



Moderating Role of ESG Disclosure on Minority Shareholders and Tax Avoidance

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Abstract

Objective - This study examined and analyzed the effect of minority shareholders on tax avoidance, which covers Environmental, Social, and Governance (ESG) disclosure as a moderating variable in manufacturing companies listed on the IDX for the 2018–2022. The minority shareholders consist of foreign ownership, institutional ownership, and managerial ownership.

Design/Methodology - This study used secondary data taken from annual reports, sustainability reports, and the company's OSIRIS database. Moreover, a total of 254 research sample companies were selected for this study using a purposive sampling technique. In addition, this study used a quantitative method using panel data regression analysis.

Results - This study discovered that the higher the foreign and managerial ownership, the lower the tax avoidance actions within the company, while institutional ownership has no effect on tax avoidance. Furthermore, the results of the moderation regression analysis showed ESG disclosures can strengthen the effect of foreign and managerial ownership on tax avoidance, but cannot moderate institutional ownership on tax avoidance.

Research limitations/implications - As a solution to tax avoidance in Indonesia, OJK may take into account and strengthen ESG disclosures made by companies.

Novelty/Originality - This study discussed tax avoidance actions in Indonesia based on company ownership, with a focus on minority shareholders. Additionally, ESG disclosure was investigated to determine whether it could affect the relationship between minority shareholders and tax avoidance.

Keywords: ESG disclosure, foreign ownership, institutional ownership, managerial ownership, tax avoidance

1. Introduction

Taxes are the main source of state revenue, therefore tax avoidance is an important concern for researchers, regulators, and practitioners (Boubaker et al., 2022; Susyanti & Anwar, 2020). Tax avoidance is carried out by exploiting weaknesses in tax laws to reduce the tax burden (Faradiza, 2019). This sort of conduct is legal if it is carried out in a way that does not violate statutory regulations (Kusufiyah & Anggraini, 2022). However, if taxpayers continue to carry out these actions, state revenue may be significantly reduced (Kovermann & Velte, 2019). Accordingly, tax avoidance is a complex and unique problem for each country (Bird & Davis-Nozemack, 2018).

Tax avoidance policies and company ownership policies are inextricably linked (Tee et al., 2022). In Asian countries, particularly Indonesia, company ownership structures tend to be concentrated, which emphasizes agency conflicts (Athira & Lukose, 2023). Company ownership policies and tax avoidance are integrated into agency theory type II. According to agency theory type II, majority shareholders have the opportunity and incentive to use tax avoidance strategies to benefit themselves personally at the expense of other parties, such as minority shareholders (Gaaya et al., 2017).

The rights of minority shareholders and majority shareholders are basically the same. The ownership of more shares provides greater power over the company's policies, including those pertaining to tax avoidance (Sridana et al., 2020). However, when it comes to determining company policy, majority shareholders have more power than minority shareholders (N. P. Lestari & Juliarto, 2017). Therefore, minority shareholders may suffer consequences such as declining share prices and sanctions from tax authorities if the majority shareholder carries out tax avoidance and it becomes public knowledge (Nainggolan & Sari, 2020). In addition, this study classified minority shareholders into three categories: foreign ownership, institutional ownership, and managerial ownership with less than 50% of the shares (Athira & Lukose, 2023).

Previous research has discussed many factors influencing tax avoidance, with a focus on minority shareholders. Based on some research, minority shareholders are less likely to carry out tax avoidance because they seek to protect the company's reputation and avoid sanctions from tax authorities (Charisma & Dwimulyani, 2019; Fadillah et al., 2023; Nurmawan & Nuritomo, 2022; S. D. N. Putri & Aryati, 2023). On the other hand, other research revealed that minority shareholders tend to avoid paying taxes in order to maximize their profits (Ashari et al., 2020; Y. Jiang et al., 2021; Khan et al., 2017). The previous research demonstrated inconsistent results due to differences in data types and research sample sizes. According to Pokhariyal (2019), inconsistencies in previous research results are also caused by the involvement of other variables such as moderating variables which are thought to have a combined influence on the relationship between minority shareholders and tax avoidance. In this research, one of the factors that is thought to play a moderating role in this relationship is exposure to environmental, social and governance (ESG) disclosure.

