks but also threatens the firm's reputation and stakeholder trust. Firms that engage in aggressive tax strategies risk attracting regulatory scrutiny, incurring penalties, and facing reputational harm that could undermine investor confidence and public perception. High-quality audits promote a culture of compliance and ethical decision-making by providing rigorous

oversight of financial and tax practices, ensuring that the firm's strategies align with legal standards and societal expectations. This alignment fosters transparency and demonstrates a commitment to responsible corporate citizenship, which is critical for maintaining trust among stakeholders and ensuring the long-term sustainability of the organization. By mitigating the risks associated with tax avoidance, high audit quality supports the firm's broader goals of financial integrity and social responsibility.

Under the alignment theory, audit quality plays a critical moderating role in the relationship between ownership structure and tax avoidance. In firms with high-quality audits, the mechanisms of oversight and transparency are strengthened, enabling better management of the conflicts inherent in ownership structures. This is particularly important in cases of concentrated ownership, where controlling shareholders often possess significant influence over tax-related decisions, which may disproportionately benefit their interests at the expense of minority shareholders. High-quality audits act as a safeguard against such imbalances by promoting transparency in financial reporting and tax practices, thus reducing the scope for opportunistic behavior by controlling shareholders. By ensuring that tax strategies are scrutinized and aligned with legal and ethical standards, audit quality helps harmonize the interests of all shareholders. This alignment fosters responsible tax behavior, minimizes agency conflicts, and supports the firm's long-term sustainability and credibility in the eyes of both stakeholders and external regulators.

In summary, audit quality serves as a crucial factor in aligning the interests of controlling and minority shareholders while fostering responsible tax behavior within organizations. Through its ability to enhance corporate governance, improve transparency, and strengthen monitoring mechanisms, high audit quality effectively limits the opportunities for aggressive tax avoidance. This alignment effect benefits shareholders by ensuring fair and ethical management of the firm's financial and tax strategies, while also addressing broader societal and governmental concerns regarding fiscal responsibility. By promoting compliance and accountability, high audit quality helps maintain public trust in corporate practices and supports the sustainable growth of organizations. As such, audit quality is an indispensable element of the corporate governance framework, ensuring that tax practices balance the dual objectives of shareholder value maximization and societal welfare.

While audit quality is often conceptualized as a direct governance mechanism that promotes transparency and compliance, its effectiveness may depend on firms'

internal governance structures. In firms characterized by concentrated ownership, audit quality may function not only as an independent monitoring mechanism but also as a conditional governance tool that interacts with ownership incentives. This perspective suggests that the alignment effect of audit quality cannot be fully understood without considering ownership structure, thereby motivating the integrated discussion in the following section.

3.8 Audit Quality, Ownership Structure, and Tax Avoidance

This section synthesizes prior empirical and theoretical literature on the moderating role of audit quality in the relationship between ownership structure and tax avoidance. It establishes the conceptual foundations that inform the research gaps identified in Section 3.8 and the hypotheses formally developed in Chapter 4. Building on the discussion of ownership structure as an internal governance mechanism and audit quality as an external alignment tool, this section reviews prior studies examining how audit quality interacts with different ownership structures in shaping corporate tax avoidance behavior. This interaction is particularly relevant in emerging market contexts, where concentrated ownership may heighten entrenchment risks and where audit quality may function either as a complementary or substitutive governance mechanism.

In the corporate governance literature, governance mechanisms may function either as complements or substitutes. Complementary mechanisms reinforce each other, such that the effectiveness of one governance mechanism increases in the presence of another. In contrast, substitutive mechanisms compensate for weaknesses in other governance structures by constraining opportunistic behavior. In the context of tax avoidance, audit quality is commonly conceptualized as a substitute for governance mechanisms, particularly in firms with concentrated ownership or entrenched controlling shareholders. High audit quality can weaken the positive association between ownership concentration and tax avoidance by enhancing external monitoring, increasing scrutiny, and limiting managerial or shareholder discretion. Accordingly, this study theorizes that audit quality—proxied by Big 4 auditor affiliation and audit report lag—serves as a substitute mechanism that mitigates entrenchment-driven tax avoidance. This conceptualization provides the theoretical basis for the moderating

hypotheses developed in this study and guides the interpretation of interaction effects in subsequent empirical analyses.

The primary role of auditors is to express an opinion on whether the financial statements and related disclosures present fairly, in all material respects, the client firm's financial condition in conformity with generally accepted accounting principles (GAAP). Hence, auditors evaluate the validity of accrued taxes payable and tax contingent liabilities on the balance sheet, income tax expense on the income statement, and the related note disclosures to provide adequate assurance to the investing public about the appropriateness of these items and disclosures (Barrett 2004). Because any material information about questionable tax transactions tends to be hidden in these accounts and disclosures, auditors also have to assess whether their clients engage in potentially abusive tax transactions that can be challenged if uncovered by the tax authority (Kanagaretnam et al., 2016). Auditors, if necessary, could require clients to reflect correctly the tax-related items on the financial statements, for example, by recording a contingency reserve or unrecognized tax benefit adjustment, hence increasing reported tax expense and reducing the financial statement benefits of engaging in tax avoidance. By ensuring that book and taxable income are correctly reported in the financial statements, auditors indirectly reduce firms' abilities and incentives to avoid tax because a large book-tax difference can be a potential red flag (Hanlon 2005), which increases the probability of detection by the tax authorities.

Auditors have incentives to influence clients' aggressive tax activities for several reasons. Firms that engage in aggressive tax behavior have a higher likelihood of misstatements and restatements because managers can use various accounts, such as valuation allowances, tax contingency reserves, and estimates of accrued taxes, to manage earnings (Hanlon & Heitzman, 2010; Gupta et al., 2015). Tax aggressive behavior calls into question the integrity and risk profile of management (Hanlon et al., 2012), casting doubt on the quality of other compliance activities and the overall control environment, thus further heightening the litigation and reputational risks of the auditor. High audit quality—particularly from Big 4 auditors—reduces firms' incentives and opportunities to engage in aggressive tax practices by increasing the probability of detection and the potential costs of non-compliance (Nguyen & Le, 2025). Hence, auditors are likely to impose a stricter reporting standard on aggressive tax planning activities, which will, in turn, indirectly influence the level of tax aggressiveness of clients.

Big 4 auditors are widely associated with delivering superior audit quality (DeAngelo, 1981; Ajili & Khlif, 2020; Qawqzeh, 2023). Several factors contribute to their reputation for high-quality audits. First, Big 4 auditors are more likely to detect financial statement fraud and provide robust monitoring compared to non-Big 4 firms. Second, they possess superior expertise, judgment, and the ability to resist client pressure, underpinned by a strong commitment to maintaining their professional reputation. Third, they have access to significant resources and employ highly developed, systematic audit strategies and processes (Madah Marzuki & Syukur, 2021). These attributes collectively enable Big 4 auditors to deliver audits that are both comprehensive and reliable. Consequently, engaging a Big 4 audit firm has been hypothesized to reduce tax aggressiveness among their clients compared to non-Big 4 auditors, as their rigorous audit practices are more likely to curb aggressive tax planning and ensure compliance with financial and regulatory standards.

Despite their reputation for high audit quality, previous literature suggests that the credibility and brand value of Big 4 auditors may be compromised when they perform non-audit services, such as tax advisory, alongside their audit engagements (Klassen et al., 2016). Additionally, the impact of Big 4 auditors on mitigating tax aggressiveness varies significantly depending on the institutional environment of the country. The positive influence of Big 4 auditors on audit quality is more pronounced in settings with stronger investor protections, higher auditor litigation risks, better-developed audit environments, and greater pressure from capital markets (Kanagaretnam et al., 2016). These institutional factors amplify the role of Big 4 auditors in curbing aggressive tax practices, as they face greater accountability and reputational stakes in such environments. Conversely, in weaker institutional contexts, the ability of Big 4 auditors to deter tax aggressiveness may be less effective, highlighting the interplay between audit quality and the surrounding regulatory and economic frameworks.

The latest empirical research by Madah Marzuki and Syukur (2021), which observed Thailand's largest listed firms (SET-100), found that companies audited by Big 4 auditors were significantly associated with higher levels of tax aggressiveness. This suggests that despite the reputation and perceived monitoring strength of Big 4 auditors, in some emerging market contexts like Thailand, their clients may engage in more aggressive tax planning. The study argued that this could be due to the dual role of auditors, where the provision of non-audit services—such as tax advisory—may

impair auditor independence, leading to higher tax aggressiveness. This aligns with the broader literature indicating that in weaker regulatory environments, even high-profile auditors may struggle to fully constrain aggressive tax behavior, especially when lucrative non-audit fees are involved (Eshleman & Guo, 2014; Kanagaretnam et al., 2016). Furthermore, Kovermann & Velte (2019) emphasize that in emerging economies, complex ownership structures and relationship-based capitalism can reduce the effectiveness of external auditors, potentially turning them into facilitators rather than deterrents of tax avoidance. These findings highlight the importance of considering contextual factors—such as legal enforcement quality and auditor-client economic dependence—when evaluating the role of audit quality in moderating tax aggressiveness.

3.9 Research Gaps and Justification of the Study

Despite the extensive body of literature on tax avoidance and corporate governance, several important research gaps remain, particularly in the context of emerging economies such as Indonesia and Malaysia. First, the literature exhibits a fragmentation gap in the examination of ownership structure and tax avoidance. Most prior studies analyse ownership types in isolation, focusing on a single dominant shareholder category such as family ownership (e.g., Jiang et al., 2021) or institutional ownership (Khan et al., 2017). While these studies provide valuable insights, they fail to capture the reality of ownership concentration in emerging markets, where firms often exhibit hybrid ownership structures with overlapping control by families, institutions, governments, and managers. This fragmented approach limits our understanding of how different ownership incentives jointly shape tax avoidance behavior. This study addresses this gap by simultaneously examining five ownership types—family, foreign, government, institutional, and managerial ownership—within a unified analytical framework. This approach directly responds to the research motivation outlined in Chapter 1 and informs Research Question 1, which seeks to understand how ownership structures influence tax avoidance in emerging markets.

Second, there is a theoretical gap concerning the dominance of the entrenchment perspective over the alignment perspective in prior tax avoidance research. Much of the existing literature relies heavily on agency theory's entrenchment effect, which posits that concentrated ownership facilitates opportunistic behavior such as aggressive tax

planning (Desai & Dharmapala, 2009; Hanlon & Heitzman, 2010). However, fewer studies explicitly consider the alignment effect, whereby certain ownership types—such as family or long-term institutional ownership—may promote tax compliance due to reputational concerns, intergenerational continuity, or long-term value preservation (Gaaya et al., 2017; Alkurdi & Mardini, 2020). The limited integration of both theoretical perspectives constrains the explanatory power of existing studies. This study addresses this gap by explicitly applying the Alignment and Entrenchment Effects framework to interpret ownership–tax avoidance relationships across different institutional contexts. This theoretical positioning aligns with the research objectives stated in Chapter 1 and underpins the development of the study’s hypotheses.

Third, prior studies provide mixed and inconclusive evidence on the role of audit quality in shaping tax avoidance, particularly in emerging markets. While audit quality has been widely examined as a determinant of tax avoidance (Francis et al., 2009; Taylor & Richardson, 2014), most studies treat audit quality as a direct governance mechanism rather than considering its interaction with ownership incentives. Moreover, existing evidence is largely drawn from developed economies with strong investor protection and enforcement regimes, limiting its applicability to emerging markets where regulatory oversight is weaker and ownership concentration is higher (Kanagaretnam et al., 2016; Qawqzeh, 2023). This study addresses this gap by conceptualising audit quality as a moderating mechanism that can either constrain or amplify the effects of ownership structure on tax avoidance. By incorporating audit report lag (ARL) and Big 4 auditor affiliation as complementary proxies for audit quality, this study extends prior research and responds directly to Research Question 2.

Fourth, there is a methodological gap related to the measurement of both tax avoidance and audit quality. Many prior studies rely on a single proxy for tax avoidance, most commonly the effective tax rate (ETR or SETR), which captures compliance-based tax planning but may fail to detect more discretionary or opaque strategies (Hanlon, 2005; Rego & Wilson, 2012). Similarly, audit quality is frequently proxied solely by Big 4 affiliation, overlooking the audit process itself. This study addresses this gap by employing two complementary measures of tax avoidance—statutory-effective tax rate (SETR) and book-tax differences (BTD)—and two audit quality proxies—Big 4 affiliation and audit report lag. This multi-dimensional measurement strategy enhances robustness and aligns with the methodological concerns raised in the Introduction regarding the complexity of tax avoidance behavior.

Finally, there remains a contextual gap in cross-country evidence from emerging economies. Although cross-country studies exist, they often compare emerging markets with developed economies, such as China, Japan, or the United States, where institutional environments differ substantially (Lennox et al., 2012). Such comparisons, while informative, may obscure institutional nuances relevant to emerging markets. This study addresses this gap by conducting a focused cross-country analysis of Indonesia and Malaysia—two ASEAN economies with comparable legal origins, ownership concentration, and regulatory development, yet distinct enforcement and governance characteristics. This design directly responds to the research problem and enables a more meaningful institutional comparison.

In summary, this study addresses critical gaps in the literature by integrating multiple ownership structures, explicitly applying the Alignment and Entrenchment Effects framework, conceptualising audit quality as a moderating governance mechanism, employing multi-dimensional measures of tax avoidance and audit quality, and conducting a focused cross-country comparison of Indonesia and Malaysia. Collectively, these contributions provide a more comprehensive and context-sensitive understanding of how ownership structure and audit quality jointly shape corporate tax avoidance in emerging markets.

CHAPTER 4

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

4.1 Introduction

This chapter develops the hypotheses that guide the empirical analyses of this study. Building on the Alignment and Entrenchment Effects framework (Y.-R. Chen & Chuang, 2009; Nyberg et al., 2010; Qosasi et al., 2022; Srinidhi & Liao, 2020; Thomsen & Pedersen, 2000), it explores how ownership structures—specifically family, foreign, government, institutional, and managerial ownership—influence tax avoidance. The chapter also considers the moderating role of audit quality as an external governance mechanism that may constrain opportunistic tax behaviors. The hypotheses are formulated based on existing theoretical perspectives and empirical findings, providing a structured foundation for the study's analytical approach. Prior studies have documented mixed findings on the role of ownership structures in tax avoidance, with outcomes often contingent on firm-specific characteristics, industry dynamics, and national institutional contexts (Alkurdi & Mardini, 2020; Hanlon & Heitzman, 2010; Lanis & Richardson, 2013). These inconsistencies are particularly pronounced in emerging markets, where regulatory environments and enforcement mechanisms vary widely (Ditkaew & Suttipun, 2023; Hong Nguyen et al., 2020). This study contributes to this body of research by examining Malaysia and Indonesia, two Southeast Asian economies with distinctive ownership patterns and governance challenges.

Sections 4.2 to 4.6 explore the role of family, foreign, government, institutional, and managerial ownership in shaping tax planning strategies. Prior literature suggests that ownership structure plays a crucial role in determining a firm's approach to taxation, with some ownership types incentivizing tax minimization for shareholder benefits, while others emphasize regulatory compliance and transparency. Section 4.7 introduces the moderating effect of audit quality on the relationship between ownership structure and tax avoidance. High-quality audits, particularly those conducted by Big Four firms or firms with shorter audit durations, are expected to constrain aggressive tax avoidance by enhancing financial oversight and compliance. Conversely, weak

audit quality may allow entrenched owners to exploit tax strategies for private gain. Finally, Section 4.8 presents the theoretical framework that integrates these relationships, offering a conceptual model that guides the empirical analysis. This framework draws on agency theory, particularly the entrenchment and alignment effects, to explain the mechanisms through which ownership structure and audit quality interact in influencing tax avoidance. By integrating recent empirical evidence with theoretical expectations, this chapter formulates hypotheses that capture both direct and moderated relationships between ownership structures, audit quality, and corporate tax avoidance. In doing so, it aims to advance understanding of how internal and external governance mechanisms interact to shape tax behaviors in emerging markets.

4.2 Theoretical Framework

This study is grounded in agency theory, particularly the Alignment and Entrenchment Effects framework, to explain how ownership structure influences corporate tax avoidance and how audit quality moderates this relationship. Agency theory posits that conflicts arise when controlling parties pursue private benefits at the expense of other stakeholders (Shleifer & Vishny, 1997; Jensen & Meckling, 1976). Within this perspective, ownership concentration can produce two competing effects. The entrenchment effect suggests that dominant shareholders may exploit their control to extract private benefits—such as aggressive tax avoidance—particularly in environments with weak monitoring and limited investor protection. In contrast, the alignment effect argues that certain owners, especially those with long-term interests and reputational concerns, may restrain opportunistic behavior and promote compliance-oriented tax strategies (Chen & Chuang, 2009; Thomsen & Pedersen, 2000; Srinidhi & Liao, 2020).

Building on this framework, the study conceptualizes ownership structure—specifically family, foreign, government, institutional, and managerial ownership—as an internal corporate governance mechanism that shapes firms' incentives and capacity to engage in tax avoidance. Different ownership types embody distinct motivations, risk preferences, and monitoring capacities, which may either amplify or constrain aggressive tax behavior. In emerging markets such as Indonesia and Malaysia, where ownership is often highly concentrated and governance enforcement varies, these ownership effects are expected to be particularly salient.

The framework further incorporates audit quality as an external governance mechanism that moderates the relationship between ownership structure and tax avoidance. High-quality audits enhance transparency, reduce information asymmetry, and increase the likelihood that aggressive or opaque tax strategies are detected and challenged (DeAngelo, 1981; Hanlon & Heitzman, 2010). Drawing on the alignment effect of audit quality, the framework posits that stronger external audits can realign the interests of controlling shareholders with those of minority shareholders, regulators, and the broader public by increasing the expected costs of opportunistic tax behavior (Gaaya et al., 2017; Qawqzeh, 2023).

Importantly, audit quality is conceptualised as a moderating mechanism, rather than a direct determinant of tax avoidance. As a moderator, audit quality does not replace internal governance mechanisms but conditions their effectiveness. In settings where ownership structures create entrenchment incentives, high audit quality may weaken the positive association between ownership concentration and tax avoidance by imposing greater scrutiny and discipline. Conversely, in cases where ownership incentives are already aligned with long-term compliance, audit quality may reinforce conservative tax behavior. This moderating role reflects the view that internal and external governance mechanisms can function as complements, jointly constraining opportunistic behavior, or as substitutes, where strong external monitoring compensates for weak internal governance (Agrawal & Knoeber, 1996; Rediker & Seth, 1995).

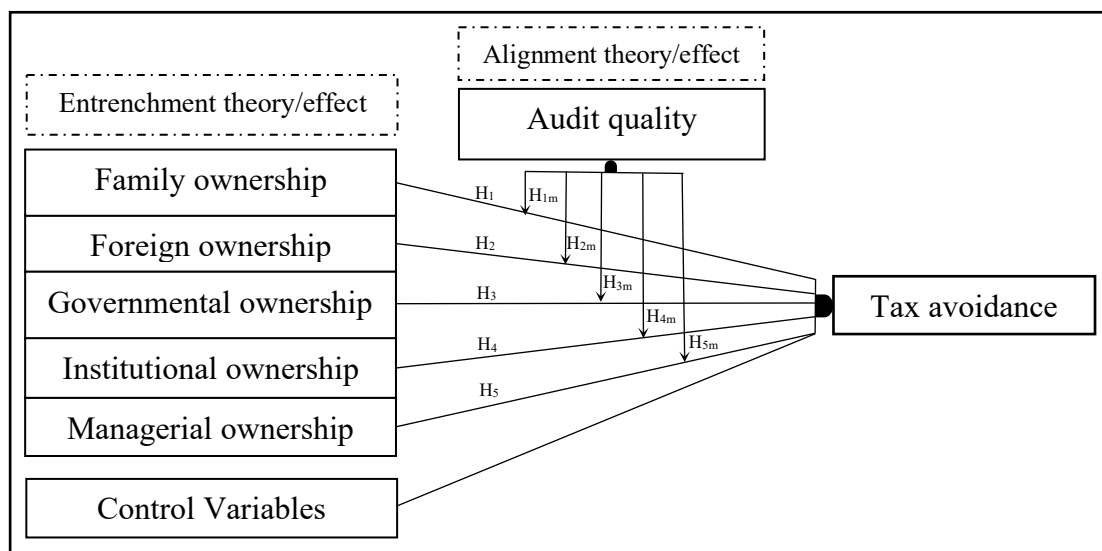


Figure 4.1 Research Framework
Source: Author's work

Figure 4.1 presents the theoretical framework of the study, illustrating the proposed direct relationships between ownership structure and tax avoidance, as well as the moderating role of audit quality. Consistent with this framework, the study develops hypotheses that examine both the direct effects of different ownership types on tax avoidance and the extent to which audit quality weakens these relationships. The framework provides a coherent foundation for the hypothesis development in the subsequent sections and guides the empirical analysis of ownership–tax avoidance dynamics in Indonesia and Malaysia.

4.3 Hypothesis Development

Building on the conceptual framework presented in Section 4.2, this section develops the study's hypotheses concerning the relationship between ownership structure and corporate tax avoidance. Drawing on the Alignment and Entrenchment Effects of agency theory, the hypotheses reflect the notion that different ownership types create distinct incentive structures that may either restrain or intensify aggressive tax behavior. In particular, concentrated ownership may facilitate entrenchment and rent extraction in environments with weaker governance, while certain shareholders may instead promote alignment through long-term orientation, reputational concerns, and monitoring incentives.

Consistent with prior literature, this study first examines the direct effects of ownership structure on tax avoidance. Sections 4.3 to 4.7, therefore, develop hypotheses for family, foreign, government, institutional, and managerial ownership, respectively. These hypotheses capture whether each ownership type is expected to be associated with higher or lower levels of tax avoidance in the institutional contexts of Indonesia and Malaysia.

The moderating role of audit quality is subsequently developed in a dedicated subsection, where audit quality is conceptualized as an external governance mechanism capable of weakening ownership-driven incentives toward aggressive tax behavior. Together, the hypotheses provide a structured and theory-driven basis for the empirical analyses undertaken in the subsequent chapters.

4.3.1 Relationships between Family Ownership and Tax Avoidance

Family ownership represents one of the most prevalent ownership structures in both Malaysia and Indonesia, resulting in concentrated ownership structures (Claessens et al., 2000; International Finance Corporation, 2018; Masripah et al., 2015). The theoretical expectation surrounding family ownership's influence on tax avoidance is complex and context-dependent. According to the Alignment Effect, family owners may prioritize long-term firm value and reputation, discouraging aggressive tax practices that could jeopardize the firm's legitimacy or attract regulatory scrutiny (Desai & Dharmapala, 2009; Hanlon & Heitzman, 2010). However, the Entrenchment Effect posits that family-controlled firms might exploit their dominant positions to pursue opaque and aggressive tax strategies, especially in environments with weaker governance and limited minority shareholder protections (Gontara & Khlif, 2021; Shleifer & Vishny, 1997). Family-owned businesses with significant ownership stakes are more likely to act independently, which creates a separation between ownership and control (Hanlon & Heitzman, 2010). The influence of family shareholders on tax avoidance remains a subject of debate, with varying perspectives depending on the institutional and regulatory context of the economy. In economies with weaker governance mechanisms, family shareholders may leverage their control to engage in aggressive tax planning, whereas in more robust institutional settings, they may be constrained by stronger regulatory oversight and reputational considerations. These dynamics highlight the complexity of understanding family ownership's role in shaping corporate tax practices and its broader implications for governance and equity in emerging markets.

According to a study done in the United States (S. Chen et al., 2010), family businesses are less aggressive in doing tax planning compared to their non-family counterparts, *ceteris paribus*. Family owners prefer to forego tax gains to avoid potential fines, a prospective share price markdown, and the danger of an adverse audit reputation (Desai & Dharmapala, 2006). Family-owned firms choose to avoid legal liability for tax avoidance (Baderther et al., 2013). Managers in these firms are also expected to reduce opportunistic tax avoidance behavior that can jeopardize the company's reputation (Robinson et al., 2010; Armstrong et al., 2012). Since a family business is more concerned with passing the business on to subsequent generations, the owner has a substantial impact on the business's long-term health (Anderson and Reeb, 2003).

Chen et al. (2010) argue that family firms tend to be more tax aggressive compared to their non-family counterparts. Supporting this, a study on large, publicly listed family firms in Germany by Kovermann and Wendt (2019) found that family shareholders often exploit their control due to the relatively weaker influence of non-family shareholders. This exploitation is further facilitated by Germany's low level of legal protection for minority shareholders (Achleitner et al., 2014), which allows majority shareholders, often family members, to expropriate the rights and resources of minority shareholders. These dynamics underline the potential for agency conflicts in family-controlled firms, where the concentration of ownership and control enables the majority shareholders to prioritize their financial interests, such as tax savings, at the expense of broader equity and governance considerations. This behavior highlights the importance of strong institutional frameworks to mitigate such risks, particularly in economies with similar ownership and governance structures.

Sari and Martani (2010) hypothesized that family-owned businesses in Indonesia are more likely to engage in aggressive tax practices compared to non-family-owned businesses, a notion supported by Puji et al. (2019), who found a positive relationship between family ownership and tax avoidance in Indonesia's manufacturing sector. This behavior is often driven by the perceived benefits to controlling shareholders, which outweigh potential losses from tax fines, declining stock prices, or damage to the firm's reputation (Masripah, 2016). Similar findings have been observed in other contexts; Martinez and Ramalho (2014) identified a positive association between family ownership and tax avoidance in Brazil, while Bauweraerts and Vandernoot (2013) reported comparable results in Belgium. These studies collectively suggest that family ownership often provides controlling shareholders with the autonomy and incentives to prioritize tax savings, despite the potential risks, underscoring the need for robust governance mechanisms to mitigate such behavior across different institutional settings.

Annur et al. (2014) proposed in their literature review that family ownership may positively correlate with corporate tax avoidance in Malaysia, despite the limited empirical evidence specifically examining this relationship within the Malaysian context. However, there is documented evidence suggesting that family-owned firms in Malaysia are prone to minority shareholder expropriation (Chee Yoong et al., 2015). Similar patterns have also been observed in other developing regions. Gaaya et al. (2017) conducted research in Africa and demonstrated that family shareholders engage

in tax avoidance at the expense of minority shareholders. This behavior is particularly evident in Tunisia, where investor protections are weak, and the market is underdeveloped. In such environments, the majority shareholders may exploit their dominant position by adopting tax-saving strategies to extract personal rents, prioritizing their financial gains over the welfare of minority shareholders. These findings emphasize the importance of examining the impact of family ownership on tax practices within institutional and regulatory contexts that may facilitate or deter aggressive tax avoidance behaviors.

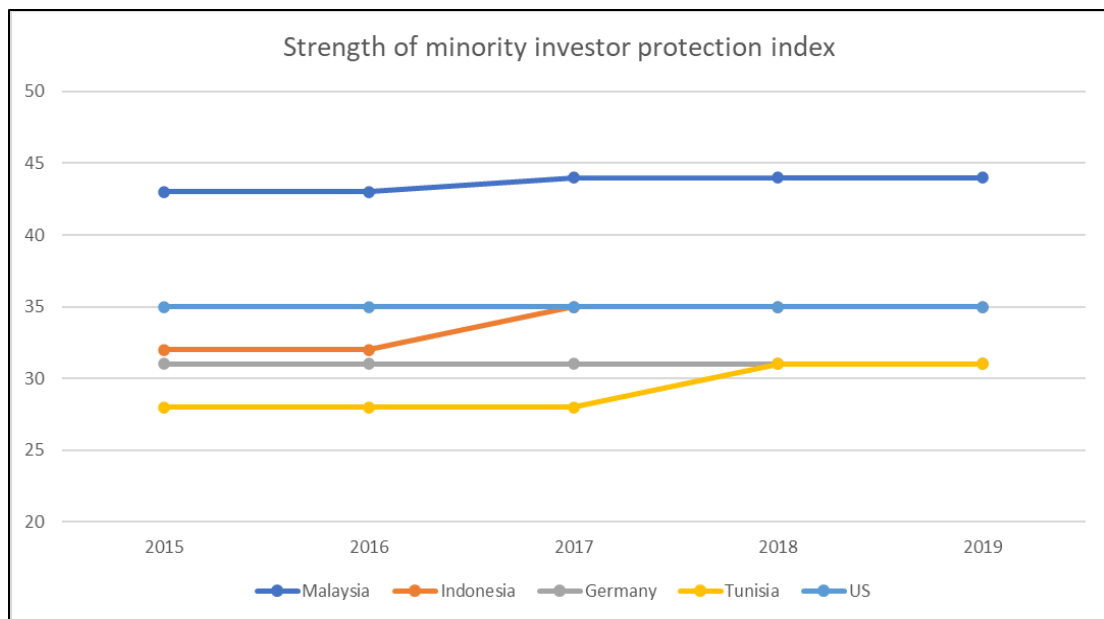


Figure 4.2 Minority Investor Protection Index for Selected Countries (2015-2019)
 Source: World Bank Open Data (<https://data.worldbank.org>)

Figure 4.2 is presented to contextualize the institutional setting discussed by Gaaya et al. (2017), particularly the role of weak minority investor protection in enabling opportunistic behavior by controlling shareholders. The figure is used to demonstrate the institutional comparability of Indonesia and Malaysia with Tunisia, rather than to imply that minority investor protection affects only family ownership. As depicted in the figure, the level of minority shareholder protection in the United States is significantly higher compared to countries like Tunisia, Germany, Malaysia, and Indonesia. This robust protection limits the ability of family shareholders in the U.S. to exploit the interests of minority shareholders. In contrast, in countries with weaker safeguards, such as Tunisia, family shareholders can exercise substantial control and influence over smaller shareholders, often prioritizing their own interests. Similarly,

Indonesia and Malaysia exhibit levels of minority shareholder protection that are relatively comparable to those in Tunisia and Germany, providing family shareholders greater latitude to use their dominant positions to advance personal financial gains, including engaging in tax avoidance strategies.

Empirical findings remain mixed. In developed economies with stronger minority shareholder protection, family ownership has often been associated with conservative tax behavior, aligning with the Alignment Effect (Chen et al., 2010; Hanlon & Heitzman, 2010). However, studies in emerging markets suggest the opposite. For example, Ditkaew and Suttipun (2023) report that family firms in ASEAN countries frequently engage in sophisticated tax planning to preserve family wealth and maintain control over corporate resources. Family firms' resource-rich nature and opacity can facilitate aggressive tax avoidance, especially when external governance mechanisms are weak or easily circumvented (Khelil & Khlif, 2022). In Malaysia and Indonesia, the dual pressures of maintaining family legacy and navigating complex regulatory environments may produce varied tax behaviors among family firms. This study, therefore, hypothesizes that family ownership is associated with higher levels of tax avoidance, consistent with the Entrenchment Effect. Based on these dynamics, this study hypothesizes that family ownership positively affects tax avoidance (H1), reflecting the potential for majority shareholders to leverage their influence in weak regulatory environments to adopt aggressive tax practices.

H1: There is a positive relationship between family ownership and tax avoidance in Indonesia and Malaysia.

4.3.2 Relationships between Foreign Ownership and Tax Avoidance

In recent years, researchers in developing countries have increasingly explored the impact of foreign shareholders on various aspects of corporate activities, reflecting the growing significance of foreign investment in emerging markets. Studies have linked foreign ownership to corporate performance (Din et al., 2021; Hong Nguyen et al., 2020), corporate disclosure practices (Masum et al., 2020; Tsang et al., 2019), dividend policies (Cao et al., 2017; Jung & Mun, 2016; Zyguła, 2017), corporate governance mechanisms (Shubita & Shubita, 2019), technological advancements (Adu-Danso & Abbey, 2022), and stock price movements (Phan Trong & Vu Thi Thuy, 2021; Thanatawee, 2021). Despite this breadth of research, the tax implications of foreign

ownership have garnered attention. Salihu et al. (2015) note that the curiosity about the role of foreign investors in shaping tax behaviors in emerging economies began to emerge prominently after 2015.

In a comprehensive study encompassing 32 countries and territories, including Indonesia and Malaysia, Hasan et al. (2016) explored the relationship between foreign ownership and corporate tax avoidance. Published as part of the Bank of Finland Research Discussion Paper series, the study found a negative association between foreign investors and tax avoidance, suggesting that foreign shareholders actively reduce corporate tax avoidance levels. This relationship is particularly pronounced in countries with strong tax morality, robust corporate governance frameworks, and foreign investors with long-term investment horizons. Similar findings have been reported in studies by Badertscher et al. (2013), Hasan et al. (2016), and Yoo and Koh (2014), which collectively argue that foreign shareholders prefer tax compliance because paying taxes is viewed as a corporate civic duty, and tax avoidance is often perceived as socially irresponsible behavior. Furthermore, foreign investors contribute to improving the efficiency of corporate oversight and reinforce governance practices within firms, as highlighted by Aggarwal et al. (2011). These findings underline the critical role of foreign shareholders in promoting corporate accountability and aligning tax practices with broader societal expectations.

Although foreign-owned companies are often perceived as more legitimate due to their enhanced voluntary disclosures and improved financial performance, foreign-owned companies are more likely to engage in tax avoidance (Bradshaw et al., 2013). This tendency is particularly evident in multinational corporations, which can exploit international tax rate differentials, special accounting rules, and preferential tax treatments in other jurisdictions (Egger et al., 2010). Research by Demirgüç-Kunt and Huizinga (2001), based on observations from 80 host countries, highlights a positive relationship between foreign shareholders and tax avoidance in the banking sector, revealing the global scale of this phenomenon. Similarly, Egger et al. (2010) found evidence of increased tax avoidance among foreign-owned companies across 31 European countries, attributing this to profit-shifting practices often driven by investors from high-tax foreign countries. Foreign shareholders utilize international profit-shifting strategies, reducing their approximate tax contributions and leading to lower effective tax rates for foreign-owned firms compared to their domestically-owned counterparts ((Kinney & Lawrence, 2000). These findings underscore the complexity

of foreign ownership's role in shaping corporate tax practices and its broader implications for fiscal policy and global tax governance.

Recent studies continue to reinforce the notion that foreign ownership can be a double-edged sword in tax behavior, particularly in emerging markets. Vo, Pham, and Le (2025) found that foreign investors in Vietnam often leverage their informational advantages and cross-border tax knowledge to pursue aggressive tax minimization strategies, especially in regulatory environments with lower transparency and enforcement. This is consistent with findings from Jordan by Alkurdi and Mardini (2023), who observed that foreign institutional investors frequently engage in tax avoidance practices, particularly where local tax policies are less stringent. The Malaysian setting may exhibit similar dynamics, as foreign investors benefit from both regional tax arbitrage opportunities and the ability to navigate complex tax regulations through sophisticated planning mechanisms (Fuest & Hemmelgarn, 2005; Nguyen et al., 2025). These recent insights suggest that, while foreign ownership can theoretically promote better governance, it may create incentives for firms to adopt more complex and aggressive tax strategies to pursue global tax efficiency.

Foreign investors do not always adhere to best international practices, as highlighted by Annuar (2014). Instead, foreign-owned firms often leverage their international operations to exploit tax regulations in both host and parent countries, effectively minimizing their tax liabilities (Salihu et al., 2015). Empirical evidence from recent studies in the Philippines (Shi et al., 2020) and Jordan (Alkurdi & Mardini, 2020) further supports this view, showing that foreign shareholders frequently engage in tax avoidance, particularly in developing countries characterized by weaker regulatory enforcement and lower tax oversight.

In the contexts of Indonesia and Malaysia, where regulatory enforcement and investor protection remain relatively weaker compared to developed economies, the entrenchment effect is therefore expected to dominate the alignment effect. Foreign investors may exploit informational advantages, cross-border structures, and regulatory arbitrage opportunities to pursue aggressive tax minimization strategies. Accordingly, the present study hypothesizes a positive relationship between foreign ownership and corporate tax avoidance (H2), reflecting the likelihood that higher levels of foreign ownership led to increased tax avoidance practices.

H2: There is a positive relationship between foreign ownership and tax avoidance in Indonesia and Malaysia.

4.3.3 Relationships between Government Ownership and Tax Avoidance

Governmental shareholders, as long-term investors, are typically less tax aggressive due to their dual focus on social and political objectives. Government-controlled enterprises often aim to set a positive example for other firms by demonstrating tax compliance and leading in tax payments, even if this comes at the expense of maximizing firm value. Governments risk damaging their political image and public trust if society perceives their state-owned firms as engaging in tax avoidance. While governments may not directly engage in tax avoidance, they benefit from firm earnings through tax collection, aligning their interests with broader fiscal and societal goals. Empirical evidence from studies such as Chan et al. (2013), Kim and Zhang (2016), and Wu et al. (2013) demonstrates a negative relationship between government ownership and corporate tax avoidance, indicating that state-owned enterprises are less likely to engage in aggressive tax practices. These findings highlight the role of government ownership in fostering tax compliance and promoting corporate governance that aligns with societal expectations and fiscal responsibility.

Government-owned firms are found to engage in less tax avoidance compared to their non-government counterparts (Bradshaw et al., 2019; Chan et al., 2013). This is largely attributed to the unique objectives of government shareholders, who prioritize advancing social and political goals over purely economic and financial success, even when these goals may compromise firm profitability (Huyghebaert & Wang, 2012). As taxpayers themselves, government-owned firms contribute to the country's tax revenues, which are collected by other governmental bodies, thereby reinforcing their commitment to tax compliance and maximizing national tax collection (Chan et al., 2013; Chen, 2013). Supporting this, Mafrolla (2018) found a systematically negative correlation between government ownership and tax avoidance in Italy, demonstrating the influence of state control on corporate tax practices. Similarly, Rahman et al. (2018) observed that Malaysian government-linked companies, particularly those at the national level, actively limit tax avoidance.

State ownership often reduces the effectiveness of corporate governance mechanisms, including board independence and foreign ownership, potentially enabling more aggressive tax planning (Nguyen et al., 2025). Similarly, government-linked ownership can undermine the positive effects of other governance mechanisms and may correlate with higher financial opacity (Vo et al., 2019). Sudibyo and Jianfu

(2016) have researched Indonesian manufacturing companies to see how politically connected firms and state-owned firms manage their tax compared to their counterparts. They find that those politically connected firms pay lower taxes than non-politically connected firms, and the state-owned firms have a better ability to manage their tax than non-state-owned firms. Mafrolla (2019) has investigated 915 observation years on Italian listed firms and found a similar result that the government-owned companies systematically have a higher rate of tax avoidance than their non-government-owned counterparts. These results do not merely indicate that governments in those countries do not concern with political goals, but central and local governments can act differently on tax. As corporate income tax in most countries (in Indonesia and Malaysia, for example) goes to the central government budget, local governments do not collect the tax revenue from corporates. Thus, there is a chance that if local governments own a great number of companies, government-owned companies aggregately avoid more tax than other private firms. Thus, state-owned enterprises are not entirely anti-tax avoidance as their case is less likely to get caught by authorities, and if they get caught, they will face fewer fines (Chow et al., 2019).

Developing countries tend to be more relationship-based rather than market-based economies, where interpersonal and institutional connections play a critical role in shaping corporate behavior. In state-owned enterprises (SOEs) in these economies, it is common for managers to have government affiliations or political connections, which significantly influence their decision-making processes. Unlike managers in private firms, these government bureaucrats or officials are evaluated not solely on financial performance, such as maximizing corporate value, but also on their ability to meet political and social objectives (Chen et al., 2010). Protecting government income often becomes a priority over other considerations. However, the concentrated ownership structure and weak corporate governance mechanisms in developing countries create conditions favorable for insider abuse and opportunistic behaviors (Tang, 2016), which can facilitate tax avoidance strategies. While relationship-based governance is a broader feature of developing economies, its implications are most pronounced for SOEs due to the state's dual role as owner and regulator.

In countries such as Indonesia and Malaysia, corporate governance frameworks have improved substantially over the past two decades; however, enforcement quality, political connections, and state involvement remain uneven, particularly among government-linked firms. While the alignment hypothesis would suggest that

government shareholders promote tax compliance to maximize public revenue, the entrenchment perspective provides a more plausible explanation in many developing countries: political connections and the pursuit of dual mandates can weaken both internal governance and external monitoring, thereby increasing the likelihood of tax avoidance behaviors (Salihu et al., 2015; Nguyen et al., 2023). Consequently, this study hypothesizes that government ownership positively correlates with tax avoidance (H3), reflecting the complex interplay between political influences, governance challenges, and tax practices in developing economies.

H3: There is a positive relationship between government ownership and tax avoidance in Indonesia and Malaysia.

4.3.4 Relationships between Institutional Ownership and Tax Avoidance

Corporate regulation measures that ensure effective oversight of managerial decisions often depend heavily on institutional ownership (Graham & Tucker, 2006). Institutional investors play a pivotal role in monitoring and influencing managerial actions, setting boundaries, and establishing controls that can reduce the propensity for tax avoidance (Annisa & Kurniasih, 2012). Higher levels of institutional ownership are associated with enhanced managerial oversight, reduced conflicts of interest, and improved corporate governance quality (Fadhilah, 2014; Pohan, 2008). Institutional shareholders carefully weigh the trade-offs between the potential reputational damage that could arise if tax avoidance is later exposed as inappropriate and the financial benefits of tax savings, which may include the risks of penalties and adverse publicity linked to aggressive tax practices (Chen et al., 2010). These dynamic positions institutional ownership as a key factor in compelling management to adopt more transparent and socially responsible tax strategies, aligning corporate behavior with long-term sustainability and governance standards.

Prior studies (Cahyono et al., 2016; Leipälä, 2017; Khan et al., 2017; Ngadiman & Puspitasari, 2017) show that institutional ownership can be associated with higher levels of tax avoidance. By holding large shareholdings, institutional investors possess greater access to information and stronger monitoring capacity, enabling them to influence managerial decisions in pursuit of financial benefits (Shleifer & Vishny, 1997). However, rather than acting purely as long-term monitors, institutional shareholders may also behave as short-term-oriented investors, prioritizing immediate

returns and rent extraction through aggressive tax minimization strategies (Jiang et al., 2021).

Empirical evidence from both developed and emerging markets supports this view. Studies in the United States and China document a positive relationship between institutional ownership and tax avoidance, suggesting that institutional investors may actively encourage tax-efficient—but aggressive—strategies to enhance firm value (Khan et al., 2017; Jiang et al., 2021; Li et al., 2021; Chen et al., 2019; Bird & Karolyi, 2017). In the contexts of Indonesia and Malaysia, where corporate governance frameworks are formally established but enforcement remains uneven and political–business linkages persist, the entrenchment effect is expected to dominate the alignment effect. Under such conditions, powerful institutional investors may exert pressure on management to pursue aggressive tax planning to maximize short-term performance. Accordingly, the present study hypothesizes a positive relationship between institutional ownership and corporate tax avoidance (H4), reflecting the likelihood that higher levels of institutional ownership increase firms' incentives and capacity to engage in tax avoidance.

H4: There is a positive relationship between institutional ownership and tax avoidance in Indonesia and Malaysia.

4.3.5 Relationships between Managerial Ownership and Tax Avoidance

Managers are employees who understand the firm's daily operations, while shareholders are owners. When managers also hold equity stakes, they become managerial shareholders, occupying both decision-making and ownership roles. This dual position can reduce classical owner–manager agency conflicts, but it may also create entrenchment incentives, as managers gain greater discretion to pursue private benefits (McWilliams & Sen, 1997). One such benefit is tax avoidance, which increases after-tax cash flows and firm value, thereby directly enhancing managers' personal wealth through their shareholdings (Rego & Wilson, 2012).

As managerial ownership increases, managers may become more entrenched and less subject to external discipline, particularly in environments with weak investor protection and ineffective tax enforcement. In such settings, managers possess both the incentive and ability to engage in aggressive tax planning, as the expected private gains may outweigh potential regulatory or reputational costs (Cabello et al., 2019). This

entrenchment perspective suggests that managerial ownership can encourage risk-taking behavior, including tax avoidance, especially in emerging markets.

While some studies argue that managerial shareholders may be risk-averse and avoid aggressive tax strategies due to potential penalties and future costs (Minnick & Noga, 2010; Scholes et al., 2009; Badertscher et al., 2013), this alignment effect is more likely to prevail in environments with strong governance and effective enforcement. In contrast, in countries such as Indonesia and Malaysia, where institutional enforcement remains uneven, the entrenchment effect is expected to dominate. Under these conditions, managerial shareholders may exploit their control to pursue tax avoidance strategies that increase short-term firm value and personal wealth. Accordingly, this study hypothesizes a positive relationship between managerial ownership and corporate tax avoidance (H5), reflecting the dominance of managerial entrenchment in weak governance environments.

H5: There is a positive relationship between managerial ownership and tax avoidance in Indonesia and Malaysia.

