JDA | Jurnal Dinamika Akuntansi
Vol. 16, No. 2, 2024, pp. 150-167

p-ISSN 2085-4277 | e-ISSN 2502-6224
http://journal.unnes.ac.id/nju/index.php/jda

The Relationship between Family Ownership and Tax Avoidance: The Moderating Role of Business Ethical Commitment

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DOI: http://dx.doi.org/10.15294/jda.v16i2.2297

Submitted: March 8th, 2024 Revised: September 20th, 2024 Accepted: September 23rd, 2024 Published: October 3rd, 2024

Abstract

Purposes: This study investigates the relationship between family ownership and tax avoidance, with business ethics commitment as a moderation. If well committed by the company, business ethics will improve the quality of decision-making in the business process and create ethical leadership that will carry an ethical practice.

Methods: The study utilized regression analysis to examine the hypothesis in a sample of 110 companies listed on the IDX from 2016 to 2019.

Findings: The results show that family-owned companies are not involved in tax avoidance and that a company's commitment to business ethics can help reduce its tax avoidance practices. The interaction of business ethics commitment in family companies has no relationship with tax avoidance. This finding implies the importance of a company's commitment to business ethics in running its business.

Novelty: To the best of our knowledge, the nature of the relationship between business ethics commitment to tax avoidance and family ownership remains minimal. Thus, this study fills the research gap by further examining corporate tax avoidance practices determined by family ownership factors and testing the role of business ethics commitment with family ownership on tax avoidance.

Keywords: *Business Ethics Commitment, Family Ownership, Tax Avoidance.*

How to cite (APA 7th Style)

Nanda, M. & Rosid, A. (2024). The Relationship between Family Ownership and Tax Avoidance: The Moderating Role of Business Ethical Commitment. *Jurnal Dinamika Akuntansi, 16(2), 150-167*. http://dx.doi.org/10.15294/jda.v16i2.2297

INTRODUCTION

Many businesses view taxes as a significant expense that does not directly benefit them, which limits their capacity to generate corporate cash flows (Chen et al., 2010). This raises a paradigm; from the government's perspective, tax is considered a mandatory and absolute contribution. On the other hand, in the business world, companies generally consider tax payments a burden, so the company will minimize its tax burden to optimize its profits. for the business to attempt paying less tax or paying nothing. Because companies frequently avoid taxes, they are generally acceptable in several nations, depending on how businesses utilize tax law loopholes.

Preuss (2013) argues that tax avoidance should be viewed as unethical because it abuses and utilizes a loophole in tax law, which, if done excessively, can lead to tax evasion. This practice,

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if carried out continuously and aggressively, can also harm the state and consequences for the company; not only can it damage the company's image because it is covered by the media if done aggressively Chouaibi et al. (2022); but if tax authorities find evidence of tax avoidance, the corporation will have to pay more or face penalties (Hanlon & Heizman, 2010).

Tax avoidance can occur because of agency conflicts caused by conflicts of interest (Jensen & Meckling, 1976). Numerous scholars have noted that various factors, including agency conflicts resulting from corporate ownership structure, governance, and board characteristics, affect tax planning practices and tax avoidance in businesses (Desai & Dharmapala, 2006; Wilde & Wilson, 2018). This agency conflict can also occur in companies with ownership concentration, such as family ownership (Chen et al., 2010). Because companies owned by families have typical agency conflicts between majorities and minorities, this company is also a family that holds shares and manages the company and has significant control rights and decision-making rights.

Several studies have also proven that business ethics can improve the quality of corporate governance, Among them a study by Krambia-Kapardis (2016) posits that an ethical approach to business management, when coupled with effective governance, can safeguard all employees from unethical practices, and the corporate decision-making by management (Abdelmoula, 2022). Companies with good governance must have appropriate oversight mechanisms. Many previous studies have shown that a company's governance system is ethical. One of the key instruments of business ethics is the code of ethics, which serves as a guiding framework for corporate behavior and culture. It is pivotal in establishing and overseeing corporate governance (Mazza & Furlotti, 2020). The role of ethics in the business world is to choose between right and wrong and good and bad (Payne & Reboirn, 2018). Rahmadhani and Tjaraka (2022) mentioned that the nature of a company executive (CEO) affects the decision-making process related to company operations. The role of ethical and moral bases shapes the nature of ethical leadership carried out by company directors. Ethical and moral behavior also refers to self-regulation that can control corporate tax avoidance behavior (Kimea et al., 2023).

Research related to ownership structure has been widely conducted. Multiple types of ownership within the company have been associated with tax avoidance. One frequently discussed form of ownership is government ownership (Chan et al., 2013). In the Indonesian context, studies have also examined government ownership and tax avoidance from the perspective of political connections (Wicaksono, 2017; Widarjo et al., 2021). Other ownerships, such as those related to institutional ownership and tax avoidance, have also been studied (Fauzan et al., 2021). Furthermore, some studies focus on foreign ownership (Oktaviani et al., 2023; Nurcahya et al., 2024). Additionally, prior research has been conducted on companies with family ownership and tax avoidance, and the findings of these studies also vary Chen et al. (2010); Wahyu et al. (2016); Ibrahim et al. (2021). This study utilizes family ownership as its primary focus, as the majority of firms in Indonesia are family-owned.

Several studies have looked at the effects of corporate ethics. For example, Choi and Jung (2008) studied the impact of business ethics commitment on financial performance, and Pae and Choi (2011) studied the influence of business ethics commitment on firm value. Other studies have focused on the taxation context, such as the effects of business and corporate ethics on tax avoidance (Abdelmoula, 2022; Chouaibi et al., 2022; Kimea et al., 2023). The debate related to the role of ethics and tax avoidance continues Abdelmoula (2022); thus, by concentrating on business ethical commitment examined with an interaction of family ownership, this research fills a gap in the literature. The novelty of this study is that to the best of our knowledge is the first to examine the role of business ethics commitment in firms with family ownership to tax avoidance practices. The objective is to ascertain whether the commitment to business ethics can be leveraged to mitigate agency conflicts that give rise to unethical practices, such as excessive tax avoidance.

