

Does Institutional Ownership Moderate the Effect of Transfer Pricing and Sales Growth on Tax Avoidance?

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Abstract

Purposes: This study examines the role of institutional ownership in moderating the effect of transfer pricing and sales growth on corporate tax avoidance of companies in Indonesia's food and beverage sub-sector manufacturing sector.

Methods: This study selected samples purposively, which resulted in 12 sample companies. We observed the financial reports from each company twice a year from 2015 to 2022, so the total panel data in this study was 192 (12 x 16). Then, this study employs a random effect estimator within a moderation model framework to analyze those data.

Findings: This study found that sales growth and institutional ownership increase corporate tax avoidance. However, transfer pricing does not affect corporate tax avoidance. This study uncovers the double-edged sword role of institutional ownership in corporate tax avoidance practices. On the one hand, institutional ownership reduces the effect of transfer pricing on corporate tax avoidance. On the other hand, a company's high institutional ownership could exacerbate corporate tax avoidance caused by increased sales growth. It means that the institutional investor's primary orientation is dividend profits rather than increasing reputation and company value. It urges policymakers to increase the awareness of institutional investors and company managers in the context of corporate tax compliance.

Novelty: As far as we know, our study was the first to employ institutional ownership as a moderator variable in the relationship between transfer pricing and sales growth on corporate tax avoidance.

Keywords: Institutional Ownership, Sales Growth, Tax Avoidance, Transfer Pricing.

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INTRODUCTION

Indonesia's corporate tax avoidance phenomenon is still widely researched. Although corporate tax avoidance does not violate the law or accounting standards, it can harm the state's revenue. The Tax Justice Network states that Indonesia's potential losses due to corporate tax avoidance each year reach 69.1 trillion rupiah. The enormous potential for corporate tax

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avoidance is also confirmed by Indonesia's low tax ratio, which is only 10.9% in 2021. Compared with Southeast Asian countries, Indonesia's tax ratio tends to be much lower. For example, in the same year, Vietnam's tax ratio was 18.2%, the Philippines' was 18.1%, Cambodia's was 18%, and Thailand's was 16.4%.

Researchers often use several theories to explain the corporate tax avoidance phenomenon, including positive accounting theory (Watts & Zimmerman, 1990) and agency theory (Jensen & Meckling, 1976). Positive accounting theory indicates that companies choose accounting policies that maximize company value under their interests (Irawan et al., 2020). The positive accounting theory by Watts and Zimmerman (1990) indicates that larger companies tend to bear more significant tax costs, so managers will choose the most profitable accounting policies to reduce these tax costs. From the perspective of positive accounting theory, one of the manager's policies to minimize taxes is transfer pricing. Thus, according to positive accounting theory, one of the variables that can increase corporate tax avoidance is transfer pricing.

Transfer pricing is a transaction transfer activity to related parties that can be used to avoid tax burdens (Susanti & Firmansyah, 2018). According to Sikka and Willmott (2010), transfer pricing is an accounting technique for allocating resources to carry out corporate tax avoidance. Using positive accounting theory, several studies, including Amidu et al. (2008), Bartelsman and Beetsma (2003), Barker et al. (2017), Apriyani and Muhyarsyah (2021), Utami and Irawan (2022), and Rosad et al. (2020) found a positive effect of transfer pricing on corporate tax avoidance. According to their study, high transfer pricing motivates corporate tax avoidance. However, the impact of transfer pricing on corporate tax avoidance is relatively inconsistent. Several other studies, including Irawan et al. (2020), Sitorus et al. (2022), and Pesak et al. (2022), found no effect of transfer pricing on corporate tax avoidance. In contrast, Panjalusman et al. (2018), Falbo and Firmansyah (2018), and Fasita and Firmansyah (2022) found a negative effect of transfer pricing on corporate tax avoidance.

On the other hand, based on agency theory, a variable that could affect corporate tax avoidance is sales growth. Agency theory indicates that the larger the company size, one of which is indicated by the company's sales growth, the agents tend to reduce the company's tax burden. This tax reduction is implemented for various purposes, including increasing managerial incentives or bonuses (Desai & Dharmapala, 2006). Besides, several other motives for carrying out tax avoidance by a company are financial interests and social responsibility (Wang et al., 2020).

Using the agency theory, several studies, including Wardan and Nurharjanti (2019), Afrianti et al. (2022), and Satria and Lunardi (2023), found a positive effect of sales growth on corporate tax avoidance. However, the effect of sales growth on corporate tax avoidance also tends to be inconsistent. Several other studies, including Faradisty et al. (2019) and Sumantri et al. (2022), found that high sales growth can reduce corporate tax avoidance. This is because when a company's sales growth is high, it tends to use it as a signal for investors to increase the value of its shares. Thus, the management would also minimize corporate tax avoidance to maintain the company's reputation and send this signal.