4.3.6 The Moderating Effect of Audit Quality on Ownership Structure–Tax Avoidance Relationships

Drawing on agency theory, this study conceptualizes audit quality as an external alignment mechanism that moderates the relationship between ownership structure and tax avoidance. In the presence of concentrated ownership, dominant shareholders may engage in tax avoidance due to entrenchment incentives, particularly in weak institutional environments. High audit quality—proxied by Big 4 auditor affiliation and audit report lag—enhances monitoring intensity, increases detection risk, and raises the reputational and regulatory costs of aggressive tax planning. As a result, audit quality is expected to weaken the positive relationship between ownership structure and tax avoidance by constraining opportunistic behavior and realigning managerial and shareholder incentives with regulatory compliance. This moderating role reflects the alignment effect of audit quality, in which external audits complement internal governance mechanisms to mitigate entrenchment-driven tax avoidance.

Tax avoidance limits governments from accessing their income source through tax collection. Even though it is legal, tax avoidance might invite investigations by tax authorities as it might go too aggressive. Strong corporate governance mechanisms can

restrict companies from investing extremely in tax avoidance (Armstrong et al., 2015). In a company with well-balanced corporate governance, tax avoidance remains at a favorable level (Kim et al., 2011). Gaaya et al. (2017) have proved that audit quality can weaken the positive relationship between ownership level by family investors and tax avoidance.

This research predicts that external audit quality would reduce shareholders' propensity to extract rents from their tax-saving strategies. Hiring Big 4 auditors could reduce tax aggressiveness among their clients in comparison to non-Big 4 auditors since Big 4 auditors have access to talented auditors around the globe, and their credible brand name is at stake if they perform tasks other than audit service (Klassen et al., 2016). As Qawqzeh (2023) found that audit quality can help moderate the relationship between ownership structure and tax avoidance in the Jordan context, this current study believes that the role of audit quality can also moderate the relationship between ownership structure and tax avoidance in Indonesia and Malaysia.

Foreign ownership often introduces unique dynamics into corporate governance, as foreign investors typically bring advanced expertise, global perspectives, and stringent expectations regarding financial performance and transparency. However, foreign shareholders may also encourage aggressive tax planning to maximize returns, particularly in emerging markets with less robust regulatory frameworks. In such contexts, the potential for agency conflicts arises as foreign investors' tax strategies may not align with broader stakeholder or societal interests. Audit quality, characterized by enhanced monitoring and transparency, plays a pivotal role in mitigating these conflicts by scrutinizing tax-related decisions and ensuring compliance with ethical and legal standards. High-quality audits can bridge the gap between the profit-driven motives of foreign investors and the need for responsible tax practices, fostering greater accountability and reducing the likelihood of aggressive tax avoidance. Consistent with the alignment effect of audit quality, stronger external audits are expected to constrain entrenchment-driven tax avoidance incentives among foreign shareholders by increasing scrutiny over cross-border tax strategies and financial reporting discretion. Therefore, I hypothesize that audit quality moderates the relationship between foreign ownership and tax avoidance in Indonesia and Malaysia (H6), ensuring that foreign ownership influences tax strategies in a more transparent and socially responsible manner.

H6: Audit quality moderates the relationship between foreign ownership and tax avoidance in Indonesia and Malaysia.

Institutional ownership is often associated with enhanced corporate governance due to the expertise, resources, and monitoring capacity of institutional investors. These investors typically aim to maximize returns while ensuring the stability and reputation of the firms in which they invest. However, institutional investors may also engage in tax planning strategies that align with their financial objectives, potentially leading to aggressive tax avoidance. This duality can create agency conflicts, particularly in emerging markets like Indonesia and Malaysia, where regulatory frameworks may be less stringent. Audit quality, as a mechanism of oversight and transparency, plays a critical role in mitigating these conflicts. By providing rigorous scrutiny of financial and tax-related practices, high-quality audits ensure that institutional ownership aligns with broader shareholder interests and complies with legal and ethical standards. Although institutional investors may exert pressure for tax-efficient outcomes, high audit quality increases transparency and monitoring, thereby reducing the ability of institutional owners to pursue aggressive tax strategies for short-term gains. As such, I hypothesize that audit quality moderates the relationship between institutional ownership and tax avoidance in Indonesia and Malaysia (H7), ensuring that institutional investors' influence promotes responsible and transparent tax behaviors.

H7: Audit quality moderates the relationship between institutional ownership and tax avoidance in Indonesia and Malaysia.

Government ownership introduces unique dynamics into corporate governance, as government-controlled firms often pursue both economic and political objectives. While governments may prioritize social responsibility and public accountability, their dual role as shareholders and regulators can create opportunities, including the option to either limit or engage in tax avoidance. In emerging markets such as Indonesia and Malaysia, audit quality is particularly significant. High-quality audits enhance transparency, strengthen monitoring, and mitigate agency conflicts, ensuring that government ownership aligns with both the government's fiscal responsibilities and broader stakeholder interests. Audit quality can ensure that tax strategies under government ownership are conducted responsibly and transparently. In the presence of government ownership, audit quality serves as an external governance mechanism that limits discretionary tax behavior arising from political influence or regulatory opacity, reinforcing alignment with public accountability objectives. Therefore, I hypothesize

that audit quality moderates the relationship between government ownership and tax avoidance in Indonesia and Malaysia (H8), promoting tax practices that balance public accountability with economic objectives.

H8: Audit quality moderates the relationship between government ownership and tax avoidance in Indonesia and Malaysia.

Managerial ownership creates a direct alignment between managers' financial interests and those of shareholders, potentially reducing agency conflicts. However, it can also lead to opportunistic behaviors, as managers with significant ownership stakes may prioritize personal benefits, such as reducing tax expenses through aggressive tax avoidance strategies. In emerging economies like Indonesia and Malaysia, where regulatory oversight may not be as robust, this dual effect of managerial ownership can present challenges for governance. Audit quality plays a crucial role in mitigating these challenges by enhancing transparency and monitoring managerial decisions, particularly those related to tax strategies. High-quality audits ensure that managers' tax-related actions align with the firm's long-term goals and adhere to legal and ethical standards. Given that managerial ownership may incentivize opportunistic tax behavior under entrenchment, higher audit quality is expected to attenuate this effect by constraining managerial discretion and enhancing oversight of tax-related decisions. Therefore, I hypothesize that audit quality moderates the relationship between managerial ownership and tax avoidance in Indonesia and Malaysia (H9), ensuring that managerial ownership promotes responsible and transparent tax practices while minimizing opportunistic behaviors.

H9: Audit quality moderates the relationship between managerial ownership and tax avoidance in Indonesia and Malaysia.

Family ownership often leads to a concentrated ownership structure where family members hold significant control over corporate decisions. While family firms may prioritize long-term sustainability and reputation, they may also engage in tax avoidance strategies to maximize private benefits, especially in environments with weaker regulatory frameworks, such as Indonesia and Malaysia. This dual nature of family ownership can create agency conflicts, particularly between controlling family shareholders and minority investors. Audit quality serves as a critical governance tool in this context by enhancing transparency, accountability, and oversight of financial and tax-related practices. High-quality audits can mitigate the potential opportunism associated with family ownership by ensuring compliance with legal and ethical

standards and aligning tax strategies with broader stakeholder interests. While family ownership may encourage tax avoidance due to concentrated control, high audit quality increases monitoring intensity and reputational risk, thereby weakening entrenchment incentives and promoting alignment with long-term stakeholder interests. Thus, I hypothesize that audit quality moderates the relationship between family ownership and tax avoidance in Indonesia and Malaysia (H10), fostering responsible tax behavior while balancing the interests of controlling and minority shareholders.

H10: Audit quality moderates the relationship between family ownership and tax avoidance in Indonesia and Malaysia.

4.4 Summary of Hypotheses

This study develops a set of hypotheses grounded in the Alignment and Entrenchment Effects framework of agency theory to examine how ownership structure shapes corporate tax avoidance in Indonesia and Malaysia with moderation effects of audit quality. The hypotheses are structured to capture both the direct effects of ownership structure on tax avoidance and the moderating role of audit quality as an external governance mechanism.

First, the study hypothesizes that ownership concentration—through family, foreign, government, institutional, and managerial ownership—is positively associated with tax avoidance (H1–H5). These hypotheses are primarily grounded in the entrenchment effect, which suggests that shareholders may exploit their control to extract private benefits, including aggressive tax avoidance, particularly in emerging markets characterized by weaker investor protection and enforcement mechanisms. The prevailing institutional conditions in Indonesia and Malaysia suggest that entrenchment incentives are more likely to dominate, leading to higher levels of tax avoidance.

Second, the study proposes that audit quality moderates the relationship between ownership structure and tax avoidance (H6–H10). Drawing on the alignment effect of audit quality, high-quality audits—proxied by Big 4 auditor affiliation and audit report lag—are expected to weaken the positive association between ownership concentration and tax avoidance. Audit quality serves as an external monitoring mechanism that enhances transparency, increases the likelihood of detection, and raises the reputational and regulatory costs of aggressive tax strategies. As a result, audit quality is hypothesized to constrain opportunistic behavior by entrenched owners and

realign corporate tax decisions with broader stakeholder and regulatory expectations. Together, these hypotheses reflect the study's core theoretical proposition: while ownership structure creates incentives that may encourage tax avoidance, strong external governance, as reflected in audit quality, can mitigate these incentives. Table 4.1 presents a consolidated summary of all hypotheses examined in this study, providing a clear roadmap for the empirical analyses conducted in the subsequent chapters.

Table 4.1
Summary of Hypotheses

Hn	Relationship Theories/Effects	Expected relationship
H1	Family ownership → tax avoidance (Entrenchment effect)	+
H2	Foreign ownership → tax avoidance (Entrenchment effect)	+
H3	Government ownership → tax avoidance (Entrenchment effect)	+
H4	Institutional ownership → tax avoidance (Entrenchment effect)	+
H5	Managerial ownership → tax avoidance (Entrenchment effect)	+
H6	Family ownership x audit quality → tax avoidance (Alignment effect)	-
H7	Foreign ownership x audit quality → tax avoidance (Alignment effect)	-
H8	Government ownership x audit quality → tax avoidance (Alignment effect)	-
H9	Institutional ownership x audit quality → tax avoidance (Alignment effect)	-
H10	Managerial ownership x audit quality → tax avoidance (Alignment effect)	-

Source: Author's work

CHAPTER 5

RESEARCH METHODOLOGY

5.1 Introduction

This chapter presents the research methodology adopted in this study, outlining the systematic approach taken to ensure the validity, reliability, and robustness of the findings. A structured methodological approach enhances the study's replicability and ensures that conclusions are derived from sound statistical procedures. Section 5.2 describes the study's population and sample selection criteria, explaining the rationale behind the dataset and how firms were chosen. Section 5.3 discusses the types of data used and data collection techniques to ensure accuracy and consistency, whereas Section 5.4 focuses on the operationalization and measurement of variables.

Section 5.5 addresses ethical considerations, ensuring research integrity, confidentiality, and compliance with data protection standards. Section 5.6 introduces the empirical models used to test the study's hypotheses, explaining the regression techniques and estimation methods employed. Section 5.8 presents descriptive statistics and correlation analysis, providing insights into data distribution and preliminary relationships between key variables. Finally, Section 5.9 focuses on regression analysis and panel-specific diagnostic tests, assessing model assumptions such as heteroscedasticity, cross-sectional dependence, and multicollinearity to validate the reliability of the findings.

Consistent with the positivist paradigm established in Chapter 3, the methodological choices in this chapter reflect an objectivist ontological stance and a deductive approach to knowledge generation. Positivism assumes that relationships among corporate governance mechanisms and tax avoidance exist objectively and can be empirically examined using observable indicators and statistical procedures. Accordingly, the study employs structured variable measurement, quantitative secondary data, replicable computational procedures, and inferential statistics to test the hypothesized relationships. This alignment ensures coherence between the research paradigm, hypothesis development, and empirical analysis.

5.2 Population and Sample Selection

A population refers to the complete set of cases that a researcher seeks to analyze or make inferences about (Rosen, 2019). In this study, the population consists of public-listed companies in Indonesia and Malaysia, as they play a crucial role in their respective economies and contribute significantly to national economic growth and financial markets. These companies are subject to financial reporting requirements, corporate governance regulations, and tax compliance obligations, making them ideal subjects for examining the relationship between ownership structure, audit quality, and tax avoidance. More specifically, listed firms in both jurisdictions are governed by mandatory regulatory frameworks that ensure public disclosure and standardized reporting. In Malaysia, listed companies must comply with Bursa Malaysia Listing Requirements, the Malaysian Financial Reporting Standards (MFRS), and the Malaysian Code on Corporate Governance (MCCG 2017/2021), which establish rules on ownership disclosure, audit oversight, and board composition. Similarly, Indonesian listed firms operate under the Indonesian Financial Accounting Standards (SAK), the Indonesian Corporate Governance Manual (2014/2018), and tax administration provisions under the General Taxation Law and Directorate General of Taxes regulations. The mandatory adoption of these frameworks ensures consistent reporting of ownership structure, audit characteristics, and tax-related disclosures, making listed firms methodologically suitable for empirical analysis of ownership–tax avoidance relationships. Additionally, since these firms publish audited financial statements, they provide reliable and standardized data that enhance the credibility and validity of the study's findings. With 1,490 listed companies in Indonesia and Malaysia in 2021, conducting a full population analysis would require substantial time, effort, and financial resources. Given these constraints, sampling is necessary to allow for a more manageable and cost-effective study while still ensuring meaningful and generalizable results. The primary objective of sampling is to select a subset of the population that accurately represents the entire population, allowing researchers to make inferences while maintaining efficiency in terms of time and cost (Cooper & Schindler, 2014).

To achieve a representative sample, this study applies a heterogeneous purposive sampling method, which involves selecting firms based on specific criteria to capture diverse characteristics within the population (Saunders et al., 2016). Heterogeneous purposive sampling is appropriate in this context because it allows the

researcher to deliberately capture variation across firms that are theoretically relevant to the research questions rather than selecting firms randomly. This approach has been widely used in corporate governance and tax avoidance studies where firms differ systematically in ownership structures, governance arrangements, and reporting practices (Saunders et al., 2016; Patton, 2015). The rationale is that tax avoidance behavior is not uniform across firms; instead, it varies according to ownership concentration, shareholder identity, audit quality, and governance environments. By selecting firms that meet predetermined criteria—including availability of complete ownership, audit, and tax variables—this sampling strategy ensures that the full range of ownership types (family, foreign, government, institutional, and managerial) is represented in both jurisdictions. This method offers a more analytically meaningful sample compared to probability sampling, which may inadvertently underrepresent firms relevant for examining moderated governance–tax relationships.

Thus, heterogeneous purposive sampling aligns methodologically with the study's objective of analyzing how different ownership forms and audit quality influence tax avoidance in varied institutional contexts across Indonesia and Malaysia. The selection of Indonesia and Malaysia reflects a deliberate comparative cross-country research design rather than convenience sampling. Both countries represent emerging Southeast Asian economies with comparable legal origins, concentrated ownership structures, and evolving corporate governance regimes, which support meaningful cross-country comparison. Institutional comparability between Malaysia and Indonesia is supported by empirical evidence drawn from the World Bank Worldwide Governance Indicators (WGI) (World Bank, 2025). Both jurisdictions fall within similar percentile bands for regulatory quality, rule of law, and control of corruption, reflecting comparable institutional enforcement capacity and regulatory environments faced by listed firms. At the same time, Malaysia generally scores higher than Indonesia across governance dimensions, indicating meaningful institutional variation within an emerging-market profile. This similarity–difference combination strengthens the comparative research design by providing a common governance foundation while retaining institutional variation necessary to observe heterogeneity in how ownership and audit quality interact with tax avoidance. At the same time, differences in regulatory enforcement strength, investor protection, audit oversight, and tax administration provide sufficient institutional variation to examine how ownership structure and audit quality interact with tax avoidance. This design is theoretically aligned with the

Alignment and Entrenchment Effects framework, which posits that governance mechanisms operate differently across institutional contexts. By focusing on two institutionally comparable countries, the study enhances internal validity while avoiding the excessive heterogeneity often present in large multi-country samples. In addition, Indonesia and Malaysia share cultural characteristics such as a high degree of collectivism and strong social networks, which influence business practices and relationships with government entities (Hofstede, 2001). This cultural context contributes to the prevalence of political connections, whereby firms may leverage relationships with government officials to obtain advantages, including potentially favorable tax treatment (Fisman, 2001; Johnson & Mitton, 2003), thereby shaping corporate behavior and tax strategies.

Beyond cultural similarities, Indonesia and Malaysia also share comparable corporate governance frameworks, characterized by concentrated ownership structures and evolving regulatory landscapes (Claessens et al., 2000; La Porta et al., 1999). Furthermore, Malaysia and Indonesia are export-oriented emerging economies, with manufacturing and commodity-based exports contributing significantly to GDP and industrial policy direction (World Integrated Trade Solution (WITS) - World Bank, 2025). Export-dependency shapes corporate strategies and fiscal relationships with the government, including tax planning incentives. By targeting listed firms, the study ensures that the data used for analysis is reliable, standardized, and publicly available, thereby enhancing the study's validity and comparability across firms and sectors. To maintain the relevance and comparability of the data, firms in the financial sector—including banks, insurance companies, and other financial institutions—were excluded from the sample. Financial firms operate under fundamentally different regulatory, reporting, and taxation regimes, including industry-specific capital requirements, prudential supervision, and tax treatments that directly affect their effective tax rates and financial reporting practices. For example, financial institutions in Malaysia are regulated under the Financial Services Act 2013 and Bank Negara Malaysia prudential requirements, while Indonesian banks comply with the Financial Services Authority (OJK) Act and capital adequacy and reporting requirements aligned to Basel frameworks. These regulatory regimes impose sector-specific tax treatments and reporting requirements not applicable to non-financial listed firms. Prior tax avoidance and corporate governance studies consistently exclude financial firms to preserve sample homogeneity and avoid biased estimation arising from these structural

differences (Hanlon & Heitzman, 2010; Lanis & Richardson, 2013; Armstrong et al., 2015). Including financial firms may confound the relationship between ownership structure, audit quality, and tax avoidance, as their tax behavior is heavily influenced by regulatory constraints rather than discretionary managerial or ownership incentives. Following established empirical practice, this study therefore restricts the sample to non-financial listed firms.

To ensure data reliability and consistency, firms with missing or unreliable observations were removed. "Missing" refers to financial or governance variables unobtainable from Refinitiv Datastream or annual reports, including shareholding breakdowns, auditor identity, audit report date, or tax-expense components needed to compute SETR or BTD. "Unreliable" refers to values inconsistent with audited disclosures, such as conflicting shareholder totals or extreme SETR/BTD values arising from zero or negative pre-tax income. These screening decisions are consistent with established panel-data cleaning practices designed to minimize estimation bias from irregularities in firm-level tax data (Frank et al., 2009; Armstrong et al., 2015).

Table 5.1 summarizes the sampling and screening procedure. The initial population comprised 1,490 listed firms in 2021 (Indonesia: 633; Malaysia: 857). Financial institutions (102 in Indonesia; 36 in Malaysia) were excluded because they are subject to prudential supervision, capital adequacy regulation, and specialized tax treatments that structurally influence effective tax rates and reporting practices. Flow-through entities such as Malaysian REITs (18 firms) were also excluded because, under the Income Tax Act 1967, REITs are exempt at the entity level when at least 90% of taxable income is distributed, resulting in near-zero effective tax rates. No REITs were identified in the Indonesian sample.

After excluding financial firms, REITs, and firms with missing or extreme data (17 firms), the final usable sample consists of 1,317 non-financial listed firms (Indonesia: 522; Malaysia: 795). Multiplied across the five years (2017–2021), this produces 6,585 firm-year observations, ensuring adequate statistical power. The resulting sample is distributed across Global Industry Classification Standard (GICS®) sectors, with Industrials, Consumer Cyclical, and Consumer Non-Cyclicals most represented, alongside smaller sectors such as Utilities and Health Care. These sectoral spread preserves representativeness and reduces industry-specific bias, yielding a dataset suitable for cross-country empirical analysis of ownership structure, audit quality, and tax avoidance among non-financial listed firms in Indonesia and Malaysia.

Table 5.1
Sampling Procedure and Sample Distribution

Part A: Sample selection procedure			
Sampling procedure	Indonesia	Malaysia	Total
Listed firms in 2021	633	857	1,490
Less: firms in the sector of Financials	(102)	(36)	(138)
Less: firms from the REITs industry	0	(18)	(18)
Less: Missing information and outliers	(9)	(8)	(17)
Total numbers of sample firms	522	795	1,317
Part B: Sample by sector			
Listed firms in 2021 by sector	Indonesia	Malaysia	Total
Academic & Educational Services	0	2	2
Basic Materials	77	112	189
Consumer Cyclicals	108	122	230
Consumer non-cyclicals	74	101	175
Energy	45	29	74
Healthcare	21	26	47
Industrials	103	203	306
Real Estate	57	89	146
Technology	29	100	129
Utilities	8	11	19
Total numbers of sample firms	522	795	1,317
Multiplied by five periods (2017-2021)	x5	x5	x5
Total number of observation years	2,610	3,975	6,585

Source: Author's work

This study focuses on a period marked by the active enforcement of corporate governance codes in both Indonesia and Malaysia. The selected timeframe is particularly relevant, as governance frameworks significantly shape firm behavior in areas such as compliance, transparency, and financial reporting—each of which has implications for tax planning and avoidance. In Malaysia, the Malaysian Code on Corporate Governance (MCCG) 2021 was introduced on 21 April 2021 to replace the MCCG 2017, reflecting the country's efforts to align with evolving international best practices. Nevertheless, this study includes 2021 in its observation period, as many companies did not close their fiscal year in December 2021, and thus were still governed under the provisions of MCCG 2017 during that financial year.

In the Indonesian context, corporate governance reforms were guided by two key frameworks: the Indonesian Corporate Governance Manual (ICGM), issued in 2014 and revised in 2018. The 2018 revision marked a notable shift in governance emphasis—from reliance on independent directors to a stronger role for independent

commissioners as key agents of oversight. Reflecting this transition, and to maintain consistency with the most recent governance expectations, this study adopts the proportion of independent commissioners as the measure of board independence for Indonesian firms. Although the observation period for Indonesia includes the year 2017, the decision to rely solely on independent commissioners aligns the dataset with the 2018 ICGM approach. Consequently, the study covers the period from 2017 to 2021, ensuring comparability while capturing the evolution of governance frameworks across these emerging markets. From a methodological perspective, the five-year panel period allows sufficient time-series variation to examine ownership, audit quality, and tax avoidance while mitigating short-term volatility in tax measures such as SETR and BTD, consistent with prior panel-based tax avoidance studies (e.g., Dyreng et al., 2008; Hanlon & Heitzman, 2010).

5.3 Sources and Method of Data Collection

This study collects data from two sources to ensure comprehensive and accurate financial and governance-related information. The first data source is financial statements, which are essential for variables that involve accounting ratios or financial metrics. However, instead of manually extracting financial data from annual reports, this study utilizes REFINITIV® Eikon. This database allows for efficient and systematic retrieval of financial information, including firm-level accounting data necessary for the study's econometric models. The availability of standardized and downloadable financial ratios ensures the accuracy and comparability of financial metrics across firms and time periods. The second source of data is the annual reports of the sample firms, which provide detailed information on corporate governance mechanisms. Key variables extracted from annual reports include external auditor details (i.e., whether the firm is audited by a Big 4 accounting firm), audit report date (to measure audit report lag), and ownership structure, which is manually collected from the Analysis of Shareholdings or Shareholders Composition section of the annual reports. For ownership variables, this study manually extracted percentage shareholdings corresponding to five ownership categories—family, foreign, institutional, government, and managerial shareholders. Consistent with prior studies (Gaaya et al., 2017; Alkurdi & Mardini, 2020), ownership information was sourced from the "Shareholdings Analysis," "Top Shareholders," or equivalent share register

disclosure sections in annual reports. When available, both direct and indirect shareholdings were included to reflect the full economic ownership interest, and in multi-tier ownership structures, the cumulative controlling shareholder percentage was recorded following Anderson and Reeb (2003). Manual extraction ensures consistent application of classification rules and avoids data inconsistencies or insufficient ownership disaggregation common in automated databases, thereby improving accuracy and comparability across Indonesian and Malaysian firms.

Data was meticulously and consistently collected from various reliable sources to ensure the robustness of the analysis. Prior to conducting statistical analyses, a thorough data cleaning and preparation process was undertaken to guarantee the accuracy, completeness, and reliability of the dataset. Common issues encountered in raw data included missing values and outliers, both of which were addressed systematically to minimize their potential impact on the results. For missing values, if a single data point within a variable was absent, the mean value of the observed firm was imputed to maintain the continuity of the dataset. However, if more than one value was missing for a firm, the firm was excluded from the observations to prevent biases in the analysis. Missing values were primarily attributed to factors such as delisting from the stock market or the unavailability of data due to other organizational changes.

Outliers, which can distort statistical results and lead to misleading conclusions, were carefully managed. If a single variable contained an extreme value, the data point was smoothed by replacing it with the mean value of the respective variable to maintain consistency. However, if multiple variables for a firm exhibited extreme deviations, the firm was removed from the sample to ensure the integrity of the analysis. The decision to smooth or remove outliers was guided by the need to balance data accuracy with representativeness. Additionally, a double-checking procedure was implemented to validate that all missing values or outliers had been appropriately identified and handled. This involved revisiting the original data sources to confirm the accuracy of imputed or adjusted values. By adopting these rigorous data cleaning and preparation steps, the study ensured that the dataset was well-suited for producing reliable and valid results.

5.4 Variable Operationalization and Empirical Model

5.4.1 Measurement of Dependent Variable: Tax Avoidance

Tax avoidance has been used as a key dependent variable in studies examining corporate tax strategies. Prior research has identified multiple approaches to quantifying tax avoidance, with the three most widely used measures being the Effective Tax Rate (ETR) or GAAP ETR (Bradshaw et al., 2019; Hsu & Liu, 2018; Yahya et al., 2021), the Effective Cash Tax Rate (Cash ETR) (Alkurdi & Mardini, 2020; Bradshaw et al., 2019; Sudibyo & Jianfu, 2016), and the Book-Tax Difference (BTD) (Gaaya et al., 2017; Jiang et al., 2021). Each measure offers unique insights into corporate tax strategies and has its own advantages and limitations. The ETR (GAAP ETR) represents the total tax expense divided by pre-tax income, providing a broad measure of a firm's tax burden in accordance with Generally Accepted Accounting Principles (GAAP). While widely used due to its simplicity, this measure may be limited in capturing temporary differences in tax treatment and does not always reflect the actual tax paid by firms (Hanlon & Heitzman, 2010). Meanwhile, the Cash ETR, which is calculated as cash tax paid divided by pre-tax cash income, better reflects the real cash outflows related to taxation, making it a useful measure for understanding firms' actual tax burdens over time. However, Cash ETR may be affected by tax payment deferrals, loss carryforwards, and accounting adjustments, limiting its direct comparability across firms and industries (Dyreng et al., 2008).

A more sophisticated measure of tax avoidance is the Book-Tax Difference (BTD), which captures the disparity between financial (book) income and taxable income. BTD has been widely adopted in the literature as it highlights discrepancies between reported earnings and taxable profits, often linked to earnings management, tax planning strategies, or aggressive tax avoidance practices (Wilson, 2009; Chen et al., 2010; Lin et al., 2014). The advantage of BTD is that it captures both permanent and temporary differences in income recognition for tax and financial reporting purposes, offering deeper insights into aggressive tax behavior. However, BTD is also influenced by discretionary accruals, accounting choices, and firm-specific factors, making it important to interpret its values in context (Frank et al., 2009).

BTD is considered a more sophisticated proxy than ETR-based measures because it reflects underlying differences in book versus taxable income that arise from

firms' discretionary reporting choices rather than merely tax expense recognition. Unlike SETR or Cash ETR, which only capture taxes paid relative to accounting income, BTD incorporates permanent and temporary differences driven by earnings management, tax shelters, income-shifting practices, and timing strategies. Prior studies argue that these differences better reveal managers' intentional tax planning activities and capture aggressive avoidance behaviors that ETR measures may obscure (Frank et al., 2009; Wilson, 2009; Hanlon & Heitzman, 2010). Because BTD focuses on discrepancies in tax reporting relative to book reporting, it provides a deeper and more granular signal of tax avoidance that aligns with the economic incentives driving ownership and governance structures.

Building on this literature, this study adopts two complementary proxies—the Statutory–Effective Tax Rate gap (SETR Gap) and Book–Tax Differences (BTD)—because they capture different dimensions of tax avoidance and, when used jointly, reduce measurement bias. First, SETR Gap provides an intuitive, compliance-oriented indicator of how far a firm's tax burden deviates from its statutory obligation, making it suitable for assessing tax avoidance that manifests through lower reported effective tax rates. Second, BTD captures discretionary and potentially opaque strategies embedded in the divergence between book income and taxable income, which are often linked to earnings management and sophisticated tax planning. Using both measures is consistent with the view that no single proxy fully represents tax avoidance behavior, and that triangulation improves construct validity and inference (Hanlon & Heitzman, 2010; Frank et al., 2009; Wilson, 2009).

Given the study's focus on Indonesia and Malaysia, where statutory tax rates differ and have fluctuated over time, using a raw ETR or Cash ETR measure may lead to inconsistencies in cross-country comparisons. A key limitation of these measures is their failure to account for differences in statutory tax rates, potentially distorting assessments of tax avoidance across jurisdictions. In response to this issue, Thomsen and Watrin (2018) and Wen et al. (2020) propose a modified tax avoidance measure, which adjusts for variations in statutory tax rates. Following Balakrishnan et al. (2019) and Shi (2020), this study applies the difference between the applicable statutory tax rate and the effective tax rate to quantify tax avoidance. This adjustment allows for a more accurate comparison of tax avoidance levels across firms operating under different tax regimes. Specifically, firms with a larger gap between their statutory tax rate and effective tax rate are considered to engage in more aggressive tax avoidance,

as they report significantly lower taxable income relative to financial income.

Therefore, tax avoidance, the dependent variable of this study, is measured using two established proxies: the Statutory-Effective Tax Rate Gap (SETR Gap) and the Book-Tax Difference (BTD). The SETR gap represents the difference between the statutory tax rate (STR) and the effective tax rate (ETR) of a firm. A larger gap indicates greater tax avoidance, as firms are paying significantly less in taxes relative to the statutory obligation. The statutory tax rate for public companies in Indonesia has been 25% since 2010¹, but it was reduced to 22% for the tax year 2020 and 2021². Meanwhile, the statutory tax rate of Malaysia has been 24% since 2016³. The second proxy, BTD, measures discrepancies between book income and estimated taxable income. A larger BTD suggests more aggressive tax planning, as firms report higher profits to shareholders while minimizing taxable income. Both SETR and BTD values are extracted from Refinitiv Datastream to ensure consistent financial reporting across firms and time periods. Using both proxies strengthens construct validity by capturing alternative dimensions of tax avoidance—one based on effective tax burden and the other reflecting book–tax reporting differences. Subsections 5.4.1.1 and 5.4.1.2 discuss the advantages and limitations of SETR and BTD in greater detail.

5.4.1.1 Statutory-Effective Tax Rate (SETR)

The Effective Tax Rate (ETR) is widely recognized as a standard metric of a firm's tax burden and has been extensively used in tax avoidance research (Wang et al., 2020). Numerous studies, including those by Bradshaw et al. (2019), Hsu & Liu (2018), and Li et al. (2017), have employed ETR as a proxy for corporate tax avoidance. ETR is particularly effective for capturing a firm's use of tax reduction strategies, including tax shelters and legislative loopholes (Dyreng et al., 2017). Since ETR is an inverse

¹ According to the Law of The Republic of Indonesia Number 36 the Year 2008 Concerning Fourth Amendment to the Law Number 7 the Year 1983 Regarding Income Tax (UNDANG-UNDANG REPUBLIK INDONESIA NOMOR 36 TAHUN 2008 TENTANG PERUBAHAN KEEMPAT ATAS UNDANG-UNDANG NOMOR 7 TAHUN 1983 TENTANG PAJAK PENGHASILAN).

² According to Regulation of The Government of The Republic of Indonesia Number 30 Year 2020 Concerning Reducing Income Tax Rates for Domestic Corporate Taxpayers of Public-Listed Companies (PERATURAN PEMERINTAH REPUBLIK INDONESIA NOMOR 30 TAHUN 2020 TENTANG PENURUNAN TARIF PAJAK PENGHASILAN BAGI WAJIB PAJAK BADAN DALAM NEGERI YANG BERBENTUK PERSEROAN TERBUKA).

³ Derived from <https://www.hasil.gov.my/en/company/tax-rate-of-company/> accessed on 3 July 2023 at 16.37 (GMT+8).

measure of tax avoidance, lower ETR values typically indicate higher levels of tax avoidance (Frank et al., 2009). This makes it a practical and quantifiable metric for evaluating corporate tax behavior, offering a straightforward method for assessing the extent to which firms reduce their tax liabilities through both legitimate tax planning and aggressive tax avoidance strategies.

The GAAP Effective Tax Rate (GAAP ETR) and Cash ETR are widely used proxies for tax avoidance and provide complementary perspectives on firms' tax burdens. GAAP ETR reflects total tax expense relative to pre-tax accounting income, whereas Cash ETR focuses only on cash taxes actually paid. As discussed earlier in Section 5.4.1, GAAP-based measures capture long-term tax obligations but may conflate statutory tax incentives with aggressive avoidance strategies, particularly in cross-country contexts where STRs differ. For this reason, GAAP ETR is referenced for completeness but the empirical analysis emphasizes SETR and BTDR, which better align with the research objective and institutional setting.

The Cash ETR, on the other hand, substitutes cash taxes paid in place of total income tax expense as the numerator. Unlike GAAP ETR, Cash ETR focuses on actual tax payments, making it particularly relevant for measuring tax deferral strategies (Shi et al., 2020). Since Cash ETR directly reflects cash tax outflows, it is often considered a more accurate measure of real tax savings (Rudayanto & Pirzada, 2020). This metric minimizes distortions caused by non-cash tax accounting adjustments, such as deferred tax assets, tax cushions, and stock-based compensation tax effects (Dyreng et al., 2017; Lietz, 2013; Minnick & Noga, 2010). As a result, Cash ETR is widely used in research that examines the short-term financial impacts of tax avoidance strategies. However, a key limitation of Cash ETR is its inclusion of tax payments from prior periods. Since Cash ETR reflects all tax payments made within a given fiscal year—regardless of when the related taxable income was earned—it may introduce distortions when analyzing tax avoidance for a specific period (Gebhart, 2017). For example, firms that defer tax payments from previous years may report a lower Cash ETR in the current period, even if their tax avoidance strategies remain unchanged. Despite this drawback, Cash ETR remains a valuable tool for evaluating corporate tax behavior, particularly for firms that rely on cash-based tax management strategies to optimize their financial position.

Both GAAP ETR and Cash ETR provide important insights into corporate tax avoidance, yet they serve different purposes. While GAAP ETR captures the total tax

burden, including deferred tax obligations, Cash ETR focuses on actual tax cash flows. Given the differences in timing effects, many studies employ both metrics simultaneously (Dyreng et al., 2008; Frank et al., 2009). For this study, neither measure in its raw form fully captures the extent of tax avoidance across different statutory tax environments. Since statutory tax rates (STRs) vary between the two countries and have changed over time, raw ETR values alone may not adequately reflect tax avoidance (Wen et al., 2020). To address this issue, this study adopts a modified version of ETR. In this context, "modified ETR" refers to alternative ETR-based tax avoidance measures, including GAAP ETR, Cash ETR, and the Statutory-ETR Gap (SETR). These measures adjust the conventional ETR concept to reflect different dimensions of tax burden. The SETR gap, calculated as the difference between statutory tax rate and effective tax rate, provides a comparable benchmark relative to statutory obligations and improves cross-country interpretation.

5.4.1.2 Book-Tax Difference (BTD)

Book-tax differences (BTD) are widely recognized as a key measure of corporate tax avoidance, reflecting the gap between accounting income and taxable income (Salihu et al., 2015). This discrepancy arises from variations in financial reporting practices and tax regulations, influenced by legitimate accounting choices, earnings management, or aggressive tax planning strategies (Tang, 2020). Larger positive BTD values indicate higher levels of corporate tax avoidance, as they represent income reported for accounting purposes that is not subject to taxation. In jurisdictions with strict enforcement regimes, such as the United States, firms with substantial BTDs often face greater regulatory scrutiny, audit adjustments, and potential tax liabilities (Mills, 1998; Phillips et al., 2003).

BTD can be classified into three categories: (1) Total BTD, representing the overall difference between accounting and taxable income; (2) Temporary BTD, which reverses over time (e.g., depreciation or loss carryforwards); and (3) Permanent BTD, which does not reverse (e.g., tax-exempt income, non-deductible expenses, and income shifting through tax havens) (Hanlon & Heitzman, 2010). Among these, permanent BTD is widely viewed as the most indicative of deliberate tax avoidance, whereas temporary BTD often reflects accounting adjustments (Evers et al., 2017). Nevertheless, total BTD remains the most practical measure for large-scale empirical

studies and has been extensively adopted in recent research (Cabello et al., 2019; Jiang et al., 2020).

This study adopts total BTM as a measure of tax avoidance because it captures a broader range of aggressive tax planning strategies. Previous studies have demonstrated the effectiveness of total BTM in identifying tax avoidance across different jurisdictions, making it a widely accepted measure in tax research (Cabello et al., 2019; Gaaya et al., 2017). Given the varying statutory tax rates and tax incentives in Indonesia and Malaysia, total BTM provides a more stable cross-country comparison than ETR-based measures alone. By incorporating total BTM alongside the effective tax rate (ETR) approach, this study aims to provide a more robust and nuanced analysis of corporate tax avoidance strategies across different ownership structures and regulatory environments.

5.4.2 Measurement of Independent Variables: Ownership Structure

This study examines the influence of five distinct ownership structures on corporate tax avoidance: foreign, governmental, institutional, managerial, and family ownership. These ownership types are chosen due to their prominence in emerging markets such as Indonesia and Malaysia, where corporate governance is often shaped by concentrated ownership and relationship-based market structures (Madah Marzuki & Syukur, 2021). The significance of these ownership types is well-documented, with governmental, foreign, and family shareholders playing a dominant role in shaping corporate policies and financial decision-making (International Finance Corporation, 2018). By analyzing these ownership structures, this study aims to provide deeper insights into their effects on corporate tax strategies, particularly in relation to tax avoidance behaviors.

The measurement of ownership structure in prior research has varied, with some studies using binary dummy variables and others employing ownership percentages. Previous studies, including those by Bradshaw et al. (2019), Li et al. (2017), and Sudiby and Jianfu (2016), have often relied on dummy indicators to assess ownership structure, which provides a simplistic measure of ownership presence but fails to capture the degree of influence exerted by shareholders. While Cabello et al. (2019) and Kovermann & Wendt (2019) utilized both dummy indicators and ownership percentages, they primarily focused on the influence of a single shareholder type. In

contrast, studies such as those conducted by Alkurdi and Mardini (2020) and Deef et al. (2021) have examined multiple shareholder types and determined that ownership percentage offers a more precise representation of shareholder influence. The International Finance Corporation (2018) emphasizes that the level of ownership significantly affects a shareholder's ability to participate in corporate decision-making. Consistent with prior empirical approaches, this study measures ownership structure using percentage shareholdings, following Deef et al. (2021), Jiang et al. (2021), and Syukur and Jongsureyapart (2023), who operationalize ownership by the proportion of equity held by each ownership type. Using percentage ownership enables clearer interpretation of ownership concentration and aligns with agency theory arguments that higher ownership stakes provide stronger incentives and influence over managerial decisions. Accordingly, this study adopts ownership percentage as the primary measure to ensure a more accurate assessment of how different ownership types affect tax avoidance.

Foreign ownership in this study is defined as the proportion of shares held by non-national investors, including individuals, corporations, or institutional entities. The classification of foreign shareholders is explicitly stated in the annual reports of publicly listed firms in Indonesia and Malaysia, ensuring consistency and transparency in identifying foreign investments. This approach enables a comprehensive analysis of the role of foreign investors in corporate governance and tax-related decision-making. By aggregating foreign ownership across various investor categories, this study provides a holistic perspective on how foreign stakeholders influence corporate tax strategies. Foreign investors often bring global expertise, financial resources, and stringent governance expectations, which may affect firms' tax planning behaviors. Given the variations in regulatory environments between foreign investors' home countries and host markets, understanding their role in shaping tax avoidance strategies is crucial.

Government ownership is another significant factor in corporate governance, particularly in emerging economies where state participation in business is substantial. In this study, government ownership is measured as the cumulative ownership percentage held by state entities. In Indonesia, government shareholding is primarily represented under the "Government of the Republic of Indonesia" or the "State of the Republic of Indonesia." Meanwhile, in Malaysia, state ownership is exercised through Government-Linked Investment Companies (GLICs), including the Employees

Provident Fund (EPF), Khazanah Malaysia Berhad (KNB), Kumpulan Wang Amanah Persaraan (KWAP), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), the Ministry of Finance (MOF), and Permodalan Nasional Berhad (PNB) (Rahman et al., 2018). These institutions play a crucial role in national economic planning and corporate governance, often balancing commercial interests with policy-driven objectives. Understanding the role of government ownership is critical in examining how state-controlled firms engage in tax planning, as they may be subject to different incentives and scrutiny compared to privately owned firms.

Institutional ownership, which includes shareholdings by private financial institutions, pension funds, insurance companies, banks, mutual funds, and other non-governmental entities, represents another critical ownership category. Institutional investors are often viewed as sophisticated market participants who engage in active monitoring of corporate governance practices. In this study, institutional ownership is defined as the aggregated shareholding by all non-governmental institutional investors, ensuring a clear distinction from government-linked investors. Previous research (Jiang et al., 2021) suggests that institutional investors have a significant influence on corporate financial policies, including tax planning. Their investment decisions are typically driven by performance and risk considerations, making their role in corporate governance particularly relevant for tax avoidance research. By analyzing institutional ownership separately from governmental ownership, this study aims to assess whether independent institutional investors contribute to more aggressive or conservative tax planning strategies.

Managerial ownership and family ownership are also examined separately in this study, given their distinct governance implications. Managerial ownership refers to shares held by a company's executives and senior management, who are directly involved in corporate decision-making and strategic planning. Previous research (Cabello et al., 2019; Shan, 2019) indicates that managerial ownership aligns executive interests with firm performance but may also lead to entrenchment behaviors where managers prioritize personal benefits over shareholder value. In contrast, family ownership is defined based on either the direct ownership level of the company's founders or the cumulative ownership held by related family members (Gaaya et al., 2017). This study adopts the definition of family firms established by Anderson and Reeb (2003), prioritizing the founder's ownership level as the primary measure. Family-controlled firms are often characterized by long-term strategic vision, concentrated

control, and intergenerational leadership, which may influence their approach to corporate taxation. Given the significant role of family-owned enterprises in Indonesia and Malaysia, analyzing their tax behavior provides valuable insights into how family control affects corporate tax avoidance strategies.

By categorizing ownership into these five distinct groups and using ownership percentage as the primary measurement approach, this study provides a robust framework for analyzing the relationship between ownership structure and tax avoidance. This classification ensures that the study captures the varying degrees of influence that different shareholder types exert over corporate governance, financial policies, and tax planning strategies. Given the unique regulatory and economic contexts of Indonesia and Malaysia, this study contributes to the broader literature by examining how ownership concentration and shareholder identity shape corporate tax behaviors in emerging markets.

Data collection procedures for ownership variables followed established corporate governance methods (Jiang et al., 2021; Deef et al., 2021; Syukur & Jongsureyapart, 2023). Ownership percentages for each firm-year were manually extracted from the Shareholding Analysis, Top Shareholders, or equivalent share register disclosure sections in annual reports. Because these disclosures typically report direct ownership stakes, this study measures ownership based on direct shareholdings recorded at the reporting entity level. Ownership values were cross-checked, where possible, with Refinitiv/ Bursa/ IDX disclosures to minimize transcription error. Observations were excluded when ownership breakdowns were missing or where totals did not reconcile with disclosed paid-up share capital. This procedure ensures consistency in the classification of ownership types and provides a reliable measurement of ownership influence for empirical testing across Indonesia and Malaysia.

5.4.3 Measurement of Moderator: Audit Quality

Audit quality is conceptualized in this study as an external governance mechanism that constrains opportunistic behavior and mitigates agency conflicts between controlling shareholders and other stakeholders. Prior literature suggests that audit quality operates through both reputational monitoring and process-based scrutiny, making it particularly relevant as a moderating variable in studies of tax avoidance and

corporate governance (DeAngelo, 1981; Hanlon & Heitzman, 2010; Gaaya et al., 2017). Given the absence of a single observable measure of audit quality, empirical research commonly relies on multiple proxies to capture different dimensions of audit effectiveness (Francis, 2004; Rajgopal et al., 2021). Auditors play a crucial role in ensuring the credibility and reliability of financial statements by providing assurance to external users. However, assessing audit quality remains a complex challenge due to the subjective nature of the auditing process and the varying levels of expertise among auditors. Rajgopal et al. (2021) suggest multiple proxies for measuring audit quality, yet one of the most widely used indicators in academic research is auditor size, specifically whether the auditor belongs to the Big 4⁴ accounting firms. Several studies (Asthana et al., 2019; Eshleman & Guo, 2014; Kyriakou & Dimitras, 2018) highlight the positive association between Big 4 auditors and higher audit quality. These four firms dominate the global auditing landscape and are responsible for auditing the majority of publicly listed firms worldwide. Given their reputation and extensive expertise, Big 4 auditors are expected to uphold superior auditing standards, providing greater assurance regarding the accuracy of financial reporting (Qawqzeh, 2023).