By analyzing data from 110 companies in Indonesia listed on the Indonesian Stock Exchange during the 2016-2019 period, this study presents a question that will be examined

further: (1) Is family ownership positively related to tax avoidance in a company? (2) Is the role of business ethics commitment negatively related to tax avoidance in companies? (3) Can business ethics commitment reduce the impact of the family ownership relationship on tax avoidance?. The findings showed that companies with family ownership did not engage in tax avoidance. Furthermore, the study indicated that a strong commitment to business ethics can help reduce tax avoidance practices. However, the role of business ethics commitment in family companies did not appear to have a significant relationship with tax avoidance.

From these results, the author aims to contribute to the theoretical understanding of the factors that influence tax avoidance from the point of view of a family-owned business. The role of commitment to business ethics is also a crucial aspect to consider. The reduction of tax avoidance practices would expand the existing literature on the relationship between ethics and tax compliance. Secondly, about practical contributions, the role of family shareholders is of pivotal importance, as they are responsible for upholding the value and reputation of the company. Furthermore, the role of business ethics commitment for companies in general is to ensure sustainable decision-making processes.

Jensen and Meckling (1976) explain that agency theory occurs due to the result of the transfer of authority from shareholders (Principal) to managers (Agent) in running their company, Hidayati and Diyanty (2018) also explain the existence of agency problems in two types, the first type is agency problems involving between shareholders (Principal) and management (Agent) and the second type is involving between majority and minority shareholders.

Companies that are owned, managed, or held shares by families can generally be found to be high in agency conflicts, as revealed by Chen et al. (2010), who state that there are greater agency conflicts in companies with family ownership between large shareholders and small shareholders. Moreover, as noted in Agency Problem II, a family's corporate authority may offer incentives to acquire the wealth of other shareholders (Darmadi, 2014). Previous research suggests that family ownership of a business can either alleviate or worsen agency issues; one way to exacerbate the situation is through active tax avoidance.

Type I agency issues can arise in family-owned companies because the owner and agent have different interests; in this case, the CEO. For example, company founders tend to focus on personal interests or the name of the family, while CEOs tend to focus on how the company obtains the best profitability (Rahmadhani & Tjaraka, 2022). Family-owned companies usually see their business as a legacy that will be passed on to the next generation, which encourages them to protect their family reputation. Chen et al. (2010) showed that family-owned businesses would rather pay greater taxes than take damage to their reputation.

Rahmadhani and Tjaraka (2022) mentioned that the nature of a company executive (CEO) affects the decision-making process related to company operations. As a result, the nature of each leader affects decisions made in the company's interests. The role of ethics in the business world is about the ability to choose between right and wrong and good and bad (Payne & Reboirn, 2018). This ethical and moral basis shapes the nature of the ethical leadership carried out by company directors. Ethical and moral behavior refers to an internalized and integrated form of self-regulation. According to Pontiggia and Politis (2012), ethical leadership can solve agency problems and reduce unethical practices, including excessive tax avoidance in this study context.

There is less clarity and debate regarding the meaning of tax avoidance, but in simple terms, Hanlon and Heizman (2010) define tax avoidance as a practice to minimize taxes explicitly and reflect all transactions that influence the company's explicit tax liabilities. Because taxes are generally considered a burden on companies, this practice can be said to be a way for companies to minimize their tax burden.

The relationship between family ownership, tax compliance, and tax avoidance practices for this company remains conditional upon the costs and benefits received, the level of agency conflict, and the condition of the company. There are various arguments in favor of and against the practice of family companies avoiding tax. One such argument is a study by Chen et al.

(2010) which suggests that family companies consider their reputation when making decisions. Similarly, Rahmadhani and Tjaraka (2022) have argued that the desire to protect the continuity of their business stems from an emotional connection to the company's long-term sustainability. In contrast, some opinions posit that family companies engage in this practice to maximize profits, citing the pressure of low earnings as a driving factor (Zulma, 2016).

The running of the business is the decision of the company's CEO. In this case, the practice of tax avoidance can also be an initiative of the CEO, as seen from the agency theory either 1 or 2. These practices can depend on how the characteristics and agents of the company influence the decision-making process. The role of ethics is to safeguard this decision-making process. Management must be aware of the distinction between ethical and unethical practices for the benefit of the company (Payne & Reboirn, 2018). The role of business ethics in a company, both in family-owned businesses, is to protect the value of shareholders, whether family, majority, or minority (Abdelmoula et al., 2022).

Dewi (2016) provides an overview of the various interpretations of the term 'family firm'. The essence of this concept revolves around the incorporation of family, business, and ownership. The study further summarises that the general definition of a family firm is a company where a family owns sufficient equity to exert control over strategic decision-making and occupy top management positions. Furthermore, other studies define family firms as firms that consist of family ownership as well as family management, according to which family management is a firm with at least one family member serving as a director of the firm that is identified as having the same last name (blood relation) as well as marriage on ultimate shareholding or is a member of the founding family (Cabeza-Garcia et al., 2017; Rudyanto, 2023). A survey conducted by PwC in Indonesia revealed that 82.44% of the gross domestic product originated from family-owned businesses in 2014. Additionally, the survey indicated that 83% of these family-owned businesses demonstrated growth during the previous financial year (PWC, 2015).

To sustain relationships within the company, the company must be committed to ethics, which is defined as the willingness to conduct business under the company's or organization's code of ethics Mazza and Furlotti (2020) as well as the willingness to act morally and spread generosity to others (Abidin et al., 2017). Thus, the study by Pae and Choi (2011) suggests that responsibility for moral business practices is a necessary component of commitment to ethics.