Based on stakeholder theory by Freeman (2010), ESG disclosure is a standard that refers to three criteria, namely environmental, social and government. This disclosure demands a higher and more transparent level of social responsibility for companies (Boubaker et al., 2022). Companies that have high social responsibility have a strong incentive to avoid tax manipulation which can damage the company's reputation, incur tax authority sanctions, and market price discounts (Angela & Sari, 2023; Jankensgård, 2018). Thus, ESG disclosure can protect minority shareholders from tax avoidance, thereby reducing tax avoidance.

Comparative research on environmental, social, and governance disclosure, hereinafter referred to as ESG disclosure, showed the significance of investor protection with regard to issues pertaining to the economic, accounting, and financial fields, such as minority shareholders (De Vito, 2024). According to Hidayat dan Zuhroh (2023), ESG disclosure encourages more responsibility and transparency from companies towards shareholders and society, it can help reduce tax avoidance. Therefore, companies that carry out ESG disclosure tend not to avoid paying taxes. Through ESG disclosures, tax avoidance in a company can be weakened, because it reflects the transparency of the company and considers tax manipulation difficult and potentially damaging to the company's reputation (Yoon et al., 2021).

The previous research discovered that CSR could not moderate the relationship between company ownership structure and tax avoidance (N. Putri & Mulyani, 2020). However, this research focused on CSR moderation which is different from ESG disclosure. Further, and to date, there is no empirical evidence regarding the relationship between minority shareholders and tax avoidance with ESG disclosure as a moderating variable. Thus, this research has novelty by filling the gap of previous research and providing empirical evidence whether ESG disclosure moderating the relationship between minority shareholders and tax avoidance.

The remaining part of the paper is divided into four distinct sections. 2 Literatur Review, Theoretical Framework, and Hypothesis Development, 3 Research Method, and 4 Result and Discussion. The final section discusses Conclusions, Implications, and Limitations.

2. Literature Review, Theoretical Framework, and Hypotheses Development

2.1 Literature Review

2.1.1 Agency Theory

The relationship of agency between agents and principals is explained by agency theory. Moreover, the study referred to agency theory type II. The main causes of agency conflicts type II are concentrated share ownership and substantial control by certain parties. In addition, majority shareholders have the opportunity and incentive to benefit themselves personally at the expense of other parties, such as minority shareholders (Jensen & Meckling, 2019).

2.1.2 Stakeholder Theory

The theory of stakeholder explains about company behavior and social performance. According to stakeholder theory, a company that operates for its own interests as well as providing benefits to stakeholders. Based on the company's perspective, stakeholders consist of shareholders, creditors, the government, employees, customers, suppliers, and the public (Freeman, 2010).

2.1.3 Tax Avoidance

Tax avoidance refers to a company's or taxpayer's attempt to reduce their tax burdens by seeking gaps in the regulations outlined in the tax law (Romario & Rahmanto, 2023). Many strategies and tactics that take advantage of loopholes in tax regulations can be employed to minimize the amount of taxes that must be paid in order to engage in tax avoidance (Sarhan et al., 2024). Companies carry out tax avoidance to reduce their tax obligations while still providing adequate financial statement disclosures (Tandean & Carolina, 2022).

2.1.4 Minority Shareholders

Shareholders of less than 50% of a company's shares are considered minority shareholders (Solomon, 2016). In essence, minority shareholders have limited access to information about the company they invest in. Moreover, minority shareholders typically become informed about the material only after the issuer has made it public through media disclosures (Widyoningrum & Muryanto, 2017). Furthermore, there are three categories of minority shareholders: foreign ownership, institutional ownership, and managerial ownership (N. P. Lestari & Juliarto, 2017).

2.1.5 Foreign Ownership

The percentage of a company's shares owned by foreign investors is a foreign ownership (Long et al., 2024). The inclusion of foreign investors in the company's ownership structure is expected to improve company performance by putting more pressure on managers to provide additional supervision, provide new capital, and help local companies list on international markets, which will reduce capital acquisition costs (Hasan et al., 2022).

2.1.6 Institutional Ownership

The ownership of institutions, banks, insurance companies, and other investment companies is a institutional ownership (Tarmizi & Perkasa, 2022). The existence of institutional ownership is necessary to encourage a more optimal level of monitoring. In addition, due to the fact that institutional ownership is considered a supervisory agent through fairly large investments, the company can guarantee the prosperity of investors (Kurniawan & Putri, 2023).