This current study employs a binary dummy variable for Big 4 auditors as the primary measure of audit quality. Although this measure does not account for engagement-specific audit characteristics, it remains a widely accepted and commonly used proxy for audit quality in empirical research. The rationale behind this measure lies in two key arguments. First, Big 4 firms possess the resources to recruit highly qualified auditors and provide extensive training (International Finance Corporation, 2018). Their global reach and extensive client base enable them to develop expertise across various industries, enhancing the effectiveness of their audit procedures (Khurana & Raman, 2004). Second, the reputational risk faced by Big 4 firms acts as a strong incentive for maintaining audit integrity. Since these firms operate on a global scale and are subject to regulatory scrutiny, any engagement in unethical audit practices could severely damage their brand reputation (Qawqzeh & Al Zobi, 2025; Skinner & Srinivasan, 2012). For these reasons, firms audited by Big 4 firms are expected to receive higher-quality audits, reducing the likelihood of financial misstatements and aggressive tax practices.

⁴ The Big 4 accounting firms included in this study are PricewaterhouseCoopers (PwC), Deloitte Touche Tohmatsu (Deloitte), KPMG (Klynveld Peat Marwick Goerdeler), and Ernst & Young (EY).

However, audit quality is a multidimensional concept, and relying solely on auditor size may not fully capture its complexity. To address this, this study incorporates an additional measure—audit report lag (ARL)—to provide a more comprehensive assessment of audit quality. Audit report lag is defined as the number of days between the fiscal year-end and the date when the audit report is issued (Abdillah et al., 2019). This metric is widely recognized as an indirect indicator of audit quality, as a longer audit lag may suggest complications in the internal audit process, including financial irregularities, fraud detection, or complex financial reporting issues requiring extended scrutiny (Carcello et al., 1992; Habib et al., 2019). Conversely, shorter audit lags are generally associated with more efficient auditing processes, reflecting well-organized internal controls and a smoother flow of financial information. Prior research (Beattie et al., 2001) suggests that prolonged audit report delays can be indicative of financial distress or governance weaknesses within firms. A company facing persistent accounting issues, internal control deficiencies, or legal challenges may require additional audit procedures which leads to increased audit completion times. On the other hand, Rusmin and Evans (2017) argue that auditors can mitigate audit delays if they are well-acquainted with a company's industry and business operations. The presence of an industry-specialist auditor enhances audit quality by improving the auditor's ability to detect anomalies and assess financial risks more effectively (Dopuch & Simunic, 1982). In turn, this promotes both audit efficiency and effectiveness, reinforcing investor confidence in the reliability of financial statements.

By utilizing both Big 4 auditor affiliation and audit report lag as measures of audit quality, this study provides a comprehensive evaluation of how audit quality interacts with corporate governance mechanisms and tax avoidance strategies. The first measure is operationalized as a binary variable, where a company receives a score of "1" if it is audited by a Big 4 firm and "0" otherwise, consistent with prior studies (Donohoe & Knechel, 2014; Jones et al., 2018; Madah Marzuki & Syukur, 2021). The second measure, audit report lag, quantifies the duration of the audit process, providing insights into the efficiency and thoroughness of the audit engagement (Abdillah et al., 2019; Rusmin & Evans, 2017). Together, these two indicators allow for a more nuanced exploration of audit quality's role in corporate governance, tax planning, and financial reporting transparency. By integrating both measures, this study aims to bridge gaps in the existing literature by providing empirical evidence on how audit quality influences tax avoidance in emerging economies like Indonesia and Malaysia. These findings have

broader implications for policymakers, regulators, and practitioners seeking to enhance audit oversight and improve corporate accountability within developing markets.

In this study, audit quality is operationalized not only as an independent governance mechanism but explicitly as a moderating variable in the ownership–tax avoidance relationship. Consistent with the Alignment versus Entrenchment Effects framework, audit quality is expected to function as an external alignment mechanism that constrains opportunistic tax strategies by dominant shareholders. Accordingly, moderation is modelled through interaction terms between each ownership variable and the audit quality proxy (Big4 and ARL). A negative coefficient on the interaction term indicates that higher audit quality weakens the positive association between ownership concentration and tax avoidance, consistent with the alignment effect. Conversely, a positive coefficient suggests that audit quality complements entrenched shareholders in facilitating tax avoidance. This approach clarifies how audit quality theoretically and empirically moderates ownership influence, aligning measurement choices with both governance theories and empirical modelling.

5.4.4 Measurement of Control Variables

To isolate the effects of ownership structure and audit quality on tax avoidance, this study incorporates several control variables reflecting both board characteristics and firm-specific financial attributes. Prior research demonstrates that tax behavior is influenced not only by ownership patterns but also by internal governance mechanisms and resource conditions at the firm level (Alkurdi & Mardini, 2020; Gaaya et al., 2017; Minnick & Noga, 2010). Corporate governance characteristics—such as board meeting frequency, board independence, and board size—affect the degree of oversight and managerial monitoring, thereby influencing the likelihood of engaging in aggressive tax strategies (Hanlon & Heitzman, 2010; Armstrong et al., 2015). Similarly, firm-level financial attributes—including capital intensity, leverage, market valuation, profitability, and firm size—shape tax exposures and opportunities through differences in resource availability, debt-related tax shields, depreciation incentives, and bargaining capacity with tax authorities (Cabello et al., 2019; Bradshaw et al., 2019; Deef et al., 2021).

Including these control variables reduces omitted variable bias and strengthens the internal validity of regression estimates by ensuring that observed relationships

between ownership structure, audit quality, and tax avoidance are not artefacts of unobserved firm characteristics. Consistent with prior literature, each control variable is measured quantitatively using established accounting ratios or governance attributes derived from annual reports and Refinitiv Datastream. Operational definitions are summarised in Table 5.2, and detailed explanations of each control variable—including its justification, prior empirical support, and measurement approach—are provided in subsections 5.4.4.1 through 5.4.4.8.

5.4.4.1 Board Meeting

Board meeting frequency refers to how often the board convenes within a financial reporting year to deliberate on governance, oversight, and strategic decision-making matters. Prior governance research has documented mixed associations between meeting frequency and tax behavior. On one hand, more frequent meetings may enhance monitoring effectiveness and information dissemination among directors; on the other hand, they may create greater opportunities for developing sophisticated tax minimization strategies. Empirical evidence from Alkurdi and Mardini (2020) and Barros and Sarmento (2020) indicates that firms with more frequent board meetings tend to engage in higher levels of tax avoidance, suggesting that increased board activity may facilitate proactive tax planning discussions rather than stricter compliance oversight. This highlights a nuanced governance dynamic in which meeting frequency does not automatically constrain tax avoidance but may instead reflect intensified managerial focus on optimizing tax outcomes. In this study, board meeting frequency is operationalised following Shi et al. (2020) and Alkurdi and Mardini (2020), measured as the number of board meetings disclosed in firms' annual reports during each fiscal year. This measurement enables assessment of how board monitoring intensity influences firms' tax avoidance decisions across Indonesian and Malaysian listed companies.

5.4.4.2 Board Independence

Board independence refers to the proportion of directors who are non-executive, external to management, and free from personal or financial ties to controlling shareholders. Independent directors serve as an external monitoring mechanism,

limiting managerial discretion and improving the transparency of strategic decisions, including tax planning. Prior studies demonstrate that greater board independence mitigates aggressive tax practices, as independent directors strengthen oversight and encourage compliance with regulatory and ethical standards rather than pursuing tax minimization tactics that benefit managerial interests (Alkurdi & Mardini, 2020; Barros & Sarmento, 2020). Independent directors are also expected to reduce agency conflicts by prioritizing long-term firm reputation and sustainability over short-term tax savings that may increase regulatory scrutiny or expose the firm to reputational risk. In this study, board independence is measured as the proportion of independent directors to total board members, consistent with empirical approaches used in Gaaya et al. (2017), Alkurdi and Mardini (2020), and Shi et al. (2020). This measurement quantifies the degree of external oversight exercised through board composition and allows an assessment of how independent monitoring influences corporate tax avoidance across Indonesian and Malaysian firms.

5.4.4.3 Board Size

Prior research has consistently demonstrated the role of board characteristics in shaping corporate financial decisions, including tax planning strategies. Larger board sizes are often associated with enhanced oversight and more effective monitoring of managerial actions, which can lead to more conservative tax policies. Alkurdi and Mardini (2020) and Shi et al. (2020) found that firms with larger boards tend to exhibit lower levels of tax avoidance, as the presence of diverse viewpoints enhances decision-making quality and reduces the likelihood of overly aggressive tax strategies. The broader expertise and experience within a larger board also improve corporate accountability, ensuring that tax planning aligns with regulatory compliance and long-term corporate sustainability rather than short-term profit maximization.

In line with prior studies, board size in this study is measured as the total number of directors serving on the board at year-end for each firm-year (Gaaya et al., 2017; Alkurdi & Mardini, 2020). This continuous approach captures variation in board structure across firms and is consistent with governance literature examining its relationship with tax avoidance. The variable is extracted from board composition disclosures in annual reports and cross-verified, where possible, against Refinitiv Datastream records to ensure accuracy and consistency in panel-data measurement.

5.4.4.4 Capital Intensity

Capital intensity reflects the extent to which a firm invests in property, plant, and equipment relative to its total assets and has been identified as an important determinant of corporate tax avoidance. Capital-intensive firms typically benefit from accelerated depreciation allowances, investment tax credits, and other asset-based tax incentives that reduce taxable income and create opportunities for tax minimization (Cabello et al., 2019; Deef et al., 2021). Prior studies, therefore, document a positive association between capital intensity and tax avoidance, as higher capital investment enables greater discretionary use of depreciation-related deductions, decreasing effective tax burdens. Consistent with established tax avoidance research, this study measures capital intensity as the ratio of net property, plant, and equipment to total assets (Cabello et al., 2019; Deef et al., 2021), allowing comparability across firms and facilitating assessment of how long-term asset investments influence corporate tax planning incentives in Indonesia and Malaysia.

5.4.4.5 Leverage

Leverage is included as a financial control variable because firms' financing structures influence their tax planning incentives. Highly leveraged firms reduce taxable income through interest expense deductions, creating structural opportunities for lower effective tax burdens and potentially more aggressive tax planning (Cabello et al., 2019; Alkurdi & Mardini, 2020). Prior empirical studies consistently find a significant relationship between leverage and tax avoidance, as debt financing provides firms with tax shields that decrease corporate income tax liabilities. This association aligns with agency theory arguments whereby managers may exploit debt-related tax benefits to enhance post-tax earnings. Consistent with Wen et al. (2020) and Deef et al. (2021), leverage in this study is measured as the ratio of total long-term debt to total assets, capturing the extent of debt financing relative to firm scale. This standardized continuous measure enables cross-firm comparability and reflects the degree to which interest-related tax deductions may influence tax avoidance behavior across Indonesian and Malaysian firms.

5.4.4.6 Market Value

Price-to-Book Value (PBV) is included as a control variable because market valuation affects managerial incentives to engage in tax planning. PBV reflects the ratio of a firm's market price per share to its book value per share, capturing investor expectations about future growth and earnings relative to current accounting value. Prior research demonstrates that firms with higher valuation multiples face stronger pressure from capital markets to deliver superior post-tax performance, which may motivate aggressive tax strategies to increase after-tax income (Cabello et al., 2019; Gaaya et al., 2017). Conversely, lower-valued firms may have weaker incentives and fewer opportunities to engage in sophisticated tax planning. Consistent with capital market taxation literature, this study measures PBV as market price per share divided by book value per share at fiscal year-end, following Gaaya et al. (2017) and Bradshaw et al. (2019). Including PBV as a continuous valuation control strengthens the regression specification by accounting for investor-driven incentives that may confound relationships between ownership structure, audit quality, and tax avoidance across Indonesian and Malaysian listed firms.

5.4.4.7 Profitability

Profitability is controlled for because firms' levels of economic performance influence incentives and capacity for tax planning. Prior studies provide mixed evidence on the profitability-tax avoidance relationship. Some find that more profitable firms reduce taxable income to preserve cash flows and internal financing capacity, increasing avoidance incentives (Shi et al., 2020; Wen et al., 2020). Others argue that profitable firms may refrain from aggressive tax practices to protect their reputations and long-term stakeholder relationships, particularly in emerging markets with heightened regulatory scrutiny (Kovermann & Wendt, 2019). Consistent with empirical tax and governance literature, this study measures profitability using return on assets (ROA), calculated as net income divided by total assets (Alkurdi & Mardini, 2020; Shi et al., 2020). ROA captures the efficiency with which firms convert assets into earnings and provides a standardized profitability indicator that allows cross-firm comparability. Controlling for profitability helps isolate whether observed variations in tax avoidance reflect ownership and audit influences rather than performance-driven tax incentives.

5.4.4.8 Company Size

Firm size is included as a control variable because it is one of the most influential determinants of corporate tax behavior. Larger firms typically possess more resources, in-house tax expertise, and access to sophisticated tax planning opportunities, allowing them to manage taxable income more strategically (Bradshaw et al., 2019; Alkurdi & Mardini, 2020). Prior studies also suggest that larger firms have greater bargaining power when interacting with tax authorities, making it easier for them to secure tax incentives or negotiate favorable tax positions (Deef et al., 2021). At the same time, large firms may face higher public and regulatory visibility, which can discourage excessively aggressive tax practices due to reputational concerns. Consistent with tax avoidance literature, firm size in this study is measured as the natural logarithm of total assets (LnTA), following Alkurdi and Mardini (2020), Bradshaw et al. (2019), and Wen et al. (2020). Using LnTA provides a stable and scale-adjusted measure of firm size, improves normality in regression estimation, and ensures comparability across firms in Indonesia and Malaysia. This control helps ensure that differences in tax avoidance are not simply driven by firm scale effects.

Table 5.2
Variable Operationalization

Operationalization	Symbols	Variable measurement	References
<u>Tax Avoidance (<i>TaxAvoid</i>)</u>			
STR-ETR gap (SETR gap)	<i>SETR</i>	The difference between statutory tax rate (STR) and GAAP ETR. If the STR is bigger than the GAAP ETR, the value is written as margin (the gap) between the two figures; otherwise it is written as zero.	Wen et al. (2020)
Book-tax difference (BTD)	<i>BTD</i>	$\frac{\text{EBT} - \text{taxable income}}{\text{total assets}}$	Nassar et al. (2024) Jiang et al. (2020)
<u>Ownership Structure (<i>Ownership</i>)</u>			
Family ownership	<i>Family</i>	$\frac{\text{shares held by family group members}}{\text{total shares}} \times 100\%$	Gayaa et al. (2017), Kovermann and Wendt (2019)
Foreign ownership	<i>Foreign</i>	$\frac{\text{shares held by foreign shareholders}}{\text{total shares}} \times 100\%$	Shi et al. (2020)
Government ownership	<i>Government</i>	$\frac{\text{shares held by non - foreign government agencies}}{\text{total shares}} \times 100\%$	Mafrolla (2019)
Institutional ownership	<i>Institution</i>	$\frac{\text{shares held by institutional shareholders}}{\text{total shares}} \times 100\%$	Khan et al. (2017), Jiang et al. (2021)
Managerial ownership	<i>Manager</i>	$\frac{\text{shares held by managers and executives,}}{\text{total shares}} \times 100\%$	Deef et al. (2021)
<u>Audit Quality (<i>AQ</i>)</u>			
Audit report lag (ARL)	<i>ARL</i>	The number days from fiscal year-end to audit report date.	Abdillah et al. (2019), Rusmin and Evans (2017)
Big4 auditors	<i>BIG4</i>	The data is coded as 1 if the firm is audited by a big4 auditor; 0 otherwise (dummy variable)	Deef et al., 2021 Qawqzeh and Al zobi (2025)

Operationalization	Symbols	Variable measurement	References
<u>Control Variables for Governance Indicators (Controls)</u>			
Board meeting	<i>BMEET</i>	Total numbers of the meeting per year	Alkurdi et al. (2020), Barros and Sarmento (2020)
Board independence	<i>BIND</i>	$\frac{\text{Independent board members}}{\text{total board members}}$	Alkurdi et al. (2020), Shi et al. (2020)
Board size	<i>BSIZE</i>	Number of directors	Alkurdi et al. (2020), Shi et al. (2020)
<u>Control Variables for Financial Indicators (Controls)</u>			
Capital intensity	<i>CAPINT</i>	$\frac{\text{Net Property, Plant, and Equipment}}{\text{total assets}}$	Syukur and Jongsureyapart (2023)
Leverage	<i>LEV</i>	$\frac{\text{Longterm debt}}{\text{total assets}}$	Deef et al. (2021), Cabello et al. (2018)
Market value	<i>PBV</i>	$\frac{\text{Market price}}{\text{Book value}}$	Cabello et al. (2018)
Profitability	<i>ROA</i>	$\frac{\text{Earnings after tax}}{\text{total assets}}$	Gaaya et al. (2017) Alkurdi et al. (2020)
Company size	<i>SIZE</i>	Natural logarithm of total assets	Shi et al. (2020) Koay and Sapiei (2025)

Source: Author's work

5.5 Ethical Considerations

Ethical considerations are fundamental in academic research to ensure integrity, transparency, and accountability, even in studies that do not involve direct human participation. This research primarily utilizes secondary data from publicly available sources, including financial statements and annual reports of publicly listed firms in Indonesia and Malaysia. This study was reviewed by the UiTM REC and was granted ethics review exemption under reference number REC/08/2023 (PG/EX/39). The primary consideration was that there was no direct engagement with human participants, confidential data, or personally identifiable information involved; so, the exemption recognizes that the study does not pose any ethical risks requiring formal review.

5.6 Empirical Models

This study develops econometric models to examine the relationship between five distinct types of ownership structures—foreign, government, institutional, managerial, and family ownership—and corporate tax avoidance in Indonesia and Malaysia. Additionally, the study incorporates audit quality as a moderating variable to assess its potential impact on these relationships. The models aim to comprehensively understand how ownership composition influences tax avoidance strategies, considering the governance and regulatory frameworks specific to each country. To ensure robustness, this study also integrates several control variables that have been widely recognized in prior empirical research as significant determinants of corporate tax avoidance. These control variables account for firm-specific factors that may influence tax planning behaviors, helping to mitigate potential omitted variable bias and improve the accuracy of the model's estimates. In total, eight firm-level control variables are included, covering key aspects of corporate governance, financial performance, and firm characteristics. By incorporating these controls, the models aim to provide a more precise and reliable assessment of the ownership-tax avoidance relationship, allowing for a nuanced analysis of how audit quality moderates these effects in different ownership settings.

This study employs Model 1 shown in equation (5.1) to establish the baseline relationship between ownership structure and corporate tax avoidance in Indonesia and

Malaysia. Because tax avoidance is operationalized using two proxies, the model is estimated separately for each measure: Model 1(a) in equation (5.2) uses the statutory effective tax rate gap (SETR-gap), and Model 1(b) in equation (5.) applies the book-tax difference (BTD). Consistent with the study's cross-country objective, the models are estimated independently for Indonesia and Malaysia. Five ownership structure variables—foreign, government, institutional, managerial, and family ownership—serve as the key independent variables, reflecting the theoretical expectation that different ownership types may influence tax behavior. Model 1 also incorporates firm-level control variables to account for alternative determinants of tax avoidance that could confound ownership effects. While Model 1 examines the direct associations in the absence of audit quality, it does not serve as the basis for hypothesis testing; instead, it functions as an initial benchmark to observe whether ownership effects emerge prior to introducing audit quality as a moderating mechanism in subsequent models.

Furthermore, Model 2 shown in equation (5.4) extends the baseline specification by incorporating audit quality as an independent variable, consistent with the theoretical expectation that external audits can constrain opportunistic tax behavior. Prior evidence demonstrates that higher-quality audits provide enhanced monitoring and discourage aggressive tax planning (Gaaya et al., 2017). Audit quality is proxied using audit report lag (ARL) and Big 4 auditor affiliation (BIG4). To capture all combinations of tax avoidance and audit quality proxies, four variations of Model 2—Models 2(a) through 2(d)—are estimated. Model 2 forms the basis for testing Hypotheses 1–5, which predict direct associations between each ownership type and tax avoidance when audit quality is included as a standalone governance mechanism.

Model 3 shown in equation (5.9) deepens the analysis by examining whether audit quality moderates the relationship between ownership structure and tax avoidance in Indonesia and Malaysia. Interaction terms between audit quality proxies and each ownership variable are incorporated to evaluate whether higher-quality audits weaken the incentives for aggressive tax planning. A significantly negative interaction coefficient (Ownership \times Audit Quality) would indicate that audit quality constrains tax avoidance, whereas a positive coefficient would suggest that strong audit mechanisms may inadvertently facilitate tax minimization. To accommodate the two proxies for tax avoidance and two proxies for audit quality, four variations of Model 3—Models 3(a) through 3(d)—are estimated. Model 3 corresponds to Hypotheses 6–10, which posit moderating effects of audit quality across the five ownership types.

Model (1). Ownership structure and tax avoidance

$$\text{TaxAvoid} = \text{Ownership} + \text{Controls} \quad (5.1)$$

Model (1.a). Ownership structure and SETR gap

$$\begin{aligned} \text{SETR} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{BMEET} + \beta_7\text{BIND} + \beta_8\text{BSIZE} + \beta_9\text{CAPINT} + \\ & \beta_{10}\text{LEV} + \beta_{11}\text{PBV} + \beta_{12}\text{ROA} + \beta_{13}\text{SIZE} + \varepsilon \end{aligned} \quad (5.2)$$

Model (1.b). Ownership structure and BTD

$$\begin{aligned} \text{BTD} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{BMEET} + \beta_7\text{BIND} + \beta_8\text{BSIZE} + \beta_9\text{CAPINT} + \\ & \beta_{10}\text{LEV} + \beta_{11}\text{PBV} + \beta_{12}\text{ROA} + \beta_{13}\text{SIZE} + \varepsilon \end{aligned} \quad (5.3)$$

Model (2). Ownership structure, audit quality, tax avoidance

$$\text{TaxAvoid} = \text{Ownership} + \text{AQ} + \text{Controls} \quad (5.4)$$

Model (2.a). Ownership, audit report lag, and SETR Gap

$$\begin{aligned} \text{SETR} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{ARL} + \beta_7\text{BMEET} + \beta_8\text{BIND} + \beta_9\text{BSIZE} + \\ & \beta_{10}\text{CAPINT} + \beta_{11}\text{LEV} + \beta_{12}\text{PBV} + \beta_{13}\text{ROA} + \beta_{14}\text{SIZE} + \varepsilon \end{aligned} \quad (5.5)$$

Model (2.b). Ownership, Big4 auditors, and SETR

$$\begin{aligned} \text{SETR} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{Big4} + \beta_7\text{BMEET} + \beta_8\text{BIND} + \beta_9\text{BSIZE} + \\ & \beta_{10}\text{CAPINT} + \beta_{11}\text{LEV} + \beta_{12}\text{PBV} + \beta_{13}\text{ROA} + \beta_{14}\text{SIZE} + \varepsilon \end{aligned} \quad (5.6)$$

Model (2.c). Ownership, audit report lag, and BTD

$$\begin{aligned} \text{BTD} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{ARL} + \beta_7\text{BMEET} + \beta_8\text{BIND} + \beta_9\text{BSIZE} + \\ & \beta_{10}\text{CAPINT} + \beta_{11}\text{LEV} + \beta_{12}\text{PBV} + \beta_{13}\text{ROA} + \beta_{14}\text{SIZE} + \varepsilon \end{aligned} \quad (5.7)$$

Model (2.d). Ownership, Big4 auditors, and BTD

$$\begin{aligned} \text{BTD} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{Big4} + \beta_7\text{BMEET} + \beta_8\text{BIND} + \beta_9\text{BSIZE} + \\ & \beta_{10}\text{CAPINT} + \beta_{11}\text{LEV} + \beta_{12}\text{PBV} + \beta_{13}\text{ROA} + \beta_{14}\text{SIZE} + \varepsilon \end{aligned} \quad (5.8)$$

Model 3. Ownership structure and tax avoidance: moderated by audit quality

$$\text{TaxAvoid} = \text{Ownership} + \text{Ownership*AQ} + \text{Controls} \quad (5.9)$$

Model 3 (a). Ownership and SETR Gap: moderated by audit report lag (ARL)

$$\begin{aligned} \text{SETR} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{ARL} + \beta_7\text{Family*ARL} + \beta_8\text{Foreign*ARL} + \\ & \beta_9\text{Government*ARL} + \beta_{10}\text{Institution*ARL} + \beta_{11}\text{Manager*ARL} + \\ & \beta_{12}\text{BMEET} + \beta_{13}\text{BIND} + \beta_{14}\text{BSIZE} + \beta_{15}\text{CAPINT} + \beta_{16}\text{LEV} + \\ & \beta_{17}\text{PBV} + \beta_{18}\text{ROA} + \beta_{19}\text{SIZE} + \varepsilon \end{aligned} \quad (5.10)$$

Model 3 (b). Ownership and SETR Gap: moderated by Big4

$$\begin{aligned} \text{SETR} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{BIG4} + \beta_7\text{Family*BIG4} + \beta_8\text{Foreign*BIG4} + \\ & \beta_9\text{Government*BIG4} + \beta_{10}\text{Institution*BIG4} + \beta_{11}\text{Manager*BIG4} + \\ & \beta_{12}\text{BMEET} + \beta_{13}\text{BIND} + \beta_{14}\text{BSIZE} + \beta_{15}\text{CAPINT} + \beta_{16}\text{LEV} + \\ & \beta_{17}\text{PBV} + \beta_{18}\text{ROA} + \beta_{19}\text{SIZE} + \varepsilon \end{aligned} \quad (5.11)$$

Model 3 (c): Ownership and BTD: moderated by audit report lag (ARL)

$$\begin{aligned} \text{BTD} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{ARL} + \beta_7\text{Family*ARL} + \beta_8\text{Foreign*ARL} + \\ & \beta_9\text{Government*ARL} + \beta_{10}\text{Institution*ARL} + \beta_{11}\text{Manager*ARL} + \\ & \beta_{12}\text{BMEET} + \beta_{13}\text{BIND} + \beta_{14}\text{BSIZE} + \beta_{15}\text{CAPINT} + \beta_{16}\text{LEV} + \\ & \beta_{17}\text{PBV} + \beta_{18}\text{ROA} + \beta_{19}\text{SIZE} + \varepsilon \end{aligned} \quad (5.12)$$

Model 3 (d). Ownership and BTD: moderated by Big4

$$\begin{aligned} \text{BTD} = & \beta_0 + \beta_1\text{Family} + \beta_2\text{Foreign} + \beta_3\text{Government} + \beta_4\text{Institution} + \\ & \beta_5\text{Manager} + \beta_6\text{BIG4} + \beta_7\text{Family*BIG4} + \beta_8\text{Foreign*BIG4} + \\ & \beta_9\text{Government*BIG4} + \beta_{10}\text{Institution*BIG4} + \beta_{11}\text{Manager*BIG4} + \\ & \beta_{12}\text{BMEET} + \beta_{13}\text{BIND} + \beta_{14}\text{BSIZE} + \beta_{15}\text{CAPINT} + \beta_{16}\text{LEV} + \\ & \beta_{17}\text{PBV} + \beta_{18}\text{ROA} + \beta_{19}\text{SIZE} + \varepsilon \end{aligned} \quad (5.13)$$

Where:

TaxAvoid	=	Tax avoidance
Ownership	=	Ownership level by family, foreign, government, institutional, and managerial shareholders
AQ	=	Audit quality, measured either by Big4 auditors or audit report lag
Controls	=	Firm-level control variables such as size, leverage, capital intensity, market-to-book ratio, ROA, board independence, board meetings, and board size
SETR	=	Gap between effective and statutory tax rates
BTD	=	Book-tax differences
Family	=	Ownership level by family shareholders
Foreign	=	Ownership level by foreign shareholders
Government	=	Ownership level by governmental shareholders
Institution	=	Ownership level by institutional shareholders
Manager	=	Ownership level by managerial shareholders
BMEET	=	Board meeting frequency
BIND	=	Board independence
BSIZE	=	Total number of board members
CAPINT	=	Capital intensity
LEV	=	Leverage
PBV	=	Price-to-book value
ROA	=	Return on assets
SIZE	=	Firm size
ε	=	Error term

These models are constructed based on theoretical frameworks and empirical literature linking ownership structure and corporate tax avoidance, with audit quality as a moderating factor. Prior studies have suggested that different shareholder groups may have distinct incentives regarding tax planning. By incorporating a range of ownership structures, audit quality, key financial indicators, and governance controls, this model aims to provide a robust analysis of tax avoidance in the Indonesian and Malaysian contexts.

5.7 Data Analysis

The empirical analyses in this study follow established statistical procedures for ownership–tax avoidance research using panel data. The analytical process proceeds in three stages: (i) data preparation and cleaning, (ii) preliminary univariate (descriptive statistics) and correlation analysis, and (iii) multivariate panel regression with diagnostic evaluation. This staged approach ensures valid model estimation and addresses econometric concerns commonly associated with corporate tax datasets (Hanlon & Heitzman, 2010).

Data preparation began with the screening and cleaning procedures described in Section 5.2. The raw dataset obtained from Refinitiv Datastream and annual reports was checked for missing, inconsistent, and unreliable observations. Cases with incomplete ownership, audit, or tax data, and firms excluded based on sectoral criteria (e.g., financial institutions, REITs), were removed to ensure reliability prior to statistical analysis. This ensured that subsequent results were not biased by measurement error or listwise deletion during regression estimation.

All descriptive, correlation, diagnostic, and regression analyses were performed using EViews 13, which provides routines for panel estimators—including FE/RE selection, EGLS weighting, PCSE corrections, and automated multicollinearity diagnostics. The use of EViews supports the methodological requirements of this study, particularly given the presence of cross-sectional dependence.

5.7.1 Descriptive Statistics and Correlation Analysis

Descriptive statistics were computed to summarize the distributional characteristics of the study variables—including ownership structures, audit quality, board characteristics, firm-level financial indicators, and tax avoidance proxies. Descriptive analysis allows initial exploration of central tendency and dispersion patterns prior to regression modelling (Gujarati & Porter, 2009). Statistics such as mean, minimum, maximum, and standard deviation were calculated to identify outliers, typical firm profiles, and observable differences between Indonesian and Malaysian samples. These descriptive profiles are reported in Sections 6.2.1–6.2.3 and support the study objective by providing baseline comparisons of ownership patterns and tax avoidance behaviors across the two institutional environments.

This study also performs correlation analysis to examine bivariate relationships among the dependent, independent, and control variables. Consistent with Hair et al. (2019), two correlation techniques were applied. First, Pearson product–moment correlations were computed to assess linear relationships between continuous variables under the assumption of approximate normality. Second, Spearman rank-order correlations were employed as a robustness check to account for potential non-normality and outliers, which are common in tax and financial panel datasets (Hanlon & Heitzman, 2010). Reporting both correlations enhances reliability by verifying whether association patterns are consistent across parametric and non-parametric measures. The correlation matrices for both Indonesian and Malaysian samples are presented in Sections 6.3.1 and 6.3.2. These diagnostics highlight potential multicollinearity risk and provide preliminary directional evidence for hypothesized relationships among ownership structure, audit quality, and tax avoidance.

While descriptive and correlation tests provide useful preliminary insights, they do not establish causality or conditional effects. Therefore, multivariate regression techniques were applied to formally test the hypotheses.

5.7.2 Regression Analysis and Panel Diagnostics

This study employs panel-data regression analysis to evaluate the influence of ownership structure and audit quality on corporate tax avoidance, with audit quality incorporated as a moderating variable. Separate model estimations are conducted for Indonesia and Malaysia to account for country-specific institutional effects. Prior to estimating the regression models, a series of diagnostic and model specification procedures was undertaken to ensure that the assumptions underlying panel estimators were met and that statistical inferences remained valid. Consistent with panel econometric guidance (Baltagi, 2008; Wooldridge, 2016), diagnostic tests were performed to detect heteroscedasticity, cross-sectional dependence, multicollinearity, and unobserved heterogeneity.

Heteroscedasticity was assessed to determine whether the variance of regression residuals remained constant across firms and periods. Non-constant variance can inflate test statistics and bias standard errors, resulting in misleading conclusions. When heteroscedasticity was detected, Panel Estimated Generalized Least Squares (EGLS) was applied using Cross-Section or Period Weights to stabilize variances across units,

consistent with prior tax avoidance studies employing GLS corrections in panel settings (Chen et al., 2010).

Cross-sectional dependence was examined because firms may be exposed to shared economic shocks, regulatory changes, or regional factors that induce correlated residuals (Pesaran, 2004). The Pesaran CD test and the Breusch–Pagan LM test were applied depending on the sample size. If cross-sectional dependence was detected, corrective estimation using Seemingly Unrelated Regression (SUR) with Panel-Corrected Standard Errors (PCSE) was applied, consistent with Beck and Katz (1995), to ensure reliable inference in the presence of contemporaneous correlation.

Multicollinearity among regressors was evaluated using the Variance Inflation Factor (VIF). All VIF values remained well below accepted thresholds (O'Brien, 2007), indicating that regression coefficients were not inflated due to excessive correlation between independent variables. Incorporating these diagnostic and robustness procedures strengthens internal validity and supports reliable inference regarding tax avoidance determinants in Indonesia and Malaysia.

Panel estimators were selected based on considerations of unobserved heterogeneity. The fixed-effects (FE) and random-effects (RE) models were compared using the Hausman specification test (Hausman, 1978), which evaluates whether firm-specific effects correlate with explanatory variables. A significant result favors the FE estimator, whereas failure to reject the null hypothesis supports the RE estimator due to efficiency gains and retention of time-invariant regressors. Applying the Hausman test ensures that model choice aligns with the underlying data structure.

Regression diagnostics are presented in Chapter 6 prior to the regression results: heteroscedasticity (Section 6.4.1), cross-sectional dependence (Section 6.4.2), multicollinearity (Section 6.4.3), and Hausman estimator selection (Section 6.5). Following diagnostic evaluation and the application of corrective estimation techniques where required, multivariate panel regressions were estimated to examine direct and moderated relationships between ownership structure, audit quality, and tax avoidance. Three baseline model specifications and their moderated extensions were estimated separately for Indonesian and Malaysian samples, with results presented in Sections 6.6 through 6.8.

CHAPTER 6

RESULTS AND DISCUSSIONS

6.1 Introduction

This chapter presents the empirical findings and their interpretation, focusing on the relationship between ownership structure, audit quality, and corporate tax avoidance in Indonesia and Malaysia. Using a comprehensive empirical approach that includes descriptive (univariate), diagnostic, and multivariate analyses, this chapter provides systematic evidence on how different ownership structures influence firms' tax avoidance behaviour. In addition, the role of audit quality is examined through both its direct influence and its moderating effects, captured by audit report lag (ARL) and Big 4 auditor involvement, offering deeper insight into how external audit mechanisms interact with ownership incentives in shaping tax strategies.

The multivariate analyses are structured into three main sections. The first section investigates the direct relationship between ownership structure and tax avoidance, highlighting differences in tax behaviour across ownership types and across institutional settings. This analysis establishes the baseline effects of ownership characteristics on tax avoidance. The second section extends the analysis by examining the joint effect of ownership structure and audit quality on tax avoidance, with particular emphasis on ARL and Big 4 auditors as indicators of audit scrutiny and monitoring intensity. This section assesses whether audit quality independently constrains or facilitates tax avoidance in firms with different ownership profiles. The third section further deepens the analysis by exploring the moderating role of audit quality, explicitly testing whether high-quality audits amplify or weaken the relationship between ownership structure and tax avoidance through interaction effects.

This chapter concludes with a critical discussion and cross-country comparative analysis, followed by a summary of key findings. The discussion integrates theoretical perspectives from corporate governance, agency theory, and tax literature with the empirical results to explain observed similarities and differences between Indonesia and Malaysia. By systematically linking empirical evidence to institutional contexts, this chapter contributes to a more nuanced understanding of how ownership structure and audit quality jointly influence corporate tax avoidance in emerging economies.

6.2 Descriptive Statistics

The descriptive statistics provide a foundational understanding of the key variables in this study. These statistics summarize the central tendency, dispersion, and distribution of the data, offering valuable insights into the characteristics of tax avoidance, ownership structure, audit quality, corporate governance, and financial indicators among firms in Indonesia and Malaysia. Analyzing measures such as the mean, median, minimum, maximum, and standard deviation can assess patterns and variations within the dataset, helping to identify potential trends or anomalies before proceeding to further statistical analyses. This section presents the descriptive statistics of the study's variables, including statutory-effective tax rate (SETR), book-tax differences (BTD), ownership structure (FAMILY, FOREIGN, GOVERNMENT, INSTITUTION, MANAGER), audit quality (ARL, BIG4), corporate governance controls (BMEET, BIND, BSIZE), and financial indicators (CAPINT, LEV, PBV, ROA, SIZE).

6.2.1 Descriptive Statistics for Indonesian Samples

The statutory-effective tax rate (SETR) and book-tax difference (BTD) are key measures of tax avoidance in this dataset, as shown in Panel A of Table 6.1. The SETR has a mean of 0.066, indicating that the Indonesian statutory tax rate is approximately 6.6 percentage points higher than the firm's effective tax rate. The median value of 0.036 suggests that half of the firms experience a tax rate difference of 3.6% or less, while the observed range spans from -0.895 to 0.946 . The standard deviation of 0.230 reflects moderate variability in firms' tax avoidance strategies. Susilawati and Tarmidi (2024) found that Indonesian consumer goods firms have an average SETR of 0.1336 during 2018-2022, indicating a certain level of tax avoidance within Indonesian firms.

Similarly, the BTD has a negative mean (-0.016), implying that taxable income, on average, exceeds book income across firms. The median value of -0.005 suggests a slight downward skew in book-tax differences. With a range from -0.436 to 0.546 and a low standard deviation (0.074), BTD values are relatively consistent, indicating that most firms exhibit similar patterns in reconciling book and taxable income. Meanwhile, Nurcahya et al. (2024) found that across 80 liquid companies (IDX80) in Indonesia,

their BTD averaged -0.001. Mashuri (2023) found that among Indonesian mining companies for the observation of 2017-2019, the BTD was 0.008.

The mean value for FAMILY ownership is 11.449%, indicating that, on average, family members hold a relatively small portion of equity in the sampled firms. However, the median value of 0.020% reveals that at least half of the firms have minimal or no family ownership. The ownership ranges from a minimum of 0.000% to a maximum of 100.000%, and the standard deviation is 21.850%. The mean value in this study is much higher than what Palalangan et al. (2024) found, that Indonesian manufacturing companies are owned 3.17% by family investors.

FOREIGN ownership has a mean of 21.955%, with a median of 7.860%, suggesting that foreign investors, while generally more prominent than family members, also hold varying levels of ownership. The distribution ranges from 0.000% to 99.960%, and the standard deviation is 28.255%. Wulandari and Setiawan (2023) observed that Indonesian manufacturing companies were owned by 27% by foreign investors during 2014-2018. Nurcahya et al. (2024) found that the most liquid companies in Indonesia (IDX80) are owned by 28.22% of foreign investors during 2018-2021.

The GOVERNMENT variable has a mean of 2.138%, indicating low average government ownership. The median value of 0.000% suggests that more than half of the firms have no government ownership, highlighting the dominance of privately held firms. Government ownership ranges from 0.000% to 90.025%, with a standard deviation of 11.416%.

The INSTITUTION variable shows an average ownership level of 64.207%, with a median of 74.505%. Institutional ownership spans from 0% to 100%, with a standard deviation of 30.484%. This study's mean is slightly lower than what Karlinah et al. (2024) found in Indonesian manufacturing companies, which were owned by 71.31% institutional investors. Susilawati and Tarmidi (2024) also found that Indonesian consumer goods companies are owned 60.45% by insitutional investors during 2018-2022.

Table 6.1
Descriptive Analysis of Variables for Indonesian Samples

Variables	Mean	Median	Minimum	Maximum	Std. Dev.
<u>Panel A: Dependent Variable (Tax Avoidance)</u>					
SETR	0.066	0.036	-0.895	0.946	0.230
BTD	-0.016	-0.005	-0.436	0.546	0.074
<u>Panel B: Independent Variable (Ownership Structure)</u>					
FAMILY	11.449	0.020	0.000	100.000	21.850
FOREIGN	21.955	7.860	0.00	99.960	28.255
GOVERNMENT	2.138	0.000	0.00	90.025	11.416
INSTITUTION	64.207	74.505	0.00	100.000	30.484
MANAGER	6.403	0.010	0.00	100.000	15.546
<u>Panel C: Moderating Variable (Audit Quality)</u>					
ARL	95.631	87.000	31.000	272.000	32.495
BIG4	0.276	0.000	0.000	1.000	0.447
<u>Panel D: Control Variables (Corporate Governance)</u>					
BMEET	5.492	4.000	1.000	19.000	3.184
BIND	0.204	0.200	0.000	0.600	0.074
BSIZE	8.443	8.000	3.000	21.000	3.141
<u>Panel E: Control Variables (Financial Indicators)</u>					
CAPINT	0.385	0.360	0.000	0.9723	0.264
LEV	0.135	0.078	0.000	0.943	0.158
PBV	2.147	1.160	-94.520	301.130	8.590
ROA	0.015	0.020	-0.880	0.720	0.117
SIZE	5.068	5.055	0.000	10.160	1.747

Source: Author's work

Lastly, the MANAGER variable, representing managerial ownership, has a mean of 6.403% and a median of 0.010%, indicating that managerial ownership is generally very low across Indonesian listed firms, but highly dispersed. This pattern is broadly consistent with the concentrated ownership environment, where managerial shareholding is typically small relative to blockholders. The wide range (0% to 100%) and relatively large standard deviation (15.550%) reflect substantial variation in managers' equity participation. This pattern is consistent with the ownership environment in Indonesia and Malaysia, where managerial shareholding is typically limited to small proportions relative to blockholders.

The ARL and Big-4 variables are key measures of audit quality in this study. The ARL variable has a mean of 95.631 days, suggesting that, on average, firms take

approximately three months after fiscal year-end to finalize audited financial statements. The median of 87 days reflects a moderately right-skewed distribution, and the observed range (31 to 272 days) indicates considerable heterogeneity in audit completion timelines. The mean ARL observed here is similar to figures documented in prior Malaysian and Indonesian audit research, implying that audit timeliness in the sample follows expected reporting patterns within these institutional contexts.

Meanwhile, the Big-4 variable has a mean of 0.276, indicating that just over a quarter of the firms are audited by one of the Big-4 accounting firms. The median value of 0.000 reveals that more than half of the firms are audited by non-Big-4 auditors. The values range from 0.000 to 1.000, with a standard deviation of 0.447. Mashuri (2023) found that among Indonesian mining companies for the observation of 2017-2019, nearly 42% of the financial statements are audited by Big 4 audit firms. Meanwhile, Rusmin and Evans (2017) found that 43% of Indonesian manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2010 and 2011 were audited by Big 4. These figures indicate that Big 4 auditors in Indonesia have clients from specific industries.

BMEET, BIND, and BSIZE are key control variables representing corporate governance, as shown in Panel D. The BMEET has a mean of 5.492, indicating an average of approximately five meetings per year. The median value of 4.000 suggests that half of the firms hold four or fewer meetings annually. The number of meetings ranges from a minimum of 1.000 to 19.000, with a standard deviation of 3.180, reflecting moderate variability in board meeting frequency across firms. Similarly, the BIND has a mean of 0.204 (20.4%), suggesting that, on average, around one-fifth of board members are independent directors. The median value of 0.200 (20.0%) indicates that half of the firms have board independence at or below this level. The proportion ranges from 0.000, indicating no independent directors in some firms, to a maximum of 0.600 (60.0%), where independent members make up the majority of the board. A standard deviation of 0.074 (7.4%) suggests that board independence typically fluctuates by about seven percentage points from the average. Lastly, the BSIZE variable has a mean of 8.443, with a median of 8.000, indicating that most boards comprise approximately eight directors. Board size varies from a minimum of 3.000 to a maximum of 21.000, with a standard deviation of 3.141, pointing to moderate variation in board composition across the sample.

As part of Panel E: Control Variables (Financial Indicators), CAPINT (capital intensity) and LEV (long-term leverage) provide insights into firms' financial structures. The CAPINT variable has a mean of 0.385 (38.5%), indicating that, on average, over one-third of a firm's total assets consist of capital assets. The median value of 0.360 (36.0%) suggests that half of the firms have capital intensity at or below this level. The observed range spans from a minimum of 0.000 to a maximum of 0.970, reflecting substantial variation in firms' capital structures. A standard deviation of 0.264 indicates notable dispersion in asset composition across the sample. Similarly, the LEV variable has a mean of 0.135, suggesting that, on average, around 13.5% of a firm's total assets are financed through long-term debt. The median value of 0.078 shows that half of the firms maintain long-term leverage below 7.8%. The dataset includes firms with no long-term debt and firms with leverage as high as 0.943. The standard deviation of 0.158 highlights moderate variability in the use of long-term financing.