According to Scarpa and Signori (2020), tax laws are not perfect, so businesses always look for loopholes to avoid paying taxes. The role of ethics is to help companies self-regulate their tax avoidance behavior. Companies with high ethical values and commitment avoid damaging public information and engage in tax avoidance activities, especially in controversial transactions (Kimea et al., 2023).

Evidence on the relationship between family ownership and tax avoidance in the context of taxes remains inconclusive. Agency conflicts arise due to differences in objectives between owners and agents; in this case, the agent focuses on profit maximization, the owner does not always want to focus more on profits, and some are more concerned about the company's reputation. The CEO of a company plays an important role in the decision-making process related to the company's operations. This can trigger agency conflicts where the management's goal is to maximize profits so that they can carry out tax avoidance practices to earn more profit (Rahmadhani & Tjaraka, 2022).

Family ownership tends to care more about the non-economic aspects of the company, namely the reputation and good name of the family and company (Rahmadhani & Tjaraka, 2022). For example, Chen et al. (2010) found a negative relationship of family firms with tax avoidance, family businesses typically avoid engaging in aggressive tax avoidance strategies because they value their reputations. A study conducted by Ibrahim et al. (2021) also found no relationship between family ownership and tax avoidance. This evidence shows that family shareholders prefer their companies to avoid tax avoidance practices because owners who are more concerned about non-economic factors, namely reputation, also prefer to pay more to prevent tax examination by

tax regulators. This proves the existence of agency conflicts based on differences in interests and decision-making related to tax avoidance.

On the other hand, from the research that found the family ownership factor influences tax avoidance, Zulma (2016) provides a positive relation between family ownership and tax avoidance, evidence that family businesses are more likely to be opportunistic and avoid paying taxes. This is because family businesses typically have low earnings quality and tend not to be transparent when releasing their financial statements. Rahmadhani and Tjaraka (2022) found a positive relationship between family ownership and tax avoidance. This result is consistent with the agency problem, in which management and principals have different objectives, and the CEO or firm management prefers to minimize taxes to increase profits. Bimo et al. (2019) also show that it takes effective internal corporate controls to reduce the tendency for tax avoidance in companies owned by families.

There are still many differences related to the results of family ownership on tax avoidance, this is due to the costs and benefits of the company when doing tax avoidance, and also the level of agency conflict in a company. the key to the company's wheel is held by the CEO or company management, and the low quality of earnings can encourage the CEO to maximize profits through tax avoidance (Zulma, 2016). Based on this explanation, Therefore, this study argues that companies with family ownership are likely to engage in tax avoidance. This study proposes the following hypothesis:

H_1: Family ownership is positively related to tax avoidance.

Research on business ethics has revealed evidence of a negative relationship between business ethics and tax avoidance in the context of agency theory. One of them was a study by Abdelmoula et al (2022) and Chouaibi et al. (2022), the study found a negative relationship between business ethics and tax avoidance. The study by Kimea et al. (2023) also found a negative relationship with tax avoidance further confirmed these results, they found that ethics can affect corporate tax avoidance activities. The results of those studies are consistent with the prediction that strong ethics value in a company will reduce tax avoidance activities; in other words, the higher a company's ethical score, the less tax avoidance it practices. The decision-making and tax avoidance strategies are from management, and the role of business ethics is to maintain more ethical decision making, maintain the company's reputation Abdelmoula et al. (2012), Another note is that agency conflicts can arise due to asymmetric information Jensen and Meckling (1976), the effect of which is a conflict of interest between the principal and the agent. In this case, disclosure related to the company's ethical commitment can reduce agency issues (Chouaibi et al., 2022). Ethics also can maintain shareholders' value so that conflict agencies can be controlled through the creation of leadership, as well as ethical decision-making based on self-regulation and ethics and morals (Pontiggia & Politis, 2012). This argument indicates that companies with high ethical values will avoid negative public information and damage their image (Lanis & Richardson, 2018; Kimea et al., 2023). This also implies that good business ethics can be fundamental, and companies need to follow ethical practices. This study is based on these opinions and argues that having a high commitment to business ethics, can prevent companies from avoiding taxes, the authors propose the following hypothesis

H_2 Business ethics commitment is negatively related to tax avoidance.

Based on previous arguments, several studies assume companies with family ownership engage in tax avoidance, one of which is a study from Rahmadhani and Tjaraka (2022) which found positive relationship results between companies with family ownership and tax avoidance, this happens because management has to maximize profits, Zulma (2016) also has positive results between family companies and tax avoidance, this happens because management prefers to choose to practice tax avoidance due to poor quality of income, contrary to the principle of family shareholders who are more concerned about reputation. In addition, there is also a study by Bimo

et al. (2019) which found the same positive results, they suggest that there needs to be more monitoring for family companies so that the principal and agent relationship can be maintained and avoid practices that harm the company in the future.

Pontiggia and Politis (2012) suggest that ethical leadership can reduce agency problems, that can be created through ethics and morals carried out by company leaders. Ethics and morals can also lead to self-regulation in the company so that decision-making is more maintained. This ethical leadership can be created through the company's commitment to business ethics, which can also be useful for maintaining the value of the company's shareholders. One effort to protect the interests of shareholders and optimize their values is a commitment to ethical business practices by Abidin et al. (2017), including companies with family shareholders. A study by Kartika and Kartikasari (2023) also found that family companies' commitment to business ethics can reduce earning management practices in the company and maintain the company's reputation. This may apply to the tax avoidance practices used in this study. Business ethics and disclosure can act as monitoring for the company by reducing asymmetric information, thus keeping the relationship and goals between the family shareholders and the management, reducing agency issues, and avoiding any unethical practices that can harm the company. Therefore this study argues that creating ethical leadership at the management level, based on ethical and moral self-regulation, which is formed through commitment to business ethics, can protect the family company's good name, reputation, and good name of family shareholders from unethical business practices, from this study context is an excessive tax avoidance practices. The proposed hypotheses are as follows:

H_3 Business ethics commitment in the firm weakens the effect of the positive relationship of family ownership on tax avoidance.