2.1.7 Managerial Ownership

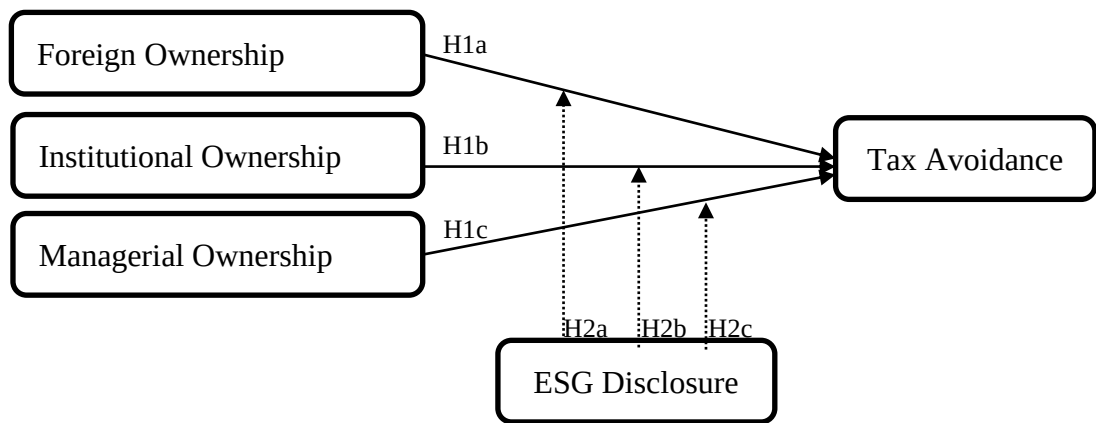
Share owned by management from the company's share capital is a managerial ownership (Sintyawati & Dewi, 2018). In addition to being the owner of the company, the manager also serves as the manager of the company. Moreover, the managerial party in a company is the one that actively plays a role in the company (Dewi & Abundanti, 2019).

2.1.8 ESG Disclosures

ESG disclosure is a set of standards that refer to three main criteria in measuring sustainability: environmental, social, and governance. The company's strategic and operational agenda focus on this disclosure, which is a crucial indicator in making investment decisions. Additionally, due to management's transparency, investors responded favorably to this disclosure, improving the company's reputation (Jeanice & Kim, 2023).

2.2 Theoretical Framework

Figure 1.
Theoretical
Framework



2.3 Research Hypothesis

2.3.1 The Effect of Foreign Ownership on Tax Avoidance

Based on agency theory type II, problems occur between majority and minority shareholders (Lee & Bose, 2021). Majority shareholders have the opportunity and incentive to benefit themselves personally, such as through tax avoidance, at the expense of other parties, including minority shareholders, particularly foreign investors (Gaaya et al., 2017). In essence, considering significant interests in the company, significant foreign ownership tends to have the ability to affect company policies, including tax avoidance policies (D. B. K. Putri & Damayanti, 2021). However, foreign ownership places a higher priority on the company's reputation and long-term value than on the benefits of tax avoidance (Nainggolan & Sari, 2020). Furthermore, market price discounts and sanctions from tax authorities are something that foreign ownership also wishes to avoid. Moreover, if foreign ownership forces managers to engage in tax avoidance, they may deal with relational costs, costs of ignorance, and high costs of unfamiliarity due to institutional distance (Hasan et al., 2022). In addition, previous research found that foreign ownership has a negative effect on tax avoidance (Fadillah et al., 2023; Nainggolan & Sari, 2020; Riberu, 2021).

H1a. Foreign ownership has a negative effect on tax avoidance.

2.3.2 The Effect of Institutional Ownership on Tax Avoidance

According to Minh Ha et al. (2022), shareholders mostly tend to force managers to avoid paying taxes for their own benefit, which is in line with agency theory type II. If this action becomes public knowledge, it may have a negative effect on minority

shareholders, one of which is institutional ownership (Hasan et al., 2022). Furthermore, high institutional ownership actually has the potential to force managers to prioritize economic performance over opportunities to engage in acts that would otherwise be driven by majority shareholders, such as tax avoidance (Fortuna & Herawaty, 2022). However, the majority shareholder has more power over the company (N. P. Lestari & Juliarto, 2017). Moreover, significant institutional ownership tends to oppose managers taking tax avoidance actions (Fadillah et al., 2023). This is due to the fact that tax avoidance can result in market price discounts and sanctions from tax authorities (Pratomo & Rana, 2021). Furthermore, the prior studies discovered that institutional ownership has a negative effect on tax avoidance (Erlin et al., 2023; Fadillah et al., 2023; Pratomo & Rana, 2021).