Also in Panel E, PBV (price-to-book value), ROA (return on assets), and SIZE (firm size) provide further insights into firms' financial characteristics. The PBV variable has a mean of 2.147, indicating that, on average, firms are valued at slightly more than twice their book value. The median value of 1.160 shows that half of the firms are priced below this level. The PBV ranges widely from a minimum of -94.520, indicating at least one firm with extreme negative valuation (possibly due to negative equity), to a maximum of 301.130, where the firm is valued over 300 times its book value. The ROA variable shows a mean of 1.5%, suggesting modest profitability across the dataset. The median ROA is slightly higher at 2.0%, while values range from a minimum of -88.000%, reflecting significant losses in some firms, to a maximum of 72.000%, indicating high profitability in others. The standard deviation of 11.7% shows considerable dispersion in returns. Lastly, the SIZE variable, measured as the natural logarithm of total assets, has a mean of 5.070 and a median of 5.060, indicating that half of the firms have size measures below this value. The SIZE ranges from 0.000 to 10.160, with a standard deviation of 1.750, reflecting moderate variability in firm size across the sample.

The descriptive statistics highlight significant variations in the dataset, particularly in ownership structure, audit quality, and financial performance indicators. Variables such as family ownership, foreign ownership, and institutional ownership exhibit considerable dispersion, reflecting Indonesia's diverse corporate ownership

landscape. The audit report lag (ARL) also shows substantial variability, indicating differences in financial reporting timeliness across firms. Moreover, the tax avoidance proxies (SETR and BTD) reveal a wide range of values, suggesting that firms adopt varying tax strategies. These initial insights provide a strong basis for the subsequent inferential analysis, where we explore the relationships between ownership structure, audit quality, and tax avoidance in greater depth.

6.2.2 Descriptive Statistics for Malaysian Samples

Table 6.2 shows detailed descriptive statistics for Malaysian samples. The SETR variable has a mean of 0.074, indicating that, on average, the Malaysian statutory tax rate exceeds the effective tax rate by 7.4%, suggesting a relatively modest degree of tax avoidance. The median value of 0.048 indicates that half of the firms have a tax gap of 4.8% or less. The observed range spans from -1.529 to 3.327, revealing substantial variation in how firms manage their effective tax rates. The standard deviation of 0.258 suggests moderate dispersion in the extent of tax avoidance across the sample. Similarly, the BTD variable has a negative mean of -0.030, indicating that, on average, taxable income exceeds book income among Malaysian firms. The BTD ranges from -1.098 to 0.628, and a standard deviation of 0.109 indicates relatively low variability, suggesting a consistent pattern in book-to-tax income reconciliation across firms.

FAMILY and FOREIGN are among the key dimensions of ownership structure in the Malaysian sample. The mean value for FAMILY ownership is 25.613%, indicating that, on average, a quarter of equity is held by family members. The median value of 20.590% suggests that half of the firms have family ownership below this level. The range spans from 0.000% to 95.330%, with a standard deviation of 21.540%.

In contrast, FOREIGN ownership has a lower mean of 7.925% and a median of 2.160%, indicating that foreign investors generally hold modest equity stakes in most firms. The proportion ranges from 0.000% to 79.660%, and the standard deviation of 13.986% reflects moderate dispersion in foreign ownership across the sample. This distribution suggests that while many firms attract minimal foreign participation, a smaller subset exhibits substantial foreign shareholding, reinforcing the importance of examining foreign ownership as a heterogeneous governance mechanism within Indonesia and Malaysia.

The MANAGER variable has a mean of 10.919%, suggesting that managers, on average, hold modest equity stakes. The median value of 3.300% indicates relatively limited shareholding in more than half of the sample firms. The range spans from 0.000% to 74.310%, with a standard deviation of 15.288%, demonstrating significant variation across firms. This dispersion implies that managerial ownership structures differ substantially within the sample and may influence managers' incentives and discretion in strategic decision-making.

The GOVERNMENT variable has a mean of 0.106%, indicating that government shareholding is negligible in most Malaysian listed firms. The median value of 0.000% suggests that more than half of the firms have no government ownership, highlighting the dominance of privately held firms. Government ownership ranges from 0.000% to 36.790%, with a standard deviation of 1.829%.

Table 6.2
Descriptive Analysis of Variables for Malaysian Samples

Variables	Mean	Median	Minimum	Maximum	Std. Dev.
Panel A: Dependent Variable (Tax Avoidance)					
SETR	0.074	0.048	-1.529	3.327	0.258
BTD	-0.030	-0.011	-1.098	0.628	0.109
Panel B: Independent Variable (Ownership Structure)					
FAMILY	25.613	20.590	0.0000	95.330	21.544
FOREIGN	7.925	2.160	0.0000	79.660	13.986
GOVERNMENT	0.106	0.000	0.0000	36.790	1.829
INSTITUTION	45.094	47.890	0.0000	99.000	26.367
MANAGER	10.919	3.300	0.0000	74.310	15.288
Panel C: Moderating Variable (Audit Quality)					
ARL	107.116	106.000	13.000	318.000	29.510
BIG4	0.351	0.000	0.000	1.000	0.477
Panel D: Control Variables (Corporate Governance)					
BMEET	5.389	5.000	0.000	18.000	1.704
BIND	0.509	0.500	0.110	1.000	0.127
BSIZE	7.276	7.000	3.000	15.000	1.906
Panel E: Control Variables (Financial Indicators)					
CAPINT	0.293	0.258	0.000	0.966	0.224
LEV	0.142	0.100	0.000	0.760	0.140
PBV	1.339	0.780	-9.580	27.810	1.798
ROA	0.004	0.020	-10.620	2.380	0.213
SIZE	4.710	4.600	-3.510	10.720	1.638

Source: Author's work

INSTITUTION has a mean of 45.094% and a median of 47.890%, indicating that institutions typically hold a large proportion of equity in Malaysian firms. The values range from 0.000% to 99.000%, with a standard deviation of 26.367%, reflecting wide dispersion. Qasem (2025) found a mean of 18.671% among Malaysian listed firms for 2008-2013 observations.

Audit quality is captured using the ARL and BIG4 variables. The ARL (audit report lag) has a mean of 107.116 days and a median of 106.000 days, suggesting that firms typically take around three and a half months to complete and finalize their audits. The lag ranges from a minimum of 13.000 days to a maximum of 318.000 days, with a standard deviation of 29.510 days. Meanwhile, Qasem (2025) found that the audit report lag was on average 97 days for the 2008-2013 observation.

The BIG4 variable has a mean of 0.351 (35.1%), suggesting that slightly more than one-third of the firms are audited by one of the Big-4 accounting firms. The median value of 0.000 confirms that more than half of the sample is audited by non-Big-4 firms. The values range from 0.000 to 1.000, and the standard deviation of 0.477 reflects moderate variability in auditor choice across firms. Sulaiman et al. (2023) found that among Malaysian companies (Construction, Consumer product, Industrial product, Plantation, Properties and Trading & services industries) for 2013-2018 observations, nearly 39% of them employed big4 auditors to audit their financial statements. Meanwhile, Qasem (2025) found that 63% of the Malaysian sample was audited by big4 audit firms for the 2008-2013 observation.

Panel D outlines the corporate governance variables: BMEET, BIND, and BSIZE. The BMEET has a mean of 5.389 and a median of 5.000, with values ranging from 0.000 to 18.000. The standard deviation of 1.704 suggests relatively low variation in meeting frequency. The BIND has a mean of 0.509 (50.9%) and a median of 0.500 (50.0%), suggesting that half of the board, on average, is made up of independent directors. The proportion ranges from 0.110 to 1.000, with a standard deviation of 0.127, indicating moderate variability in board composition. The BSIZE has a mean of 7.276 and a median of 7.000, with a minimum of 3.000 and a maximum of 15.000. The standard deviation of 1.906 reflects modest variation in board size across firms.

In Panel E, CAPINT (capital intensity) and LEV (long-term leverage) provide insight into firms' financial structure. The CAPINT variable has a mean of 0.293 (29.3%) and a median of 0.258 (25.8%), indicating that nearly one-third of firms' total assets are capital assets. The range is from 0.000 to 0.966, with a standard deviation of

0.224, showing a moderate level of dispersion. LEV, which reflects the proportion of assets financed by long-term debt, has a mean of 0.142 (14.2) and a median of 0.100 (10.0%), with values ranging from 0.000 to 0.760. The standard deviation is 0.140 (14.0%), suggesting considerable variation in long-term financing practices across the sample.

Further financial indicators include PBV (price-to-book value), ROA (return on assets), and SIZE (firm size). PBV has a mean of 1.339 and a median of 0.780, with extreme values ranging from -9.580 to 27.810 , and a standard deviation of 1.798, indicating substantial variation in market valuation relative to book value. ROA has a mean of 0.004 (0.4%) and a median of 0.020 (2.0%), with a wide range from -10.620 to 2.380 and a standard deviation of 0.213, indicating highly varied levels of profitability. SIZE, measured as the natural logarithm of total assets, has a mean of 4.710 and a median of 4.600. The range spans from -3.510 to 10.720 , and the standard deviation of 1.638 reflects moderate variability in firm size across the Malaysian sample.

The descriptive statistics for the Malaysian sample reveal notable variation across ownership structure, audit quality, corporate governance, and financial indicators. Compared to the Indonesian sample, Malaysian firms show generally higher family ownership, stronger institutional presence, but lower foreign and government ownership. Audit report lags are longer on average, and board independence is more prominent. Financial indicators such as PBV and ROA demonstrate considerable dispersion, indicating diversity in market valuation and profitability. These findings provide essential context for the following empirical analysis on how ownership structure and audit quality influence corporate tax avoidance in Malaysia.

6.2.3 Cross-Country Descriptive Analysis

This subsection provides a comparative overview of key descriptive statistics between Indonesia and Malaysia. This analysis aims to establish the contextual differences and similarities across the two countries in terms of ownership structure, tax avoidance behavior, and audit quality. Presenting this information side by side helps to reinforce the importance of institutional settings in shaping corporate governance practices and tax-related outcomes. The descriptive statistics also offer initial insights

into observable trends across both samples, which serve as a foundation for interpreting the regression results in subsequent sections.

Table 6.3
Summary Means of Main Variables by Country

Variable	Indonesia	Malaysia
<u>Dependent variable (tax avoidance)</u>		
SETR	0.066	0.074
BTD	-0.016	-0.030
<u>Independent variable (ownership structure)</u>		
Family Ownership (%)	11.449%	25.613%
Foreign Ownership (%)	21.955%	7.925%
Government Ownership (%)	2.138%	0.106%
Institutional Ownership (%)	64.207%	45.094%
Managerial Ownership (%)	6.403%	10.919%
<u>Moderator (audit quality)</u>		
Audit Report Lag (ARL)	95 days	107 days
Big-4 Audit (%)	27%	35%

Source: Author's work

Table 6.3 presents a comparative overview of descriptive statistics across key variables between Indonesia and Malaysia. With respect to tax avoidance proxies, Malaysian firms show a slightly higher average statutory-effective tax rate (SETR) gap (mean = 0.074) than Indonesian firms (mean = 0.066), suggesting marginally greater differences between statutory and effective tax rates (greater tax avoidance). However, the book-tax difference (BTD) is more negative in Malaysia (-0.030) than in Indonesia (-0.016), indicating that Malaysian firms more frequently report higher taxable income than book income, so are less aggressive in avoiding tax (Nurcahya et al., 2024; Susilawati & Tarmidi, 2024). Because SETR-gap and BTD capture different dimensions of tax avoidance, these descriptive differences should be interpreted cautiously and are further evaluated through multivariate models.

Ownership structure characteristics reveal notable cross-country contrasts, particularly in the case of family ownership, which is considerably more prominent in Malaysian firms (25.613%) compared to Indonesian firms (11.449%). This reflects the stronger presence of family-controlled business groups in Malaysia, where succession is often institutionalized as a strategic priority. Malaysian family firms emphasize the development of successors and the integration of family and business values, which positively affects firm continuity and performance (Mokhber et al., 2017; PANG et al.,

2023). Succession planning is typically formalized, focusing on leadership competence and long-term value preservation, with successors often outperforming founders in firm management (Amran & Che Ahmad, 2011). These characteristics may foster a long-term orientation and reputational sensitivity, potentially discouraging aggressive tax behavior.

In contrast, Indonesian family firms are shaped by collectivistic cultural values and often exhibit fragmented ownership structures, with succession processes relying largely on informal mentorship, familial trust, and tacit knowledge transfer (Iqbal et al., 2017; Pane & Christanti, 2023). The absence of formalized succession planning frameworks—such as documented leadership pipelines, governance succession committees, or written performance criteria—may weaken strategic continuity, limiting the influence of family shareholders in long-term decision-making, including tax policy direction. Moreover, ownership in Indonesian firms is often more dispersed or influenced by foreign and institutional investors, contributing to opacity in beneficial ownership (Jiang & Peng, 2011; Sukamdani, 2023).

These characteristics contrast with Malaysia, where stronger investor protection mechanisms encourage accountability and transparency, prompting family firms to institutionalize governance processes. Malaysian family firms more commonly engage in structured planning approaches, meaning they formalise succession through explicit criteria for leadership preparedness, board oversight of succession decisions, corporate governance committees, and written transition plans rather than informal family agreements (Tan et al., 2019). Thus, although both countries face succession challenges, Malaysian firms tend to adopt systematic governance safeguards, whereas Indonesian firms rely more on cultural norms and informal grooming of successors.

Foreign ownership is significantly higher in Indonesian firms (21.960%) compared to Malaysian firms (7.930%), reflecting differences in openness toward foreign investment across sectors. Indonesia is considered more liberal in the sense that its regulatory framework grants greater flexibility for foreign equity participation, particularly in manufacturing, mining, and export-oriented sectors. Policies such as reductions or removal of foreign shareholding caps for firms meeting export thresholds, simplified foreign investment licensing, and loosening of Foreign Direct Investment (FDI) restrictions have encouraged foreign participation (Ramstetter, 1999; Carney & Hamilton-Hart, 2015). Continued demand for Indonesia's natural resource-based industries has further strengthened incentives for foreign investment (Nofal, 2020).

In contrast, Malaysia maintains more protective ownership regulations, especially in land-related sectors and property investments, and imposes sector-specific limits or approval requirements for foreign stakes (Yusrizal et al., 2024). As a result, Malaysia's capital market relies more heavily on domestic institutional investors, consistent with government-linked investment company dominance (Valentina et al., 2022).

From a governance perspective, foreign investors can function as external monitors who promote compliance, disclosure quality, and transparency, potentially constraining overly aggressive tax strategies. However, pressure to meet global shareholder expectations for short-term profitability may encourage firms to utilize sophisticated tax planning practices to enhance reported performance (Lee & Ande, 2022). These competing incentives highlight the context-dependent role of foreign ownership in shaping tax avoidance behavior across different institutional environments.

Government ownership is minimal in both Indonesia and Malaysia, yet slightly more prominent in Indonesia (2.140%) than in Malaysia (0.106%), reflecting differing approaches to state involvement in corporate governance. In Indonesia, direct government ownership tends to concentrate in strategic sectors, where state-owned enterprises (SOEs) play a vital role in national development and public service delivery. This form of ownership may influence corporate behavior, including tax strategies, to align with broader socio-political objectives such as employment creation or infrastructure development. Studies suggest that SOEs in Indonesia benefit from improved access to external financing and reduced leverage costs due to state backing, which enhances capital market confidence (Ge et al., 2020). Furthermore, the Indonesian government's continued investment in SOEs supports a restrained model of state capitalism, where performance-focused reforms coexist with public ownership (Kim, 2021).

In contrast, Malaysia exercises influence more subtly through government-linked investment companies (GLICs), with limited direct equity stakes in public firms. While GLICs function as strategic investment vehicles, government-linked companies (GLCs) in Malaysia have shown gradual improvements in operational efficiency, though the corporate landscape remains largely dominated by family-owned enterprises (Sukmadilaga et al., 2017). This indirect model of governance allows the state to shape economic outcomes while preserving market dynamics. Interestingly, government and

foreign ownership in Indonesia are positively associated with dividend payouts, contrasting with family firms that tend to retain earnings (Setiawan et al., 2016), suggesting a more stakeholder-oriented orientation in state-influenced firms. Overall, the contrast between Indonesia's direct state ownership and Malaysia's indirect governance approach reflects different institutional logics—state capitalism versus strategic investment—which may impact tax compliance, transparency, and firm behavior in distinct ways.

Institutional ownership is notably higher in Indonesian firms (64.210%) compared to Malaysian firms (45.094%), highlighting a more dominant role of institutions in shaping corporate governance in Indonesia. In the Indonesian context, institutional investors have shown both positive and negative associations with financial performance. Some studies suggest that they contribute to improved efficiency and profitability (Brigitta, 2023; Syahril, 2023), while others highlight potential agency conflicts or strategic misalignments that may hinder firm outcomes (S. Musallam, 2019). Nevertheless, their monitoring role remains critical, particularly in reducing agency costs when managerial ownership is either too low or excessively high (Martono, 2023). In Malaysia, institutional ownership has been positively linked to dividend payout ratios, suggesting a preference for shareholder-friendly policies and predictable returns (Valentina, 2022). However, contrasting findings also indicate that institutional investors might favor earnings retention for reinvestment, reflecting divergent strategies based on institutional type or investment horizon (Arnitia, 2023). These dynamics suggest that institutional investors may act as both enablers and disciplinarians, depending on contextual and ownership structures.

From a tax avoidance perspective, strong institutional presence may constrain aggressive strategies through enhanced oversight, though passive institutional behavior or misaligned incentives could limit their effectiveness. The greater institutional involvement in Indonesia may reflect reliance on large domestic funds or state-linked financial institutions, whereas Malaysia's more diversified capital markets may offer a broader mix of institutional investor preferences, shaping varied approaches to financial and tax-related decision-making.

Managerial ownership is notably higher in Malaysian firms (10.919%) than in Indonesian firms (6.400%), indicating stronger incentive alignment in Malaysia. This suggests that Malaysian managers are more directly involved as shareholders, potentially reducing agency costs by aligning their interests with those of external

shareholders. However, this ownership concentration may also create risks of managerial entrenchment, where excessive control leads to reduced accountability and greater discretion in financial reporting (Mustapha & Che Ahmad, 2011; Zamzmir@Zamzamin et al., 2021). In Malaysian firms, managerial ownership has shown a complex relationship with firm value—moderate levels can enhance performance, while excessive ownership may negatively impact governance outcomes. Furthermore, higher managerial ownership in Malaysia has been linked to improved financial statement integrity, implying that managers with equity stakes are more likely to uphold reporting quality (Fauziah & Panggabean, 2019).

In contrast, the lower managerial ownership in Indonesian firms reflects a clearer separation between ownership and control, which can necessitate greater reliance on institutional or controlling shareholders for governance oversight. Although studies in Indonesia have found that managerial ownership has a positive effect on firm value and reporting quality, the influence appears less pronounced due to the relatively low levels of ownership (Dianty, 2020; Jati, 2020). Additionally, the effect of managerial ownership on financial integrity in Indonesia may be moderated by external factors such as auditor switching and intellectual capital (Fauziah & Panggabean, 2019). The comparative evidence suggests that while both countries benefit from the incentive effects of managerial shareholding, Malaysia's higher levels of ownership may offer stronger governance alignment—provided that entrenchment risks are carefully managed. Meanwhile, Indonesia's more distinct separation between management and ownership underscores the importance of alternative oversight mechanisms in maintaining reporting quality and strategic discipline.

Regarding audit quality, Malaysian firms have a longer audit report lag (107.12 days) than those in Indonesia (95.63 days). Several factors might contribute to extended audit report lag, including smaller board size and diversity (Chalu, 2021), less profitability (Icih et al., 2024), and higher director shareholdings (Che-Ahmad & Abidin, 2009). Additionally, more Malaysian firms are audited by Big-4 firms (35.10%) than in Indonesia (27.59%). In Malaysia, the audit market is characterised by a loose oligopoly, with the Big-4 firms holding significant influence, although their market share has been decreasing over time (Chee Ghee & Gul, 2015; Raza et al., 2019). In contrast, in Indonesia, Big-4 firms operate indirectly through affiliations with local firms, which may limit their direct market penetration (Kurniawati et al., 2020).

6.3 Correlation Analysis

Correlation analysis was conducted to examine the associations among the variables and to provide a preliminary indication of potential multicollinearity before the regression estimations. This study reports both Pearson and Spearman correlation coefficients. Pearson correlations are parametric and assume normality; however, in large-sample panel data, the Central Limit Theorem ensures that the distributional assumptions are reasonably satisfied, enabling the valid use of Pearson measures. Spearman correlations are also reported as a nonparametric alternative that is less sensitive to outliers and suitable for monotonic but non-linear relationships (Bocianowski et al., 2024). Shrestha (2020) notes that pairwise correlations above 0.80 may indicate potential collinearity concerns. In this study, none of the coefficients reach that threshold, suggesting that serious multicollinearity is unlikely. The use of both Pearson and Spearman correlations, therefore, strengthens the preliminary diagnostic assessment.

6.3.1 Correlation Analysis for Indonesian Samples

The correlation matrix provides insights into the relationships among key variables in the study, including tax avoidance proxies (SETR and BTD), ownership structures (FAMILY, FOREIGN, GOVERNMENT, INSTI, and MANAGER), audit quality (ARL and BIG4), and various control variables related to corporate governance and financial indicators. The matrix shown in Table 6.4 illustrates the relationships between variables using Spearman and Pearson correlations, with Spearman correlations shown in bold. This dual approach provides insights into both the linear associations (Pearson) and rank-order relationships (Spearman), which can be useful for understanding relationships that might not be strictly linear. The explanation in the next paragraphs is according to the Pearson correlations, if both Pearson and Spearman correlations are significant and in the same direction. Or else the detailed explanations are elaborated.

The tax avoidance proxies—statutory-effective tax rate (SETR) and book-tax difference (BTD)—show a weak but statistically significant correlation in both Pearson (0.103) and Spearman (-0.061), indicating that both proxies are significant but in different directions.

Family ownership (FAMILY) exhibits a weak positive correlation with SETR (Pearson: 0.055; Spearman: 0.022) and BTD (Pearson: 0.050; Spearman: 0.032). This suggests a slight tendency for family-owned firms to engage in tax strategies that affect their effective tax rates and book-tax differences, though the impact appears limited in magnitude. Conversely, foreign ownership (FOREIGN) shows a weak negative correlation with SETR (Pearson: -0.043; Spearman: -0.037) and a positive association with BTD (Pearson: 0.052; Spearman: 0.004). This pattern implies that foreign-owned firms may engage in strategies that lead to a lower effective tax rate but a higher book-tax difference, though the relationships are relatively weak.

Government ownership (GOVERNMENT) and institutional ownership (INSTITUTION) display distinct patterns. GOVERNMENT has weak negative correlations with SETR (Pearson: -0.042; Spearman: -0.019) and BTD (Pearson: -0.033; Spearman: -0.046), potentially indicating a conservative approach to tax practices in government-owned firms. INSTITUTION shows no significant Pearson correlation with SETR but has a positive relationship with BTD (Pearson: 0.077; Spearman: 0.064).

Audit report lag (ARL) shows an interesting relationship, with a significant positive Pearson correlation with SETR (0.139) and a negative one with BTD (-0.153). In the Spearman correlations, ARL also correlates positively with SETR (0.101) and negatively with BTD (-0.147), reinforcing the notion that firms with longer audit lags may experience different tax reporting behaviors. This might suggest that longer audit timelines could correlate with higher effective tax rates and smaller book-tax differences, possibly due to more cautious or transparent reporting.

Among the control variables, board independence (BIND) has a negative correlation with SETR (Pearson: -0.007; Spearman: -0.042) and BTD (Pearson: -0.042; Spearman: -0.073), hinting that higher board independence might be associated with lower tax avoidance behaviors. Additionally, firm size (SIZE) shows a positive Spearman correlation with BTD (0.111) and a negative one with SETR (-0.085), suggesting that larger firms might engage in strategies that reduce their effective tax rate while increasing the discrepancy between book and tax income. Pearson correlations for SIZE reflect a similar pattern (0.280 with BTD and -0.085 with SETR), underscoring the consistency of this relationship.

Return on assets (ROA) stands out with a moderate positive correlation with BTD (Pearson: 0.574; Spearman: 0.660) and a negative correlation with SETR

(Pearson: -0.295; Spearman: -0.195). This indicates that more profitable firms tend to have higher book-tax differences but lower effective tax rates, likely due to tax strategies associated with profitability. The agreement between Pearson and Spearman correlations for ROA and other variables further validates the observed patterns.

In summary, this matrix highlights that both Pearson and Spearman correlations offer consistent insights into the relationships among the variables, albeit with some nuances. Ownership structures, audit lag, and financial indicators such as ROA and SIZE show associations with tax avoidance measures, though the relationships are generally weak to moderate. These findings suggest that multivariate analysis is necessary to further disentangle these effects and assess the robustness of the relationships in the Indonesian corporate context.

6.3.2 Correlation Analysis for Malaysian Samples

The correlation matrix shown in Table 6.5 highlights the relationships among the variables used in the study, with Spearman correlations shown in bold. This dual approach allows us to examine both linear (Pearson) and rank-order (Spearman) associations. For the primary tax avoidance measure, BTD, there is a weak but statistically significant negative correlation with SETR (Pearson: -0.123, Spearman: -0.153), indicating that firms with higher effective tax rates tend to have slightly lower book-tax differences, although the relationship is not strong.

Family ownership (FAMILY) shows a slight positive correlation with SETR (Pearson: 0.023, Spearman: 0.001) and a weak negative correlation with BTD (Pearson: -0.065, Spearman: -0.028). This suggests that family ownership has only a limited influence on firms' tax avoidance behavior. Additionally, foreign ownership (FOREIGN) shows a weak, statistically insignificant relationship with SETR (Pearson: 0.008, Spearman: 0.052), but it exhibits a slight positive correlation with BTD (Pearson: 0.052, Spearman: 0.052), suggesting a possible link between foreign ownership and tax avoidance.

Institutional ownership (INSTITUTION) has a moderate positive correlation with BTD (Pearson: 0.090; Spearman: 0.090) and a weak negative correlation with SETR (Pearson: -0.045; Spearman: -0.045). This suggests that institutional investors may be associated with higher book-tax differences, possibly because they emphasize earnings management efficiency rather than conservative tax strategies. Managerial

ownership (MANAGER) shows a weak positive relationship with SETR (Pearson: -0.032, Spearman: -0.040) and an insignificant correlation with BTD (Pearson: 0.025, Spearman: 0.025), indicating minimal impact of managerial ownership on these measures.

Audit report lag (ARL) demonstrates a positive correlation with SETR (Pearson: 0.105, Spearman: 0.105) and a significant negative correlation with BTD (Pearson: -0.190, Spearman: -0.190). This suggests that firms with longer audit report lags tend to have higher effective tax rates and lower book–tax differences, possibly reflecting more conservative reporting behavior and reduced tax avoidance due to more thorough audit procedures.

Board governance factors reveal mixed associations. Board independence (BIND) is positively correlated with SETR (Pearson: 0.101; Spearman: 0.086) and negatively correlated with BTD (Pearson: -0.073; Spearman: -0.103), suggesting that more independent boards are associated with a higher tax rate differential and a lower book-tax difference. Conversely, board size (BSIZE) is negatively correlated with SETR (Pearson: -0.110; Spearman: -0.110) but positively correlated with BTD (Pearson: 0.109; Spearman: 0.109), suggesting that firms with larger boards tend to report lower tax rate differential and higher book–tax differences, indicating a possible association between larger board structures and greater tax avoidance tendencies.

Firm characteristics also show notable relationships. Return on Assets (ROA) has a significant negative correlation with SETR (Pearson: -0.367; Spearman: -0.367) and a strong positive correlation with BTD (Pearson: 0.749; Spearman: 0.749). This indicates that firms with higher profitability tend to exhibit lower statutory-effective tax rate differential and higher book–tax differences. Firm size (SIZE), measured by total assets, is negatively correlated with SETR (Pearson: -0.208; Spearman: -0.208) and positively correlated with BTD (Pearson: 0.217; Spearman: 0.217), suggesting that larger firms are associated with lower statutory-effective tax rate differential and higher book–tax differences.

Table 6.4
Correlation Analysis for Indonesian Samples

	1	2	3	4	5	6	7	8	
SETR	1	1.000	-0.061 ***	0.022	-0.037 *	-0.019	0.010	-0.010	0.101 ***
BTD	2	0.103 ***	1.000	0.032	-0.038 **	-0.010	0.064 ***	0.013	-0.147 ***
FAMILY	3	0.055 ***	0.050 **	1.000	-0.178	-0.073 ***	-0.449 ***	0.552 ***	0.048 **
FOREIGN	4	-0.043 **	-0.051 ***	-0.120 ***	1.000	-0.058 ***	0.106 ***	-0.180 ***	-0.039 **
GOVERNMENT	5	-0.042 **	-0.033 *	-0.046 **	0.011	1.000	-0.247 ***	-0.059 ***	-0.106 ***
INSTITUTION	6	-0.002	0.077 ***	-0.280 ***	0.171 ***	-0.208 ***	1.000	-0.438 ***	-0.109 ***
MANAGER	7	-0.041 **	0.037 *	0.510 ***	-0.160 ***	-0.009	-0.306 ***	1.000	0.015
ARL	8	0.139 ***	-0.153 ***	0.031	-0.062 ***	-0.138 ***	-0.145 ***	0.015	1.000
BIG4	9	-0.131 ***	-0.011	-0.057 ***	0.296 ***	0.046 **	0.131 ***	-0.093 ***	-0.112 ***
BMEET	10	0.010	-0.031	0.006	0.016	0.174 ***	-0.060 ***	-0.042 **	-0.039 **
BIND	11	-0.007	-0.042 **	-0.073 ***	-0.014	-0.007	-0.033 *	-0.021	0.043 **
BSIZE	12	-0.024	0.038 **	-0.039 **	0.152 ***	0.136 ***	0.064 ***	-0.024	-0.102 ***
CAPINT	13	-0.093 ***	-0.163 ***	0.012	0.002	0.003	0.002	0.095 ***	-0.054 ***
LEV	14	0.057 ***	-0.113 ***	0.012	-0.025	0.048 **	-0.066 ***	0.039 **	0.043 **
PBV	15	-0.086 ***	0.114 ***	-0.022	-0.053 ***	0.015	0.063 ***	0.063 ***	-0.125 ***
ROA	16	-0.295 ***	0.574 ***	0.000	0.051 ***	0.005	0.097 ***	0.055 ***	-0.307 ***
SIZE	17	-0.085 ***	0.111 ***	-0.069 ***	0.280 ***	0.198 ***	0.082 ***	-0.067 ***	-0.184 ***

Note: Spearman is in BOLD.

Source: Author's work

Table 6.4 (Continued)
Correlation Analysis for Indonesian Samples

		9	10	11	12	13	14	15	16	17
SETR	1	-0.091 ***	0.006	-0.001	-0.027	-0.051 ***	0.058 ***	-0.014	-0.195 ***	-0.080 ***
BTD	2	0.008	-0.020	-0.043 **	0.044 **	-0.110 ***	-0.117 ***	0.036 *	0.660 ***	0.093 ***
FAMILY	3	-0.050 ***	-0.006	-0.039 **	-0.080 ***	0.034 *	-0.001	0.001	0.023	-0.074 ***
FOREIGN	4	0.296 ***	-0.051 ***	0.013	0.131 ***	0.036 *	-0.043 **	-0.041 **	0.043 **	0.174 ***
GOVERNMENT	5	0.029	0.257 ***	-0.005	0.153 ***	-0.018	0.053 ***	-0.011	-0.013	0.231 ***
INSTITUTION	6	0.098 ***	-0.092 ***	-0.032 *	0.031	-0.015	-0.034 *	0.016	0.044 **	0.046 **
MANAGER	7	-0.104 ***	-0.019	-0.014	-0.083 ***	0.073 ***	0.013	0.008	0.005	-0.132 ***
ARL	8	-0.115 ***	-0.052	0.051 ***	-0.126 ***	-0.037 *	0.077 ***	-0.037 *	-0.237 ***	-0.179 ***
BIG4	9	1.000	0.029	-0.017	0.225 ***	0.047 **	-0.014	0.003	0.165 ***	0.393 ***
BMEET	10	0.048 **	1.000	0.012	0.118 ***	-0.025	0.062 ***	0.034 *	-0.003	0.076 ***
BIND	11	-0.007	0.018	1.000	-0.113 ***	0.023	0.033 *	0.039 **	-0.038 *	-0.019
BSIZE	12	0.225 ***	0.154 ***	-0.096 ***	1.000	-0.007	0.039 **	0.036 *	0.116 ***	0.356 ***
CAPINT	13	0.059 ***	-0.019	0.026	0.001	1.000	0.296 ***	0.032	-0.112 ***	0.025
LEV	14	-0.025	0.062 ***	0.022	0.079 ***	0.309 ***	1.000	0.003	-0.187 ***	0.261 ***
PBV	15	0.097 ***	0.003	0.021	0.067 ***	0.038 *	-0.079 ***	1.000	0.077 ***	-0.037 *
ROA	16	0.204 ***	-0.013	-0.048 **	0.126 ***	-0.143 ***	-0.199 ***	0.281 ***	1.000	0.187 ***
SIZE	17	0.396 ***	0.083 ***	-0.003	0.361 ***	0.024	0.334 ***	-0.055 ***	0.219 ***	1.000

Note: Spearman is in BOLD.

Source: Author's work

Table 6.5
Correlation Analysis for Malaysian Samples

Correlation	1	2	3	4	5	6	7	8
SETR	1	1.000	-0.153 ***	0.001	-0.005	-0.013	-0.029 *	0.056 ***
BTD	2	-0.123 ***	1.000	-0.028 *	0.004	0.014	0.035 **	-0.117 ***
FAMILY	3	0.023	-0.065 ***	1.000	-0.200 ***	-0.058 ***	0.755 ***	0.135 ***
FOREIGN	4	0.008	0.052 ***	-0.206 ***	1.000	0.004	0.274 ***	-0.048 ***
GOVERNMENT	5	-0.018	0.034 **	-0.068 ***	0.052 ***	1.000	0.004	-0.031 *
INSTITUTION	6	-0.045	0.090 ***	-0.666 ***	0.294 ***	0.001	1.000	-0.533 ***
MANAGER	7	-0.032 ***	0.025	0.713 ***	-0.102 ***	-0.029 *	-0.480 ***	0.064 ***
ARL	8	0.105 ***	-0.190 ***	0.145 ***	-0.055 ***	-0.050 ***	-0.148 ***	0.087 ***
BIG4	9	-0.091 ***	0.091 ***	-0.181 ***	0.102 ***	0.021	0.206 ***	-0.117 ***
BMEET	10	0.057 ***	-0.103 ***	-0.052 ***	-0.023	0.032 **	-0.004	-0.028 *
BIND	11	0.101 ***	-0.073 ***	-0.014	-0.033 **	0.002	-0.011	-0.060 ***
BSIZE	12	-0.110 ***	0.109 ***	-0.106 ***	0.029 *	0.063 ***	0.111 ***	-0.001
CAPINT	13	0.016	0.062 ***	-0.061 ***	0.032	0.024	0.057 ***	-0.027 *
LEV	14	-0.082 ***	-0.039	-0.098 ***	0.012	0.064 ***	0.060 ***	-0.057 ***
PBV	15	-0.015	0.162 ***	-0.036	0.045 ***	0.069 ***	0.074 ***	0.016
ROA	16	-0.367 ***	0.749 ***	-0.063 ***	0.042 ***	0.030 *	0.092 ***	0.053 ***
SIZE	17	-0.208 ***	0.217 ***	-0.239 ***	0.127 ***	0.072 ***	0.228 ***	-0.111 ***

Note: Spearman is in BOLD.

Source: Author's work

Table 6.5 (Continued)
Correlation Analysis for Malaysian Samples

Correlation	9	10	11	12	13	14	15	16	17	
SETR	1	-0.066 ***	0.040 **	0.086 ***	-0.083 ***	0.013	-0.039 **	0.030 *	-0.140 ***	-0.140 ***
BTD	2	0.097 ***	-0.093 ***	-0.103 ***	0.077 ***	0.018	0.006	0.042 ***	0.534 ***	0.243 ***
FAMILY	3	-0.152 ***	-0.071 ***	-0.025	-0.098 ***	-0.055 ***	-0.112 ***	-0.030 *	-0.039 **	-0.217 ***
FOREIGN	4	0.087 ***	-0.046 ***	-0.007	-0.009	0.020	-0.041 ***	0.036 **	-0.010	0.011
GOVERNMENT	5	0.040 **	0.116 ***	0.031 **	0.084 ***	0.010	0.096 ***	0.014	0.007	0.124 ***
INSTITUTION	6	0.206 ***	0.019	-0.010	0.110 ***	0.053 ***	0.076 ***	0.053 ***	0.063 ***	0.230 ***
MANAGER	7	-0.075 ***	-0.052 ***	-0.053 ***	-0.016	-0.015	-0.070 ***	0.010	0.009	-0.088 ***
ARL	8	-0.165 ***	0.012	-0.027 *	-0.117 ***	-0.049 ***	-0.031 *	-0.083 ***	-0.107 ***	-0.191 ***
BIG4	9	1.000	0.110 ***	-0.030 *	0.183 ***	0.100 ***	0.180 ***	-0.016	0.083 ***	0.433 ***
BMEET	10	0.046 ***	1.000	0.072 ***	0.171 ***	0.001	0.175 ***	-0.045 ***	-0.056 ***	0.209 ***
BIND	11	-0.024 ***	0.057 ***	1.000	-0.301 ***	-0.024	0.011	0.027 *	-0.068 ***	-0.037 **
BSIZE	12	0.184 ***	0.122 ***	-0.318 ***	1.000	0.096 ***	0.167 ***	0.036 **	0.067 ***	0.368 ***
CAPINT	13	0.099 ***	-0.028 *	-0.028 *	0.099 ***	1.000	0.172 ***	-0.032 **	0.005	0.076 ***
LEV	14	0.173 ***	0.111 ***	-0.009	0.154 ***	0.205 ***	1.000	-0.045 ***	-0.026	0.415 ***
PBV	15	-0.037 **	-0.054 ***	0.038 **	0.047 ***	0.031 *	-0.089 ***	1.000	0.029	-0.073 ***
ROA	16	0.112 ***	-0.133 ***	-0.099 ***	0.146 ***	0.007	-0.074 ***	0.296 ***	1.000	0.185 ***
SIZE	17	0.436 ***	0.113 ***	-0.045 ***	0.336 ***	0.054 ***	0.395 ***	-0.159 ***	0.221 ***	1.000

Note: Spearman is in BOLD.

Source: Author's work

6.4 Diagnostic Test Analysis

Before proceeding with the regression estimations, several diagnostic tests were performed to identify potential econometric problems common in large-N, short-T panel datasets. Such issues include heteroskedasticity, cross-sectional dependence, and multicollinearity, all of which can bias standard errors and lead to incorrect statistical inferences if unaddressed. Subchapters 6.4.1-6.4.3 present the results. Consistent with panel-data econometric guidelines, no normality test was required, as normality is not a prerequisite for consistent estimation or valid inference in large samples under the Central Limit Theorem (Midway & White, 2025; Xu & He, 2020). The diagnostic results, therefore, ensure that the chosen estimators provide efficient and reliable coefficients for hypothesis testing.

6.4.1 Heteroscedasticity Test for Indonesian and Malaysian Samples

Heteroskedasticity is a critical concern in regression analysis, as it can lead to inefficient estimates and biased standard errors if not addressed. To evaluate the presence of heteroskedasticity in the Indonesian sample, Panel Cross-Section Heteroskedasticity LR Tests and Panel Period Heteroskedasticity LR Tests were conducted. The Panel Cross-Section test examines whether residual variances differ across entities (e.g., firms), while the Panel Period test assesses whether residual variances remain constant over time periods. The null hypothesis for both tests assumes that residuals are homoscedastic (constant variance).

Table 6.6
Heteroskedasticity Diagnostics for Indonesian Sample: Cross-Section and Period Tests

Model Description	Test Type	LR Statistic	df	p-value
Model (3.a)	Panel Cross Section	2417.376	522	0.0000
	Panel Period	14.89495	522	1.0000
Model (3.b)	Panel Cross-Section	2408.632	522	0.0000
	Panel Period	15.33511	522	1.0000
Model (3.c)	Panel Cross-Section	3153.1685	522	0.0000
	Panel Period	35.7444	522	1.0000
Model (3.d)	Panel Cross-Section	3138.4140	522	0.0000
	Panel Period	39.2390	522	1.0000

Note: Model (3.a) is the influence of ownership structure and ARL on SETR, with the interaction term and control variables; Model (3.b) is the influence of ownership structure and big4 on SETR, with the interaction term and control variables; Model (3.c) is the influence of ownership structure and ARL on BTD, with the interaction term and control variables; Model (3.d) is the influence of ownership structure and big4 on BTD, with the interaction term and control variables.

Source: Author's work

The Panel Cross-Section Heteroskedasticity LR Test results, presented in Table 6.6, indicate significant heteroskedasticity across cross-sections for all models in the Indonesian sample. The p-values for all models are highly significant (p-value = 0.0000), leading to the rejection of the null hypothesis of homoskedasticity. This confirms the presence of cross-sectional heteroskedasticity, indicating that the residual variances differ significantly across firms. Such heteroskedasticity may arise from firm-specific characteristics, including variations in size, ownership structure, or financial performance, which contribute to inconsistent residual variances across entities.

The Panel Period Heteroskedasticity LR Test results reveal no evidence of heteroskedasticity across time periods for all models. The p-values for all models (1.0000) indicate that the null hypothesis of homoskedasticity across periods cannot be rejected. These findings suggest that the residual variances remain consistent over time periods (2017–2021). Temporal factors, such as macroeconomic changes or regulatory shifts, do not appear to influence the variance of residuals in the Malaysian sample significantly.

The presence of significant cross-sectional heteroskedasticity in all models necessitates corrective measures to ensure reliable regression results. Cross-Section Weights (GLS) were applied to stabilize the variances across firms, assigning weights to each cross-sectional unit based on the inverse of their residual variance. This approach improves the efficiency of coefficient estimates by ensuring that firms with larger residual variances do not disproportionately influence the results. Furthermore, since no evidence of period heteroskedasticity was found, no additional time-specific adjustments were required. These remedies ensure robust and reliable results, enabling meaningful interpretation of the relationships between ownership structure and tax behavior.

The Panel Cross-Section Heteroskedasticity LR Test results, presented in Table 6.7, indicate significant cross-sectional heteroskedasticity for all models (Likelihood Ratios = 3756.28, 3733.31, 9352.90, and 9344.71; p-values = 0.0000). This suggests that the variance of residuals differs significantly across firms in the Malaysian sample. Such heteroskedasticity may arise from firm-specific characteristics, such as differences in size, ownership structure, or financial performance, which contribute to varying residual variances.

Table 6.7

Heteroskedasticity Diagnostics for Malaysian Sample: Cross-Section and Period Tests

Model Description	Test Type	LR Statistic	df	p-value
Model (3.a)	Panel Cross-Section	3756.2826	795	0.0000
	Panel Period	40.0575	795	1.0000
Model (3.b)	Panel Cross-Section	3733.3080	795	0.0000
	Panel Period	40.6675	795	1.0000
Model (3.c)	Panel Cross-Section	9352.9036	795	0.0000
	Panel Period	1778.1062	795	1.0000
Model (3.d)	Panel Cross-Section	9344.7055	795	0.0000
	Panel Period	1788.1657	795	1.0000

Note: Model (3.a) is the influence of ownership structure and ARL on SETR, with the interaction term and control variables; Model (3.b) is the influence of ownership structure and big4 on SETR, with the interaction term and control variables; Model (3.c) is the influence of ownership structure and ARL on BTD, with the interaction term and control variables; Model (3.d) is the influence of ownership structure and big4 on BTD, with the interaction term and control variables.

Source: Author's work

Additionally, the Panel Period Heteroskedasticity LR Test results, presented in Table 6.7, indicate no evidence of period heteroskedasticity for all models in the Malaysian sample. The p-values for the SETR models (Likelihood Ratios = 40.06 and 40.67; p-values = 1.0000) and the BTD models (Likelihood Ratios = 1778.11 and 1788.17; p-values = 1.0000) confirm that the null hypothesis of homoskedasticity across time periods cannot be rejected. These findings suggest that the residual variances remain consistent over the studied time periods (2017–2021), indicating that temporal factors such as changes in macroeconomic conditions or regulatory shifts do not significantly impact the variance of residuals.