The following empirical model framework will be applied in this study:

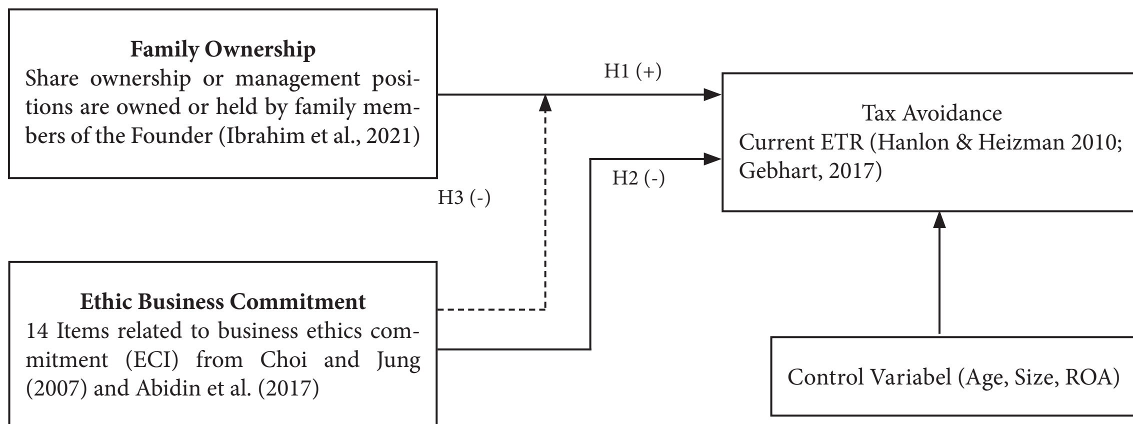

Figure 1. Conceptual Framework

METHODS

The population used in this study is a company listed on the Indonesian Stock Exchange, and for the sample used using the Purposive Sampling method, companies listed on the Indonesian Stock Exchange in 2016 – 2019, which consists of companies listed from the period observation of 2016 to 2019. This study chose this period because of the implementation of tax amnesty regulations in Indonesia in 2016, and a study by Fadhila and Handayani (2019) found that most firms still tend to engage in tax avoidance after the implementation of these regulations. In 2019, the global spread of the novel coronavirus (COVID-19) resulted in a significant decline in business activity, leading to substantial financial losses for numerous enterprises (Rosid et al., 2022). Furthermore, the following period represents a research limitation of this study.

In our purposive sampling, there are several sample selection criteria that we set, and companies that do not meet the criteria are excluded, the criteria are as follows:

1. Companies in finance are excluded due to one of the most heavily regulated industries and the differences in their financial statements compared to other industries.
2. Companies in real estate, construction, property, mining industries, shipping, and aviation Industries are specially regulated industries subject to final income tax that is different from other industries also excluded.
3. Exclude companies that experienced losses from 2016 to 2019, characterized by those with negative EBT.
4. Following previous studies, Exclude companies with financial statements using currencies other than Rupiah (Zulma, 2016; Rahmadhani and Tjaraka, 2022). Additionally, to ensure the consistency and comparability of the analysis (Puji et al., 2019).
5. This study chose Current ETR in the range of 0 to 1 following what previous studies have done (Chen et al, 2010), negative Current ETR or more than one is an outlier that can provide problems in estimating regression models so this study excludes these criteria.
6. Companies newly listed and delisted on the IDX during the research period are not included in the study, as they lack the requisite data. Furthermore, all companies that do not provide financial or complete annual reports that cannot be evaluated are also excluded.

Table 1. Sample Selection Criteria

Classification	Companies
Companies listed on the IDX as of 2019	662
Excluded Companies with the Following Industries	
Finance Industry	(101)
Property, Real Estate Industry	(70)
Construction Industry	(19)
Mining Industry	(39)
Shipping and Aviation	(22)
Excluded Companies with the Following Criteria	
Companies that are listed and delisted for the period 2016 - 2019	(111)
Companies that experienced losses for the period 2016 - 2019	(140)
Financial statements that do not report in Rupiah	(21)
Incomplete data in the period 2016 - 2019	(25)
Current ETR negative and more than 1	(4)
Total companies to be tested	110
Research Year 2016 - 2019	4
Number of Company Observation Samples - Year	440

Source: Processed by Authors (2024)

After excluding companies that did not meet these criteria, 110 were listed on the IDX and 440 observations were gathered. Table 1 lists the criteria used to classify samples. Data collection is in the form of secondary data taken from the Thomson Reuter Revinitive (Eikon) Database for financial data such as Current ETR, Size, and Return on Assets, the database is not fully complete, therefore the author will complement it by using the company's financial statements. The study uses the company's annual report by researching family shareholders, and content analysis on

14 indicators related to business ethics commitment in the annual report. The authors calculate the business ethics score by the total score obtained by each company divided by the number of question indicators.

The data analysis technique used in this research is regression analysis using the random effect method with general least squares (GLS). This study also conducted a sensitivity test to see the consistency of the regression results. The author provides a brief explanation of the operationalization of variables, measurements, and references used for this study in the following Table 2.