H1b. Institutional ownership has a negative effect on tax avoidance.

2.3.3 *The Effect of Managerial Ownership on Tax Avoidance*

The type II agency theory explains the conflict of interest between majority shareholders and minority shareholders. Moreover, majority shareholders exploit their ownership for personal gain by avoiding paying taxes and sacrificing minority shareholders rights, such as managerial ownership (Lee & Bose, 2021). However, managerial ownership is more likely to prioritize company sustainability over tax avoidance (A. A. Putri & Lawita, 2019). Furthermore, management who own shares will exercise greater caution when making company decisions since, if they avoid paying taxes, it may directly impact them (Charisma & Dwimulyani, 2019). In addition, the prior studies discovered that managerial ownership has a negative effect on tax avoidance (Charisma & Dwimulyani, 2019; Nurmawan & Nuritomo, 2022; A. A. Putri & Lawita, 2019).

H1c. Managerial ownership has a negative effect on tax avoidance.

2.3.4 *The Effect of Foreign Ownership on Tax Avoidance by Moderating ESG Disclosure*

According to stakeholder theory, ESG is a sustainability standard that refers to the economy, social, and environment. A company's responsibility to its stakeholders is demonstrated by this disclosure. Companies that provide this disclosure tend not to avoid paying taxes. Moreover, due to increased transparency, reputational maintenance, and owner protection, this disclosure strengthens the effect of foreign ownership on tax avoidance. In addition, by opposing tax avoidance within the company, such disclosure helps guarantee and safeguard shareholder rights, including foreign ownership (Yoon et al., 2021).

This statement is consistent with previous research that revealed the negative effect of ESG disclosure on tax avoidance (Boubaker et al., 2022). Furthermore, previous research has discovered that ESG disclosure can reduce corporate tax avoidance as it makes companies more organized, efficient, and prudent in making decisions (Hidayat & Zuhroh, 2023).

H2a. ESG disclosure strengthens the effect of foreign ownership on tax avoidance.

2.3.5 *The Effect of Institutional Ownership on Tax Avoidance by Moderating ESG Disclosure*

The stakeholder theory explained about companies must serve shareholders' interests in addition to their own. In addition to providing assurance and safeguarding the rights of institutional shareholders against acts of tax avoidance by majority shareholders and management, a high level of disclosure encourages companies to enhance their transparency (Jankensgård, 2018). As a result, this disclosure strengthens the effect of institutional ownership on tax avoidance because it causes companies to become more concerned about the economy, social and environment, lessening their focus on tax avoidance (Jeanice & Kim, 2023).

This statement is consistent with previous research that revealed that ESG disclosure can minimize tax avoidance in companies (Hidayat & Zuhroh, 2023). Furthermore, previous research has discovered that companies with high ESG disclosure tend to increase their transparency and avoid tax avoidance (Yoon et al., 2021)

H2b. ESG disclosure strengthens the effect of institutional ownership on tax avoidance.

2.3.6 The Effect of Institutional Ownership on Tax Avoidance by Moderating ESG Disclosure

According to stakeholder theory, ESG disclosure made by companies show that it is concerned with economic, social and environmental activities for sustainability of its operations. This disclosure can protect minority shareholders, particularly managerial ownership, from actions that can be detrimental to the company, such as tax avoidance carried out by majority shareholders (Lee & Bose, 2021). Therefore, this disclosure strengthens the effect of managerial ownership on tax avoidance

This statement is consistent with previous research that explained that ESG disclosure can minimize tax avoidance (Jankensgård, 2018). Furthermore, previous research has revealed that ESG disclosure encourages companies to avoid carrying out tax avoidance (Hidayat & Zuhroh, 2023).

H2c. ESG disclosure strengthens the effect of managerial ownership on tax avoidance.

3. Research Method

3.1 Research Population and Sample

The population are manufacturing companies listed on the Indonesia Stock Exchange for the 2018–2022. According to the Ministry of Investment Data (2023), manufacturing companies ranked in the top position in terms of obtaining foreign investment in the first quarter of 2023, reaching 177.0 trillion, or 53.8 percent of total realization. Additionally, the Ministry of Industry (2019) reported that manufacturing companies contributed the largest percentage (20 percent) to the national gross domestic product. These facts led the authors to choose this object.