To address the issue of cross-sectional heteroskedasticity, Cross-Section Weights (GLS) were applied in the regression analysis. This method involves assigning weights to each cross-sectional unit (e.g., firms) based on the inverse of their residual variance, effectively stabilizing the variances across the sample. By doing so, it ensures that firms with larger residual variances do not disproportionately influence the regression results, thereby improving the efficiency of the coefficient estimates. The application of Cross-Section Weights is particularly crucial in datasets where significant differences exist among firms, such as variations in size, ownership structures, or financial performance. Without these adjustments, the presence of heteroskedasticity can lead to inefficient parameter estimates and biased standard errors, reducing the reliability of statistical inferences. By correcting for cross-sectional

heteroskedasticity, this approach enhances the robustness of the regression results, ensuring that the estimated relationships between the independent and dependent variables are not distorted by differences in residual variances across firms. Furthermore, this method complements the theoretical assumptions of panel data regression, providing a sound basis for interpreting the results and drawing meaningful conclusions.

6.4.2 Cross-sectional Dependence Test for Indonesian and Malaysian Samples

Cross-sectional dependence occurs when residuals (errors) from different cross-sections (e.g., firms or entities in panel data) are correlated, and it is particularly common in panel data analysis. This issue often arises in firm-level data due to common shocks, such as economic crises or industry trends, or unobserved factors that affect multiple firms simultaneously. Ignoring cross-sectional dependence can lead to biased coefficient estimates, inflated standard errors, and unreliable statistical inferences, ultimately undermining the validity of econometric results. This study conducted the Cross-sectional Dependence Test to address this issue, which evaluates whether residuals are correlated across cross-sections. Using PCSE mitigates these issues and strengthens the reliability of the study's findings. This study employed two tests to detect cross-sectional dependence: the Breusch-Pagan LM Test and the Pesaran Scaled LM Test. The Breusch-Pagan LM Test is designed to detect cross-sectional dependence when the number of cross-sections (N) is smaller or comparable to the number of time periods (T). However, this test can become unreliable when N is much larger than T . To address this limitation, the Pesaran Scaled LM Test, a modification of the Breusch-Pagan LM Test, is used. It adjusts for larger cross-sectional dimensions and is specifically suited for datasets where N is significantly larger than T . Given the structure of the dataset in this study, which involves more than 500 firms observed over 5 years ($N > T$), the Pesaran Scaled LM Test is the most appropriate and reliable method for detecting cross-sectional dependence. The null hypothesis for this test states that there is no cross-sectional dependence in the residuals.

Table 6.8
Cross-sectional Dependence Result for Indonesian Samples

Test	Model (3.a)		Model (3.b)		Model (3.c)		Model (3.d)	
	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.
Breusch-Pagan LM	183375.10	***	182318.2	***	190633.46	***	192790.10	***
Pesaran scaled LM	90.88	***	88.8537	***	104.80	***	108.93	***

Note: Model (3.a) is the influence of ownership structure and ARL on SETR, with the interaction term and control variables; Model (3.b) is the influence of ownership structure and big4 on SETR, with the interaction term and control variables; Model (3.c) is the influence of ownership structure and ARL on BTD, with the interaction term and control variables; Model (3.d) is the influence of ownership structure and big4 on BTD, with the interaction term and control variables. *** : 1% significance level; ** : 5% significance level; * : 10% significance level.

Source: Author's work

The results of the cross-sectional dependence tests for Indonesian samples, presented in Table 6.8, cover four models (Model 1-4). The Pesaran Scaled LM Test showed significant results across all models ($p < 0.01$), confirming the presence of cross-sectional dependence in the data. For example, in Model 3, the test statistic was 104.80, which is highly significant. The consistent significance of the Pesaran Scaled LM Test across all models underscores the need to account for cross-sectional dependence when analyzing this dataset. These findings provide evidence of cross-sectional dependence in the residuals, which necessitates adjustments to ensure the validity of the econometric analysis. To address the identified cross-sectional dependence, this study applied the Panel-Corrected Standard Errors (PCSE) method when running the panel regression. PCSE adjusts for cross-sectional dependence and heteroskedasticity, ensuring unbiased coefficient estimates, robust standard errors, and reliable statistical inferences. The results of the cross-sectional dependence tests highlight the importance of addressing residual correlation across firms to avoid biased estimates and unreliable conclusions.

Table 6.9
Cross-sectional Dependence Result for Malaysian Samples

Test	Model (3.a)		Model (3.b)		Model (3.c)		Model (3.d)	
	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.	Statistic	Prob.
Breusch-Pagan LM	402605.90	***	403228.70	***	413065.80	***	413351.60	***
Pesaran scaled LM	109.49	***	110.28	***	122.66	***	123.02	***

Note: Model (3.a) is the influence of ownership structure and ARL on SETR, with the interaction term and control variables; Model (3.b) is the influence of ownership structure and big4 on SETR, with the interaction term and control variables; Model (3.c) is the influence of ownership structure and ARL on BTD, with the interaction term and control variables; Model (3.d) is the influence of ownership structure and big4 on BTD, with the interaction term and control variables. *** : 1% significance level; ** : 5% significance level; * : 10% significance level.

Source: Author's work

This study also employed two tests to examine cross-sectional dependence for the Malaysian samples. The results in Table 6.9 indicate significant cross-sectional dependence across all four models for both tests, with p-values below 0.01. For instance, the Pesaran Scaled LM Test showed consistent significance, with test statistics such as 109.49 in Model (3.a) and 123.02 in Model (3.d). These results demonstrate that residuals are correlated across firms, necessitating adjustments to account for cross-sectional dependence. To address this issue, the study applied the Panel-Corrected Standard Errors (PCSE) method, which accounts for both cross-sectional dependence and heteroskedasticity. The PCSE approach ensures robust standard errors, improving the reliability of coefficient estimates and statistical inferences. By employing PCSE, the study enhances the robustness and validity of its empirical findings, providing accurate insights into the relationships between ownership structure, governance, and financial outcomes. These results emphasize the importance of addressing cross-sectional dependence in panel data analysis to ensure credible conclusions.

6.4.3 Multicollinearity Test for Indonesian and Malaysian Samples

To assess the presence of multicollinearity among independent variables in the models, this study employed the Variance Inflation Factor (VIF) diagnostic, which measures how much the variance of an estimated regression coefficient is inflated due to linear dependence with other predictors (O'Brien, 2007). A VIF value below the conventional threshold of 10 is generally considered acceptable and indicative of no serious multicollinearity issues (Nachane, 2006). Table 6.10 presents the computed VIF statistics for all variables included in Models (2.a) to (2.d) of Indonesian samples. The results reveal that, across all models, the mean VIF values remain well below the threshold, suggesting a generally low level of multicollinearity. Although a few interaction terms display relatively higher VIF values, these are still within acceptable limits. Such elevated values are expected when interaction terms are included, as these tend to correlate with their constituent main effects. Overall, the findings indicate that multicollinearity is not a significant concern in the Indonesian models. Thus, the estimated coefficients are unlikely to suffer from inflated standard errors or unstable interpretations, reinforcing the reliability and robustness of the regression analyses.

Furthermore, Table 6.11 presents the centered VIF values for all variables included for Malaysian samples. In general, most VIF values fall well below the

commonly accepted threshold of 10, suggesting that multicollinearity is not a severe concern in the models. The centered VIF values continue to indicate generally acceptable levels of multicollinearity. Given that none of the VIF values exceed 10, the presence of multicollinearity in these models is still considered tolerable and unlikely to compromise the validity of the regression estimates.

Table 6.10
Centered VIFs (Multicollinearity Test Result) for Indonesian Samples

Model (3.a) Variable	Centered VIF	Model (3.b) Variable	Centered VIF	Model (3.c) Variable	Centered VIF	Model (3.d) Variable	Centered VIF
FAMILY	8.000	FAMILY	1.966	FAMILY	1.738	FAMILY	3.789
FOREIGN	3.893	FOREIGN	2.104	FOREIGN	1.376	FOREIGN	4.265
GOVERNMENT	2.993	GOVERNMENT	2.307	GOVERNMENT	1.154	GOVERNMENT	2.993
INSTITUTION	6.739	INSTITUTION	2.118	INSTITUTION	1.839	INSTITUTION	2.500
MANAGER	5.107	MANAGER	1.367	MANAGER	1.127	MANAGER	3.690
ARL	4.712	BIG4	3.010	ARL	3.588	BIG4	7.252
FAMILY*ARL	8.529	FAMILY*BIG4	2.388	FAMILY*ARL	2.227	FAMILY*BIG4	3.531
FOREIGN*ARL	4.638	FOREIGN*BIG4	2.155	FOREIGN*ARL	1.606	FOREIGN*BIG4	4.931
GOVERNMENT*ARL	3.044	GOVERNMENT*BIG4	2.353	GOVERNMENT*ARL	1.154	GOVERNMENT*BIG4	2.559
INSTITUTION*ARL	7.121	INSTITUTION*BIG4	3.264	INSTITUTION*ARL	3.233	INSTITUTION*BIG4	1.999
MANAGER*ARL	5.540	MANAGER*BIG4	1.935	MANAGER*ARL	1.525	MANAGER*BIG4	4.161
BIND	1.045	BIND	1.083	BIND	1.604	BIND	1.547
BMEET	1.093	BMEET	1.093	BMEET	1.143	BMEET	1.109
BSIZE	1.081	BSIZE	1.073	BSIZE	1.101	BSIZE	1.056
CAPINT	1.097	CAPINT	1.138	CAPINT	1.421	CAPINT	1.422
LTLEVERAGE	1.043	LTLEVERAGE	1.054	LTLEVERAGE	1.143	LTLEVERAGE	1.141
PBV	1.017	PBV	1.008	PBV	1.072	PBV	1.068
ROA	1.098	ROA	1.039	ROA	1.060	ROA	1.094
SIZE	1.081	SIZE	1.142	SIZE	1.161	SIZE	1.243

Source: Author's work

Table 6.11
Centered VIFs (Multicollinearity Test Result) for Malaysian Samples

Model (3.a) Variable	Centered VIF	Model (3.b) Variable	Centered VIF	Model (3.c) Variable	Centered VIF	Model (3.d) Variable	Centered VIF
FAMILY	6.126	FAMILY	5.371	FAMILY	4.710	FAMILY	4.573
FOREIGN	6.855	FOREIGN	3.288	FOREIGN	9.513	FOREIGN	1.798
GOVERNMENT	9.932	GOVERNMENT	1.190	GOVERNMENT	5.599	GOVERNMENT	1.331
INSTITUTION	1.351	INSTITUTION	2.775	INSTITUTION	8.473	INSTITUTION	3.300
MANAGER	7.294	MANAGER	3.633	MANAGER	9.581	MANAGER	3.341
ARL	5.421	BIG4	4.793	ARL	8.497	BIG4	7.285
FAMILY*ARL	6.101	FAMILY*BIG4	9.302	FAMILY*ARL	8.154	FAMILY*BIG4	7.907
FOREIGN*ARL	7.482	FOREIGN*BIG4	3.870	FOREIGN*ARL	9.658	FOREIGN*BIG4	1.889
GOVERNMENT*ARL	9.923	GOVERNMENT*BIG4	1.190	GOVERNMENT*ARL	5.592	GOVERNMENT*BIG4	1.328
INSTITUTION*ARL	5.268	INSTITUTION*BIG4	5.375	INSTITUTION*ARL	2.540	INSTITUTION*BIG4	6.577
MANAGER*ARL	4.792	MANAGER*BIG4	7.110	MANAGER*ARL	9.061	MANAGER*BIG4	4.431
BIND	1.342	BIND	1.388	BIND	1.071	BIND	1.154
BMEET	1.215	BMEET	1.448	BMEET	1.021	BMEET	1.059
BSIZE	1.449	BSIZE	1.464	BSIZE	1.076	BSIZE	1.129
CAPINT	1.174	CAPINT	1.128	CAPINT	1.068	CAPINT	1.129
LTLEVERAGE	1.218	LTLEVERAGE	1.269	LTLEVERAGE	1.073	LTLEVERAGE	1.162
PBV	1.025	PBV	1.051	PBV	1.006	PBV	1.035
ROA	1.077	ROA	1.126	ROA	1.051	ROA	1.117
SIZE	1.345	SIZE	1.255	SIZE	1.075	SIZE	1.198

Source: Author's work

6.5 The Hausman Test Result

To determine the appropriate model for analyzing the relationships among ownership structure, audit quality, and control variables on tax avoidance, the Hausman test was conducted. This test is essential for comparing fixed effects (FE) and random effects (RE) models, as it checks whether individual-specific effects are correlated with the regressors. A significant p-value ($p < 0.05$) would suggest that the FE model is more suitable for robust estimation, as it indicates a correlation between the individual effects and the explanatory variables. The table below presents the results of the Hausman test for four main models within Indonesian samples.

Table 6.12
Hausman Test Results for Indonesian samples

Models	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	decision
Model (3.a)	41.189	19	0.002	Fixed Effect ($p < 0.05$)
Model (3.b)	39.651	19	0.004	Fixed Effect ($p < 0.05$)
Model (3.c)	58.539	19	0.001	Fixed Effect ($p < 0.05$)
Model (3.d)	53.486	19	0.000	Fixed Effect ($p < 0.05$)

Note: Model (3.a) is the influence of ownership structure and ARL on SETR, with the interaction term and control variables; Model (3.b) is the influence of ownership structure and big4 on SETR, with the interaction term and control variables; Model (3.c) is the influence of ownership structure and ARL on BTD, with the interaction term and control variables; Model (3.d) is the influence of ownership structure and big4 on BTD, with the interaction term and control variables.

Source: Author's work

As shown in Table 6.12, the Chi-square statistics for all four models are significant, with p-values below the 0.05 threshold, leading to the selection of the fixed effects model in each case. For Model (3.a), which examines the influence of ownership structure and ARL on SETR (with interaction terms and control variables), the Chi-square statistic is 41.189 with a p-value of 0.002, supporting the FE model. Model (3.c), which explores the effect of ownership structure and ARL on BTD, includes an interaction term and control variables, and yields a Chi-square statistic of 58.539 and a p-value below 0.001, further supporting the FE model. Model (3.b) and Model (3.d) also have significant p-values, indicating that the fixed effects model is appropriate for all equations.

Table 6.13
Hausman Test Results for Malaysian Samples

Model	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Decision
Model (3.a)	49.591	19	0.000	Fixed Effect ($p < 0.05$)
Model (3.b)	43.391	19	0.001	Fixed Effect ($p < 0.05$)
Model (3.c)	146.078	19	0.000	Fixed Effect ($p < 0.05$)
Model (3.d)	137.125	19	0.000	Fixed Effect ($p < 0.05$)

Note: Model (3.a) is the influence of ownership structure and ARL on SETR, with the interaction term and control variables; Model (3.b) is the influence of ownership structure and big4 on SETR, with the interaction term and control variables; Model (3.c) is the influence of ownership structure and ARL on BTD, with the interaction term and control variables; Model (3.d) is the influence of ownership structure and big4 on BTD, with the interaction term and control variables.

Source: Author's work

Similarly, Table 6.13 shows Hausman Test Results for Malaysian Samples. The results show that all four models have significant Chi-square statistics (p -values < 0.05), indicating that the fixed-effects model should be used in each case. For example, Model (3.a), which examines the influence of ownership structure and ARL on SETR with interaction terms and control variables, has a Chi-square statistic of 49.591 and a p -value of 0.000, supporting the FE model. These results collectively imply that the fixed effects model is suitable for all models, allowing for more robust estimations by accounting for unobserved individual-specific effects correlated with the regressors.

6.6 Multivariate Analysis: Direct Relationship

This section presents the regression results examining the direct relationship between ownership structure and tax avoidance, with tax avoidance proxied by both the statutory-effective tax rate gap (SETR) and book-tax differences (BTD). In this stage, audit quality is intentionally excluded from the model to isolate and observe the behavioral pattern of ownership structure variables in influencing tax avoidance in the absence of moderating effects. By doing so, the analysis establishes a baseline understanding of how different ownership types—such as family, foreign, government, institutional, and managerial ownership—are independently associated with firms' tax avoidance tendencies before the inclusion of audit quality as a moderating variable in subsequent models.

6.6.1 The Influence of Ownership Structure on Tax Avoidance (Indonesia)

The results in Table 6.14 show that family ownership is not statistically significant in either model (with or without control variables) for both tax avoidance measures. This suggests that family-controlled firms in Indonesia do not systematically engage in tax avoidance practices. One possible explanation lies in the socio-cultural and reputational dynamics that characterize family businesses, where long-term sustainability, business continuity, and reputational capital are often prioritised over short-term tax-minimization gains (Chen et al., 2010; Khelil & Khelif, 2022). This finding is consistent with prior Indonesian studies (Maitriyadewi, 2020; Tarmizi et al., 2023; Wulandari et al., 2024) and also aligns with international evidence showing that family firms in environments characterized by relational governance or socio-emotional wealth preservation tend to adopt more conservative tax strategies (Bukalska et al., 2021; Reina et al., 2023). The insignificance may also reflect Indonesia's institutional environment, where informal governance mechanisms and concentrated family control facilitate internal monitoring but do not necessarily translate into aggressive financial strategies such as tax avoidance (Hanlon & Heitzman, 2010). Additionally, as Salihu et al. (2015) argue, the relationship between family ownership and tax planning is inherently context-specific, varying across countries depending on enforcement intensity, transparency norms, and corporate governance standards.

On the other hand, the results indicate that foreign ownership has a significant positive relationship with SETR, suggesting that as the proportion of foreign investors increases, firms are more likely to engage in tax avoidance. However, this relationship is not significant when tax avoidance is proxied by BTD after adding the control variables. The significance of SETR over BTD implies that foreign investors may engage more in explicit, statutory-based tax strategies rather than subtle, accrual-based planning typically captured by book-tax gaps. This finding aligns with the view that foreign investors—particularly multinational corporations (MNCs)—often possess the expertise and resources to implement complex international tax strategies, such as transfer pricing manipulation, profit shifting, and treaty shopping (Desai et al., 2006; Klassen & Laplante, 2012). Operating across multiple jurisdictions, these firms can exploit differences in tax regulations and enforcement to reduce their global tax burden. Additionally, the pressure to deliver high returns to international shareholders may incentivize more aggressive tax planning (Taylor & Richardson, 2014). In emerging

markets like Indonesia, where tax enforcement can be inconsistent, the monitoring capacity of regulators may not be sufficient to detect or deter such sophisticated practices (Hanlon & Heitzman, 2010).

The result reinforces prior studies emphasizing the governance challenges introduced by foreign ownership, particularly when local institutional mechanisms are weaker. For example, Oktaviani et al. (2023) and Suranta et al. (2020) highlight that while foreign investors bring capital and technical expertise, they may also increase agency risks if not adequately monitored. These findings suggest that the globalization of ownership complicates traditional tax oversight, making foreign ownership a double-edged sword—providing investment benefits while introducing higher risks of tax base erosion through aggressive tax minimization strategies.

Similar to foreign ownership, the results show that government ownership is positively and significantly associated with SETR, while its relationship with BTD becomes statistically insignificant once control variables are introduced. This suggests that state-owned enterprises (SOEs) in Indonesia tend to engage in tax avoidance strategies that are more explicit and statutory in nature, rather than those that involve subtle accrual-based manipulations. The stronger significance with SETR may indicate a focus on legally minimizing tax liabilities through policy-based incentives or preferential treatments, rather than through financial reporting discretion. This finding supports the entrenchment perspective, where government-linked firms may exploit regulatory leniencies, political connections, or weak enforcement environments to reduce tax obligations (Faccio, 2006; Wu et al., 2013). In many developing economies, including Indonesia, SOEs often operate under less competitive pressure and enjoy institutional advantages, such as tax exemptions or subsidies, which can be strategically used for tax planning (Dau et al., 2021). Furthermore, as government ownership increases, the monitoring function typically exercised by market-based mechanisms may weaken, enabling managers to prioritize state agendas or firm-specific goals over tax transparency and compliance.

Despite the expectation that SOEs would exhibit greater accountability due to public scrutiny and alignment with national interests (Cui, 2017), empirical evidence increasingly suggests that government-affiliated firms may be equally, if not more, tax aggressive in practice. This is especially true in environments where institutional checks are weak or politically influenced. The Indonesian case thus underscores a critical tension: while SOEs are theoretically bound to uphold public interest, they may

also leverage their institutional positioning to engage in aggressive tax behavior, particularly in the absence of robust external oversight.

The results also reveal that institutional ownership has a significant positive relationship with both SETR and BTM at the 1% significance level, suggesting that as institutional investors increase their equity stakes, firms are more likely to engage in tax avoidance. This finding supports the entrenchment effect, wherein institutional investors—especially those with short-term investment horizons or activist agendas—may push management toward aggressive financial strategies, including tax minimization, to enhance immediate returns (Hanlon & Heitzman, 2010; Desai & Dharmapala, 2009). Institutional investors, such as mutual funds, pension funds, insurance companies, and investment firms, often possess extensive financial expertise and access to sophisticated tax advisors, enabling them to identify and implement complex tax planning mechanisms. Their influence in corporate governance may shift firm priorities toward strategies that boost after-tax earnings, even at the expense of long-term tax compliance. Furthermore, empirical evidence indicates that some institutional investors are more likely to tolerate or even promote tax avoidance if it leads to higher short-term profitability and increases shareholder distributions (Lanis & Richardson, 2011; Taylor & Richardson, 2014).

While institutional ownership is typically associated with improved governance and oversight, this finding underscores a nuanced reality: not all institutional investors act as passive monitors. In fact, when left unchecked by external mechanisms such as regulatory enforcement or audit scrutiny, dominant institutional shareholders may contribute to aggressive tax behavior, especially in emerging markets where tax enforcement remains inconsistent. The consistent positive association across both tax avoidance proxies (SETR and BTM) reinforces the idea that institutional investors can influence both explicit (statutory) and implicit (accrual-based) tax strategies.

The regression results show that managerial ownership has a significant positive relationship with BTM at the 1% level, but no significant relationship with SETR. This pattern suggests that when managers hold substantial equity stakes in their firms, they are more likely to engage in discretionary tax avoidance strategies that create book-tax differences, while not necessarily affecting statutory tax liabilities. This supports the entrenchment effect, which posits that higher managerial ownership may incentivize executives to prioritize personal or short-term gains over transparency and tax compliance, particularly when internal monitoring is weak (Desai & Dharmapala,

2009; Hanlon & Heitzman, 2010). The absence of a significant relationship with SETR implies that managerial influence may be more pronounced in accounting-based tax strategies (e.g., earnings manipulation or income deferrals), which are often less visible and harder to detect, rather than in explicit reductions of effective tax rates. As BTD captures the discrepancy between accounting income and taxable income, it is especially sensitive to aggressive and complex tax maneuvers, such as timing differences, deferred tax adjustments, and revenue recognition strategies—areas where entrenched managers have more discretion and less external oversight (Gaaya et al., 2017; Chen et al., 2010).

These findings align with prior literature indicating that managerial entrenchment can facilitate opportunistic financial behavior when governance mechanisms are weak or ineffective. Without sufficient external controls, such as strong boards or independent audits, managers may leverage their control over internal operations to implement tax strategies that benefit their personal compensation metrics or future job security.

Beyond ownership structure, several control variables demonstrate significant associations with tax avoidance, providing valuable insight into internal governance dynamics and financial incentives within firms. Under the SETR models, board independence (BIND) and board size (BSIZE) are both negatively associated with tax avoidance. These findings support agency theory, which posits that strong, independent boards are crucial in mitigating managerial opportunism and aligning management actions with shareholder interests. Larger and more independent boards may exert greater oversight, thereby constraining aggressive tax practices that could pose reputational or regulatory risks. Conversely, leverage (LEV) shows a positive relationship with SETR at the 1% level, suggesting that highly leveraged firms may engage in tax avoidance through mechanisms such as interest deductions. This finding aligns with the entrenchment effect, as debt-laden firms might exploit financial opacity to reduce taxable income. In contrast, profitability (ROA) and firm size (SIZE) are negatively associated with SETR, indicating that more profitable and visible firms are likely to prioritize compliance—possibly due to public scrutiny and reputational considerations—thus reinforcing the alignment effect.

Table 6.14
The Influence of Ownership Structure on SETR (Indonesian Samples)

Dependent Variable	SETR				BTD			
	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.
Intercept	0.062	***	0.101	***	-0.024	***	-0.020	***
	33.278		9.377		-23.304		-3.060	
Panel A: Independent Variable (Ownership Structure)								
FAMILY	0.000		0.000		0.000		0.000	
	-0.012		-0.892		1.155		0.361	
FOREIGN	0.000	***	0.000	**	0.000		0.000	
	2.973		2.044		0.399		-0.953	
GOVERNMENT	0.000	**	0.000	**	0.000	***	0.000	
	1.986		2.532		3.169		0.458	
INSTITUTION	0.000		0.000	***	0.000	***	0.000	***
	-0.234		3.470		7.904		6.349	
MANAGER	0.000		0.000		0.000	***	0.000	***
	-0.593		-0.528		2.830		4.851	
Panel B: Control Variables (Corporate Governance)								
BMEET			0.000				-0.001	***
			0.540				-6.198	
BIND			-0.029	**			-0.007	***
			-2.459				-3.103	
BSIZE			0.000	*			0.000	
			-1.650				1.489	
Panel C: Control Variables (Financial Indicators)								
CAPINT			-0.009				-0.005	
			-0.952				-1.207	
LEV			0.064	***			-0.006	*
			4.819				-1.674	
PBV			0.000				0.000	
			0.368				0.884	
ROA			-0.110	***			0.504	***
			-6.416				72.783	
SIZE			-0.007	***			-0.001	
			-3.553				-0.571	
Adjusted R-squared	0.946		0.908		0.686		0.850	
F-statistic	87.110	***	49.387	***	11.841	***	28.654	***

*** : 1% significance level; ** : 5% significance level; * : 10% significance level.

Source: Author's work

Under the BTD models, the frequency of board meetings (BMEET) and board independence (BIND) again show negative associations with tax avoidance. This further reinforces the role of internal governance in constraining discretionary reporting and planning behavior. Interestingly, leverage (LEV) is negatively related to BTD, potentially reflecting regulatory or covenant constraints that limit aggressive earnings management. In contrast, ROA is positively associated with BTD, suggesting that highly profitable firms may have both the motivation and means to engage in more complex, yet technically legal, tax strategies—highlighting a possible shift from

alignment to entrenchment behaviors when managerial discretion is less effectively checked.

Together, these results underscore the importance of incorporating governance quality and financial characteristics into the analysis of tax behavior. They also reveal that audit quality functions not only as a compliance enforcer but also as a moderator of opportunistic behavior across varying ownership. These findings address how different ownership structures influence tax avoidance in Indonesia. This coherence between objectives and empirical outcomes reinforces the relevance and contribution of the study.

6.6.2 The Influence of Ownership Structure on Tax Avoidance (Malaysia)

Table 6.15 presents family ownership is statistically significant and negatively associated with both SETR and BTD when control variables are included. This suggests that family-controlled firms in Malaysia tend to engage in less tax avoidance compared to non-family firms. One possible explanation is that family firms may prioritize long-term stability, reputational capital, and intergenerational wealth preservation, which can reduce incentives for aggressive tax planning (Chen et al., 2010; Desai & Dharmapala, 2009). The findings align with the Alignment Effect, where family owners' long-term orientation leads to behavior that aligns with regulatory compliance and risk aversion (Hanlon & Heitzman, 2010; Khelil & Khlif, 2022). Moreover, in Malaysia, where family firms often have deep-rooted community ties and public visibility, there may be additional social and reputational pressures discouraging aggressive tax avoidance strategies (Lanis & Richardson, 2011; Taylor & Richardson, 2014). These results are consistent with prior studies that have reported lower tax aggressiveness in family firms in similar institutional settings (Setiawan et al., 2019; Khelil & Khlif, 2022).

The results also show that foreign ownership is statistically significant and positively associated with both SETR and BTD, regardless of whether control variables are included. This suggests that as foreign ownership increases, firms are more likely to engage in aggressive tax avoidance strategies. This finding aligns with the Entrenchment Effect, where foreign investors—especially multinational corporations—may prioritize maximizing global returns, sometimes at the expense of local tax compliance (Desai & Dharmapala, 2009; Hanlon & Heitzman, 2010). Foreign

investors often possess the resources, expertise, and cross-border operational flexibility to implement sophisticated tax planning techniques such as income shifting, transfer pricing, and treaty shopping (Klassen & Laplante, 2012; Alkurdi & Mardini, 2020). Additionally, the institutional environment in Malaysia may offer opportunities for foreign investors to exploit regulatory gaps or tax incentives, further incentivizing aggressive tax planning (Salihu et al., 2015; Taylor & Richardson, 2014). These results underscore the need for vigilant tax regulation and monitoring, particularly in firms with high levels of foreign ownership, to prevent erosion of the tax base.

The results also show that government ownership is statistically significant and positively associated with SETR, regardless of whether control variables are included, but exhibits no significant relationship with BTD. This indicates that government-linked firms tend to engage in more explicit forms of tax avoidance that influence their statutory-effective tax rates, but not necessarily in more sophisticated or discretionary strategies captured by book-tax differences. This finding aligns with the Entrenchment Effect, suggesting that politically connected firms may leverage their influence to exploit tax leniencies or regulatory flexibility, particularly in environments where state influence intersects with corporate governance (Faccio, 2006; Wu et al., 2013; Marfiana & Andriyanto, 2021). However, the absence of a significant relationship with BTD suggests that while these firms may engage in straightforward tax planning strategies, they may avoid complex, discretionary tax maneuvers that could attract regulatory scrutiny or public criticism. This pattern reflects the balancing act government-owned firms often face between maximizing financial performance and maintaining public accountability (Chen et al., 2010; Lanis & Richardson, 2011). The results reinforce the need for continued external monitoring and governance reforms to ensure that tax practices in state-influenced enterprises align with broader public interest goals.

The results reveal that institutional ownership has a significant negative relationship with BTD at the 1% significance level when control variables are included, while its relationship with SETR remains insignificant. This suggests that as institutional investors increase their ownership stakes, they are associated with lower levels of sophisticated or discretionary tax avoidance (as reflected by BTD), but do not significantly influence more explicit tax planning strategies captured by SETR. This outcome supports the Alignment Effect, where institutional investors—due to their reputational concerns, fiduciary responsibilities, and preference for transparency—help curb aggressive tax planning (Hanlon & Heitzman, 2010; Salihu et al., 2015; Qawqzeh,

2023). The significant negative association with BTD also suggests that institutional investors may exert stronger influence over financial reporting and discretionary accounting decisions that contribute to book-tax gaps, potentially due to their active monitoring roles and long-term investment horizons (Desai & Dharmapala, 2009). The lack of significance for SETR may indicate that institutional investors prioritize limiting complex, opaque tax strategies while tolerating (or being less involved in) statutory tax planning activities. These findings are consistent with evidence from developed and emerging markets where institutional monitoring plays a key role in promoting financial discipline and reducing aggressive tax behaviors (Alkurdi & Mardini, 2020; Salihu et al., 2015).

The regression results reveal that managerial ownership is positively and significantly associated with BTD at the 5% significance level when control variables are included, while no significant relationship is observed with SETR. This finding suggests that as managerial ownership increases, firms are more likely to engage in tax avoidance strategies that affect discretionary accounting practices, leading to wider book-tax differences. The positive association with BTD supports the Entrenchment Effect, where managers with significant equity stakes may exploit their influence to pursue aggressive tax planning for personal or short-term financial gains (Desai & Dharmapala, 2009; Gaaya et al., 2017). The lack of significance with SETR implies that managerial discretion tends to manifest in more complex, less transparent tax planning avenues, rather than through overt reductions in statutory tax rates. This result aligns with previous research highlighting the propensity for insider-controlled firms to engage in opportunistic financial behavior when external governance mechanisms are insufficiently robust (Hanlon & Heitzman, 2010; Dechow et al., 1996). In Malaysia, where concentrated managerial ownership often coincides with significant decision-making autonomy, these dynamics may increase the likelihood of tax aggressiveness unless mitigated by effective monitoring.

Table 6.15
The Influence of Ownership Structure on SETR (Malaysian Samples)

Dependent Variable	SETR				BTD			
	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.
Intercept	0.072	***	0.039	***	-0.026	***	-0.073	***
	49.257		3.604		-28.508		-10.141	
Panel A: Independent Variable (Ownership Structure)								
FAMILY	0.000		0.000	**	0.000	***	0.000	***
	0.652		-2.045		-5.417		-13.423	
FOREIGN	0.000	***	0.000	*	0.000	***	0.000	***
	3.447		1.044		3.086		8.050	
GOVERNMENT	0.004	***	0.004	***	0.000		0.000	
	4.813		5.510		0.117		-0.163	
INSTITUTION	0.000		0.000		0.000		0.000	***
	0.936		-0.221		-0.878		-12.392	
MANAGER	0.000		0.000		0.000		0.000	**
	-1.920		-0.256		0.692		2.229	
Panel B: Control Variables (Corporate Governance)								
BMEET			0.002	***			-0.002	***
			3.479				-7.602	
BIND			0.063	***			-0.014	***
			7.246				-3.788	
BSIZE			0.002	***			-0.001	***
			3.885				-2.875	
Panel C: Control Variables (Financial Indicators)								
CAPINT			0.015	**			-0.014	**
			2.116				-2.004	
LEV			0.030	*			0.020	***
			1.844				4.870	
PBV			0.000				-0.002	***
			0.059				-3.713	
ROA			-0.024	***			0.341	***
			-4.209				17.916	
SIZE			-0.005	*			0.016	***
			-1.809				9.041	
Adjusted R-squared	0.967		0.892		0.640	0.147	0.792	
F-statistic	144.406	***	41.720	***	9.856	***	19.719	***

*** : 1% significance level; ** : 5% significance level; * : 10% significance level.

Source: Author's work

The analysis of control variables provides additional insights into the determinants of tax avoidance in Malaysian firms. In the SETR models, board meeting frequency (BMEET), board independence (BIND), and board size (BSIZE) all show positive relationships with tax avoidance, suggesting that larger and more active boards may not necessarily curb statutory-based tax minimization and might even endorse

strategic tax planning to improve reported earnings. This finding reflects possible symbolic compliance, where formal governance mechanisms exist but may lack substantive influence over tax behavior (Desender et al., 2013; O'Sullivan et al., 2016).

Capital intensity (CAPINT) and leverage (LEV) are also positively associated with SETR, indicating that firms with significant physical assets and higher debt levels may have more opportunities or incentives for tax planning. Conversely, return on assets (ROA) and firm size (SIZE) are negatively related to SETR, suggesting that more profitable and larger firms may adopt more transparent tax practices, potentially due to reputational concerns or regulatory scrutiny (Lanis & Richardson, 2011).

In the BTD models, BMEET, BIND, and BSIZE exhibit negative relationships with tax avoidance, implying that board governance structures may be more effective in mitigating discretionary tax practices than statutory-based strategies. Capital intensity (CAPINT) and price-to-book value (PBV) are also negatively related to BTD, suggesting that firms with higher asset bases or lower market valuations may be less engaged in aggressive tax planning. Meanwhile, LEV and ROA show positive relationships with BTD, reflecting that more leveraged and profitable firms might use discretionary tax strategies to manage reported earnings. Firm size (SIZE) is positively associated with BTD, indicating that larger firms may have greater capacity to exploit complex tax planning opportunities, consistent with prior findings (Taylor & Richardson, 2014; Minnick & Noga, 2010).

These results underscore the complex interplay between corporate governance characteristics, financial structure, and tax avoidance behaviors in Malaysia.

6.6.3 Cross-Country Analysis: Direct Relationship between Ownership Structure and Tax Avoidance

The cross-country comparison between Indonesia and Malaysia reveals distinctive yet nuanced patterns in how ownership structures influence tax avoidance, shaped by institutional environments, governance systems, and ownership traditions in each context. For family ownership, the findings show diverging outcomes. In Indonesia, family ownership exhibits no significant effect on tax avoidance across both proxies (SETR and BTD), even with control variables included. This may suggest that Indonesian family-controlled firms emphasise long-term stability and relational governance, reducing the incentive to pursue aggressive tax-minimising strategies,

particularly in collectivist cultural settings where informal mechanisms shape business conduct (Maitriyadewi, 2020; Tarmizi et al., 2023; Wulandari et al., 2024). In Malaysia, however, family ownership demonstrates a statistically significant negative relationship with tax avoidance. This indicates that Malaysian family firms may adopt less aggressive tax behavior, possibly reflecting greater regulatory pressure, higher reporting discipline, and a desire to maintain legitimacy under a more mature governance landscape. This pattern aligns with the Alignment Effect in Malaysia, whereas the lack of significance in Indonesia suggests that informal governance and reputational considerations may already constrain tax behavior without producing measurable statistical effects.

Foreign ownership shows a more consistent pattern across the two countries, with positive associations with tax avoidance in both Indonesia and Malaysia. In Indonesia, foreign ownership is significantly related to higher SETR, while in Malaysia the relationship is positive for both SETR and BTD. These results are consistent with the Entrenchment Effect whereby foreign shareholders—often multinational corporations—may prioritise global tax efficiency, employing practices such as transfer pricing, treaty shopping, or profit shifting to minimise taxes (Desai & Dharmapala, 2009; Klassen & Laplante, 2012; Salihu et al., 2015). This consistency across countries highlights the strategic role of cross-border tax planning, regardless of differences in local governance mechanisms.

Government ownership also exhibits largely positive associations with tax avoidance, though with some variation across proxies. In Indonesia, government-owned firms show a significant positive association with SETR, suggesting possible agency tensions within state-owned enterprises (SOEs), where pressures to deliver financial performance or leverage political connections may incentivise tax minimisation (Faccio, 2006; Wu et al., 2013). In Malaysia, government ownership is similarly associated with higher SETR but is not significant for BTD, indicating more mixed tax-planning behaviors in Malaysian SOEs. The pattern across both contexts reflects Entrenchment tendencies in government-owned entities, potentially shaped by political objectives, performance targets, or complex multi-principal agency structures.

Institutional ownership produces the clearest contrast between the two countries. In Indonesia, institutional ownership is positively associated with both SETR and BTD, implying that institutional investors may press for short-term financial gains and thus support aggressive tax strategies. This reflects an Entrenchment orientation

consistent with evidence that some institutional investors favour tax efficiency to enhance quarterly or annual returns (Taylor & Richardson, 2014). In Malaysia, however, institutional ownership demonstrates a significant negative relationship with BTD, suggesting an effective monitoring role that discourages aggressive tax behavior. This aligns with the Alignment Effect, indicating that Malaysian institutional investors may prioritise compliance, governance quality, and long-term value creation (Qawqzeh, 2023; Hanlon & Heitzman, 2010). These divergent results underscore the importance of institutional context in shaping institutional investor behavior.

Managerial ownership shows positive associations with tax avoidance in both Indonesia and Malaysia, particularly when using BTD as the proxy. This provides strong evidence of Entrenchment behavior: managers with ownership stakes may be more motivated to pursue tax strategies that enhance reported performance or private benefits (Desai & Dharmapala, 2009; Dechow et al., 1996). The consistency of this relationship across both countries suggests that concentrated managerial incentives can drive opportunistic tax decisions regardless of differences in enforcement or governance maturity.

Control variables further illustrate cross-country governance dynamics. In Indonesia, board independence (BIND) and board size (BSIZE) generally act as constraints on tax avoidance, indicating that certain formal governance mechanisms are effective in curbing aggressive tax behavior. Financial characteristics such as leverage (LEV) and profitability (ROA) exhibit mixed influences across proxies. In Malaysia, governance indicators such as board meeting frequency (BMEET), board independence, and board size display varying signs across SETR and BTD, suggesting differences in board effectiveness or the possibility of symbolic rather than substantive compliance (Desender et al., 2013). Financial structure variables—including capital intensity (CAPINT), firm size (SIZE), and leverage—behave as expected but vary in magnitude and significance across models.

Synthesizing these findings through the Alignment and Entrenchment theoretical lens reveals a complex, context-dependent narrative rather than a simple dichotomy between Indonesia and Malaysia. In Indonesia, entrenched tendencies are more pronounced among certain ownership types—particularly foreign, government, and managerial ownership—while some governance variables demonstrate meaningful constraining effects. In Malaysia, stronger regulatory traditions support alignment behavior among family and institutional owners, yet foreign and managerial

shareholders still display opportunistic tax-planning tendencies. The cross-country comparison underscores that ownership structures function neither uniformly nor predictably; instead, their influence depends on the interplay between ownership incentives, monitoring environments, and national governance frameworks.

6.7 Multivariate Analysis: The Relationship between Ownership Structure, Audit Quality, and Tax Avoidance

Section 6.7 presents the regression results that examine the direct relationship between ownership structure and tax avoidance. This analysis covers the five ownership types assessed in this study—family, foreign, government, institutional, and managerial ownership—and corresponds to Hypotheses 1–5, which predict the direct effects of each ownership type on firms’ tax avoidance behavior. The section begins with panel data regression analysis applied separately to the Indonesian sample (section 6.7.1) and the Malaysian sample (section 6.7.2). It assesses whether the hypotheses are supported by the findings for each country. The final section (6.7.3) exhibits discussions of the results concerning the hypotheses. All panel data regressions in this study were conducted using a cross-section fixed-effects model, incorporating Cross-section SUR (PCSE) standard errors to ensure the reliability and robustness of the results.

The analysis focuses on five types of ownership structures—family, foreign, government, institutional, and managerial—and two measures of audit quality: audit report lag (ARL) and affiliation with a Big 4 audit firm. Tax avoidance is assessed using two common proxies: the statutory-effective tax rate gap (SETR) and book-tax difference (BTD). Each model here presents results with and without control variables. When determining hypothesis acceptance, this study refers to models that incorporate the full set of observed variables. The reduced models serve as preliminary benchmarks and help assess the incremental explanatory power of the full models.

6.7.1 The Influence of Ownership Structure and Audit Quality on Tax Avoidance (Indonesia)

6.7.1.1 Hypothesis Testing for the Influence of Ownership Structure on SETR (Indonesian samples)

Table 6.16 below shows the regression result on the influence of ownership structure and audit quality on SETR. In this case, audit quality is measured by ARL in model (2.a) and Big4 in model (2.b). The table shows that FAMILY is insignificant for SETR in both models, indicating an insignificant influence of family ownership on tax avoidance within Indonesian samples. This finding is consistent with previous research by Maitriyadewi (2020), Tarmizi et al. (2023), and Wulandari et al. (2024), who also reported no significant association between family ownership and tax avoidance. However, contrasting evidence is provided by Masrani and Martani (2024), who found that family ownership was positively associated with aggressive tax behavior during the 2008–2010 observation period.

Table 6.16 also shows that FOREIGN has a positive relationship with SETR, which is significant at the 1% level in Model 1 and the 5% level in Model 2. The finding aligns with prior studies by Suranta et al. (2020), Herlina et al. (2023), and Nurcahya et al. (2023), all of which reported a similar deterrent effect of foreign ownership on aggressive tax practices. However, this result contrasts with Oktaviani et al. (2023), who found no significant relationship between foreign ownership and tax avoidance based on a sample of 70 firms observed between 2016 and 2019.

GOVERNMENT also shows insignificant for SETR in both models, indicating an insignificant influence of governmental ownership on tax avoidance within Indonesian samples. This result contrasts with prior studies that have reported significant associations between government ownership and tax avoidance. For example, Anggreini and Hadri (2024) found a significant influence using Book-Tax Difference (BTD) as the proxy for tax avoidance in a sample of 40 companies observed between 2018 and 2022. Similarly, Rakayana et al. (2021) reported a significant effect using the effective tax rate (ETR) among 93 companies from 2017 to 2019. These differences may be attributed to variations in the proxies used, time frames, or sample compositions.

INSTITUTION has a positive relationship with SETR, which is significant at a 10% level in Model 2. This result suggests that higher institutional ownership is associated with greater tax avoidance. This finding is consistent with the study by Sari and Mariadi (2024), who also observed a positive association between institutional ownership and tax avoidance. However, this result diverges from several other studies that found no significant relationship between institutional ownership and tax avoidance in the Indonesian context, like in Model 1. For instance, Oktaviani and Munandar (2017) reported insignificance within property and real estate companies, while Tyas and Bineka (2023) found similar results among manufacturing firms. Rakayana et al. (2021) also observed no significant effect in their broader sample.

The table also shows that MANAGER is insignificant for SETR in both models, indicating an insignificant influence of managerial ownership on tax avoidance within Indonesian samples. This finding is consistent with previous research by Rahma and Masripah (2024), Rakayana et al. (2021), and Hafiz and Cahyaningtyas (2024), all of whom reported no significant association between managerial ownership and tax avoidance. However, contrasting evidence is provided by Malik and Rachmat (2023), who found that entrenched managerial ownership was associated with aggressive tax behavior in Indonesian coal mining firms.