Table 2. Operational Variable

No	Variable	Definition	Measurement	Reference
Dependent Variable				
1	Tax Avoidance	Tax avoidance practices carried out by companies whose variables are measured using Current ETR	Current ETR is calculated by dividing current tax expense by pre-tax income.	Hanlon and Heizman (2010); Gebhart (2017); Rahmadhani and Tjaraka (2022)
Independent Variable				
2	Family	Family ownership describes companies that are owned or controlled by families.	This proxy is measured by a dummy 1 if the company's shares, or management positions are owned or held by members of the company's founding family. and 0 if not.	Dewi (2016); Zulma (2016); Ibrahim et al. (2021); Rudyanto (2023)
3	Ethic	Proxy that represents the level of commitment to the company's business ethics	The proxy of this variable is measured by calculating 14 indicators of the company's business ethics commitment disclosure in the annual report of the company.	Choi and Jung (2008); Pae and Choi (2011); Abidin et al. (2017)
Control Variable				
4	Age	This measurement measures how long the company has been established	This variable is calculated from the date the company was founded	Sterling and Christina (2021)
5	Size	This variable represents the size of the company's assets	Measurement of this variable uses the logarithm of natural assets	Wijayanti and Merkusiwati (2017); Rahmadhani and Tjaraka (2022)
6	ROA	ROA is a calculation of a company's profit generated from its total assets.	The measurement is calculated using net income divided by total assets	Bimo et al. (2019)

In terms of the Tax Avoidance variable, Measurements of avoidance, such as the Effective Tax Ratio (ETR) and book-to-tax difference (BTD), have also been widely explained and used (Hanlon & Heizman, 2010; Gebhart, 2017). The methodology of this study relies primarily on ETR-based measurements, with a particular focus on the Current ETR, which is calculated by dividing the current tax expense by pre-tax income (Hanlon & Heizman, 2010; Gebhart, 2017). The current ETR represents the corporation's current year's corporate income tax burden Rahmadhani and Tjaraka (2022) such that it can be a representation of tax avoidance in a certain period. If ETR is smaller than the statutory tax rate, then it will show a high level of tax avoidance In terms of interpretation, the negative coefficient to Current ETR obtained from the results indicates that the company is engaged in tax avoidance behavior (positive with tax avoidance). Conversely, if the coefficient is positive, this could be interpreted as the company making larger tax payments and there being no indication of tax avoidance (negative with tax avoidance) (Gebhart, 2017).

Family ownership is defined as the ownership of the company and management held by individuals who are family members of the founder or Ultimate Shareholder of the company Zulma (2016) and Rudyanto (2023), which is identified by having the same last name and relationship of blood such as children, siblings, and the existence of a marriage relationship and having a family relationship with the founding family (Ibrahim et al., 2021; Rudyanto, 2023). The measurement is proxied by Dummy 1 if individuals with family members of the founder or Ultimate Shareholder of the company held ownership or management are identified, and 0 otherwise.

The Business Ethical Commitment variable will be measured manually using scoring on the annual report referred to in research related to business ethical commitment (Choi & Jung, 2008; Pae & Choi, 2011; Abidin et al., 2017). The study will analyze the company's annual report that focuses on disclosures related to 14 items of business ethics commitment using a dummy if the item is disclosed and 0 otherwise, this measurement of ethical commitment is called ECI (Ethical Commitment Index). Table 3 describes the index as follows:

Tabel 3. Ethical Commitment Index

No.	Companies
1	The top managers of this company regularly emphasize the importance of business ethics.
2	Ethical behavior based on a formal business philosophy is the norm within the company.
3	The company has a disciplinary system in place and strictly deals with and punishes unethical behavior.
4	The company has a code of ethics.
5	Employees can use an anonymous channel to report unethical behavior in this company.
6	This company conducts ethics education, training, or workshops to improve employees' business ethics.
7	A large portion of the company's profits are regularly set aside for philanthropy.
8	The company has an independent ethics department and an officer
9	At this company, employees can get help with business ethics through an ethics hotline or open communication channels.
10	The company has an ethics committee
11	The company has an ethical evaluation system measured by an independent entity not affiliated with the company.
12	The Board of this company has in place and established Whistleblowing Policies.
13	The company's board of directors is committed to achieving business sustainability
14	The company's board is committed to conducting business following the highest ethical standards.

Source: Item adaptation from Choi and Jung's research (2008) modified by Abidin et al. (2017)

Initially, this item was only 11 and was used through surveys in previous studies (Choi & Jung, 2008; Pae & Choi, 2011), but over time further research used this index with the content analysis method in annual reports (Abidin et al., 2017; Amalina & Juliarto, 2021; Kartika & Kartikasari, 2023). A study by Abidin et al. (2017) modified this index by adding 3 additional items: whistleblowing policy, sustainability business, and high ethical standards based on recommendations from the Malaysian Code on Corporate Governance (SCM, 2012). However, in the Indonesian context, this item has also been recommended in company business ethics guidelines and more updated general guidelines of Indonesian corporate governance (PUG-KI) by Komite Nasional Kebijakan Governansi (KNKG, 2011; KNKG, 2021).

The company's overall score of the ethics commitment index on each observation in this study was calculated by summing the scores obtained by each company observation and then dividing the total by the number of questions, which is 14 indicators.

Among the control variables used, age is determined by the company's founding time. It can have an impact on the experience of the business, which will make the company more capable of overcoming tax problems. The knowledge possessed by the company can also help manage funds and tax activities so that it is possible to carry out greater tax avoidance (Sterling & Christina, 2021). Size is measured by the logarithm of total assets; the amount of assets owned by a business is proportional to its size. Therefore, the transactions carried out by businesses are increasingly complex, allowing them to take advantage of tax avoidance practices (Wijayanti & Merkusiwati, 2017; Rahmadhani & Tjaraka, 2022). As well as ROA which is measured by dividing net income by total assets, also a company's effective tax rate will decrease as its profitability increases, this is because profitable companies typically have a lower desire to pay large taxes (Bimo et al., 2019).