A purposive sampling with the sampling criteria:

1. Manufacturing companies that were listed on the IDX for the 2018–2022.
2. Manufacturing companies that published sustainability reports for the 2018–2022.
3. Manufacturing companies whose annual reports and sustainability reports for the 2018–2022 could be accessed.
4. Manufacturing companies that did not experience losses for the 2018–2022.

3.2 Data Types and Sources

This study used secondary data obtained from annual reports, sustainability reports, and the company's OSIRIS database. Furthermore, this study used panel data with an unbalanced panel because the research data contained a different number of time series units in the cross-section unit.

3.3 Measurement and Operational Variable Definition

3.3.1 Tax Avoidance

The Effective Tax Rate (ETR) was used to measure tax avoidance, because it is the most widely used and effective method of measuring tax avoidance (Drake et al., 2020). In addition to being a strong indicator of tax planning activities, this measurement may be used to identify tax avoidance strategies and show the direct effect of such strategies on net income (Aronmwan & Okaiwele, 2020). This measurement refers to research by (Benkraiem et al., 2024), as follows:

$$ETR = \frac{\text{Tax Expense}}{\text{Pretax Income}}$$

3.3.2 Foreign Ownership

The percentage owned by foreign investors is the basis for measuring foreign ownership in this study (Long et al., 2024). This measurement refers to research by (W. Jiang et al., 2024), as follows:

$$= \sum \% \text{ foreign share ownership}$$

3.3.3 Institutional Ownership

The percentage owned by institutions, such as insurance companies, banks, investment companies, and other institutional ownerships, is the basis for measuring institutional ownership in this study (Athira & Lukose, 2023). This measurement refers to research by Fortuna dan Herawaty (2022); Nurmawan dan Nuritomo (2022); A. A. Putri dan Lawita (2019), as follows:

$$= \sum \% \text{ institutional share ownership}$$

3.3.4 Managerial Ownership

The percentage owned by management is the basis for measuring managerial ownership in this study (Sintyawati & Dewi, 2018). This measurement refers to research by Ashari et al. (2020); Purnomo (2021); A. A. Putri dan Lawita (2019), as follows:

$$= \sum \% \text{ managerial share ownership}$$

3.3.5 ESG Disclosure

The Bumi Global Karbon Foundation (BGK) standard is used as a proxy for ESG disclosure in this study because the BGK Foundation has researched sustainability issues to support the advancement of various industrial sectors in Indonesia (Jeanice & Kim, 2023). In addition, the BGK Foundation continues to encourage and provide demands for Indonesian companies to increase their transparency in order to help achieve sustainable development goals. (Aningtyas, 2018). The 33 ESG disclosure standards that refer to the BGK Foundation are described as follows:

Category	Item
Environmental	ENV1 - GHG Emissions
	ENV2 – GHG Intensity
	ENV3 – Energy Usage
	ENV4 – Energy Intensity
	ENV5 – Energy Mix
	ENV6 – Water Usage
	ENV7 – Environmental Operations
	ENV8 – Climate Oversight/Board
	ENV9 – Climate Oversight/Management
	ENV10 – Climate Risk Mitigation
	ENV11 – Forestry CSR
Social	SOC1 – CEO Pay Ratio
	SOC2 – Gender Pay Ratio
	SOC3 – Employee Turnover
	SOC4 – Gender Diversity
	SOC5 – Temporary Worker Ratio
	SOC6 – Non-Discrimination
	SOC 7 – Injury Rate
	SOC8 – Global Health and Safety
	SOC9 – Child and Forced Labor
	SOC10 – Human Rights
	SOC11 – Social CSR

Table 1.
ESG Disclosures

Governance	GOV1 – Board Diversity
	GOV2 – Board Independence
	GOV3 – Incentivized Pay
	GOV4 – Collective Bargaining
	GOV5 – Supplier Code of Conduct
	GOV6 – Ethics and Anti-Corruption Compliance
	GOV7 – Data Privacy
	GOV8 – ESG Reporting
	GOV9 – Disclosure Practices
	GOV10 – External Assurance
	GOV 11 – Tax Transparency

Content analysis is one form of analytical technique used to measure ESG disclosure (Juniati & Abadi, 2017). Furthermore, according to the indicator, zero points are given for no information disclosure, and based on the measurement indicators in the sustainability report, one point is given for each detailed information disclosure. This disclosure measurement refers to research by Jeanice dan Kim (2023), as follows:

$$ESGi = \frac{\sum X_{yi}}{n_i}$$

ESGi is ESG disclosure in the year of research; $\sum X_{yi}$ is the number of companies with ESG disclosure items; and n_i is the total number of ESG disclosure items according to BGK Foundation standards (33 items).