Table 6.16 also shows that the audit report lag (ARL) has a positive and statistically significant relationship with SETR at the 5% level in Model (2.a) when the controls are excluded, suggesting that longer audit delays are associated with higher levels of tax avoidance. However, this relationship becomes statistically insignificant in Model 2 after the inclusion of control variables. The finding in Model 1 aligns with Gontara and Khlif's (2021) study in South Africa, which also reported a positive association between audit delay and tax avoidance. The initial significance may reflect weaker monitoring during prolonged audit processes, which can create opportunities for firms to engage in aggressive tax strategies. Meanwhile, it shows that Big-4 audit firms are insignificant for SETR, indicating no direct association between Big-4 and tax avoidance. The presence of Big 4 auditors does not significantly affect tax avoidance directly, but their involvement is crucial in the broader context of tax planning and avoidance strategies, as they provide expertise in navigating complex tax regulations (Capras et al. 2023).

Table 6.16
The Influence of Ownership Structure and Audit Quality on SETR Indonesian Samples)

Model (2.a)					Model (2.b)				
Dependent Variable	SETR				Dependent Variable	SETR			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Intercept	0.052	***	0.105	***	Intercept	0.0618	***	0.1019	***
	13.084		6.906			21.7502		6.8697	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	0.000		0.000		FAMILY	0.000		0.000	
	0.520		-0.735			0.070		-0.879	
FOREIGN	0.000	***	0.000	**	FOREIGN	0.000	***	0.000	*
	2.798		2.066			2.810		1.930	
GOVERNMENT	0.000		0.000		GOVERNMENT	0.000		0.000	
	1.128		0.999			0.829		0.896	
INSTITUTION	0.000		0.000	*	INSTITUTION	0.000		0.000	*
	1.528		1.719			-0.147		1.831	
MANAGER	0.000		0.000		MANAGER	0.000		0.000	
	-0.664		-0.671			-0.617		-0.494	
ARL	0.000	**	0.000		BIG4	0.000		-0.004	
	2.042		-1.108			0.094		-0.802	
Panel B: Controls Variables (Corporate Governance)									
BMEET			0.000		BMEET			0.000	
			0.560					0.566	
BIND			-0.028	**	BIND			-0.029	**
			-2.280					-2.325	
BSIZE			0.000		BSIZE			0.000	
			-1.267					-1.317	

Table 6.16 (Continued)
The Influence of Ownership Structure and Audit Quality on SETR Indonesian Samples)

Variable	Model (2.a)		Model	Model (2.a)	
	SETR			SETR	
Dependent Variable	Coef.	Sig.	Dependent Variable	Coef.	Sig.
Panel C: Control Variables (Financial Indicators)					
CAPINT	-0.010		CAPINT	-0.010	
	-0.768			-0.720	
LEV	0.061	***	LEV	0.064	***
	4.687			4.998	
PBV	0.000		PBV	0.000	
	0.160			0.259	
ROA	-0.116	***	ROA	-0.111	***
	-7.662			-7.496	
SIZE	-0.007	***	SIZE	-0.007	***
	-2.800			-2.933	
Adjusted R-squared	0.933		Adjusted R-squared	0.944	
F-statistic	69.768	***	F-statistic	83.682	***
	46.016	***		48.471	***

*** : 1% significance level; ** : 5% significance level; * : 10% significance level.

Source: Author's work

Regarding the control variables of corporate governance, BIND has a negative relationship with SETR at a 5% significant level, indicating that higher board independence is associated with tax avoidance. This result implies that more independent boards may enhance conservativeness on tax. Meanwhile, board meetings (BMEET) and board size (BSIZE) do not significantly affect SETR, indicating that these aspects of corporate governance may not directly influence tax avoidance. For financial indicators, LEV has a positive relationship with SETR, which is significant at the 1% level, suggesting that firms with higher debt levels may engage in tax strategies that reduce their effective tax rates. ROA and SIZE have negative relationships with SETR, significant at a 1% significance level, which indicates that profitable firms and larger firms may be less aggressive in their tax planning, resulting in effective tax rates closer to the statutory rate. This could be due to increased scrutiny and regulation by larger firms, leading to higher effective tax rates. Meanwhile, CAPINT and PBV are insignificant for SETR, indicating no direct influence of capital intensity and firm value on tax avoidance.

6.7.1.2 Hypothesis Testing for the Influence of Ownership Structure on BTD (Indonesian samples)

Table 6.17 presents the regression results assessing the influence of ownership structure and audit quality on tax avoidance, using book-tax difference (BTD) as the dependent variable. In this model, audit quality is measured by audit report lag (ARL) in Model (2.c) and by Big 4 affiliation in Model (2.d). The results show that the FAMILY variable is statistically insignificant in both models, indicating that family ownership does not significantly affect tax avoidance among Indonesian firms. This finding is consistent with the earlier results from Models (2.a) and (2.b), where SETR was used as the proxy for tax avoidance. It also aligns with prior studies by Nanda and Rosid (2024), Maitriyadewi (2020), Tarmizi et al. (2023), and Wulandari et al. (2024), all of which found no significant relationship between family ownership and tax avoidance. However, this result contrasts with the study by Masrani and Martani (2024), who reported a positive association between family ownership and aggressive tax planning during the 2008–2010 period.

It is seen in Model (2.d) that family ownership is statistically significant when control variables are excluded, suggesting a potential relationship between family

ownership and tax avoidance when the analysis is limited to direct effects. However, this significance disappears once control variables are included in the model, indicating that the initial relationship may be spurious or confounded by other firm-specific factors such as board meetings, board independence, audit quality, and profitability. This pattern suggests that family ownership alone does not independently drive tax avoidance behavior, and its influence may be moderated or overshadowed by other variables. In this case, the result is consistent with Masrani and Martani (2024).

The table also shows that the FOREIGN variable is statistically insignificant for BTD, indicating that foreign ownership does not have a significant influence on tax avoidance among Indonesian firms when control variables are included. This finding is consistent with Oktaviani et al. (2023), who found no significant relationship between foreign ownership and tax avoidance based on a sample of 70 firms observed between 2016 and 2019, and with Putri et al. (2023), who reached similar conclusions in their study of 69 Indonesian banks between 2015 and 2020. However, in Model (2.c), where control variables are excluded, foreign ownership shows a positive association with tax avoidance. This suggests that foreign shareholders may exert some pressure for tax efficiency in the absence of other firm-level factors. This result aligns with the earlier findings in Models (2.a) and (2.b), as well as prior studies by Suranta et al. (2020), Herlina et al. (2023), and Nurcahya et al. (2023), which found that foreign ownership was positively associated with aggressive tax planning.

The table shows that the GOVERNMENT variable is statistically insignificant for BTD in the full model, indicating that government ownership does not have a significant effect on tax avoidance among Indonesian firms. This result is consistent with earlier findings in Models (2.a) and (2.b), where tax avoidance was measured using SETR, reinforcing the conclusion that government ownership may not be a key determinant of tax behavior in the Indonesian context. However, this finding contrasts with Anggreini and Hadri (2024), who found a negative, significant effect using BTD as the proxy in a sample of 40 companies from 2018 to 2022, while Rakayana et al. (2021) reported a significant influence using ETR in their analysis of 93 firms from 2017 to 2019. Interestingly, in Model (2.c), where control variables are excluded, government ownership exhibits a positive relationship with BTD, suggesting that it may be linked to higher tax avoidance in the absence of firm-level controls. This result is supported by Mafrolla (2019), who also observed a similar pattern in state-influenced

firms. Nevertheless, the hypothesis is rejected, as this study's basis for hypothesis testing is when all control variables are included.

The table also shows that the INSTITUTION variable has a positive and statistically significant relationship with BTD at the 1% level in both models. This indicates that higher levels of institutional ownership are associated with greater tax avoidance among Indonesian firms. This finding is consistent with the earlier results in Models (2.a) and (2.b), as well as with the study by Sari and Mariadi (2024), who also reported a positive association between institutional ownership and tax avoidance. However, this result stands in contrast to several other studies that found no significant relationship between institutional ownership and tax avoidance in the Indonesian context. For example, Oktaviani and Munandar (2017) reported insignificance within property and real estate companies, while Tyas and Bineka (2023) found similar results in manufacturing firms. Rakayana et al. (2021) also observed no significant association in their broader sample.

The MANAGER variable also shows a positive and statistically significant relationship with BTD in both models, indicating that higher levels of managerial ownership are associated with greater tax avoidance among Indonesian firms. This result suggests that when managers hold significant equity stakes, they may be more inclined to pursue aggressive tax planning strategies. It aligns with the findings of Malik and Rachmat (2023), who observed that entrenched managerial ownership was linked to aggressive tax behavior, particularly in the context of Indonesian coal mining firms. However, the finding contrasts with previous studies by Rahma and Masripah (2024), Rakayana et al. (2021), and Hafiz and Cahyaningtyas (2024), all of which reported no significant association between managerial ownership and tax avoidance.

Table 6.17 also shows the regression result on the influence audit quality on tax avoidance. ARL has a negative relationship with BTD (significant at a 1% significance), highlighting that longer audit report lags are associated with lower tax avoidance. This relationship does not align with Gontara and Khlif's (2021) study in South Africa, which reported a positive association between audit delay and tax avoidance. Additionally, BIG4 has a positive relationship with BTD, which indicates that firms audited by a Big 4 auditor have a higher tax avoidance. It contrasts with previous research, Rizqia and Lastati (2021), Big 4 accounting firms have lower tax avoidance levels in combined Indonesian and Malaysian samples.

Table 6.17

The Influence of Ownership Structure and Audit Quality on BTD (Indonesian Samples)

Model (2.c)					Model (2.d)				
Dependent Variable	BTD				Dependent Variable	BTD			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Intercept	0.005	*	-0.019	***	Intercept	***		-0.021	***
	1.688		-3.687			-5.442		-3.440	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	0.000		0.000		FAMILY	0.000	*	0.000	
	1.028		0.347			1.796		0.180	
FOREIGN	0.000	*	0.000		FOREIGN	0.000		0.000	
	1.801		-0.384			-0.993		-1.233	
GOVERNMENT	0.000	***	0.000		GOVERNMENT	0.000		0.000	
	3.901		0.486			0.743		0.467	
INSTITUTION	0.000	***	0.000	***	INSTITUTION	0.000	***	0.000	***
	2.914		4.174			3.271		6.334	
MANAGER	0.000	***	0.000	***	MANAGER	0.000	*	0.000	***
	5.116		5.882			0.819		4.827	
ARL	0.000	***	0.000	***	BIG4	0.002		0.006	**
	-10.453		-9.954			0.378		2.033	
Panel C: Control Variables (Corporate Governance)									
BMEET			-0.001	***	BMEET			-0.001	***
			-4.805					-5.722	
BIND			-0.006	**	BIND			-0.007	***
			-2.472					-3.360	
BFSIZE			0.000		BFSIZE			0.000	
			0.661					1.326	

Table 6.17 (Continued)
 The Influence of Ownership Structure and Audit Quality on BTD (Indonesian Samples)

Model (2.c)					Model (2.d)				
Dependent Variable	BTD		Coef.	Sig.	Dependent Variable	BTD		Coef.	Sig.
	Coef.	Sig.				Coef.	Sig.		
Panel D: Control Variables (Financial Indicators)									
CAPINT			-0.006		CAPINT			-0.005	
			-1.435					-1.251	
LEV			-0.005		LEV			-0.006	
			-1.343					-1.449	
PBV			0.000		PBV			0.000	
			0.670					0.904	
ROA			0.489	***	ROA			0.505	***
			61.627					71.635	
SIZE			0.001		SIZE			-0.001	
			1.430					-0.538	
Adjusted R-squared		0.684		0.885	Adjusted R-squared		0.003		0.853
F-statistic		11.721	***	38.383	F-statistic		2.406	**	29.276

***: 1% significance level; **: 5% significance level; *: 10% significance level

Source: Author's work

Regarding the control variables of corporate governance, BMEET and BIND have a negative relationship with BTD, which means that more board meetings and higher board independence lead to a lower level of tax avoidance. Independent directors are typically associated with higher standards of corporate governance, advocating for transparency and accountability in financial reporting and tax practices, leading to more conservative and compliant tax strategies. However, BSIZE (board size) has no significant relationship with BTD (tax avoidance). In regards to financial indicators, CAPINT, LEV, PBV, and SIZE have no significant relationship with BTD, indicating that capital intensity, long-term leverage, firm value, and firm size have no significant influence on tax avoidance. On the other hand, ROA has a positive relationship with BTD at a 1% significance level, indicating that higher profitability provides a cushion that reduces the pressure to aggressively report minimized tax income, allowing firms to focus on sustainable growth and compliance.

6.7.2 The Influence of Ownership Structure and Audit Quality on Tax Avoidance (Malaysia)

6.7.2.1 Hypothesis Testing for the Influence of Ownership Structure on SETR (Malaysian samples)

Table 6.18 below shows the regression result on the influence of ownership structure and audit quality on tax avoidance for Malaysian samples. In this case, the proxy of tax avoidance is SETR. According to the result, FAMILY shows a negative and significant result in Model 2 at a 5% significance level. This result implies that Malaysian companies with higher levels of family ownership tend to engage less in tax avoidance. This result is supported by Constantinos et al. (2024), who observed listed firms in 38 capital markets from 2008 to 2019. On the contrary, Ngah et al. (2020) have found that family ownership is associated with increased tax evasion in Malaysian SMEs.

The table also shows that FOREIGN ownership has an insignificant relationship with SETR in both full models (2.a and 2.b), indicating that foreign ownership has no relationship with tax avoidance in Malaysia. This result provides insufficient evidence to support Hypothesis 2. The finding is consistent with Deef et al. (2021), who examined non-financial firms listed on the Egyptian Exchange (EGX100) from 2015

to 2019 and reported a similar lack of significance. It is also supported by Yudanto and Damayanti (2022), who conducted a survey among top managers across developing countries and found that foreign ownership does not significantly influence tax avoidance. However, this result contradicts the findings of Syukur and Jongsureyapart (2023) in Thailand and Ying et al. (2017) in China, both of whom concluded that foreign investors tend to encourage tax avoidance practices.

On the other hand, the results show that the GOVERNMENT variable has a positive and statistically significant relationship with SETR in both full models of (2.a) and (2.b), with significance at the 1% level. This indicates that firms with higher levels of government ownership are more likely to engage in tax avoidance, as evidenced by a larger gap between statutory and effective tax rates. The finding provides strong support for Hypothesis 3 and suggests that state-owned or government-influenced firms may have both the incentive and capacity to manage their tax burdens more aggressively. This result is consistent with the findings of Marfiana and Andriyanto (2021), who also reported a positive relationship between government ownership and tax avoidance in the Indonesian context. However, it contrasts with the study by Rahman et al. (2018), who examined 75 firm-year observations of Malaysian government-linked investment companies (GLICs) listed on Bursa Malaysia between 2010 and 2014, and found a negative association.

Table 6.18 shows that INSTITUTION has an insignificant impact on SETR. This result suggests that institutional ownership does not directly impact tax avoidance in Malaysia, which does not support Hypothesis 4. This result is supported by several other studies that found no significant relationship between institutional ownership and tax avoidance in the Indonesian context. For example, Oktaviani and Munandar (2017) reported insignificance within property and real estate companies, while Tyas and Bineka (2023) found similar results in manufacturing firms. Rakayana et al. (2021) also observed no significant association in their broader sample.

The MANAGER variable has also been found to have an insignificant relationship with SETR, suggesting that managerial ownership does not directly influence tax avoidance in the Malaysian context. As such, this result does not support Hypothesis 5. The finding is consistent with previous studies by Rahma and Masripah (2024), Rakayana et al. (2021), and Hafiz and Cahyaningtyas (2024), all of which reported no significant association between managerial ownership and tax avoidance. However, it stands in contrast to the study by Deef et al. (2021), who examined non-

financial firms listed on the Egyptian Exchange (EGX100) from 2015 to 2019 and found a significant positive relationship between managerial ownership and tax avoidance.

Table 6.18 also shows the relationship between ARL and control variables with tax avoidance. Audit report lag (ARL), treated as an independent variable in this section, has a negative relationship with SETR at a 5% significance level. This result indicates that companies with longer audit report lags are associated with lower tax avoidance practices. Table 6.18 also shows the relationship between Big4 and control variables with tax avoidance within Malaysian samples. Big4, treated as an independent variable in this section, has a positive relationship with SETR in Model 2 with a 10% significance level, indicating that firms audited by big4 auditors tend to have higher tax avoidance.

Table 6.18
The Influence of Ownership Structure and Audit Quality on SETR (Malaysian Samples)

Model (2.a)					Model (2.b)				
Dependent Variable	SETR				Dependent Variable	SETR			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Intercept	0.079	***	0.049	***	Intercept	0.072	***	0.036	***
	28.180		3.596			51.856		3.130	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	0.000		0.000	**	FAMILY	0.000		0.000	**
	0.866		-2.172			0.575		-2.005	
FOREIGN	0.000	***	0.000		FOREIGN	0.000	***	0.000	
	3.049		-0.083			3.420		1.009	
GOVERNMENT	0.004	***	0.004	***	GOVERNMENT	0.004	***	0.004	***
	4.834		5.454			4.816		5.532	
INSTITUTION	0.000		0.000		INSTITUTION	0.000		0.000	
	1.225		-0.525			0.927		-0.212	
MANAGER	0.000	**	0.000		MANAGER	0.000	**	0.000	
	-2.239		-0.584			-1.966		-0.294	
ARL	0.000	**	0.000	**	BIG4	0.001		0.006	*
	-2.469		-2.313			1.160		1.893	
Panel B: Control Variables (Corporate Governance)									
BMEET			0.002	***	BMEET			0.002	***
			3.415					3.578	
BIND			0.065	***	BIND			0.064	***
			7.809					7.301	
BSIZE			0.002	***	BSIZE			0.002	***
			4.196					3.786	

Table 6.18 (Continued)
 The Influence of Ownership Structure and Audit Quality on SETR (Malaysian Samples)

Model (2.a)					Model (2.a)						
Dependent Variable	SETR				Dependent Variable	SETR					
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.		
Panel C: Control Variables (Financial Indicators)											
CAPINT			0.018	**	CAPINT			0.014	**		
			2.468					1.977			
LEV			0.029	*	LEV			0.030	*		
			1.745					1.864			
PBV			0.000		PBV			0.000			
			0.048					0.044			
ROA			-0.024	***	ROA			-0.025	***		
			-3.914					-4.226			
SIZE			-0.005	*	SIZE			-0.005	**		
			-1.647					-1.811			
Adjusted R-squared		0.969	0.884		Adjusted R-squared		0.966	0.894			
F-statistic		158.630	***	38.475	***	F-statistic		141.911	***	42.404	***

***: 1% significance level; **: 5% significance level; *: 10% significance level

Source: Author's work

Regarding corporate governance, the control variables BMEET, BIND, and BSIZE show a positive significant association with SETR at the 1% significance level. These results indicate that firms with higher board meeting frequency, more independent directors on the board, and larger board sizes are associated with a larger gap in statutory and effective tax rates, resulting in higher tax avoidance practices. In terms of financial indicators, the control variables CAPINT and LEVERAGE have a positive impact on SETR at any significance level. These results imply that a higher level of tax avoidance is typically associated with companies with higher capital intensity and long-term leverage ratios. Conversely, ROA and SIZE have negative coefficients at significant levels of 1% and 10%, respectively. This suggests that more profitable and larger companies are less likely to engage in tax avoidance strategies.

6.7.2.2 Hypothesis Testing for the Influence of Ownership Structure on BTD (Malaysian samples)

Table 6.19 below shows the regression result on the influence of ownership structure and audit quality on tax avoidance within Malaysian firms. In this case, audit report lag (ARL) is the proxy for audit quality, and BTD for tax avoidance. Based on the findings, at a 1% significance level, FAMILY has negative relationships with BTD in both models (2.c) and (2.d). This suggests that businesses with higher family shareholding levels are less likely to engage in tax avoidance. This study does not align with hypotheses 1 that family ownership have positive relationships with tax avoidance.

Additionally, Table 6.19 shows that the FOREIGN variable has a positive and statistically significant association with BTD in both Model (2.c) and Model (2.d). This suggests that firms with a higher proportion of foreign ownership are more likely to engage in tax avoidance within the Malaysian context. The results provide sufficient evidence to support Hypothesis 2, indicating that foreign investors may encourage more aggressive tax planning, potentially driven by a focus on maximizing post-tax returns. This finding aligns with previous studies, including Syukur and Jongsureyapart (2023), who found a similar relationship among Thai firms between 2015 and 2019, and Alkurdi and Mardini (2020), who observed the same in Jordan. Consistent results were also reported by Sulfia and Rusmanto (2024) in Indonesia, and by Salihu et al. (2015), who found that foreign ownership had a positive relationship with tax avoidance among 100 large Malaysian firms. Together, these findings reinforce the notion that foreign

investors may influence corporate tax behavior in ways that increase firms' tendency to engage in avoidance strategies. However, contrary findings are reported by Deef et al. (2021) and Yudanto and Damayanti (2022), who found no significant relationship between foreign ownership and tax avoidance.

However, the GOVERNMENT variable shows an insignificant relationship with BTD in both Model (2.c) and Model (2.d), indicating that government ownership does not have a significant influence on tax avoidance in Malaysian firms. As such, the result provides insufficient evidence to support Hypothesis 3. This finding contrasts with Rahman et al. (2018), who observed 75 firm-year observations of Malaysian government-linked investment companies (GLICs) listed on Bursa Malaysia between 2010 and 2014 and reported a significant negative association between government ownership and tax avoidance. Similarly, a study by Verose and Rahmawati (2022) on Indonesian manufacturing firms during 2018–2019 also found a significant negative relationship. In contrast, the findings of Marfiana and Andriyanto (2021) differ, as they reported a positive association between government ownership and tax avoidance based on a sample of 141 Indonesian firms observed from 2017 to 2019.

INSTITUTION has a negative relationship with BTD in models (2.c) and (2.d). This suggests that businesses with higher family and institutional shareholding levels are less likely to engage in tax avoidance. This study does not align with hypothesis 4 that institutional ownership has a negative relationship with tax avoidance. Additionally, Table 6.19 also shows that FOREIGN and MANAGER have a positive association with BTD in 2 at 1% and 5% significance levels, respectively. This suggests that businesses with more shareholding from foreign and managerial investors are more likely to engage in tax avoidance. This study has sufficient evidence to accept hypotheses 2 and 5. However, GOVERNMENT shows an insignificant relationship with BTF in models 1 and 2, indicating that government ownership has no significant relationship with tax avoidance. Thus, this result is insufficient to accept Hypothesis 3.

The MANAGER variable shows a positive association with BTD in both Model (2.c) and Model (2.d), significant at the 1% and 5% levels, respectively. This suggests that firms with higher managerial ownership are more likely to engage in tax avoidance in the Malaysian context. These findings support Hypothesis 5 and indicate that when managers hold equity stakes, they may have greater discretion and incentives to influence financial decisions, including tax planning strategies. This result is consistent with the study by Sulfia and Rusmanto (2024), who found a similar positive relationship

between managerial ownership and tax avoidance in a sample of Indonesian firms observed from 2018 to 2022. The evidence reinforces the view that managerial entrenchment may lead to decisions that prioritize private benefits, including aggressive tax strategies.

Table 6.19 also shows that ARL, treated as an independent variable in this section, has a negative relationship with BTM in Model (2.c), which is statistically significant at the 10% level. This finding suggests that companies with longer audit report lags tend to engage in less tax avoidance, potentially due to increased scrutiny or audit complexity that discourages aggressive tax planning. In contrast, the presence of a Big 4 auditor—captured in Model (2.d)—is found to have no significant impact on tax avoidance. This result implies that, in the Malaysian context, affiliation with a Big 4 audit firm does not necessarily constrain firms from engaging in tax planning strategies. The mixed results highlight the need to consider multiple dimensions of audit quality when evaluating its relationship with tax avoidance behavior.

Table 6.19
The Influence of Ownership Structure and Audit Quality on BTD (Malaysian Samples)

Model (2.c)					Model (2.d)				
Dependent Variable	BTD				Dependent Variable	BTD			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Intercept	-0.021	***	-0.073	***	Intercept	-0.027	***	-0.072	***
	-11.627		-11.271			-25.507		-9.099	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	0.000	***	0.000	***	FAMILY	0.000	***	0.000	***
	-5.692		-10.942			-5.470		-13.621	
FOREIGN	0.000	***	0.000	***	FOREIGN	0.000	***	0.000	***
	3.436		7.387			3.075		8.473	
GOVERNMENT	0.000		0.000		GOVERNMENT	0.000		0.000	
	0.154		-0.104			0.127		-0.179	
INSTITUTION	0.000		0.000	***	INSTITUTION	0.000		0.000	***
	-1.123		-7.922			-0.904		-15.978	
MANAGER	0.000		0.000	**	MANAGER	0.000		0.000	**
	1.173		2.118			0.686		2.188	
ARL	0.000	***	0.000	*	BIG4	0.002		-0.001	
	-3.289		-1.728			1.197		-1.329	
Panel B: Control Variables (Corporate Governance)									
BMEET			-0.002	***	BMEET			-0.002	***
			-6.145					-7.519	
BIND			-0.012	***	BIND			-0.014	***
			-3.570					-3.874	
BSIZE			-0.001	***	BSIZE			-0.001	***
			-2.706					-3.046	

Table 6.19 (Continued)
The Influence of Ownership Structure and Audit Quality on BTD (Malaysian Samples)

Model (2.c)					Model (2.d)						
Dependent Variable	BTD				Dependent Variable	BTD					
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.		
Panel C: Control Variables (Financial Indicators)											
CAPINT			-0.013	*	CAPINT			-0.013	**		
			-1.771					-1.963			
LEV			0.020	***	LEV			0.021	***		
			4.845					4.782			
PBV			-0.002	***	PBV			-0.002	***		
			-3.372					-3.662			
ROA			0.341	***	ROA			0.341	***		
			18.152					17.942			
SIZE			0.016	***	SIZE			0.016	***		
			9.985					7.909			
Adjusted R-squared		0.647			Adjusted R-squared		0.639		0.806		
F-statistic		10.085	***	18.815	***	F-statistic		9.787	***	21.368	***

***: 1% significance level; **: 5% significance level; *: 10% significance level

Source: Author's work

All the control variables in corporate governance negatively impact tax avoidance at a significant 1% level. BMEET, BIND, and BSIZE show coefficients of -0.0015, -0.0118, and -0.0007, respectively, indicating that firms with frequent board meeting efficiency, more independent boards, and larger board sizes tend to engage in less tax avoidance. Therefore, better tax compliance can be achieved through strong corporate governance practices. Regarding financial indicators, LEV, ROA, and SIZE have a significant impact on tax avoidance with coefficients of 0.0200, 0.3408, and 0.0159, respectively, at a 1% significant level. This indicates that longer leverage terms, higher profitability, and bigger firm sizes are associated with increased tax avoidance behavior. In contrast, CAPINT has a negative coefficient of -0.0125 at a 10% significance level, and PBV with a coefficient of -0.0016 at a 1% significance level. This negative coefficient implies that companies with higher capital intensity and price-to-book value ratios tend to engage in less tax avoidance behavior.

The Adjusted R-squared values indicate that the models explain a substantial proportion of the variance in tax avoidance outcomes, with values ranging from 0.790 to 0.806. These high values reflect a strong model fit. Since the models applied Weighted Least Squares (WLS) or Weighted Panel Regression to address heteroskedasticity and panel data issues, the reported Adjusted R-squared values are weighted. This means they reflect the goodness-of-fit after accounting for cross-sectional heterogeneity and any heteroskedasticity corrections applied in the estimation. The F-statistics for all models are highly significant ($p < 0.001$), confirming that the explanatory variables, collectively, have a statistically significant relationship with the dependent variable (tax avoidance). This supports the overall validity of the models.

6.7.3 Cross-Country Analysis: Influence of Ownership Structure on Tax Avoidance

This subsection synthesizes the evidence from Sections 6.7.1 and 6.7.2 by comparing how ownership structure and audit quality are associated with tax avoidance in Indonesia and Malaysia. Although both settings are characterized by concentrated ownership and emerging-market governance features, the results indicate that ownership incentives translate into tax outcomes differently across institutional environments. In particular, differences in enforcement intensity and the maturity of

corporate governance practices appear to shape how ownership types influence tax behavior when audit quality is also considered an independent determinant of tax avoidance behavior.

Across both countries, the findings also show that the interpretation of tax avoidance depends on the proxy used. SETR tends to capture broader statutory-to-effective tax outcomes that may reflect relatively observable (and often more compliance-bounded) tax planning, whereas BTD is more sensitive to discretionary reporting and structured strategies embedded in book–tax gaps. As a result, cross-country contrasts become clearer under BTD, where ownership incentives and audit scrutiny are more likely to appear through discretionary components of reporting.

A consistent cross-country insight relates to audit quality. Overall, audit report lag (ARL) behaves more like a process-based signal of audit effort and scrutiny, while Big 4 affiliation does not uniformly indicate stronger constraint on tax avoidance. In Indonesia, ARL is positively associated with SETR in the baseline but loses significance once controls are included, while ARL is strongly negative for BTD, suggesting that extended audit duration is more effective in constraining book–tax discretion than in shaping statutory effective-rate outcomes. In Malaysia, ARL is generally negative for both SETR and BTD, indicating that longer audits are more consistently aligned with lower tax aggressiveness. These patterns imply that, in the Malaysian setting, audit processes may function more effectively as a monitoring mechanism, whereas in Indonesia audit duration appears more selectively effective—particularly in limiting discretionary reporting reflected in BTD.

Turning to family ownership, the two countries diverge sharply. In Indonesia, family ownership is largely insignificant for both SETR and BTD in the full models, suggesting that family control does not systematically predict tax avoidance once governance and financial characteristics are accounted for. A plausible institutional interpretation is that Indonesian family firms operate within collectivist norms and informal governance arrangements that prioritise continuity and reputational capital, thereby muting strong observable tax aggressiveness. In Malaysia, however, family ownership shows a significant negative association with tax avoidance (especially in the full SETR model and consistently under BTD), indicating a stronger alignment-oriented pattern. In a governance environment where disclosure expectations and formal monitoring are more institutionalised, family-controlled firms may behave more

conservatively on tax in order to protect legitimacy and long-term socio-emotional wealth.

The results for foreign ownership highlight both cross-country and proxy sensitivity. In Indonesia, foreign ownership is positively associated with SETR in the full models, suggesting greater tax avoidance consistent with entrenchment-oriented pressure for tax efficiency. However, foreign ownership becomes insignificant for BTD once controls are included, implying that foreign influence may be more visible in effective-rate outcomes than in book–tax gaps after accounting for firm characteristics. In Malaysia, foreign ownership is insignificant for SETR but significantly positive for BTD, indicating that foreign-related tax planning is more evident through book–tax discrepancies. This contrast can be interpreted as reflecting differences in how foreign investors structure tax planning across settings: in Malaysia, stronger reporting systems and deeper market integration may make foreign tax strategies more observable through book–tax outcomes, while in Indonesia foreign influence may show up more through effective-rate deviations.

For government ownership, the evidence does not support a robust direct association with tax avoidance in Indonesia, as government ownership remains insignificant across the models. This may reflect the special institutional character of state-linked firms, where tax behavior is shaped more by socio-political objectives, internal mandates, and multiple layers of public oversight than by profit-maximisation incentives alone. In Malaysia, government ownership is positively associated with SETR but remains insignificant for BTD, suggesting that government-linked firms may be associated with effective-rate outcomes without a consistent pattern of book–tax divergence. This may indicate that tax management in government-influenced firms is more likely reflected in statutory-effective rate gaps rather than in discretionary book–tax reporting components.

The role of institutional ownership provides one of the most decisive cross-country contrasts. In Indonesia, institutional ownership is positively associated with tax avoidance—particularly under BTD—suggesting that institutional investors may exert pressure for tax efficiency and short-term returns, consistent with an entrenchment interpretation. In Malaysia, institutional ownership is negatively associated with BTD (and not significant under SETR), implying a monitoring-oriented role where institutional investors constrain discretionary tax behavior rather than drive it. This divergence is consistent with the view that the monitoring function of institutional

investors is conditional on governance maturity and stewardship norms: where monitoring is credible and supported by external discipline, institutional owners behave more like alignment agents; where governance discipline is weaker or incentives are more short-term, institutional power may amplify tax aggressiveness.

Finally, managerial ownership shows a clearer association under BTD than under SETR across both countries. In Indonesia, managerial ownership is insignificant for SETR but significantly positive for BTD, suggesting that managerial entrenchment is more strongly expressed through book–tax discretion than through statutory effective rates. In Malaysia, managerial ownership is positively associated with tax avoidance under BTD and less consistently under SETR, indicating that insider incentives remain relevant in both settings but are particularly pronounced where tax avoidance is captured through discretionary book–tax channels. Overall, this supports the argument that insider ownership risk is more likely to manifest in reporting-sensitive measures such as BTD.

In summary, the cross-country evidence suggests that ownership structure does not have a uniform relationship with tax avoidance across Indonesia and Malaysia, and audit quality is not a one-dimensional constraint. Instead, the findings show that the institutional environment shapes whether ownership types act as alignment mechanisms or entrenchment vehicles, and that the choice of tax avoidance proxy (SETR vs BTD) affects how these behaviors are detected empirically. Across the two countries, ARL appears to be a more consistent audit-quality signal than Big 4 affiliation, particularly in constraining tax avoidance captured by BTD, reinforcing the importance of audit process intensity—rather than audit reputation alone—in emerging-market governance contexts.

6.8 Multivariate Analysis: Moderated Relationship

This section presents the regression results for Hypotheses 6–10, which examine whether audit quality moderates the relationship between each ownership type and corporate tax avoidance. Moderated panel regressions were estimated for Indonesian and Malaysian subsamples using Panel-Corrected Standard Errors (PCSE) with cross-section weights, consistent with the GLS approach recommended for panel datasets exhibiting heteroscedasticity and cross-sectional dependence. This estimator improves inference by correcting standard errors rather than assuming independence

across firms, a condition rarely satisfied in multi-country financial data. In GLS-based models, the total sum of squared residuals is not minimized; consequently, the traditional OLS goodness-of-fit statistic (R-square) is not meaningful to interpret or compare with previous research or benchmarks (Blomquist, 1980). Hypothesis evaluation instead focuses on the sign and statistical significance of estimated coefficients, particularly the interaction terms between ownership structure and audit quality.

For transparency, results are reported both with and without control variables. However, hypothesis acceptance and substantive interpretation draw only from the fully specified models that include all control variables, consistent with modelling best practice, and to avoid omitted-variable bias. The reduced models serve solely as comparison benchmarks to assess incremental explanatory power when governance and firm-level controls are introduced.

6.8.1 The Moderated Relationship between Ownership Structure and Tax Avoidance (Indonesia)

6.8.1.1 Hypothesis Testing for the Moderated Relationship between Ownership Structure and SETR (Indonesian Samples)

Table 6.20 presents the regression results on the influence of ownership structure on tax avoidance, moderated by audit quality, using the statutory-effective tax rate (SETR) as the proxy. Both interaction terms, FAMILY*ARL (Model 3.a) and FAMILY*BIG4 (Model 3.b), are statistically insignificant, indicating that audit quality does not significantly moderate the relationship between family ownership and tax avoidance in the Indonesian context. Thus, Hypothesis 6 is not supported. From a theoretical standpoint, this result suggests that the entrenched nature of family ownership in Indonesia may reduce the effectiveness of external monitoring mechanisms such as high-quality audits, consistent with the entrenchment effect framework (Morck et al., 1988). That is, family-controlled firms—often operating with opaque structures and informal governance networks—may resist or neutralize the influence of external auditors, even when those auditors are associated with longer audit engagement (ARL) or reputable Big 4 firms.

This finding diverges from prior research in other emerging markets such as Tunisia and Jordan, where Gaaya et al. (2017) and Qawqzeh (2024), respectively, found that audit quality significantly constrained aggressive tax behavior in family firms. Interestingly, Kertadjumen and Nuryaman (2024) report a contrasting pattern in Indonesia's mining and plantation sectors, where audit quality was positively associated with effective tax rates, suggesting reduced avoidance. These contrasting findings point to the highly contextual nature of audit quality's moderating power—potentially shaped by sectoral dynamics, family control intensity, and enforcement environments. Overall, the current result underscores the limitations of external audits in restraining tax planning behaviors within Indonesian family firms and highlights the need to strengthen internal governance and regulatory enforcement to enhance transparency in this ownership category.

Both interaction terms—FOREIGN*ARL in Model (3.a) and FOREIGN*BIG4 in Model (3.b)—are statistically significant and negative, indicating that audit quality mitigates the positive association between foreign ownership and tax avoidance in Indonesian firms. These findings support Hypothesis 7 and suggest that external audit mechanisms play a critical moderating role in restraining tax-aggressive behavior commonly associated with foreign shareholders. In particular, firms with high foreign ownership are less likely to engage in tax avoidance when audits are conducted by Big 4 firms or when the audit engagement duration (ARL) is shorter, reflecting more comprehensive scrutiny.

This result aligns with the alignment effect within agency theory, suggesting that strong external monitoring can counterbalance foreign shareholders' incentives to prioritize tax minimization strategies aimed at maximizing global returns (Desai et al., 2007; Hanlon & Heitzman, 2010). While foreign investors may possess the expertise and transnational networks to facilitate complex tax planning, including transfer pricing or treaty shopping, the presence of high-quality auditors increases transparency and limits opportunities for such behavior. Prior research by Alkurdi and Mardini (2020) in Jordan and Salihu et al. (2015) in Malaysia similarly found that strong audit institutions can significantly reduce tax avoidance among foreign-owned firms. In the Indonesian context, where regulatory enforcement may be uneven, these findings underscore the importance of audit quality as a complementary governance tool that aligns foreign investor behavior with broader compliance and reporting standards.

The interaction terms GOVERNMENT*ARL in Model (3.a) and GOVERNMENT*BIG4 in Model (3.b) are both statistically insignificant, suggesting that audit quality does not significantly moderate the relationship between government ownership and tax avoidance in the Indonesian context. Thus, there is insufficient evidence to support Hypothesis 8. This finding indicates that neither longer audit durations nor the presence of Big 4 auditors significantly influences the tax behavior of government-linked firms. One possible explanation is that government-owned enterprises (SOEs) operate under different objectives than private firms—often prioritizing public policy goals, economic stability, or political mandates over profit maximization. As such, their tax strategies may be less responsive to external monitoring mechanisms such as audit quality. This perspective aligns with Rahman et al. (2018) and Sukmadilaga et al. (2017), who argue that SOEs are embedded in bureaucratic structures and subject to multi-layered oversight, making external audits less influential. Similarly, studies by Ge and Liu (2015) and Chen et al. (2006) suggest that SOEs benefit from regulatory insulation and institutional privileges, which may reduce their sensitivity to conventional governance pressures such as audit scrutiny.

From a theoretical standpoint, the entrenchment and alignment effects may be muted in this ownership context. Government shareholders already wield significant control and are less driven by short-term financial incentives; hence, audit quality lacks the leverage to meaningfully constrain or realign their strategic behaviors. These findings imply that in ownership contexts characterized by strong political influence, the moderating role of audit quality may be minimal or even redundant. This underscores the need to account for ownership heterogeneity when evaluating governance mechanisms in emerging market settings.

Table 6.20 further reveals that the interaction terms INSTITUTION*ARL in Model (3.a) and INSTITUTION*BIG4 in Model (3.b) are both negative and statistically significant, indicating that audit quality weakens the positive relationship between institutional ownership and tax avoidance in the Indonesian context. These findings offer robust support for Hypothesis 9, demonstrating that higher audit quality—whether through shorter audit report lag or affiliation with a Big 4 audit firm—serves to constrain the opportunistic tax behaviors often associated with institutional investors. This moderation effect is especially relevant in light of the entrenchment effect, where institutional shareholders, particularly in weak regulatory environments, may align with management to pursue aggressive tax strategies for short-

term gains (Morck et al., 1988; Khan et al., 2017). The results suggest that, in Indonesia, where enforcement mechanisms can be inconsistent, external audits provide a critical check on institutional investors' influence by reinforcing compliance norms and enhancing transparency. This aligns with Alkurdi and Mardini (2020) and Jiang et al. (2021), who found that strong external governance mechanisms are essential in emerging markets where internal governance alone may not suffice.

From a theoretical lens, audit quality appears to realign institutional investors' incentives with broader stakeholder interests, consistent with the alignment effect (Shleifer & Vishny, 1997; Desai & Dharmapala, 2009). High-quality auditors are likely to impose stricter scrutiny on financial and tax disclosures, thereby limiting the latitude for tax aggressiveness even when institutional investors exert significant control. This reinforces the argument that effective governance in emerging economies requires not only robust internal ownership monitoring but also credible and independent external oversight. Integrating these mechanisms is key to achieving transparency and sustainable tax compliance practices.

Table 6.20 also shows that the interaction terms *MANAGER*ARL* in Model (3.a) and *MANAGER*BIG4* in Model (3.b) are both negative and statistically significant. This suggests that audit quality effectively weakens the positive relationship between managerial ownership and tax avoidance in the Indonesian context. In firms where managers hold equity stakes, the risk of managerial entrenchment—where decision-makers exploit their control for personal benefit—is heightened. As such, the presence of high audit quality, indicated by shorter audit report lags and Big 4 auditor affiliation, appears to act as a critical external governance mechanism to constrain such behavior. These results strongly support Hypothesis 10 and reinforce the theoretical expectation derived from the entrenchment effect within agency theory (Morck et al., 1988). When managers are also owners, they may feel empowered to engage in aggressive tax planning with reduced fear of oversight. However, high-quality audits limit the discretion available for such behavior by increasing transparency and enhancing the credibility of financial disclosures. This finding is consistent with studies by Gaaya et al. (2017) and Dechow et al. (1996), which highlight how external audits discipline internal actors and reduce opportunism stemming from concentrated managerial power.

In the Indonesian setting—where family- or manager-controlled firms are prevalent and internal governance mechanisms may be relatively weaker—the role of

audit quality becomes even more salient. The findings underscore the need for strengthening independent external audits to mitigate agency risks and promote compliance. More broadly, these results contribute to the governance literature by illustrating how external audit mechanisms can realign managerial incentives with shareholder and public interests, fostering more responsible corporate tax behavior.

Regarding control variables of corporate governance, BIND has a negative relationship with SETR at a 5% confidence level in both models, indicating that board independence has a negative relationship with tax avoidance. Independent directors are often associated with higher standards of corporate governance. On the other hand, board meetings (BMEET) and board size (BSIZE) do not show significant effects on tax avoidance (SETR). Within control variables of financial indicators, CAPINT and PBV have insignificant relationships with SETR. Meanwhile, LEV has a positive relationship with SETR at a 1% confidence level, indicating that a company with a higher long-term debt shows higher tax avoidance. ROA and SIZE have a negative relationship with SETR (at a 1% confidence level), which means that more profitable and larger firms have a smaller tax avoidance.

The Adjusted R-squared values indicate that the models explain a substantial proportion of the variance in tax avoidance outcomes, with values ranging from 0.899 to 0.945. These high values reflect a strong model fit. Since the models applied Weighted Least Squares (WLS) or Weighted Panel Regression to address heteroskedasticity and panel data issues, the reported Adjusted R-squared values are weighted. This means they reflect the goodness-of-fit after accounting for cross-sectional heterogeneity and any heteroskedasticity corrections applied in the estimation. The F-statistics for all models are highly significant ($p < 0.001$), confirming that the explanatory variables, collectively, have a statistically significant relationship with the dependent variable (tax avoidance). This supports the overall validity of the models.