We conducted the study with a selected sample by employing a quantitative method that processed the sample through regression analysis. We based our first regression model on Ibrahim et al. (2021) research and modified it to include an ethical commitment to test the first and second hypotheses. These hypotheses are as follows:

$$CETRit = \alpha + ß1\ FAMILYit + ß2\ ETHICit + ß3\ Ageit + ß4\ Sizeit + ß5\ ROAit + \varepsilon it \quad (1)$$

For the second hypothesis, this study modifies Abdelmoula et al. 's (2022) model by incorporating the interaction between family ownership and business ethics commitment. This modification includes the use of a different ethical business proxy: the Ethical Commitment Index (ECI) developed by (Choi & Jung 2008). We also test the third hypothesis and its relationship with tax avoidance, modeled as follows:

$$CETRit = \alpha + ß1\ FAMILYit + ß2\ ETHICit + ß3\ FAMILY{*}ETHICit + ß4\ Ageit + ß5\ Sizeit + ß6\ RAit + \varepsilon it \quad (2)$$

Description:

CETRit	: Current Effective Tax Rate
FAMILYit	: Family Ownership
ETHICit	: Business Ethics Commitment
FAMILY*ETHICit	: Interaction between Family Ownership and Business Ethics Commitment

RESULTS AND DISCUSSIONS

Descriptive Statistics of Research

Descriptive statistical analyses were initially used to explore the research data. The data's minimum and maximum values, standard deviation, and average values (mean) are described. Table 4 presents the variables used in the study. The Current ETR variable is the dependent variable in this study, which describes the ratio of the effective tax rate, the average Current ETR is 0.2682, and the statutory tax rate in the test period is 25%, indicating that the average company in the sample does not avoid tax avoidance. The average tax rate in this sample was 26%.

The maximum value in this variable is 0.9593, with a sample of companies with a 95% effective tax rate, namely, PT Sekar Bumi Tbk. Furthermore, the minimum value is 0.00020, and the PT Sinar Mas Resource and Technology Tbk owns it. Regarding the family ownership variable, the descriptive statistics show that the average company with family ownership or management accounts for 59% of the total sample. This indicates that families owned or managed most Indonesian companies in this sample.

The business ethics commitment of companies in Indonesia had a score of 0.7371, which is quite good for having a business ethics commitment above 0.50. The minimum score on this assessment is 0.0714 whose score owned by PT Millennium Pharmacon International Tbk, the maximum value contained in the statistical analysis on this variable has the best value and PT

Table 4. Descriptive Statistic

Variable	Obs	Mean	Std. Dev.	Min	Max
CurrentETR	440	0.268	0.134	0.000	0.959
Family	440	0.597	0.490	0	1
Ethic	440	0.737	0.211	0.071	1
Age	440	37.809	16.442	7	114
Size	440	28.958	1.661	23.000	33.494
ROA	440	0.084	0.085	-0.002	0.920

Source: Result of STATA18 Data Processing (2024)

Matahari Department Store Tbk, PT Mitra Pinasthika Mustika Tbk, PT Sekar Laut Tbk and PT Unilever Indonesia Tbk own this value.

This study employed control variables, namely Company Age, Company Size, and Profitability, as determined by ROA. From the descriptive statistics of this study, we found that the average age of the company from the establishment was 37 years, with a minimum age of 7 years, namely PT Indofood CBP Sukses Makmur Tbk. The maximum age is 114 years, which is PT Hanjaya Mandala Sampoerna Tbk. The average company size in the sample is 28.9 in the measurement of the natural logarithm of total assets which if interpreted in its original total assets value is IDR 14.7 trillion, this indicates that the companies tested in this study generally have large assets. The smallest asset is owned by PT Erajaya Swasembada Tbk, with total assets of IDR 9.7 billion, and the largest asset is PT Astra International Tbk in 2019, which has total assets of IDR 351.9 trillion. The average ROA variable of the companies in the test sample is 8%, the minimum ROA value is -0.02% and the maximum ROA value is 92%.

Classical Assumption Test

We initially carried out multicollinearity testing to establish the classical test. This test assesses the Variance Inflation Factor (VIF) coefficient for each variable. If it is smaller than 10, we can conclude that multicollinearity does not exist.

The STATA 18 software test results for this study showed that every variable in Table 5. did not correlate greater than 0.85. The results also show that the variable has a VIF below 10 for each, using Pearson's correlation, and the average VIF is 1.14, indicating that the model does not have a multicollinearity problem.

Table 5. Pearson Correlation Test

Variables	CurrentETR	Family	Ethic	Age	Size	ROA
CurrentETR	1.000					
Family	0.018	1.000				
Ethic	0.027	-0.168	1.000			
Age	0.005	-0.206	0.009	1.000		
Size	-0.113	-0.120	0.306	0.162	1.000	
ROA	-0.162	-0.175	0.120	0.322	0.127	1.000

Source: Result of STATA18 Data Processing (2024)

Hypothesis Testing

This study employs a random effect regression model with GLS (Generalized Least Squares) because it obviates the need for heteroscedasticity and autocorrelation tests. The test is appropriate for use with the fixed effect model (Woolridge et al., 2016). Consequently, we do not conduct the Breusch–Pagan and Wooldridge tests with this model. We present the results of the regression model's goodness-of-fit tests in Table 6.

Table 6. Hypotheses Test

Independent Variable	Current ETR					
	Model 1			Model 2		
	Coefficient	**Prob**	**Sig**	**Coefficient**	**Prob**	**Sig**
Family	-0.000	-0.983		0.017	0.754	
Ethic	0.060	0.092	*	0.771	0.193	
Family*Ethic	-	-		-0.024	0.732	
Control Var						
Age	0.000	0.256		0.000	0.260	
Size	-0.008	0.132		-0.008	0.130	
ROA	-0.291	0.001	***	-0.292	0.001	***
R-Squared	0.065			0.065		
Prob > chi2	0.011			0.021		
Company	110			110		
Observation	440			440		

Variable Description

Current ETR: Current Tax Expense divided by Earning Before Tax, **Family:** Dummy 1 if any founding family member owns shares or management positions. **Ethic:** Ethical Commitment Index measured by 14 items related to business ethics commitment. **Family*Ethic:** Interaction between family and Ethical Commitment Index, **Age:** Company Age from the establishment of the company **Size:** Natural Log of Total Assets **ROA:** Measures profitability by dividing net income by total assets.

significance at *** p<0.01 (1%), ** p<0.05 (5%), * p<0.1 (10%)

Source: Result of STATA18 Data processing (2024)

Models 1 and 2 in Table 6 present the results of our hypothesis testing. Model 1 initially predicts a positive relationship between family ownership and tax avoidance. However, the results contradict this prediction. The family ownership variable (FAMILY) displays a negative coefficient of -0.0004205 for tax avoidance (CurrentETR), with an insignificant probability of -0.983. Interestingly, there was also a directional change in this variable in Model 2, leading to the conclusion that Hypothesis 1 is not supported.