3.4 Data Analysis Method

This study employed Eviews 12 software as its data analysis model. The data analysis model was carried out using regression moderation analysis. The following regression moderation analysis model equation is obtained:

$$ETR = -2,542 - 0,045KA + 0,152KI - 0,074 KM - 0,284KA*ESG + 0,299KI*ESG - 1,172KM*ESG + \varepsilon$$

4. Results

4.1 Research Sample

The research sample is 254 manufacturing companies listed on the IDX for the 2018–2022. The details of the purposive sampling technique are as follows:

Table 2.
Sample Selection
Procedure

Criteria	Total
Manufacturing companies that were listed on the Indonesia Stock Exchange for the 2018–2022	825
Manufacturing companies that did not publish sustainability reports for the 2018–2022	535
Manufacturing companies whose annual reports and sustainability reports for the 2018–2022 cannot be accessed	8
Manufacturing companies that experienced losses for the 2018–2022	28
Number of companies used as research samples	254

4.2 The Result of Descriptive Statistics

Table 3.
Descriptive
Statistics

Variable	N	Maximum	Minimum	Average	Std Dev.
ETR	254	0.952	0.000	0.244	0.347
KA	254	1.000	0.000	0.282	0.312
KI	254	1.000	0.000	0.617	0.343
KM	254	1.000	0.000	0.088	0.196
ESG	254	0.939	0.333	0.730	0.093

Table 3 presents the results of the descriptive statistical analysis. It shows that the ETR tax avoidance proxy, which is the dependent variable, has a standard deviation that is higher than the average value, as do foreign ownership and managerial ownership, which are the independent variables. Given the large distribution of data variables displayed, the data for KA, KM, and ETR were considered unreliable. Additionally, it shows that there are outliers or data that is too extreme in KK, KA, and ETR. Meanwhile, the standard deviations of institutional ownership as an independent variable and environmental, social, and governance as moderating variables are lower than the average value. This indicates that there is no large enough gap between the lowest and highest KI and ESG, or that the distribution of data variables is small.

4.3 The Results of Classic Assumption

4.3.1 Normality Test

A normality test was carried out on the regression to ensure that the residual values in the regression model are normally distributed. Furthermore, this study employed the skewness-kurtosis test as a normality test. Based on the results, the probability value is greater than 0.05, indicating that the data used is normal.

	Prob. Normality
Long-run normality test	0.090

Table 4.
The Result of the
Normality Test:
Skewness-Kurtosis

4.3.2 Multicollinearity Test

Multicollinearity estimation was used in the panel data regression model to estimate the correlation between independent variables. Furthermore, multicollinearity analysis in this study was carried out using the independent variables. Based on the result, the covariance value is less than 0.80, so multicollinearity is considered not to occur.

	KA	KI	KM	ESG
KA	1	-0.722	-0.211	0.177
KI	-0.722	1	0.057	-0.265
KM	-0.211	0.057	1	-0.026
ESG	0.177	-0.265	-0.026	1

Table 5.
The Result of the
Multicollinearity Test

4.3.3 Heteroscedasticity Test

The heteroscedasticity test was carried out to find out whether there is an inequality of variance in the residuals. In addition, the probability value of the Breusch-Pagan Lagrange multiplier test was used to determine whether or not heteroscedasticity.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KA	0.030	0.034	0.864	0.388
KI	0.015	0.009	1.566	0.118
KM	0.058	0.042	1.394	0.164
ESG	0.049	0.079	1.442	0.529
C	0.052	0.057	0.629	0.361

Table 6.
The Result of the
Heteroscedasticity
Test

Based on the results of the carried out using the Glejser test, the prob value are greater than 0.05, indicates that the KA, KI, KM, and ESG variables, so heteroscedasticity is considered not to occur.