Table 6.20

The Influence of Ownership Structure on SETR: A Moderating Role of Audit Quality (Indonesian Samples)

Model (3.a)					Model (3.b)				
Dependent Variable	SETR				Dependent Variable	SETR			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Intercept	0.048	***	0.095	***	Intercept	0.062	***	0.098	***
	7.929		5.361			17.701		6.477	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	0.000		0.000		FAMILY	0.000		0.000	*
	-0.155		0.545			0.233		-1.764	
FOREIGN	0.001	***	0.000	**	FOREIGN	0.000	***	0.000	*
	4.871		2.433			2.612		1.851	
GOVERNMENT	-0.001	***	0.000		GOVERNMENT	0.000		0.000	
	-2.824		0.116			0.229		-0.142	
INSTITUTION	0.000		0.000		INSTITUTION	0.000		0.000	**
	0.062		0.166			-0.235		2.189	
MANAGER	0.001		0.001	**	MANAGER	0.000		0.000	
	2.611		2.109			-0.551		0.212	
Panel B: Moderating Variable (ARL) and Its Moderation									
ARL	0.000		0.000		BIG4	0.006		0.005	
	0.906		0.285			1.032		0.729	
FAMILY*ARL	0.000		0.000		FAMILY*BIG4	0.000		0.000	
	0.233		-0.839			-0.387		1.361	
FOREIGN*ARL	0.000	***	0.000	*	FOREIGN*BIG4	0.000	**	0.000	*
	-2.615		-1.555			-2.103		-1.117	
GOVERNMENT*ARL	0.000	***	0.000		GOVERNMENT*BIG4	0.000		0.001	
	5.085		0.546			0.578		1.308	
INSTITUTION*ARL	0.000		0.000	*	INSTITUTION*BIG4	0.000		0.000	*
	-1.234		-0.917			0.140		-0.840	
MANAGER*ARL	0.000	***	0.000	***	MANAGER*BIG4	0.000		0.000	*
	-3.084		-2.581			0.465		-1.198	

Table 6.20 (Continued)

The Influence of Ownership Structure on SETR: A Moderating Role of Audit Quality (Indonesian Samples)

Model (3.a)					Model (3.b)				
Dependent Variable	SETR				Dependent Variable	SETR			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Panel C: Control Variables (Corporate Governance)									
BMEET			0.000		BMEET			0.000	
			0.173					0.653	
BIND			-0.029	**	BIND			-0.029	**
			-2.212					-2.273	
BFSIZE			-0.001		BFSIZE			0.000	
			-1.822					-1.256	
Panel D: Control Variables (Financial Indicators)									
CAPINT			-0.012		CAPINT			-0.013	
			-0.800					-0.946	
LEV			0.060	***	LEV			0.064	***
			4.295					4.996	
PBV			0.000		PBV			0.000	
			0.040					0.175	
ROA			-0.113	***	ROA			-0.109	***
			-7.364					-7.311	
SIZE			-0.007	**	SIZE			-0.007	***
			-2.344					-2.820	
Adjusted R-squared		0.931		0.899	Adjusted R-squared		0.945		0.908
F-statistic		66.996	***	43.830	F-statistic		84.781	***	48.407

***: 1% significance level; **: 5% significance level; *: 10% significance level

Source: Author's work

6.8.1.2 Hypothesis Testing for the Moderated Relationship between Ownership Structure and BTD (Indonesian Samples)

Table 6.21 below shows the regression result on the influence of ownership structure and tax avoidance, moderated by audit quality. In this case, BTD is the proxy for tax avoidance. The interaction between family ownership and audit quality has a negative and significant relationship with BTD. The moderating effect of audit report lag appears to reverse the initially positive association, indicating that higher audit scrutiny—or perhaps the heightened attention from longer audit processes—reduces the tendency of family-owned firms to engage in aggressive tax planning. Accordingly, this study provides strong evidence to support Hypothesis 6. This finding is consistent with Gaaya et al. (2017), who observed that higher audit quality reduces the propensity of family firms in Tunisia to engage in tax avoidance. It also aligns with the arguments of Qawqzeh (2024), who found a similar moderating effect of audit quality among family-owned businesses in Jordan. Moreover, this result supports the broader theory proposed by Hanlon and Heitzman (2010) that strong external monitoring mechanisms—such as thorough audits—can mitigate agency conflicts and discourage aggressive financial practices among controlling shareholders. Thus, in the Indonesian context, even when family ownership potentially increases the incentives for tax minimization, the presence of enhanced audit scrutiny plays an important corrective role in promoting compliance and transparency. This reinforces the importance of rigorous external audit procedures in promoting transparency among family-controlled Indonesian firms.

FOREIGN variable has a negative relationship with BTD, significant at the 10% level in Model (3.c), indicating that higher foreign ownership is associated with lower levels of tax avoidance. However, the interaction terms FOREIGN*ARL (Model 3.c) and FOREIGN*BIG4 (Model 3.d) are both positive and statistically significant at the 10% level. This suggests that when audit quality is considered, the negative effect of foreign ownership on tax avoidance is weakened, and the relationship turns more positive. In other words, higher audit quality appears to reduce the monitoring effectiveness associated with foreign shareholders, potentially enabling greater tax avoidance rather than constraining it. As such, this study does not provide sufficient evidence to support Hypothesis 7, which posited that audit quality would strengthen the deterrent effect of foreign ownership on tax avoidance. These findings contrast with

previous research by Alkurdi and Mardini (2020) and Salihu et al. (2015), who suggested that audit quality enhances governance and discourages tax avoidance in firms with high foreign ownership. Instead, the results here highlight the complexity of institutional environments like Indonesia, where audit quality improvements may not fully offset the financial pressure foreign investors place on firms to optimize tax strategies. This reflects the possibility that foreign shareholders, even under strong audit oversight, may still prioritize tax efficiency and short-term profitability over strict compliance.

Meanwhile, the GOVERNMENT variable shows an insignificant relationship with BTB, indicating that government ownership does not have a significant impact on tax avoidance in the Indonesian context. Furthermore, the interaction terms GOVERNMENT*ARL and GOVERNMENT*BIG4 are also statistically insignificant, suggesting that audit quality does not moderate the relationship between government ownership and tax avoidance. As a result, this study does not provide sufficient evidence to support Hypothesis 8. These findings are consistent with prior studies such as Rahman et al. (2018) and Sukmadilaga et al. (2017), who noted that government-linked firms often pursue objectives beyond profit maximization, such as political or social goals, which may weaken the effectiveness of traditional governance mechanisms like audit oversight in influencing corporate tax behavior.

The INSTITUTION variable shows a positive relationship with BTB, significant at the 1% level, suggesting that higher institutional ownership is associated with greater tax avoidance in Indonesian firms. However, the interaction terms INSTITUTION*ARL and INSTITUTION*BIG4 are both negative and statistically significant at the 1% level in Models (3.c) and (3.d). This indicates that audit quality effectively moderates the relationship between institutional ownership and tax avoidance by weakening the positive association. In other words, firms with substantial institutional ownership are less likely to engage in aggressive tax planning when subjected to higher audit quality, whether measured by audit report lag or Big 4 auditor affiliation. Therefore, this study provides strong evidence to support Hypothesis 9. These findings are consistent with previous research by Alkurdi and Mardini (2020) and align with broader governance theories proposed by Hanlon and Heitzman (2010) and Desai et al. (2007), which emphasize that external monitoring mechanisms like audit quality play a crucial role in constraining opportunistic behaviors, particularly in firms dominated by large shareholders.

The MANAGER variable shows a positive relationship with BTD, suggesting that higher managerial ownership is associated with greater tax avoidance among Indonesian firms. However, the interaction terms MANAGER*ARL (Model 3.c) and MANAGER*BIG4 (Model 3.d) are both negative and statistically significant. This indicates that audit quality moderates the relationship between managerial ownership and tax avoidance by weakening the positive association. In other words, firms with greater managerial ownership are less likely to engage in aggressive tax planning when subjected to higher audit quality, whether through reduced audit report lag or affiliation with Big 4 auditors. These results provide strong support for Hypothesis 10. The findings are consistent with prior studies, such as Gaaya et al. (2017) and Chen et al. (2006), who highlight that external monitoring mechanisms, including audit quality, can curb opportunistic behaviors arising from concentrated ownership structures like managerial entrenchment. Similarly, Dechow et al. (1996) emphasize that managerial control can lead to opportunistic financial practices unless constrained by strong governance and oversight. Hanlon and Heitzman (2010) also argue that high audit quality plays a vital role in restraining aggressive tax strategies driven by insider control. Together, these findings reinforce the importance of integrating both ownership monitoring and audit quality to mitigate agency risks and promote greater financial transparency.

Table 6.21

The Influence of Ownership Structure on BTD: A Moderating Role of Audit Quality (Indonesian Samples)

Model (3.c)					Model (3.d)				
Dependent Variable	BTD				Dependent Variable	BTD			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Intercept	-0.008	**	-0.026	***	Intercept	-0.0291	***	-0.0281	***
	-1.962		-3.439			-22.2479		-4.2874	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	0.000	*	0.000	*	FAMILY	0.000	**	0.000	***
	1.816		1.822			2.306		3.088	
FOREIGN	0.000		0.000	*	FOREIGN	0.000	*	0.000	
	-1.016		-1.679			-1.855		-1.366	
GOVERNMENT	0.001	***	0.000		GOVERNMENT	0.000	***	0.000	
	4.100		0.384			2.618		-0.309	
INSTITUTION	0.000	***	0.000	***	INSTITUTION	0.000	***	0.000	***
	5.736		4.613			9.755		6.892	
MANAGER	0.000		0.000		MANAGER	0.000	***	0.000	***
	1.309		1.129			2.796		3.191	
Panel B: Moderating Variable (ARL) and Its Moderation									
ARL	0.000	***	0.000		BIG4	0.013	***	0.012	***
	-4.330		0.144			4.964		4.003	
FAMILY*ARL	0.000		0.000	*	FAMILY*BIG4	0.000	***	0.000	***
	-1.346		-1.586			-2.604		-3.002	
FOREIGN*ARL	0.000	*	0.000	*	FOREIGN*BIG4	0.000	***	0.000	*
	1.706		1.843			3.623		0.539	
GOVERNMENT*ARL	0.000	**	0.000		GOVERNMENT*BIG4	0.000		0.000	
	-2.247		-0.511			0.731		0.326	
INSTITUTION *ARL	0.000	***	0.000	***	INSTITUTION*BIG4	0.000	***	0.000	***
	-3.914		-3.653			-6.024		-3.622	
MANAGER*ARL	0.000		0.000	*	MANAGER*BIG4	0.000	***	0.000	**
	-0.106		-0.656			-3.405		-2.078	

Table 6.21 (Continued)

The Influence of Ownership Structure on BTD: A Moderating Role of Audit Quality (Indonesian Samples)

Model (3.c)					Model (3.d)				
Dependent Variable	BTD				Dependent Variable	BTD			
	Coef.	Sig.	Coef.	Sig.		Coef.	Sig.	Coef.	Sig.
Panel C: Control Variables (Corporate Governance)									
BMEET			-0.001	***	BMEET			-0.001	***
			-5.397					-5.475	
BIND			-0.009	**	BIND			-0.006	*
			-2.474					-1.714	
BFSIZE			0.000		BFSIZE			0.000	
			1.307					1.538	
Panel D: Control Variables (Financial Indicators)									
CAPINT			-0.008	**	CAPINT			-0.008	**
			-2.067					-2.165	
LEV			-0.003		LEV			-0.005	
			-0.615					-1.269	
PBV			0.000		PBV			0.000	
			0.302					0.365	
ROA			0.502	***	ROA			0.507	***
			50.713					53.341	
SIZE			0.001		SIZE			0.000	
			0.521					0.259	
Adjusted R-squared	0.677		0.843		Adjusted R-squared	0.693		0.849	
F-statistic	11.271	***	26.915	***	F-statistic	12.076	**	28.054	***

***: 1% significance level; **: 5% significance level; *: 10% significance level

Source: Author's work

Regarding the control variables for corporate governance, BMEET exhibits a negative relationship with BTD at the 1% confidence level, suggesting that firms with more frequent board meetings engage in less tax avoidance. More active board oversight can help detect and prevent aggressive tax strategies that contribute to large book-tax differences. Similarly, BIND has a negative relationship with BTD at the 10% confidence level, indicating that greater board independence is associated with reduced tax avoidance. Independent directors advocate for transparency and accountability in financial reporting, leading to more conservative tax strategies. In contrast, BSIZE has no significant relationship with BTD, suggesting that changes in board size alone do not influence firms' tax avoidance behavior. Within the control variables for financial indicators, CAPINT shows a negative relationship with BTD at the 5% confidence level, indicating that firms with higher capital intensity report smaller book-tax differences. Meanwhile, LEV, PBV, and SIZE are insignificant, suggesting that long-term leverage, price-to-book value, and firm size do not have a direct impact on tax avoidance. However, ROA exhibits a positive relationship with BTD at the 1% confidence level, indicating that more profitable firms tend to engage in more aggressive tax avoidance strategies.

The Adjusted R-squared values indicate that the models explain a substantial proportion of the variance in tax avoidance outcomes, with values ranging from 0.843 to 0.849. These high values reflect a strong model fit. Since the models applied Weighted Least Squares (WLS) or Weighted Panel Regression to address heteroskedasticity and panel data issues, the reported Adjusted R-squared values are weighted. This means they reflect the goodness-of-fit after accounting for cross-sectional heterogeneity and any heteroskedasticity corrections applied in the estimation. The F-statistics for all models are highly significant ($p < 0.001$), confirming that the explanatory variables, collectively, have a statistically significant relationship with the dependent variable (tax avoidance). This supports the overall validity of the models.

6.8.2 The Moderated Relationship between Ownership Structure and Tax Avoidance (Malaysia)

Section 6.8.2 presents the regression results examining the relationships between ownership structure and tax avoidance moderated by audit quality within Malaysian samples. The findings provide evidence to support Hypotheses 6-10, confirming whether the interaction of audit quality and ownership structure is associated negatively with tax avoidance. Audit quality is evaluated using two key measures: audit report lag (ARL) and the presence of a Big4 auditor. At the same time, tax avoidance is assessed through the statutory-effective tax rate gap (SETR) and book-tax difference (BTD). These findings highlight the importance of audit quality as a governance mechanism that can effectively mitigate tax avoidance behaviors in firms with diverse ownership structures. Each section presents two models; Model 1 examines the moderated relationship between the ownership structure and tax avoidance without incorporating control variables, while Model 2 includes control variables for a more comprehensive analysis. This study relies on Model 2 for hypothesis acceptance as it accounts for all observed variables.

6.8.2.1 Hypothesis Testing for the Moderated Relationship between Ownership Structure and SETR (Malaysian Samples)

Table 6.22 presents the regression results on the influence of ownership structure on tax avoidance in the Malaysian context, moderated by audit quality, using SETR as the proxy for tax avoidance. The interaction term FAMILY*ARL in Model (3.a) shows a negative and statistically significant relationship with SETR, indicating that longer audit report lags moderate the relationship between family ownership and tax avoidance by reducing aggressive tax planning behavior. Accordingly, this study provides strong evidence to support Hypothesis 6 under the audit report lag measure. However, the interaction term FAMILY*BIG4 in Model (3.b) exhibits a positive and statistically significant relationship with SETR, suggesting that the presence of a Big 4 auditor does not effectively constrain the association between family ownership and tax avoidance. As a result, Hypothesis 6 is not supported under the Big 4 audit quality proxy. While audit quality is generally expected to mitigate aggressive financial behaviors, its effectiveness may vary depending on the resources and technological

sophistication available to auditors, suggesting that not all dimensions of audit quality exert the same level of influence across different contexts (Ditkaew & Suttipun, 2023).

These findings are partially consistent with Gaaya et al. (2017), who reported that audit quality can curb tax aggressiveness in family-owned firms when external audit scrutiny is sufficiently robust. However, the mixed evidence found in this study resonates with the arguments of Hanlon and Heitzman (2010), who emphasize that the effectiveness of external governance tools, such as audit quality, can be contingent on audit firm characteristics and market-specific conditions. In the Malaysian context, where relationships between firms and auditors may vary in strength and independence, even the presence of Big 4 auditors may not fully neutralize the strategic behaviors of family-controlled firms. This result highlights the importance of considering the multi-dimensional nature of audit quality when evaluating its governance role in mitigating tax avoidance practices.

The FOREIGN variable shows a negative relationship with SETR, indicating that a higher level of foreign ownership is associated with lower tax avoidance levels. The interaction term FOREIGN*ARL in Model (3.a) is positive and statistically significant at the 10% level, suggesting that longer audit report lags weaken the monitoring role of foreign investors, thus increasing the tendency for tax avoidance. These findings imply that lower audit efficiency, proxied by longer audit lags, may reduce the effectiveness of foreign shareholders in constraining aggressive tax behavior. Thus, audit delays appear to weaken the monitoring effectiveness typically associated with foreign shareholders. Consequently, this study does not provide sufficient evidence to accept Hypothesis 7 under the audit report lag proxy. Conversely, the interaction term FOREIGN*BIG4 in Model (3.b) is negative and statistically significant, indicating that firms with higher foreign ownership audited by Big 4 audit firms are less likely to engage in tax avoidance. This suggests that Big 4 auditors serve as an effective external monitoring mechanism that realigns the interests of foreign investors towards more compliant tax strategies. This finding is consistent with the arguments by Salihu et al. (2015) and Alkurdi and Mardini (2020), who found that strong external audits mitigate aggressive financial practices in ownership-diverse firms. It also aligns with Ditkaew and Suttipun (2023), who emphasize that audit quality, particularly when enhanced by technological sophistication and independent audit practices, strengthens corporate accountability and curbs opportunistic behaviors. Thus, while audit report lag appears to dilute foreign monitoring effectiveness, the

presence of Big 4 auditors provides a counterbalancing effect that supports governance integrity in foreign-owned Malaysian firms.

In addition, Table 6.22 shows that the interaction terms GOVERNMENT*ARL and GOVERNMENT*BIG4 are both statistically insignificant with respect to SETR. This indicates that audit quality, whether measured by audit report lag or Big 4 auditor affiliation, does not significantly moderate the relationship between government ownership and tax avoidance in Malaysian firms. As a result, this study finds no sufficient evidence to support Hypothesis 8. This finding suggests that tax behavior in government-linked firms may be influenced by other strategic or policy-driven considerations rather than by external monitoring mechanisms such as audit quality. It is consistent with the observations of Rahman et al. (2018) and Sukmadilaga et al. (2017), who argue that government-affiliated companies often pursue broader socio-economic objectives that may limit the impact of conventional governance tools. Additionally, Ditkaew and Suttipun (2023) highlight that even in emerging markets where audit quality is improving, its influence may vary depending on the ownership type and the strategic interests embedded within corporate structures.

Table 6.22 shows that the interaction terms INSTITUTION*ARL and INSTITUTION*BIG4 are both negative and statistically significant with respect to SETR in Models (3.a) and (3.b). This indicates that audit quality, whether measured by audit report lag or Big 4 auditor affiliation, weakens the positive relationship between institutional ownership and tax avoidance. These findings provide strong support for Hypothesis 9, suggesting that higher audit quality mitigates the tendency of institutional investors to engage in aggressive tax planning. This result aligns with prior studies such as Alkurdi and Mardini (2020) and Salihu et al. (2015), who found that strong audit practices can enhance transparency and reduce agency problems in firms with concentrated or influential ownership structures. It is also consistent with the arguments of Hanlon and Heitzman (2010), who emphasize that effective external governance mechanisms, such as high-quality audits, are crucial for restraining opportunistic financial behavior. Furthermore, Ditkaew and Suttipun (2023) highlight that advances in audit techniques, such as audit data analytics, can strengthen the monitoring function of audits even in emerging economies like Malaysia, thereby improving corporate accountability.

Furthermore, Table 6.22 shows that the MANAGER variable exhibits a positive relationship with SETR in both Models (3.a) and (3.b), suggesting that higher levels of

managerial ownership are associated with greater engagement in tax avoidance practices. This finding implies that managerial shareholders may become entrenched, prioritizing personal financial interests over corporate tax compliance. However, the interaction terms MANAGER*ARL and MANAGER*BIG4 are both negative and statistically significant, indicating that audit quality effectively moderates this relationship by reducing the impact of managerial ownership on tax avoidance. In other words, stronger audit mechanisms—whether through reduced audit report lag or the presence of Big 4 auditors—constrain opportunistic tax behavior among firms with high managerial shareholding. This result provides strong empirical support for Hypothesis 10 and is consistent with previous research by Gaaya et al. (2017) and Dechow et al. (1996), who suggest that strong external monitoring mitigates the agency risks associated with insider ownership concentration. It also aligns with broader findings by Hanlon and Heitzman (2010) and Ditkaew and Suttipun (2023), who highlight that robust audit quality can serve as an effective governance tool in limiting aggressive financial strategies, particularly in environments where insider control is prominent. This highlights the crucial role of audit quality in moderating the entrenchment risks posed by insider-controlled firms.

Table 6.22

The Influence of Ownership Structure on SETR: A Moderating Role of Audit Quality (Malaysian Samples)

Model (3.a)					Model (3.b)				
Dependent variable	SETR				Dependent variable	SETR			
	Coeff.	Sig.	Coeff.	Sig.		Coeff.	Sig.	Coeff.	Sig.
Intercept	0.115	***	0.076	***	Intercept	0.067	***	0.038	***
	13.855		4.429			35.687		2.836	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	-0.001	***	-0.001	*	FAMILY	0.000		0.000	
	-3.119		-1.764			-0.543		-1.711	
FOREIGN	0.000	*	0.000	**	FOREIGN	0.000	***	0.000	
	-1.645		-2.408			2.667		0.715	
GOVERNMENT	0.001		0.001		GOVERNMENT	0.003	***	0.003	***
	0.160		0.157			2.714		3.113	
INSTITUTION	-0.001	***	0.000	**	INSTITUTION	0.000	**	0.000	
	-3.952		-2.001			2.330		0.568	
MANAGER	0.000		0.000	*	MANAGER	0.000	***	0.000	***
	0.556		0.097			2.626		2.848	
Panel B: Moderating Variable (ARL) and Its Moderation									
ARL	0.000	***	0.000	***	BIG4	0.028	***	0.020	***
	-5.360		-3.085			4.611		2.916	
FAMILY*ARL	0.000	***	0.000	*	FAMILY*BIG4	0.000		0.000	*
	-3.074		-1.429			1.052		0.458	
FOREIGN*ARL	0.000	***	0.000	*	FOREIGN*BIG4	-0.001	***	0.000	*
	3.074		1.429			-4.339		-1.874	
GOVERNMENT*ARL	0.000		0.000		GOVERNMENT*BIG4	0.000		0.000	
	0.787		0.972			0.101		-0.118	
INSTITUTION*ARL	0.000	***	0.000	*	INSTITUTIONAL*BIG4	0.000	***	0.000	**
	-4.245		-1.786			-3.104		-2.129	
MANAGER*ARL	0.000		0.000	*	MANAGER*BIG4	-0.001	***	-0.001	***
	-0.646		-0.175			-3.721		-3.326	

Table 6.22 (Continued)

The Influence of Ownership Structure on SETR: A Moderating Role of Audit Quality (Malaysian Samples)

Panel C: Control Variables (Corporate Governance)					
BMEET	0.002	***	BMEET	0.002	***
	3.056			3.293	
BIND	0.065	***	BIND	0.065	***
	6.963			6.908	
BSIZE	0.002	***	BSIZE	0.001	**
	2.686			2.203	
Panel D: Control Variables (Financial Indicators)					
CAPINT	0.018	**	CAPINT	0.018	**
	2.072			2.098	
LEV	0.028	**	LEV	0.028	**
	2.159			2.373	
PBV	0.000		PBV	0.000	
	-0.049			-0.150	
ROA	-0.024	***	ROA	-0.024	***
	-3.384			-3.652	
SIZE	-0.005	**	SIZE	-0.006	***
	-2.255			-2.616	
Adjusted R-squared	0.970		Adjusted R-squared	0.953	
F-statistic	160.314	***	F-statistic	99.978	***
	37.492	***		38.410	***

***: 1% significance level; **: 5% significance level; *: 10% significance level

Source: Author's work

Regarding control variables for corporate governance, BMEET, BIND, and BSIZE have a positive relationship with SETR. This means that companies with more board meetings, higher board independence, and bigger board sizes have significantly escalated tax avoidance. For financial factors, CAPINT and LEV positively impact SETR, indicating that companies with higher capital intensity and leverage are associated with higher tax avoidance. Meanwhile, PBV has a negative impact with no significant impact on SETR, indicating that the price-book value ratio does not directly influence SETR. However, ROA and SIZE have a negative relationship with SETR, indicating that companies with higher profitability and bigger firm size are likely to engage less in tax avoidance.

The Adjusted R-squared values indicate that the models explain a substantial proportion of the variance in tax avoidance outcomes, with values ranging from 0.882 to 0.884. These high values reflect a strong model fit. Since the models applied Weighted Least Squares (WLS) or Weighted Panel Regression to address heteroskedasticity and panel data issues, the reported Adjusted R-squared values are weighted. This means they reflect the goodness-of-fit after accounting for cross-sectional heterogeneity and any heteroskedasticity corrections applied in the estimation. The F-statistics for all models are highly significant ($p < 0.001$), confirming that the explanatory variables, collectively, have a statistically significant relationship with the dependent variable (tax avoidance). This supports the overall validity of the models.

6.8.2.2 Hypothesis Testing for the Moderated Relationship between Ownership Structure and BTD (Malaysian samples)

Table 6.23 presents the regression results on the influence of ownership structure on tax avoidance in Malaysian firms, moderated by audit quality, with BTD as the proxy for tax avoidance. The results reveal conflicting patterns across the two models for family ownership. In Model (3.c), the FAMILY variable shows a positive and statistically significant relationship with BTD at the 10% level, indicating that higher family ownership is associated with greater tax avoidance. However, the interaction term FAMILY*ARL is negative and statistically significant at the 1% level, suggesting that longer audit report lags moderate this relationship by reducing tax aggressiveness among family-owned firms. Meanwhile, Model (3.d) shows that

FAMILY ownership has a negative and statistically significant relationship with BTB at the 1% level, but the interaction term FAMILY*BIG4 exhibits a positive and statistically significant relationship with BTB at the 1% level, suggesting that the presence of Big 4 auditors, paradoxically, intensifies tax avoidance behavior among family-owned firms in this model. These mixed findings suggest that the effect of audit quality on family ownership's relationship with tax avoidance is sensitive to the specific audit quality proxy used. While audit report timeliness (ART) appears effective in curbing tax aggressiveness among family firms, Big 4 auditor affiliation may not uniformly function as a deterrent, possibly due to complex auditor-client relationships or differential enforcement rigor. This nuanced result aligns with the arguments by Hanlon and Heitzman (2010) and Ditkaew and Suttipun (2023), who emphasize that audit quality's influence on corporate behaviors may vary depending on auditor independence, firm characteristics, and broader institutional environments. These mixed results highlight the complexity of family firms' behavior toward tax avoidance, depending on how audit quality is captured.

The FOREIGN variable and its interaction term with audit report lag (FOREIGN*ART) have a positive relationship with BTB in Model (3.c). Meanwhile, the interaction term FOREIGN*BIG4 is negative and statistically significant at the 1% level, suggesting that the presence of a Big 4 auditor moderates the positive relationship between foreign ownership and tax avoidance, leading to more compliant tax behavior. This finding echoes the concerns raised by Lee and Ande (2022), who argue that foreign investors may sometimes prioritize short-term financial performance, potentially encouraging aggressive tax strategies. However, the significant moderating effect of Big 4 auditors aligns with Salihu et al. (2015) and Ditkaew and Suttipun (2023), who emphasize that high audit quality constrains opportunistic behaviors by enhancing external monitoring, particularly in ownership-diverse firms. Overall, the results suggest that while foreign investors may introduce pressures toward tax aggressiveness, strong audit mechanisms such as those provided by Big 4 firms can effectively mitigate these risks in the Malaysian corporate environment.

The GOVERNMENT variable and its interaction term with audit report lag (GOVERNMENT*ART) are both statistically insignificant in Model (3.c), indicating that government ownership and audit report timeliness do not significantly influence tax avoidance when measured by BTB in this model. However, Model (3.d) reveals that GOVERNMENT has a positive and statistically significant relationship with BTB

at the 1% level, suggesting that higher levels of government ownership are associated with greater tax avoidance. The interaction term GOVERNMENT*BIG4 exhibits a negative and statistically significant relationship with BTD at the 1% level. This finding suggests that the presence of a Big 4 auditor can moderate the positive association between government ownership and tax avoidance, effectively constraining aggressive tax strategies among government-affiliated firms. These findings partially align with Marfiana and Andriyanto (2021), who reported that government ownership could incentivize higher tax aggressiveness in the Indonesian context, especially when governance mechanisms are weaker. However, the negative moderating effect of Big 4 auditors on government ownership and tax avoidance is consistent with broader arguments by Hanlon and Heitzman (2010) and Ditkaew and Suttipun (2023), who emphasize that strong external audit mechanisms can curb opportunistic financial behaviors, even in firms with political affiliations. The result also suggests that in the Malaysian context, the presence of reputable auditors like Big 4 firms is crucial in promoting greater financial discipline and tax compliance among government-linked companies.

The INSTITUTION variable shows a significantly negative relationship with BTD in Model (3.d), indicating that higher institutional ownership is associated with lower levels of tax avoidance among Malaysian firms. Furthermore, the interaction terms INSTITUTION*ARL and INSTITUTION*BIG4 also exhibit significant negative relationships with BTD. These findings suggest that audit quality, whether proxied by audit report lag or affiliation with Big 4 auditors, strengthens the role of institutional ownership in promoting more tax-compliant behavior. Consequently, this study provides strong evidence to support Hypothesis 9 in the Malaysian context. These results are consistent with the arguments by Alkurdi and Mardini (2020) and Salihu et al. (2015), who found that strong audit practices and institutional monitoring jointly reduce agency problems and discourage aggressive tax planning. Qawqzeh (2023) further supports this view, emphasizing that institutional ownership is negatively associated with tax avoidance, and that higher audit quality amplifies this governance effect by constraining managerial discretion and enhancing financial transparency. Similarly, Hanlon and Heitzman (2010) highlight that the presence of vigilant institutional investors, combined with effective audit mechanisms, curbs opportunistic financial behaviors. In the Southeast Asian context, Ditkaew and Suttipun (2023) affirm

that improvements in audit quality, including the adoption of audit data analytics, reinforce corporate accountability and deter aggressive financial strategies.

On the other hand, the MANAGER variable shows a positive influence on BTD in Models (3.c) and (3.d), indicating that managerial ownership is significantly associated with higher levels of tax avoidance. The interaction terms MANAGER*ARL and MANAGER*BIG4 in both models exhibit significant negative relationships with BTD, suggesting that audit quality, whether proxied by audit report lag or Big 4 auditor affiliation, plays an important role in mitigating the aggressive tax behavior linked to managerial ownership. Thus, this study provides sufficient evidence to accept Hypothesis 10, confirming that audit quality can help align managerial shareholders to be less aggressive in avoiding tax within the Malaysian context. These findings are consistent with prior research by Dechow et al. (1996) and Hanlon and Heitzman (2010), who highlight that concentrated managerial ownership can lead to opportunistic financial behavior unless constrained by strong external governance mechanisms such as high-quality audits. Similarly, Gaaya et al. (2017) emphasize that audit quality reduces the incentive for insider-controlled firms to engage in aggressive financial practices, reinforcing the moderating role observed in this study. In the context of emerging economies, Ditkaew and Suttipun (2023) further affirm that enhancements in audit quality, particularly through advanced auditing techniques, strengthen corporate accountability and discourage aggressive financial strategies.

Table 6.23

The Influence of Ownership Structure on BTD: A Moderating Role of Audit Quality (Malaysian Samples)

Model (3.c)					Model (3.d)				
Dependent variable	BTD				Dependent variable	BTD			
	Coeff.	Sig.	Coeff.	Sig.		Coeff.	Sig.	Coeff.	Sig.
Intercept	-0.025	***	-0.087	***	Intercept	-0.023	***	-0.073	***
	-7.800		-9.139			-13.997		-8.265	
Panel A: Independent Variable (Ownership Structure)									
FAMILY	0.000		0.000	*	FAMILY	0.000	***	0.000	***
	-0.022		1.480			-7.683		-7.978	
FOREIGN	0.000	***	0.000		FOREIGN	0.000	***	0.000	***
	-2.633		-0.283			7.111		5.709	
GOVERNMENT	0.000		0.000		GOVERNMENT	0.001	**	0.001	***
	-0.670		-0.402			2.473		5.402	
INSTITUTION	0.000		0.000		INSTITUTION	0.000	*	0.000	***
	1.181		0.481			-1.937		-4.228	
MANAGER	0.000		0.000	*	MANAGER	0.000	*	0.000	***
	1.088		1.877			1.876		3.582	
Panel B: Moderating Variable (ARL) and Its Moderation									
ARL	0.000		0.000		BIG4	-0.009	***	-0.010	***
	-0.165		1.556			-3.238		-3.292	
FAMILY*ARL	0.000		0.000	***	FAMILY*BIG4	0.000	***	0.000	***
	-1.160		-3.389			5.917		5.356	
FOREIGN*ARL	0.000	***	0.000	*	FOREIGN*BIG4	0.000	***	0.000	**
	5.453		1.774			-5.470		-2.264	
GOVERNMENT*ARL	0.000		0.000		GOVERNMENT*BIG4	-0.002	***	-0.002	***
	0.712		0.279			-4.258		-5.221	
INSTITUTIONAL*ARL	0.000	*	0.000	*	INSTITUTIONAL*BIG4	0.000	*	0.000	***
	-1.884		-1.726			-1.518		-2.687	
MANAGER*ARL	0.000		0.000	**	MANAGER*BIG4	0.000		0.000	***
	-1.108		-2.470			-1.027		-4.231	

Table 6.23 (Continued)

The Influence of Ownership Structure on BTD: A Moderating Role of Audit Quality (Malaysian Samples)

Model (3.c)					Model (3.d)				
Dependent variable	BTD				Dependent variable	BTD			
	Coeff.	Sig.	Coeff.	Sig.		Coeff.	Sig.	Coeff.	Sig.
Panel C: Control Variables (Corporate Governance)									
BMEET			-0.002	***	BMEET			-0.002	***
			-6.861					-7.042	
BIND			-0.012	***	BIND			-0.015	***
			-3.157					-4.101	
BSIZE			-0.001	**	BSIZE			0.000	
			-2.330					-1.586	
Panel D: Control Variables (Financial Indicators)									
CAPINT			-0.011	**	CAPINT			-0.009	*
			-2.105					-1.756	
LEV			0.020	***	LEV			0.016	***
			4.011					3.010	
PBV			-0.002	***	PBV			-0.002	***
			-4.160					-4.586	
ROA			0.349	***	ROA			0.343	***
			34.906					34.008	
SIZE			0.016	***	SIZE			0.016	***
			10.647					9.112	
Adjusted R-squared	0.656		0.790		Adjusted R-squared	0.649		0.806	
F-statistic	10.428		19.369		F-statistic	10.141		21.325	

***: 1% significance level; **: 5% significance level; *: 10% significance level

Source: Author's work

In terms of control variables for corporate governance, BMEET, BIND, and BSIZE show a negative significant relationship with BTD. These results indicate that when a company have more board meetings, more independent directors on the board, and more directors, they tend to have less aggressive tax avoidance. Meanwhile, control variables for financial indicators, LEV, ROA, and SIZE, show a significant positive impact on BTD. The results imply that companies with higher leverage levels, better profitability, and bigger firm sizes tend to exhibit less tax avoidance. However, CAPINT and PBV have a significant negative impact on BTD. This result means that the likelihood of tax avoidance practice decreases when companies have higher capital intensity and higher price-book value.

The Adjusted R-squared values indicate that the models explain a substantial proportion of the variance in tax avoidance outcomes, with values ranging from 0.790 to 0.806. These high values reflect a strong model fit. Since the models applied Weighted Least Squares (WLS) or Weighted Panel Regression to address heteroskedasticity and panel data issues, the reported Adjusted R-squared values are weighted. This means they reflect the goodness-of-fit after accounting for cross-sectional heterogeneity and any heteroskedasticity corrections applied in the estimation. The F-statistics for all models are highly significant ($p < 0.001$), confirming that the explanatory variables, collectively, have a statistically significant relationship with the dependent variable (tax avoidance). This supports the overall validity of the models.

6.8.3 Cross-Country Analysis: Moderated Relationship between Ownership Structure and Tax Avoidance

Overall, the results indicate that audit quality does not operate uniformly across countries, ownership structures, or tax avoidance measures. Instead, its moderating role is highly context-dependent, supporting the core premise of the Alignment–Entrenchment Effects framework that governance mechanisms interact with institutional environments rather than exerting universal disciplinary effects.

The moderating role of audit quality on family ownership differs markedly between Indonesia and Malaysia. In Indonesia, audit quality significantly moderates the relationship between family ownership and tax avoidance only when tax avoidance is measured using book–tax differences (BTD). Both ARL and Big 4 auditors weaken

the association between family ownership and BTD, indicating that higher audit scrutiny constrains discretionary tax reporting practices within family-controlled firms. However, no significant moderation is observed when tax avoidance is proxied by SETR. This pattern suggests that Indonesian family firms do not engage extensively in overt statutory tax avoidance but may exploit discretionary reporting channels, which are more effectively detected through prolonged audits and high-reputation auditors. The findings imply that audit quality realigns family incentives by reducing informational opacity rather than restricting legally permissible tax planning. In contrast, Malaysia exhibits a weaker and less consistent moderation effect for family ownership. While ARL reduces tax aggressiveness, Big 4 auditors appear to facilitate, rather than constrain, sophisticated tax planning in family firms. This divergence reflects Malaysia's more developed audit market, where reputable auditors may serve both monitoring and advisory roles, enabling legally compliant but aggressive tax optimisation.

Foreign ownership shows contrasting moderated effects across the two countries. In Indonesia, audit quality significantly weakens the positive association between foreign ownership and tax avoidance when SETR is used, indicating that external audits constrain explicit, rate-based tax avoidance driven by foreign shareholders. However, this moderating role disappears under BTD, suggesting that foreign investors may employ structured and complex tax strategies that remain largely undetected even under high-quality audits. In Malaysia, the moderating effect is reversed. Big 4 auditors consistently mitigate the tax-aggressive behavior associated with foreign ownership, particularly under BTD. This suggests that in a stronger regulatory and disclosure environment, high-quality auditors are more effective in aligning foreign investors with local compliance norms. These findings underscore that audit quality is more effective in disciplining foreign ownership where enforcement credibility and regulatory infrastructure are stronger, as in Malaysia.

Across both countries, audit quality exhibits limited moderating influence on the relationship between government ownership and tax avoidance. In Indonesia, neither ARL nor Big 4 auditors significantly moderate this relationship, reflecting the dominance of political oversight, bureaucratic controls, and internal accountability mechanisms within state-owned enterprises. External audit mechanisms appear to provide little incremental governance value beyond existing institutional controls. In Malaysia, however, Big 4 auditors significantly reduce tax avoidance among

government-linked firms, while ARL remains insignificant. This contrast highlights institutional differences in how public accountability is enforced. In Malaysia's more mature governance environment, reputational discipline imposed by international audit firms plays a meaningful role, whereas in Indonesia, audit quality is largely overshadowed by political and administrative governance structures.

Institutional ownership provides one of the strongest cross-country contrasts. In Indonesia, institutional ownership is associated with higher tax avoidance, consistent with the entrenchment effect. However, audit quality robustly moderates this relationship across all models, indicating that both ARL and Big 4 auditors effectively constrain institutional opportunism. This suggests that external audits play a critical corrective role in settings where powerful shareholders may otherwise dominate governance processes. In Malaysia, institutional ownership is inherently alignment-oriented, being associated with lower tax avoidance. Audit quality further strengthens this alignment, reinforcing the monitoring role of institutional investors. The consistent moderation observed across both proxies and tax measures suggests a synergistic governance structure in Malaysia, where internal and external mechanisms complement each other effectively.

Managerial ownership demonstrates entrenched behavior in both countries, with higher managerial stakes associated with greater tax avoidance. However, the moderating role of audit quality differs substantially. In Indonesia, ARL moderates SETR-based avoidance while Big 4 auditors constrain BTD-based avoidance, indicating partial and proxy-sensitive moderation. This suggests that audit mechanisms operate selectively depending on the nature of tax avoidance. Meanwhile In Malaysia, both ARL and Big 4 auditors consistently mitigate the tax-aggressive effects of managerial ownership across SETR and BTD. This indicates a stronger and more comprehensive audit governance framework, where external audits effectively discipline managerial entrenchment. The findings reinforce the view that audit quality is most effective where regulatory enforcement and auditor independence are institutionalised.

Taken together, the cross-country moderated analysis reveals that audit quality acts as a contingent governance mechanism rather than a universal constraint. In Indonesia, audit quality primarily limits discretionary and opaque tax avoidance (BTD) and is less effective against structured or statutory-based strategies. In Malaysia, audit quality exerts broader and more consistent moderating effects across ownership types

and tax measures. These findings refine the Alignment–Entrenchment framework by demonstrating that the success of audit quality in mitigating ownership-driven tax avoidance depends on institutional maturity, enforcement credibility, and the nature of tax planning activities. Audit quality is most effective when it complements existing governance systems, rather than attempting to substitute for weak institutional enforcement.

6.9 Critical Discussion

6.9.1 Critical Analysis of Indonesian Results

The Indonesian findings offer a nuanced view of how audit quality interacts with family ownership in shaping tax avoidance behavior. Across most models, family ownership alone does not exhibit a significant direct influence on tax avoidance. This aligns with studies such as Maitriyadewi (2020), Tarmizi et al. (2023), and Wulandari et al. (2024), which suggest that the collectivist culture and informal governance structures common in Indonesian family firms may temper the pursuit of aggressive tax strategies. Within this context, the entrenchment effect—where concentrated ownership leads to opportunistic behavior—appears muted, while the alignment effect—suggesting risk aversion and long-term orientation—may dominate, especially in closely held firms concerned with legacy and continuity. However, the moderating role of audit quality reveals more complexity. Specifically, the interaction between family ownership and audit quality is statistically significant only when tax avoidance is measured using book-tax differences (BTD), as seen in Models (3.c) and (3.d). In these models, both audit report lag (ARL) and the presence of a Big 4 auditor significantly reduce the positive association between family ownership and tax avoidance. This supports aligns with prior studies such as Salihu et al. (2015) and Gaaya et al. (2017), who found that heightened external scrutiny deters aggressive tax strategies in family-controlled firms. The longer audit duration (ARL) likely reflects increased effort and more in-depth reviews, which are effective in uncovering discretionary reporting tactics embedded in book-tax discrepancies (Dao & Pham, 2014; Chan et al., 2016). Similarly, Big 4 auditors, due to their reputational capital and rigorous standards, impose stronger constraints on opportunistic tax planning (Francis et al., 2009; Lanis & Richardson, 2011).

In contrast, audit quality does not significantly moderate the relationship when tax avoidance is measured using the statutory-effective tax rate (SETR), as seen in Models (3.a) and (3.b). One explanation is that SETR captures more overt, compliance-based tax planning rather than nuanced discretionary tactics. As such, family firms may employ legitimate tax deferrals or standard deductions that fall within acceptable bounds of tax planning—strategies less likely to be detected or discouraged through audit mechanisms. Moreover, since SETR is more transparent and easier to benchmark against statutory requirements, the opportunity or need for aggressive behavior may be limited, rendering audit quality less impactful. These insights reflect the broader argument by Lennox et al. (2019), who note that external audits focus on ensuring compliance with accounting and tax rules, but may not deter strategic, yet legally permissible, tax minimization. The results from Indonesia indicate that while family ownership does not inherently lead to tax avoidance, its interaction with audit quality—particularly under the BTD measure—reveals the importance of strong external governance. These findings support the entrenchment-alignment theoretical framework, suggesting that while family control can create entrenchment risks, the presence of high audit quality—via extended audit duration or reputable audit firms—can effectively realign incentives, limit discretion, and promote tax compliance.

Foreign ownership in Indonesia is positively associated with tax avoidance when measured using the statutory-effective tax rate (SETR), reflecting the entrenchment effect where foreign shareholders may exert pressure for short-term financial gains, often through aggressive tax planning. This supports the notion that foreign investors, despite being subject to reputational scrutiny, may still pursue tax efficiency to enhance profitability (Desai & Dharmapala, 2009; Klassen & Laplante, 2012). However, this tendency is effectively moderated by high audit quality. Specifically, both audit report lag and Big 4 audit firms significantly reduce the positive association between foreign ownership and SETR in Models (3.a) and (3.b), suggesting that external scrutiny, through either prolonged audit procedures or high-reputation auditors, deters overtly aggressive tax behavior. These findings are in line with Alkurdi and Mardini (2020), Salihu et al. (2015), and Chytis et al. (2020), who argue that high-quality audits can curb opportunistic strategies, particularly among foreign-controlled firms.

Conversely, when tax avoidance is measured using book-tax differences (BTD), the relationship becomes more complex. Here, audit quality does not moderate the

foreign ownership effect as expected. Instead, both audit quality proxies are positively associated with BTD, indicating that foreign investors may leverage sophisticated, but legally permissible, tax planning techniques that evade detection or scrutiny—even under rigorous audits. This suggests that while external audits constrain explicit non-compliance (SETR), they may be less effective in addressing nuanced or structured tax planning strategies (Hanlon, 2005; Rego & Wilson, 2012). The alignment effect appears limited under BTD, as audit mechanisms may focus more on compliance than on strategic planning, allowing room for tax optimization through accounting discretion. These findings highlight the limitations of audit quality in fully curbing foreign ownership-driven tax strategies, particularly in jurisdictions like Indonesia with evolving regulatory frameworks.

Government ownership in Indonesia shows no significant relationship with tax avoidance across all models, and audit quality—whether measured by audit report lag or Big 4 auditor affiliation—does not exert any moderating effect. These results indicate that external audit mechanisms play a minimal role in shaping tax behavior among state-owned enterprises (SOEs) in the Indonesian context. This aligns with prior studies by Rahman et al. (2018) and Sukmadilaga et al. (2017), which highlight that SOEs often operate under the influence of socio-political objectives rather than profit maximization. Consequently, their financial decisions—including tax planning—are likely governed by internal regulations and public accountability mandates rather than market-driven incentives. From a theoretical perspective, the government’s dual role as both regulator and owner may reduce the effectiveness of external governance tools such as audit quality. SOEs typically face scrutiny from multiple oversight bodies, including ministries, auditors general, and parliamentary committees, which may render additional scrutiny from external auditors redundant. Furthermore, the bureaucratic nature of SOEs may explain the insignificant role of audit report lag; longer audit processes may be procedural rather than reflective of deeper investigations, as suggested by Dao and Pham (2014). Similarly, the presence of Big 4 auditors may have limited impact in this setting, as reputational concerns and rigorous international standards may not be sufficient to influence tax strategies in firms where political accountability and internal mandates dominate. Overall, these findings suggest that in Indonesia, government-linked firms may be embedded in institutional frameworks that already constrain their tax behavior, limiting the marginal utility of external audit quality as a governance mechanism. Thus, there is insufficient evidence to support the

moderating role of audit quality on the relationship between government ownership and tax avoidance.