Moreover, Model 1 tests Hypothesis 2, which posits that a company's commitment to business ethics reduces its tax avoidance tendencies. In this model, the business ethics commitment variable (ETHIC) has a positive coefficient of 0.0609819 and a significance level of 0.092, indicating support at the 10% significance level. However, in Model 2, this significance disappears, still suggesting support for Hypothesis 2, affirming that business ethics commitment can reduce tax avoidance.

For Hypothesis 3, Model 2 examined the interaction between family ownership and business ethics commitment in relation to tax avoidance. The interaction variable (FAMILYxETHIC) shows a non-significant probability of 0.732 and a negative coefficient of -0.0246875, indicating that Hypothesis 3 is not supported.

The study also considers three control variables: company age (AGE), size (SIZE), and profitability (ROA). Among these, only company profitability (ROA) demonstrated a significant and consistent negative relationship with tax avoidance (Current ETR) in both models. Specifically, Model 1 shows a coefficient of -0.2911379 with a probability of 0.001, and Model 2 shows a coefficient of -0.2925913 with the same probability, both significant at the 1% level.

These findings underscore the significant relationship between a company's profitability and its tax avoidance behavior.

Sensitivity Test

In this study, we conducted a sensitivity test to verify the consistency of the proposed model. Specifically, we use a different measurement for the family ownership variable, FAMOWN. This variable is measured as a dummy, assigned 1 if members of the founding family hold substantive share ownership of at least 25%, and 0 otherwise, following the criteria set by Chen et al. (2010). The results of the sensitivity tests are listed in Table 7.

Table 7. Sensitivity Test

Independent Variable	Current ETR					
	Model 1			Model 2		
	Coefficient	**Prob**	**Sig**	**Coefficient**	**Prob**	**Sig**
FamOwn	-0.000	-0.629		0.060	0.287	
Ethic	0.060	0.092	*	0.916	0.034	*
FamOwn*Ethic				-0.009	0.198	
Control Var						
Age	0.000	0.256		0.000	0.325	
Size	-0.008	0.133		-0.008	0.145	
ROA	-0.292	0.001	***	-0.292	0.001	***
R-Squared	0.067			0.080		
Prob > chi2	0.010			0.010		
Company	110			110		
Observation	440			440		

Variable Description

Current ETR: Current Tax Expense divided by Earning Before Tax, **FamOwn:** Dummy 1 if any founding family member owns substantive shares of a minimum of 25%. **Ethic:** Ethical Commitment Index measured by 14 items related to business ethics commitment. **FamOwn*Ethic:** Interaction between family and Ethical Commitment Index, **Age:** Company Age from the establishment of the company **Size:** Natural Log of Total Assets **ROA:** Measures profitability by dividing net income by total assets.

significance at *** p<0.01 (1%), ** p<0.05 (5%), * p<0.1 (10%)

Source: Result of STATA18 Data processing (2024)

In the regression test, the results remain consistent when measuring family ownership, with a minimum share ownership of 25%. This consistency is evident as family ownership shows no significant relationship with tax avoidance, yielding a coefficient of -0.0008332 in Model 1 and 0.0607116 in Model 2. The probability for Model 1 was -0.629, and for Model 2, it was 0.287. These results consistently support that Hypothesis 1 is not valid, indicating that companies with family ownership tend to avoid tax avoidance practices.

Hypothesis 2, which investigates the impact of business ethics commitment on tax avoidance, reveals a positive relationship between the ETHIC and Current ETR variables. This is characterized by coefficients of 0.0607875 in Model 1 and 0.916663 in Model 2. The significance levels also indicated a 10% threshold with a probability of 0.092 in Model 1. Unlike previous regression tests, this significance persists in Model 2, demonstrating a level of sensitivity for this variable. Nonetheless, Hypothesis 2 is supported, as the results confirm that business ethics commitment can reduce a company's tendency towards tax avoidance, as evidenced by the higher tax payments by companies committed to business ethics.

Hypothesis 3 also shows consistent results. The FAMOWN × ETHIC variable maintains a coefficient of -0.0095545 with a probability of 0.198. This indicates that family ownership combined with a commitment to business ethics does not significantly relate to tax avoidance, which is in line with previous findings. Family ownership, especially with a minimum ownership threshold of 25%, continues to avoid tax avoidance activities to preserve the name and reputation of the company and family.

Family Ownership and Tax Avoidance

The first hypothesis posits that family ownership correlates positively with tax avoidance, as measured by the current effective tax rate (Current ETR). Our argument suggests that increased family involvement in management or share ownership leads to higher tax avoidance. Contrary to our hypothesis, the findings indicate that family involvement in management or share ownership tends to reduce tax avoidance practices. The previous sensitivity test also further confirms this result, family ownership of significant shares of 25% of the company tends to avoid practicing tax avoidance which is illustrated by them paying higher taxes. This is also confirmed by Rahmadhani and Tjaraka (2022) suggest that if the family owns a significant share of at least 25% then it can provide a vote to counter business decision-making taken by the CEO or management.