4.4 The Result of Regression Analysis

Table 7 shows that the coefficient of determination (R²) for the direct test is 0.132408, and the value for the moderated test is 0.236428. Therefore, foreign ownership, institutional ownership, and managerial ownership can explain 13% of tax

avoidance, while the remaining 87% can be explained by other variables not examined in this study. In addition, environmental, social, and governance disclosure as a moderating variable in the relationship between foreign ownership, institutional ownership, and managerial ownership can explain tax avoidance by 23%, while the remaining 77% can be explained by other variables not examined in this study.

Table 7.
The Result of the
Coefficient (R²) of
Determination Test

Adjusted R ² Square	
Direct Testing	0.132
Testing with Moderation	0.236

Table 8.
Result Summary

Hypothesis	Coefficient	t-statistic	Prob.	Explanation
H1a	-0.045	-2.604	-0.042	H ₁ Accepted
H1b	0.152	0.676	0.335	H ₂ Rejected
H1c	-0.074	-3,127	-0.032	H ₃ Accepted
H2a	-0.284	-4.387	-0.014	H _{4a} Accepted
H2b	0.299	0.398	0.733	H _{4b} Rejected
H2c	-1.172	-2,198	-0.014	H _{4c} Accepted
C	-2,542	-2.186	0,030	
F-statistic			0.476	
Prob			0.824	

Table 8 shows that the statistical probability values of H1a, H1c, H2a, and H2c are <0.05. Therefore, it can be concluded that foreign ownership and managerial ownership have a negative effect on tax avoidance. Furthermore, ESG disclosure can strengthen the effect of the relationship between foreign ownership and managerial ownership on tax avoidance. Moreover, the statistical probability values of H1b and H2b are > 0.05. Therefore, it can be concluded that institutional ownership has no effect on tax avoidance. In addition, ESG disclosure cannot moderate the effect of the relationship between institutional ownership and tax avoidance.

5. Discussion

5.1 The Effect of Foreign Ownership on Tax Avoidance

The results of the regression analysis indicate that foreign ownership has a negative effect on tax avoidance. The findings are in line with agency theory type II, which states that minority shareholders, such as those with foreign ownership, tend to oppose majority shareholders to avoid paying taxes. Foreign ownership places a higher priority on the company's reputation, its long-term value, tax authority sanctions, and March discount prices. In addition, the findings are consistent with previous research findings, which discovered that foreign ownership has a negative effect on tax avoidance (Fadillah et al., 2023; Hasan et al., 2022; Nainggolan & Sari, 2020).

5.2 The Effect of Institutional Ownership on Tax Avoidance

The results of the regression analysis indicate that institutional ownership has no effect on tax avoidance. The findings are in line with agency theory type II. Based on the Slippery Slope Model Theory Kirchler et al. (2008), procedural justice, distributive justice, and retributive justice lead to an increase in voluntary tax compliance. Moreover, taxpayers (institutional ownership) consider that the government collects taxes in an equitable and transparent manner. Therefore, the perception among taxpayers is that tax revenues are allocated for clean and dignified government and development (Herman et al., 2023). The institutional ownership may have been at a post-conventional level of cognitive moral development (CMD) so that they have a high level of tax compliance (Iqbal & Sholihin, 2019). In addition, the findings are consistent

with previous research findings, which discovered that institutional ownership has no effect on tax avoidance (Arianandini & Ramantha, 2018; A. D. Lestari, 2023).

5.3 The Effect of Managerial Ownership on Tax Avoidance

The results of the regression analysis indicate that managerial ownership has a negative effect on tax avoidance. Aggressive tax avoidance appears to be less common in companies with high managerial ownership. The findings are in line with agency theory type II, which states that minority shareholders, such as managerial ownership, oppose majority shareholders objective to urge managers to avoid paying taxes. Additionally, the owner and manager of the company, known as managerial ownership, will exercise greater caution in carrying out any actions, including tax avoidance. This is due to the fact that tax avoidance, which is known to the public, has a direct impact on managerial ownership. In addition, the findings are consistent with previous research findings, which discovered that managerial ownership has a negative effect on tax avoidance (Charisma & Dwimulyani, 2019; Nurmawan & Nuritomo, 2022; A. A. Putri & Lawita, 2019).

5.4 The Effect of Foreign Ownership on Tax Avoidance by Moderating ESG Disclosures

The results of the regression analysis indicate that foreign ownership, with ESG disclosure as a moderating variable, has an effect on tax avoidance. Furthermore, ESG disclosure can strengthen the relationship between foreign ownership and tax avoidance. This finding is in line with stakeholder theory. Additionally, this disclosure is a form of the company's responsibility towards its stakeholders, such as foreign investors. Moreover, high ESG disclosure indicates that the company is less likely to engage in tax avoidance in the interests of social responsibility, corporate reputation, avoiding tax authority sanctions, and market price discounts.