Institutional ownership demonstrates a significant positive association with tax avoidance in Indonesia, particularly when measured using book-tax differences (BTD), suggesting that dominant institutional shareholders may exert pressure on firms to adopt aggressive but legal tax strategies. This supports the entrenchment effect, where powerful shareholders may prioritize financial optimization over regulatory compliance. However, both proxies of audit quality—Big 4 auditors and audit report lag (ARL)—significantly moderate this relationship across all models. The consistent negative moderation by audit quality confirms that robust external oversight can counterbalance the influence of opportunistic institutional investors. Big 4 auditors, known for their stringent audit standards and reputational concerns, are effective in reinforcing tax compliance (Francis et al., 2009; Rego & Wilson, 2012). Similarly, longer ARL, often associated with more detailed audits, allows for deeper financial reviews and increased scrutiny (Dao & Pham, 2014), which discourages aggressive tax planning. These findings align with Alkurdi and Mardini (2020), Hanlon and Heitzman (2010), and Qawqzeh (2023), who argue that high-quality audits enhance transparency, discipline dominant shareholders, and reduce agency costs. From a theoretical lens, while institutional ownership may initially exhibit entrenchment behavior through tax minimization, strong audit quality shifts this dynamic toward alignment—ensuring that institutional investors' long-term interests are reconciled with regulatory expectations. Overall, the results highlight the importance of integrating both internal and external governance mechanisms to mitigate tax avoidance risks in Indonesian firms with concentrated institutional holdings.

Managerial ownership demonstrates a significant and consistent positive relationship with tax avoidance across all models, supporting the entrenchment perspective, where managers with substantial equity stakes may exploit their positions to engage in opportunistic tax practices. However, both audit report lag and the presence of Big 4 auditors significantly moderate this relationship across all tax avoidance measures, offering strong evidence for Hypothesis 10. This suggests that audit quality plays a critical governance role in curbing managerial opportunism. Specifically, longer audit report lag is associated with reduced tax avoidance under SETR, implying that more time-intensive audits enhance scrutiny and regulatory compliance, thereby limiting managerial discretion in statutory tax reporting.

Meanwhile, Big 4 auditors significantly reduce book-tax differences, indicating their effectiveness in constraining aggressive financial reporting and tax planning tactics. These findings are consistent with the work of Gaaya et al. (2017) and Dechow et al. (1996), who emphasize the disciplining power of external audit mechanisms in insider-dominated firms. Within the alignment-entrenchment framework, the Indonesian evidence highlights that while entrenched managerial ownership may incentivize aggressive tax behavior, robust external monitoring—through audit duration or reputable auditors—can restore alignment between management and broader stakeholder interests.

In summary, the Indonesian findings emphasize that ownership structure alone does not uniformly predict tax avoidance; rather, its interaction with audit quality plays a decisive role. Audit quality, as an external governance mechanism, moderates several ownership-tax avoidance relationships—most notably for foreign, institutional, and managerial ownership—demonstrating its capacity to align shareholder interests with regulatory compliance. While family and government ownership showed limited direct influence, audit quality proved effective in curbing aggressive tax planning in contexts marked by potential entrenchment risks, such as foreign and managerial control. The evidence also reveals that the moderating power of audit quality is measurement-sensitive, being more pronounced when tax avoidance is captured via book-tax differences (BTD) than statutory-effective tax rate (SETR). Overall, these results underscore the importance of strengthening audit quality in emerging markets like Indonesia to mitigate agency problems and promote fiscal transparency, especially within concentrated or insider-dominated ownership structures.

6.9.2 Critical Analysis of Malaysian Results

The Malaysian findings present a compelling contrast to the Indonesian context, illustrating the influence of a more structured regulatory environment and the nuanced role of audit quality in shaping the relationship between ownership structures and tax avoidance. Family ownership demonstrates mixed results depending on the audit quality proxy. While family ownership is negatively associated with tax avoidance, this relationship is positively affected by Big 4 audit firms. In contrast, audit report lag (ARL) negatively moderates the relationship, indicating that longer audit processes reduce tax aggressiveness in family-controlled firms. These findings suggest that in

Malaysia, where family firms are dominant, the presence of thorough and extended audits (ARL) serves as a more effective governance mechanism than mere auditor reputation. This supports previous research suggesting that longer audits indicate deeper scrutiny (Dao & Pham, 2014; Chan et al., 2016) and can serve as a proxy for stringent audit procedures and deeper financial review processes (Habib & Bhuiyan, 2011).

However, the paradoxical positive effect of Big4 moderation suggests that the presence of a Big 4 auditor does not necessarily constrain tax avoidance and may even facilitate sophisticated tax planning strategies. This finding implies that while Big4 auditors, renowned for their high-quality audits and strict adherence to international standards, may also offer advanced tax planning services that allow firms to legally minimize tax burdens (Desai & Dharmapala, 2009; Taylor & Richardson, 2014). Where the regulatory environment allows for relatively flexible tax strategies, Big 4 firms may enable family-controlled businesses to structure their tax affairs more efficiently rather than acting as a constraint. This may reflect Malaysian family firms' strategic use of reputable auditors to gain legitimacy while still optimizing tax outcomes through complex, yet compliant, methods. The findings also highlight that not all indicators of audit quality function as expected in constraining tax avoidance, reinforcing the need for further research into context-specific audit effectiveness.

Foreign ownership and its association with tax avoidance is moderated differently across proxies. While Big4 audit firms strengthen the negative relationship, suggesting enhanced oversight, longer ARL appears to weaken this effect, possibly due to delays in financial reporting or complex cross-border structures that reduce audit efficiency. These contrasting results reflect the dual pressures foreign investors face: the need for tax transparency versus the demand for global tax optimization (Klassen & Laplante, 2012). In line with Salihu et al. (2015), the presence of Big4 auditors appears to help align foreign ownership interests with local compliance, underscoring the role of international audit firms in reinforcing governance standards. In the Malaysian context, Big 4 audit firms play a crucial role in moderating the relationship between foreign ownership and tax avoidance. The presence of Big 4 auditors reverses the initially positive relationship between foreign ownership and tax avoidance into a negative one. This indicates that foreign-owned firms, which may otherwise engage in higher levels of tax avoidance, are subject to enhanced scrutiny and stricter compliance measures when audited by Big 4 firms. Leveraging their global expertise and adherence

to rigorous international auditing standards, Big 4 auditors enforce greater transparency and accountability, effectively curbing aggressive tax strategies and ensuring compliance with both local and international tax regulations. This reversal underscores the pivotal role of high-quality audits in shaping the tax behavior of foreign-owned firms, mitigating opportunities for aggressive tax planning, and fostering better governance practices.

Government ownership is positively associated with tax avoidance in the Malaysian context, as reflected in Model (3.d) using book-tax difference (BTD) as the proxy. This suggests that some state-influenced firms may engage in more aggressive tax planning, potentially leveraging political ties or regulatory flexibility to reduce tax burdens. Such behavior aligns with prior findings that government-linked firms, despite being expected to uphold public accountability, may still exploit institutional advantages for financial gains (Faccio, 2006; Wu et al., 2013). However, this relationship is significantly moderated by the presence of Big 4 audit firms. High-quality auditors, known for their adherence to international standards and greater reputational concerns, appear to constrain aggressive tax practices in these firms. Their rigorous oversight enhances transparency and financial discipline, curbing the incentives or opportunities for excessive tax avoidance. This aligns with Francis et al. (2009) and Chytis et al. (2019), who emphasize the critical role of audit quality in mitigating opportunistic financial behavior, especially in politically connected firms. In Malaysia, where external governance mechanisms are more institutionalized, the effectiveness of Big 4 auditors in regulating tax conduct among state-owned enterprises is particularly evident. By contrast, audit report lag does not play a significant moderating role in this relationship. The insignificance of this measure, also observed in other models, suggests that the timeliness of audit completion may have limited influence on tax strategies in government-linked firms. This could be due to the existence of bureaucratic procedures, rigid internal controls, or policy-driven objectives that overshadow the role of audit duration. As Habib and Bhuiyan (2011) noted, audit delay in such contexts may reflect administrative inefficiencies rather than enhanced scrutiny, thereby limiting its effectiveness as a governance tool.

Institutional ownership in Malaysia is consistently associated with lower levels of tax avoidance, and this relationship is significantly strengthened by audit quality across all tested models. When high institutional ownership is accompanied by the presence of Big 4 auditors or extended audit report lags, firms are significantly less

likely to engage in aggressive tax strategies. Big 4 auditors play a pivotal role in reinforcing tax compliance among firms with concentrated institutional ownership, likely due to their reputational capital, adherence to international standards, and greater independence from managerial influence. Concurrently, longer audit report lags—often indicative of more rigorous or complex audits—appear to enhance scrutiny and reduce opportunities for tax planning, especially when institutional investors prioritize transparency and regulatory alignment. These findings align with Qawqzeh (2023), Salihu et al. (2015), and Hanlon and Heitzman (2010), who emphasize the capacity of institutional shareholders to deter opportunistic financial behavior when supported by strong external audits. The consistent significance of both audit quality proxies across models (3.a) to (3.d) suggests a high degree of synergy between internal and external governance forces in the Malaysian context. Malaysia's more developed corporate governance landscape likely provides institutional investors with the leverage and regulatory environment needed to collaborate effectively with external auditors in promoting tax compliance.

Managerial ownership in Malaysia is positively associated with tax avoidance, supporting the entrenchment effect whereby insider shareholders may exploit their influence for personal gain. However, both audit quality proxies—Big 4 auditors and audit report lag (ARL)—significantly moderate this relationship across both SETR and BTD models, providing strong support for Hypothesis 10. These findings align with Dechow et al. (1996) and Gaaya et al. (2017), who argue that strong external monitoring mechanisms can curb opportunistic behavior driven by managerial entrenchment. Big 4 auditors help constrain tax avoidance by enforcing rigorous standards and leveraging their global reputation, ensuring compliance with financial reporting and statutory requirements (Taylor & Richardson, 2014). Similarly, ARL emerges as a meaningful constraint, suggesting that longer audit durations increase scrutiny, reduce managerial discretion, and enhance both financial transparency and tax compliance. Unlike in Indonesia, Malaysia's audit duration plays a broader role, significantly reducing tax avoidance under both measures. These results reflect Malaysia's stronger regulatory and governance environment, which enables external audit mechanisms to function as effective deterrents to tax avoidance. Consequently, regulators should continue strengthening the independence and scope of audit practices to ensure continued oversight over managerial influence and promote sustained corporate accountability.

In summary, the Malaysian findings underscore the effectiveness of audit quality as an external governance mechanism in moderating the relationship between various ownership structures and tax avoidance. The consistent significance of both audit report lag and Big 4 auditors across multiple ownership types—especially institutional and managerial ownership—reflects Malaysia’s stronger regulatory enforcement, more institutionalized governance frameworks, and mature audit environment. While some paradoxical outcomes, such as the facilitation of complex tax planning by Big 4 auditors in family-owned firms, call for closer scrutiny, the overall results reaffirm the Alignment and Entrenchment Effects as robust theoretical lenses. In particular, the evidence suggests that when supported by high-quality audits, the alignment role of institutional investors is strengthened, while the entrenchment risks of managerial and government-linked ownership can be effectively mitigated. These findings highlight the need for continued emphasis on audit independence, auditor selection quality, and audit process duration as critical levers for enhancing corporate tax compliance and curbing opportunistic behavior within Malaysia’s diverse ownership landscape.

6.9.3 Cross-Country Comparative Critique

The Malaysian findings present a compelling contrast to the Indonesian context, illustrating the influence of a more structured regulatory environment and the nuanced role of audit quality in shaping the relationship between ownership structures and tax avoidance. Family ownership exhibits contrasting patterns between the two countries. In Indonesia, audit quality—proxied by both audit report lag (ARL) and Big 4 affiliation—significantly weakens the relationship between family ownership and tax avoidance, particularly under book-tax difference (BTD). This supports the entrenchment effect, where controlling families may engage in opaque tax strategies unless constrained by strong audit oversight (Gaaya et al., 2017; Salihi et al., 2015). However, no moderation is found when statutory-effective tax rate (SETR) is used, suggesting that audit scrutiny is more effective against discretionary tax planning than explicit, statutory-based avoidance. This divergence may be explained by the nature of the tax avoidance proxies: BTD captures more discretionary, opaque strategies commonly used by entrenched family firms, while SETR reflects statutory deviations that may be legally structured and more visible. In Indonesia’s regulatory environment,

auditors may be more effective at curbing hidden practices (BTD) than formal rate manipulation (SETR) (Hanlon, 2005), where firms often comply on paper but exploit accounting flexibility elsewhere. This supports the entrenchment hypothesis and underscores the selective strength of audit scrutiny in weakly regulated contexts.

In Malaysia, the relationship between family ownership and tax avoidance is more complex. While audit report lag (ARL) continues to serve as a deterrent—indicating that longer and potentially more thorough audits reduce tax aggressiveness in family-controlled firms—the presence of Big 4 auditors paradoxically strengthens this relationship. This suggests that, although Big 4 firms are traditionally regarded as external monitors enforcing compliance, they may also play an advisory role that enables sophisticated yet legally compliant tax strategies (Desai & Dharmapala, 2009; Taylor & Richardson, 2014). This duality is particularly evident in Malaysia’s regulatory and institutional context, where family firms tend to be large, well-resourced, and highly influential. As noted by Khelil and Khlif, (2023), Malaysian family firms often display high tax aggressiveness, leveraging their organizational opacity, resource advantages, and affiliations with Big 4 auditors to manage reputational risks and optimize tax outcomes. Big 4 affiliation offers both legitimacy and technical expertise, allowing family firms to engage in complex planning while minimizing the likelihood of regulatory penalties. The strategic use of reputable auditors to shield aggressive tax behavior illustrates how audit quality, rather than uniformly constraining tax avoidance, may instead facilitate tax-efficient strategies that comply with formal standards but potentially undermine tax transparency. Overall, Indonesia presents a more consistent audit-constraining effect aligned with the entrenchment view, while Malaysia reflects a strategic alignment between family firms and audit providers—highlighting the need to distinguish between enforcement and advisory roles within audit quality.

Foreign ownership is consistently associated with higher tax avoidance in Indonesia, aligning with the entrenchment hypothesis. However, audit quality (ARL and Big 4) significantly reduces this aggressive behavior under SETR, confirming that effective external monitoring can realign foreign investors toward compliance (Francis et al., 2009; Alkurdi & Mardini, 2020). Yet under BTD, these same mechanisms appear to lose their moderating power, suggesting that foreign investors may pursue sophisticated planning not easily captured or challenged by standard audits. In Malaysia, the results are reversed: foreign ownership is negatively associated with tax

avoidance, particularly when firms are audited by Big 4 auditors. ARL, however, shows less consistent moderation. These findings align with the alignment view, where foreign shareholders uphold international compliance norms but also face pressures for global tax efficiency (Klassen et al., 2017). Big 4 auditors play a stronger role in Malaysia, reinforcing international governance standards among foreign investors.

Government ownership shows weak audit moderation in both countries. In Indonesia, the relationship is statistically insignificant across all models, suggesting that internal political oversight and bureaucratic structures may substitute for or dilute external audit impact (Rahman et al., 2018). In Malaysia, while ARL remains insignificant, Big 4 auditors significantly reduce tax avoidance in government-linked firms, indicating their effectiveness in imposing reputational discipline in a more mature governance environment (Chytis et al., 2019). This contrast reflects institutional differences in how public accountability and external scrutiny interact in state-affiliated entities.

Institutional ownership is associated with tax aggressiveness in Indonesia, yet this is strongly moderated by audit quality across all models. The findings reflect the entrenchment risk posed by dominant institutional investors but also highlight the capacity of external audits to discipline such behavior (Hanlon & Heitzman, 2010; Qawqzeh, 2023). In Malaysia, institutional ownership is instead associated with lower tax avoidance, and both ARL and Big 4 auditors reinforce this relationship. These results suggest a stronger alignment effect, where institutional investors act as active monitors—particularly when supported by high-quality audits—indicating a more synergistic governance framework in Malaysia.

Managerial ownership is positively associated with tax avoidance in both countries, consistent with the entrenchment view that managerial control increases the potential for opportunistic behavior (Desai & Dharmapala, 2009). In Indonesia, the moderation effects of audit quality are mixed—ARL only moderates SETR, while Big 4 auditors only affect BTM. In Malaysia, however, both ARL and Big 4 consistently reduce tax avoidance under both proxies, reinforcing their role in curbing discretionary behavior among insider shareholders (Dechow et al., 1996; Gaaya et al., 2017). This suggests that the Malaysian audit environment is more effective at constraining managerial entrenchment across the board. The summary of the results is compiled in Table 6.24.

Table 6.24
Summary of the Result

	Hypothesis	Indonesia	Malaysia
H6	Audit quality moderates the relationship between family ownership and tax avoidance in Indonesia and Malaysia.	Supported in Model(s): (3.c) and (3.d)	Supported in Model(s): (3.a) and (3.c)
		Not Supported in Model(s): (3.a) and (3.b) Reason: Insignificant	Not supported in Model(s): (3.b) and (3.d) Reason: positive
H7	Audit quality moderates the relationship between foreign ownership and tax avoidance in Indonesia and Malaysia.	Supported in Model(s): (3.a) and (3.b)	Supported in Model(s): (3.b) and (3.d)
		Not supported in Model(s): (3.c) and (3.d) Reason: positive	Not supported in Model(s): (3.a) and (3.c) Reason: positive
H8	Audit quality moderates the relationship between government ownership and tax avoidance in Indonesia and Malaysia.	Fully not supported Reason: insignificant	Supported in Model(s): (3.d)
			Not supported in Model(s): (3.a) - (3.c) Reason: insignificant
H9	Audit quality moderates the relationship between institutional ownership and tax avoidance in Indonesia and Malaysia.	Fully supported	Fully supported
H10	Audit quality moderates the relationship between managerial ownership and tax avoidance in Indonesia and Malaysia	Fully supported	Fully supported

Source: Author's work

In summary, audit quality plays a crucial but context-dependent role in moderating the ownership–tax avoidance relationship. In Indonesia, its effects are more selective, often contingent on the type of tax avoidance and ownership structure. In Malaysia, audit quality exerts broader and more consistent influence, reflecting stronger regulatory frameworks and a more developed governance infrastructure. While ARL emerges as a reliable constraint across both settings—particularly in family- and manager-dominated firms—Big 4 auditors demonstrate both deterrent and enabling roles, especially in environments that favor strategic compliance. These findings suggest that the success of audit quality as a governance mechanism depends not only on its technical strength but also on its interaction with institutional context and ownership behavior.

6.10 Robustness Analysis

This section assesses the robustness of the empirical findings by examining whether the main results remain consistent across alternative proxies, model specifications, and estimation approaches. Robustness analysis is essential in cross-country panel studies to ensure that the observed relationships are not driven by a particular measurement choice or model design but instead reflect stable and systematic patterns in the data.

6.10.1 Robustness to Alternative Measures of Tax Avoidance

To ensure that the findings are not sensitive to the measurement of tax avoidance, this study employs two widely used proxies: the statutory effective tax rate (SETR) and book–tax differences (BTD). SETR captures deviations from statutory tax obligations and reflects more explicit tax planning behavior, whereas BTD captures discretionary reporting differences that may indicate more opaque or sophisticated tax strategies.

Across both Indonesian and Malaysian samples, the core findings regarding ownership structure and tax avoidance remain broadly consistent across these two measures. Foreign ownership, institutional ownership, and managerial ownership exhibit statistically significant associations with tax avoidance under at least one proxy in both countries, while family and government ownership display more context-

dependent effects. Importantly, where differences arise between SETR and BTD, these differences are economically meaningful rather than contradictory. They suggest that certain ownership structures may influence overt tax planning (captured by SETR) differently from discretionary or accounting-based tax strategies (captured by BTD).

These results indicate that the study's conclusions are not driven by a single operationalization of tax avoidance, thereby strengthening confidence in the validity of the findings.

6.10.2 Robustness to Alternative Measures of Audit Quality

The robustness of the moderating role of audit quality is assessed using two alternative proxies: Big 4 auditor affiliation and audit report lag (ARL). While Big 4 affiliation reflects auditor reputation and brand-level quality, ARL captures the audit process dimension, including audit effort, scrutiny, and complexity.

The findings demonstrate that the moderating role of audit quality is robust across these alternative measures, though the magnitude and direction of effects vary depending on institutional context and the tax avoidance proxy used. In particular, ARL consistently emerges as an effective moderating mechanism in curbing aggressive tax behavior in ownership structures prone to entrenchment, especially under BTD. Big 4 auditors also play a significant moderating role in several models, particularly in Malaysia, where regulatory enforcement and audit institutions are more developed.

The use of both reputation-based and process-based audit quality measures enhances the robustness of the analysis by showing that audit quality influences tax avoidance through multiple governance channels rather than a single mechanism.

6.10.3 Robustness to Model Specification

To address concerns regarding model specification, the study estimates regression models both with and without control variables. The primary hypothesis testing is based on the full models that include corporate governance and financial controls, consistent with best practices in empirical accounting research.

The key ownership–tax avoidance relationships remain stable after the inclusion of control variables, although some coefficients lose statistical significance. Such

changes are interpreted as evidence that ownership effects are partially influenced by firm-specific characteristics rather than being spurious. Importantly, no major reversals in coefficient signs are observed across model specifications, indicating that the findings are not driven by omitted variable bias. This approach confirms that the reported results are robust to alternative model specifications and supports the validity of the hypothesis testing strategy.

6.10.4 Robustness to Estimation Technique

Given the presence of heteroskedasticity and cross-sectional dependence in the panel data, the study employs panel-corrected standard errors (PCSE) with cross-section weights. This estimation approach is well-suited for cross-country panel datasets and provides reliable inference in the presence of contemporaneous correlation across firms. Diagnostic tests confirm the appropriateness of this estimation strategy, and the high explanatory power and statistical significance of the models further support the robustness of the results. By adopting PCSE rather than conventional fixed-effects estimators alone, the study mitigates potential biases associated with panel data structure and enhances the reliability of the findings.

6.10.5 Summary of Robustness Findings

Overall, the robustness analyses confirm that the study's main conclusions are not sensitive to alternative proxies, model specifications, or estimation techniques. The consistency of results across SETR and BTDR, Big 4 and ARL, and different model structures provides strong assurance that the observed relationships between ownership structure, audit quality, and tax avoidance are systematic and economically meaningful. These robustness checks reinforce the credibility of the empirical findings and strengthen the study's contribution to the literature on corporate governance and tax avoidance in emerging markets.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

This chapter synthesizes the study's key findings, connecting the research objectives, empirical results, and theoretical contributions. It consolidates insights into how various ownership structures influence tax avoidance and how audit quality moderates these relationships within the institutional contexts of Indonesia and Malaysia. By integrating empirical evidence with the alignment and entrenchment perspectives, this chapter highlights the study's contribution to the broader fields of corporate governance and taxation.

The chapter begins with an overview of the research objectives and the theoretical framework guiding the study. It then summarizes the main empirical findings and discusses their implications for firms, regulators, and investors. Practical recommendations are presented for enhancing tax transparency, governance standards, and policy enforcement. The chapter also acknowledges the study's limitations and outlines directions for future research, including opportunities for cross-country comparisons, alternative methodological approaches, and qualitative extensions. The final section concludes with a reflection on the study's overall significance and its contribution to academic discourse and policymaking in emerging markets. Through this chapter, the study's findings are clearly articulated and contextualized, offering both scholarly and practical value for understanding the dynamics of ownership, audit quality, and tax behavior.

7.2 Overview of the Study and Research Objectives

Corporate tax avoidance has emerged as a critical issue in financial research, prompting governments and regulators to strengthen oversight while maintaining business competitiveness. This study investigates the direct and moderating effects of ownership structure on tax avoidance in publicly listed firms in Indonesia and Malaysia. Specifically, it aims to: (1) examine whether foreign, government, institutional, managerial, and family ownership are associated with varying levels of tax avoidance,

and (2) assess whether audit quality moderates the relationship between ownership and tax avoidance.

The study is anchored in the alignment and entrenchment effect framework. The entrenchment perspective posits that dominant shareholders, such as family or managerial owners, may exploit control for personal gain through aggressive tax practices. In contrast, the alignment effect suggests that institutional and foreign investors promote transparency and mitigate such behavior. Audit quality further strengthens external monitoring, acting as a governance mechanism that aligns entrenched interests with broader stakeholder expectations. High-quality auditors, particularly those from Big 4 firms, enhance financial scrutiny and reduce the likelihood of excessive tax planning. This theoretical lens underpins the study's empirical examination of how ownership structures and audit mechanisms jointly influence tax behavior.

Indonesia and Malaysia provide meaningful comparative settings due to their emerging financial markets, relationship-based governance models, and evolving regulatory frameworks. While both countries have introduced tax reforms and corporate governance codes, differences in enforcement and compliance culture make cross-country analysis particularly insightful. By focusing on publicly listed firms from 2017 to 2021, the study captures year-to-year changes in firm behavior, regulatory developments, and economic conditions—especially those arising during the COVID-19 period—thereby providing richer empirical variation for analysis. It employs two measures of tax avoidance—statutory effective tax rate (SETR) and book-tax differences (BTD)—and assesses audit quality using Big 4 auditor affiliation and audit report lag.

The empirical results directly address these research objectives. For the first objective, the analysis shows that ownership types of influence tax avoidance differently across the two countries. Family ownership is insignificant in Indonesia but constrains tax avoidance in Malaysia; foreign, government, and managerial ownership are associated with higher tax avoidance in both settings; and institutional ownership demonstrates contrasting effects—entrenchment-oriented in Indonesia and alignment-oriented in Malaysia. These findings answer the research questions by showing that ownership structure is not uniformly related to tax avoidance and its effects depend on the institutional environment.

For the second objective, the results indicate that audit quality moderates several ownership–tax avoidance relationships. Audit report lag reduces tax avoidance for some ownership types, particularly family and institutional ownership, suggesting stronger monitoring through extended audit effort. In contrast, Big 4 auditors appear to be associated with higher tax avoidance in certain foreign-owned firms, indicating that audit reputation alone does not always constrain sophisticated tax planning. These results respond directly to the moderation research questions by demonstrating that audit quality interacts differently with ownership structures to influence tax avoidance.

By linking the research objectives with the empirical findings, this section clarifies how the study addresses its core research questions and provides a foundation for the more detailed summary of results presented in Section 7.3.

7.3 Summary of Results

This study investigates the relationship between ownership structure and tax avoidance in Indonesia and Malaysia, focusing on the moderating role of audit quality. Hypotheses 1 to 5 test the direct relationships between five ownership types and tax avoidance, while Hypotheses 6 to 10 evaluate the moderating effects of audit quality—proxied by audit report lag (ARL) and Big 4 auditor affiliation—on these relationships. The results present notable patterns and cross-country contrasts that reflect institutional, regulatory, and cultural differences.

In terms of direct effects, family and government ownership in Indonesia do not exhibit statistically significant relationships with either SETR or BTDR, suggesting that these types of ownership neither promote nor deter tax avoidance. Such results challenge conventional expectations under the entrenchment or alignment views, suggesting that Indonesia's institutional framework may limit controlling shareholders' discretion in corporate tax strategies. In contrast, family ownership in Malaysia is significantly and negatively associated with tax avoidance, suggesting that Malaysian family firms are more conservative in their tax planning—possibly due to reputational concerns, generational wealth preservation, or more robust corporate governance enforcement. Thus, H1 is supported in Malaysia but not in Indonesia.

Foreign ownership shows a consistent and positive relationship with tax avoidance in both countries, supporting H2. This indicates that foreign shareholders may exert pressure for tax-efficient operations, often via sophisticated planning

mechanisms such as transfer pricing. These results align with prior studies that document the role of foreign investors in elevating financial efficiency, while also highlighting potential agency risks in weak regulatory environments.

Government ownership is not significantly associated with tax avoidance in Indonesia, but it is positively and significantly associated with SETR in Malaysia. This supports H3 for Malaysia, suggesting that government-linked firms may exploit political and regulatory advantages to minimize taxes. In Indonesia, the absence of a significant relationship could reflect competing institutional dynamics where political oversight offsets aggressive strategies.

Institutional ownership exhibits divergent patterns: it is positively associated with tax avoidance in Indonesia (supporting the entrenchment view), but negatively associated in Malaysia (supporting the alignment view). This confirms H4 only in the Indonesian context and reinforces the notion that institutional investors' monitoring effectiveness is context dependent. In Indonesia, institutional shareholders may lack governance leverage or align with insiders; in Malaysia, they appear to serve as effective monitors.

Managerial ownership consistently shows a positive and significant relationship with tax avoidance in both countries, supporting H5. This suggests entrenched behavior, where managers use their insider status to pursue tax strategies that enhance private control benefits or firm-level financial flexibility.

Regarding the moderating role of audit quality, the findings show mixed but insightful patterns. In Indonesia, audit quality significantly moderates the relationship between foreign, institutional, and managerial ownership and tax avoidance. Specifically, ARL and Big 4 auditors reduce the positive effects of these ownership types on tax avoidance, confirming H7, H9, and H10. This supports the alignment hypothesis by indicating that external monitors, such as auditors, can discipline opportunistic ownership-driven behaviors. However, for family- and government-owned firms, audit quality does not exert a significant moderating effect, indicating that entrenched or state-affiliated actors may be less responsive to external monitoring (H6 and H8 not supported).

In Malaysia, the moderating role of audit quality appears more nuanced. For family firms, ARL reduces tax avoidance. At the same time, Big 4 auditors appear to facilitate it, suggesting that extended audits enhance scrutiny, but Big 4 affiliation may be leveraged for sophisticated, yet legal, tax planning. This supports H6 only partially.

Interestingly, for foreign ownership, Big 4 affiliation is associated with increased tax avoidance, while ARL has no significant effect—leading to the rejection of H7 in the Malaysian context. This contrasts with Indonesia and underscores the dual role of Big 4 auditors, who may serve both compliance and strategic advisory functions.

In Malaysia, institutional ownership is associated with both ARL and the Big 4, and both significantly moderate the relationship, confirming H9. This suggests that external audit quality can reinforce institutional investors' monitoring capacity when aligned with stringent governance mechanisms. Likewise, managerial ownership is moderated by both ARL and Big 4, confirming H10, and indicating that external audit constraints can limit opportunistic tax planning by insider shareholders.

The comparison between Indonesia and Malaysia shows that audit quality as an external governance mechanism is not uniform. In Indonesia, where governance enforcement is weaker, the role of Big 4 auditors is more constrained and selective. In contrast, in Malaysia, audit quality exhibits broader—but sometimes paradoxical—effects depending on ownership type. These variations affirm the contextual nature of governance and the importance of tailoring regulatory frameworks to the institutional landscape.

In conclusion, this study confirms that ownership structure significantly influences tax avoidance, with variations in direction and strength across countries. Audit quality plays an essential moderating role but behaves differently depending on the ownership type and national governance context. These findings contribute to the literature by showing that audit quality's alignment effect is contingent upon broader institutional structures and that governance solutions must be contextually informed.

7.4 Novelty and Contributions of the Study

This study offers several important contributions to the literature on ownership structure, audit quality, and corporate tax avoidance, particularly within the institutional contexts of Indonesia and Malaysia. The first contribution lies in the integrative framework adopted to examine how different ownership structures interact with audit quality to influence tax avoidance behavior. Prior studies typically focus on either ownership or audit quality in isolation, but this study demonstrates that the governance effects of family, foreign, government, institutional, and managerial ownership are moderated by the quality of external audit oversight. By modelling audit quality as a

moderating mechanism, the study extends the theoretical application of agency and entrenchment theories and provides new evidence on how entrenched or alignment-driven behaviors emerge under varying shareholder configurations and regulatory environments.

More specifically, this study extends alignment and entrenchment perspectives by demonstrating that these effects are not fixed attributes of ownership types but are contingent upon institutional context and audit processes. While prior studies often assume that certain ownership structures inherently promote either alignment or entrenchment, the findings show that the same ownership type can exhibit different behavioral incentives across countries. Moreover, the moderating role of audit report lag indicates that audit quality functions not only as a monitoring mechanism but also as a conditional realignment mechanism. In cases where audit effort is higher, extended audit scrutiny constrains opportunistic tax behavior among ownership structures that would otherwise display entrenchment tendencies. This theoretical extension refines agency-based explanations by incorporating audit processes as a contextual factor that shapes how ownership incentives translate into tax behavior, rather than treating audit quality as a uniform governance control.

A second key contribution is methodological. This study advances the measurement of audit quality by incorporating audit report lag (ARL) as a process-based indicator of audit effort and scrutiny. While Big 4 affiliation is the dominant proxy in the existing literature, ARL captures the depth of the audit process and the level of independent verification performed within the allowable reporting timeframe. The finding that longer audit durations—still within regulatory deadlines—are associated with lower levels of tax avoidance adds a novel dimension to audit quality research. This contribution widens the methodological toolkit available to scholars and encourages future studies to consider audit processes, not only audit reputation, when assessing audit quality.

The third contribution arises from the cross-country comparative design, which provides new insights into how institutional environments shape the relationship between ownership and tax avoidance. By evaluating Indonesia and Malaysia side by side, the study demonstrates that ownership incentives and tax behaviors are not monolithic across emerging economies. In Indonesia, foreign and institutional shareholders exhibit entrenchment-oriented tendencies associated with higher tax aggressiveness, whereas in Malaysia, family and long-term institutional shareholders

display alignment behaviors linked to more responsible tax practices. This contextualized evidence enriches theoretical debates on ownership structure and offers a more nuanced understanding of corporate governance in emerging markets.

Taken together, these contributions advance both theory and practice by highlighting the need for governance frameworks that are responsive to ownership characteristics, sensitive to institutional contexts, and supported by rigorous audit processes. The study therefore provides a foundation for more sophisticated policy interventions and represents a meaningful advancement in the ownership–tax avoidance literature.

7.5 Implications of the Study

Overall, this section outlines the study's implications across theoretical, methodological, practical, and policy dimensions, reflecting the multifaceted contributions of the findings to the governance and tax avoidance literature. The findings demonstrate that the effectiveness of corporate governance and audit mechanisms is contingent upon ownership dynamics and institutional contexts, rather than following a one-size-fits-all pattern. As such, the implications of this study highlight the need for tailored governance, audit, and regulatory approaches that are responsive to differing ownership structures and national environments.

7.5.1 Theoretical Implications

This study provides several important implications for theory, methodology, practice, policy, and public finance within the ownership–tax avoidance landscape of emerging markets. At the theoretical level, the findings deepen understanding of how ownership structure influences tax behavior under differing institutional environments. By applying the entrenchment–alignment theory, the study demonstrates that ownership types are diverse. Institutional and foreign shareholders in Indonesia exhibit behavior consistent with opportunistic entrenchment. In contrast, family and long-term institutional investors in Malaysia demonstrate more alignment-driven behavior, often avoiding aggressive tax practices due to concerns over reputation, intergenerational continuity, and political legitimacy. These findings refine existing theory by showing

that shareholders' incentives and contextual pressures shape tax-avoidance decisions, rather than ownership concentration alone.

7.5.2 Methodological Implications

Methodologically, the study makes an important contribution by incorporating audit report lag (ARL) as a complementary proxy for audit quality. While prior studies commonly rely on Big 4 affiliation, ARL provides a process-oriented measure that captures the depth, scrutiny, and effort associated with audit work. The findings indicate that longer audit durations can mitigate aggressive behavior, especially in ownership structures prone to entrenchment. The use of PCSE models with cross-section weights also demonstrates an effective approach for addressing heteroskedasticity and contemporaneous correlation in panel datasets typical of emerging-market research. Together, these methodological choices enrich the toolkit available to governance and taxation scholars.

Beyond proxy selection, the findings also demonstrate the importance of combining process-based and reputation-based audit quality measures in empirical tax research. The contrasting effects observed between audit report lag and Big 4 affiliation suggest that reliance on a single audit quality proxy may lead to incomplete or misleading inferences. This implies that future studies examining governance and tax behavior—particularly in emerging markets—should adopt multi-dimensional audit quality measures and estimation techniques that accommodate heteroskedasticity and cross-sectional dependence, as evidenced by the robustness of the PCSE approach used in this study.

7.5.3 Practical and Managerial Implications

The study offers distinct practical implications for corporate governance practitioners at the firm level and for investors acting as external monitors. Firms with high concentrations of foreign or institutional ownership should be particularly vigilant about tax-aggressive tendencies and strengthen oversight mechanisms accordingly. Firms should recognize that audit quality extends beyond the selection of reputable firms; the allocation of adequate audit time and resources—reflected in ARL—plays a

crucial role in constraining aggressive tax avoidance. Internal governance systems can be enhanced by integrating ownership-structure risk indicators into compliance monitoring, ensuring that concentrated ownership does not evolve into unchecked entrenchment.

For investors, the study provides insights into how ownership and audit-related dynamics affect firm-level tax risk. Investors, particularly those with ESG and sustainability mandates, can use these findings to refine investment screening and stewardship strategies. A firm's ownership composition, combined with evidence of audit effort and transparency, can provide a more accurate assessment of long-term value integrity and potential exposure to regulatory or reputational risks associated with aggressive tax planning. Institutional investors themselves should reflect on their governance role, as the findings suggest that, in certain contexts, they may prioritize short-term financial performance and tax efficiency over active monitoring, thereby failing to fully constrain aggressive tax strategies that may undermine long-term value creation.

7.5.4 Policy and Regulatory Implications

For policymakers and regulators, the findings suggest the need to strengthen monitoring expectations for firms whose ownership structures are empirically associated with higher levels of tax aggressiveness. Although restricting specific ownership types is impractical, regulators may classify concentrated-ownership firms as higher-risk entities and require more frequent assessments of their tax compliance practices. In terms of audit governance, this study also highlights the importance of audit effort and independent oversight in curbing aggressive tax planning. Although both Indonesia and Malaysia require audited financial statements to be submitted within 90–120 days after the fiscal year-end, the results show that within this regulatory window, longer audit durations are associated with more thorough examinations and lower tax aggressiveness. This does not suggest extending statutory deadlines, but rather underscores the value of sufficient audit time allocation and transparent justification for unusually short audit cycles.

At the level of public finance and state capacity, the study highlights that aggressive tax avoidance poses fiscal risks to economies that rely on public revenues to support essential infrastructure, services, and development programs. While tax

avoidance can provide short-term financial benefits to firms by improving liquidity and reducing tax burdens, concerns arise when companies engage in aggressive tax avoidance or rely on interpretations that stretch legal boundaries. Such practices not only undermine public resources but also expose firms to heightened regulatory scrutiny, potential non-compliance, and reputational damage if challenged by tax authorities. The findings therefore reinforce the need for coordinated engagement between tax authorities, regulators, and audit oversight bodies to ensure that firms contribute responsibly to national development. Enhanced audit oversight, ownership-sensitive governance frameworks, and targeted enforcement can collectively support more effective fiscal management while also discouraging corporate behaviors that may drift into high-risk or non-compliant tax practices.

7.6 Limitations of the Study and Directions for Future Research

Despite the significant contributions of this study in examining the relationship between ownership structure, audit quality, and tax avoidance in Indonesia and Malaysia, certain limitations must be acknowledged. These limitations include data availability, methodological choices, omitted variables, and the broader contextual factors influencing corporate tax behavior. Recognizing these constraints allows for a more nuanced interpretation of the findings and provides directions for future research.

While this study provides valuable insights into the corporate tax practices of firms in Indonesia and Malaysia, its findings may not be fully generalizable to other economies with different institutional, regulatory, and governance frameworks. The tax systems in these two countries are influenced by their unique economic structures, enforcement mechanisms, and political environments, which may not be directly comparable to those in developed markets such as the United States, the United Kingdom, or Australia. Additionally, tax compliance behavior can vary significantly across jurisdictions due to differences in enforcement intensity, investor protection, and the effectiveness of tax authorities. Future studies could expand the sample to other Southeast Asian countries to provide a more comprehensive perspective. Comparative studies across these emerging economies could clarify whether observed patterns hold across contexts or are shaped by country-specific institutional factors.

This study employs the statutory effective tax rate (SETR) and the book-tax difference (BTD) as proxies for tax avoidance. While widely used in the literature, these

measures have certain limitations. The SETR measure does not distinguish between firms that engage in aggressive tax avoidance and those that benefit from legal tax incentives, such as government tax holidays or exemptions. Similarly, BTD captures discrepancies between book and taxable income but does not necessarily imply tax avoidance, as it may also reflect earnings management practices. Future studies should adopt alternative measures, such as cash ETR, discretionary BTD, tax-shelter indicators, or unrecognized tax benefits (UTBs), to provide a more nuanced understanding of tax avoidance behaviors. Using multiple proxies can help distinguish between legal tax planning and aggressive tax avoidance that raise regulatory concerns.

The study uses two proxies for audit quality: Big 4 auditors and audit report lag (ARL). While these indicators provide meaningful insights into audit effectiveness, they do not capture all dimensions of audit quality. Additionally, while Big 4 auditors are often associated with higher audit quality, research suggests they may also engage in client-friendly auditing practices, particularly in markets with weak regulatory oversight. Future studies could employ alternative measures, such as audit partner characteristics, auditor specialization, audit fees, tenure, and non-audit services. The growing use of data analytics and AI in auditing also warrants investigation to understand their implications for audit effectiveness and tax compliance.

Although the study includes key control variables such as firm size, profitability, leverage, and governance mechanisms, certain unobserved firm-specific or industry-specific characteristics may still influence tax avoidance behavior. For example, firms in capital-intensive industries (e.g., oil & gas, manufacturing) may have more opportunities for tax planning through depreciation deductions. Future research might include a sectoral analysis, enabling more targeted recommendations for industries with high tax-avoidance risk. Additionally, future research can also examine other corporate governance mechanisms, such as board diversity or CEO duality.

The study relies on publicly available financial data and annual reports, which may have inherent limitations in completeness and accuracy. While financial reports are audited, they may still contain discretionary reporting choices that affect tax-related disclosures. Additionally, certain privately held firms and small enterprises are excluded from the analysis due to data unavailability, potentially introducing a selection bias. Moreover, tax-related data in emerging economies often suffer from inconsistencies or incomplete disclosure, which could affect measurement reliability. Future studies could complement financial data with qualitative approaches. Interviews

with tax professionals, regulators, and executives can uncover the motivations and informal norms behind tax strategies that are not easily captured through financial data alone. A mixed-methods approach would offer a more holistic view of how corporate actors navigate tax obligations, particularly in contexts where regulatory enforcement is evolving.

Despite these limitations, this study provides meaningful contributions to the literature on corporate tax avoidance by offering empirical evidence from emerging markets. Acknowledging these constraints allows for a more informed interpretation of the findings and highlights opportunities for future research. Expanding the geographical scope, refining tax avoidance and audit quality measures, accounting for macroeconomic factors, and incorporating firm-specific characteristics would further enhance our understanding of the complex interplay between ownership structure, audit quality, and tax avoidance.

7.7 Conclusion

This chapter has synthesized the study's key findings, limitations, and future research directions, which examined the relationships among ownership structure, audit quality, and tax avoidance in Indonesia and Malaysia. The results reveal that different ownership types exert varying influences on corporate tax behavior, and that audit quality—while crucial—has a differential moderating effect depending on the ownership structure and tax avoidance proxy employed. These findings underscore the nuanced interplay between internal governance mechanisms and external assurance in shaping firms' tax strategies.

While the study provides meaningful contributions to the literature, it acknowledges several limitations, including its focus on two emerging economies, reliance on selected proxies for tax avoidance and audit quality, and the exclusion of broader macroeconomic and industry-level factors. These limitations offer promising avenues for future research to expand comparative analyses, refine measurement tools, and adopt qualitative or mixed method approaches to uncover the deeper motivations behind corporate tax behavior.

By addressing these gaps, future studies can advance the theoretical and practical understanding of tax avoidance, particularly within emerging market contexts. This research contributes not only to academic discourse on corporate governance and

taxation but also to policy discussions aimed at fostering transparency, accountability, and equitable tax systems. As such, the findings provide a foundation for ongoing inquiry into the mechanisms that shape corporate compliance and ethical financial reporting practices.

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LIST OF PUBLICATIONS:

- Masripah, M., Arieftiara, D., Widyastuti, S., Marzuki, M. M., Syukur, M., & Zakaria, M. (2025). Behavior of Managerial Ownership and Government Ownership toward Tax Avoidance in Indonesia and Malaysia. *Studies in Business and Economics*, 20(2), 5–22. <https://doi.org/10.2478/sbe-2025-0022>
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