This result aligns with Chen et al. (2010), who find that family-owned companies are less inclined towards tax avoidance to protect their reputation and family values. Similarly, Ibrahim et al. (2021) observed that family companies tend to comply with tax policies, prioritizing a company's reputation for longevity. Tax avoidance generally emerges as a strategy for company management because of the separation between ownership and control. Agency theory suggests that management's role is to maximize profits. However, family-owned companies often prioritize maintaining a good reputation. The results demonstrate that the conflict of interest identified in agency theory in family-run businesses is not a factor. Family company CEOs align their objectives with the interests of family shareholders, thereby reducing the likelihood of engaging in tax avoidance practices. This result implies that family businesses are compliant with taxation regulations and that the conflicts identified in agency theory do not apply in this context. These results also align with the concept of social-emotional wealth in family businesses. This concept emphasizes that family companies value emotional benefits alongside financial benefits (Rahmadhani & Tjaraka, 2022).

Role of Commitment to Business Ethics and Tax Avoidance

The second hypothesis examined the impact of corporate business ethics commitment. This study investigates the commitment to business ethics implemented by companies, which can protect companies from unethical practices, as well as the risk of tax Avoidance. We argue that if companies have a good business ethics commitment, they will tend to pay higher taxes and reduce tax avoidance practices. Our findings confirm this and our hypothesis can be supported. Our results find that companies that have a high business ethics commitment tend to pay higher taxes so that they do not commit tax avoidance, thus protecting the company's reputation. Consistent with the sensitivity test which found the same result that a firm's business ethics commitment tends to pay higher taxes and makes the firm avoid tax avoidance practices, these results further confirm our argument and hypothesis. This finding is consistent with Abdelmoula et al. (2022), who note that a firm's commitment to ethical practices can reduce strategies to minimize tax payments. Corporate commitment to ethics, demonstrated by management and CEOs, influences corporate tax avoidance strategies and decision-making. Pontiggia and Politis (2012) and Kimea et al. (2023) suggest that ethical commitment acts as a form of self-regulation, helping companies to control their tax avoidance behavior. The results of this study demonstrate that a commitment to business ethics can effectively mitigate conflicts of interest in agency theory within companies. This finding aligns with the conclusions of prior research conducted by (Abdelmoula et al., 2022 & Chouaibi et al., 2022). These results highlight the critical role of business ethics in shaping the conduct of business operations within a company.

Role of Family Ownership, Commitment to Business Ethics, and Tax Avoidance

This study also investigates the interaction between family ownership and business ethics commitment to tax avoidance, which is formulated in the third hypothesis. We argue that if family firms have good business ethics commitment, it can reduce the tendency of firms to commit tax avoidance, but the results we find are different and Our third Hypothesis is not supported. the results show that business ethics commitment cannot moderate the relationship between family ownership and tax avoidance. Thus, it can be said that whether family-owned firms commit to business ethics, as we found statistically that this interaction is not significant, it does not affect weakening tax avoidance. This finding is also consistent with sensitivity tests that statistically found that although families have a 25% share and have a commitment to business ethics, it does not affect weakening tax avoidance.

These results are not in line with agency theory, where the study argues that the role of business ethics can be a solution for family companies to reduce conflict and practice tax avoidance. The implication that can be drawn from this result is that family-owned businesses are in compliance with tax regulations and refrain from engaging in tax avoidance strategies (Chen et al., 2010). But, it can be inferred that a strong commitment to business ethics is not a primary factor in this context.

CONCLUSIONS

This study hypothesizes that family ownership influences tax avoidance practices. However, upon examining 110 companies listed on the IDX over four years, we found no relationship between family ownership and tax avoidance. This outcome aligns with Chen et al. (2010), suggesting that family companies avoid tax evasion to protect their families and companies' reputations. Furthermore, our findings highlight the role of business ethics commitment in reducing tax avoidance tendencies, corroborating prior research that business ethics can deter companies from engaging in risky practices such as tax avoidance. Thus, commitment to business ethics is crucial in corporate decision-making (Abdelmoula et al., 2022).

Interestingly, the role of commitment to business ethics in family-owned businesses is insignificant. This implies that family-owned businesses do not rely on business ethics commitments to avoid tax avoidance. However, these findings are consistent with those of (Chen et al., 2010), indicating that family companies avoid tax avoidance to preserve their reputation. This study contributes to a broader understanding of the factors influencing tax avoidance and enriches the literature on the interplay between corporate ethics, family involvement, and tax avoidance.

This study has some limitations that should be addressed in future research. First, it includes only companies from the Indonesian Stock Exchange. Future research could broaden the scope to other countries and conduct cross-national studies. Second, this study relies solely on the Current ETR to measure tax avoidance, suggesting that subsequent research could explore alternative measures, future studies can examine using other tax avoidance measurements such as book-tax differences based or tax shelter activity, to see the consistency of the results on tax avoidance. Third, the observation period of 2016 to 2019 excludes the COVID-19 period, which could introduce uncertain factors that impact business ethics and corporate tax avoidance practices. Future studies should extend this period to include these years. Lastly, this study uses dummy variables for family ownership; future studies could use more varied measures, such as larger ownership percentages or databases with better representations of family companies.

The implications of this study from the theoretical perspective are that the study contributes to expanding knowledge related to taxation, especially the factors that lead to tax avoidance, and also expands the literature on tax avoidance on the debate with corporate business ethics and the involvement of family company business. From the practical implication, this emphasizes the importance of ethical leadership in business. A commitment to strong business ethics can guide management decisions towards more beneficial outcomes for the company, maintaining

shareholder reputation and value. From an economic viewpoint, the implementation of business ethics is of significant consequence for the economy. By maintaining and monitoring existing standards, regulators can oversee the operations of companies within the scope of ethical business standards, which in turn contributes to the development of a stable and sustainable economy.

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