The findings can minimize the occurrence of conflict in agency theory type II. Moreover, ESG disclosure can strengthen foreign ownership by opposing aggressive tax avoidance. This disclosure encourages companies to be more transparent due to their concern for economic, social, and environmental issues, as well as their sustainability. Furthermore, this disclosure can guarantee and protect shareholder rights from tax avoidance carried out by the majority. In addition, the findings are consistent with previous research, which stated that companies that make ESG disclosures tend not to avoid paying taxes (Boubaker et al., 2022; Hidayat & Zuhroh, 2023; Yoon et al., 2021).

5.5 The Effect of Institutional Ownership on Tax Avoidance by Moderating ESG Disclosures

The results of the regression analysis indicate that ESG disclosure cannot moderate the relationship between institutional ownership and tax avoidance. This is a result of institutional ownership not being involved directly in the company's supervision. Institutional ownership entrusts supervision to the company's board of commissioners so that ESG disclosures made by the company cannot moderate the relationship between institutional ownership and tax avoidance. Moreover, since sustainability disclosure has become a mandatory disclosure for every company following the issuance of PMK No. 51/POJK.03/2017, companies will prioritize corporate sustainability over corporate tax avoidance. Furthermore, due to the fact that the majority shareholders and management are the main controllers of the company, minority shareholders do not have much opportunity to participate in determining company policies such as tax avoidance (Moeljono, 2023).

5.6 The Effect of Managerial Ownership on Tax Avoidance by Moderating ESG Disclosures

The results of the regression analysis indicate that ESG disclosure moderates the effect of managerial ownership on tax avoidance. Moreover, ESG disclosure can

strengthen the relationship between managerial ownership and tax avoidance. This finding is in line with stakeholder theory, which explains that companies must be responsible towards stakeholders, such as managerial ownership. Additionally, with this disclosure, the company promotes transparency, enabling it to protect stakeholders against actions, including tax avoidance, carried out by majority shareholders.

The findings can minimize the occurrence of conflicts in agency theory type II. Moreover, ESG disclosure in companies can reduce tax avoidance, which can reduce conflicts and agency costs that minority shareholders must incur. Furthermore, the company fulfills tax payments as a part of its social responsibility; therefore, it is unlikely to engage in aggressive tax avoidance, which tends to reduce tax avoidance (Lee & Bose, 2021). In addition, the findings are consistent with previous research findings, which discovered that companies that make ESG disclosures tend not to engage in tax payment manipulation (Boubaker et al., 2022; Hidayat & Zuhroh, 2023; Yoon et al., 2021).

6. Conclusion and Limitation

The results discovered that tax avoidance is likely to occur in companies with higher managerial ownership and foreign ownership. Moreover, ESG disclosure by companies can strengthen the relationship between foreign ownership and managerial ownership in terms of tax avoidance. As a result, the existence of ESG disclosure increasingly encourages minority shareholders to oppose tax avoidance carried out by majority shareholders. This is due to the fact that, in addition to helping companies avoid tax avoidance action, ESG disclosure is the embodiment of transparency, social responsibility, and a high reputation for companies. Additionally, high institutional ownership has no effect on corporate tax avoidance actions. Furthermore, ESG disclosure cannot moderate the relationship between institutional ownership and tax avoidance. This is because the actions of corporate tax avoidance remain in the hands of the majority shareholder, and institutional ownership is not directly involved in supervising the company. In addition, since ESG disclosure has become a mandatory disclosure for all companies, they will prioritize sustainability over tax avoidance.

This study provides theoretical implications from agency theory type II, specifically demonstrating that company ownership has an effect on tax avoidance. Therefore, it is important to consider company ownership as a predictor of tax avoidance. Additionally, this study provides practical implications for the OJK in order to reduce tax avoidance, which is that the OJK must strengthen ESG disclosures made by companies through PMK regulation No. 51/POJK.03/2017.

The limitation is that the limited number of samples included was impacted by the fact that many manufacturing companies that served as research samples have not yet disclosed their sustainability reports for the 2018–2022 period. In addition, it was suggested for future researchers to conduct further analysis related to tax avoidance by expanding the research variables, research sample, and research year.

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