The heterogeneity in the transfer pricing and sales growth effect on corporate tax avoidance can be caused by the company's institutional ownership percentage. The high institutional ownership of a company can be a double-edged sword. On the one hand, institutional ownership can minimize corporate tax avoidance because of better corporate governance (GCG) mechanisms and involvement. However, high institutional ownership can also burden the company regarding dividend distribution. As a result, institutional ownership also can potentially increase corporate tax avoidance. When a company's transfer pricing and sales growth are relatively large, institutional investors tend to demand high dividends to increase the effect of the transfer pricing and sales growth on corporate tax avoidance. In contrast, if institutional investors prioritize dividends and the company's reputation, institutional investors represented in independent commissioners will monitor the high transfer pricing and sales growth so they do not become a corporate tax

avoidance motive. Thus, this study uses institutional ownership as a moderator variable that can determine the effect of transfer pricing and sales growth on TA.

We also employ institutional ownership as a moderator variable because it is often uncontrollable. Institutional ownership is associated with uncontrolled share prices (Friberg et al., 2024). According to Baron and Kenny (1986), one of the characteristics that can be used as a moderator variable in a model is uncontrollable. As far as we know, no previous studies employed institutional ownership as a moderator in the relationship between transfer pricing and sales growth on corporate tax avoidance A. Then, from our perspective, this is the novelty of our study. We employ data from companies in the food and beverage sub-sector manufacturing sector to test this moderating role. It is suspected that this study would answer the heterogeneity between studies regarding the effect of transfer pricing and sales growth on corporate tax avoidance.

Corporate tax avoidance is a company's effort to avoid taxes, but these efforts do not violate legal provisions (Pohan, 2013). Corporate tax avoidance is a legal act that uses gray areas in tax law (Wisanggeni & Suharli, 2017). However, even though it is not an unlawful act, corporate tax avoidance is an action that can be detrimental to the revenue state. On this basis, Barker (2009) calls corporate tax avoidance a non-criminal action, not a legal one. Therefore, corporate tax avoidance behavior by corporations and individual taxpayers still receives much attention from researchers and policymakers.

The determinants of corporate tax avoidance are highly multidimensional but can be explained by several theories. According to positive accounting theory, transfer pricing would affect corporate tax avoidance. Meanwhile, according to agency theory, sales growth is one variable affecting corporate tax avoidance. Positive accounting theory from Watts and Zimmerman (1990) explains that company management will use accounting policies that can maximize profits. The accounting policy can be justified as long as the accounting policy does not conflict with law or accounting standards. Positive accounting theory has three main hypotheses: bonus plans, debt covenants, and political costs (Watts & Zimmerman, 1986). In this context, the political cost hypothesis is often used to explain tax avoidance.

The political cost hypothesis in positive accounting theory views that companies view the transfer of wealth to the government through taxes as a political cost. As a result, companies tend to minimize these costs by implementing accounting policies that are considered the most profitable. These accounting policies are then used to reduce the company's tax burden. In this context, one of the accounting policies is transfer pricing. On that basis, many studies use positive accounting theory to test the effect of transfer pricing on corporate tax avoidance. If transfer pricing positively affects corporate tax avoidance, it may be a motive or way of carrying out corporate tax avoidance.

Several studies have found a positive effect of transfer pricing on corporate tax avoidance. Some of them are Ramadhani et al. (2021), Amidu et al. (2008), Bartelsman and Beetsma (2003), Barker et al. (2017), Maulana et al. (2018), Pamungkas and Nurcahyo (2018), Apriyani and Muhyarsyah (2021), Astrina et al. (2022), Utami and Irawan (2022), Gunawan and Surjandari (2022), and Rosad et al. (2020). However, not every transfer pricing has a motive for tax avoidance. This is because several other studies, including Irawan et al. (2020), Pangaribuan et al. (2019), Sitorus et al. (2022), and Pesak et al. (2022) found no effect of transfer pricing on corporate tax avoidance. In addition, Fasita and Firmansyah (2022) found a negative effect of transfer pricing on corporate tax avoidance. Despite contradictions in transfer pricing's effect on corporate tax avoidance, this study still suspects that:

H₁ : Transfer pricing affects corporate tax avoidance.

The first study's hypothesis is based on the positive accounting theory and the assumption that companies always try to find loopholes to avoid taxes. For instance, Liu et al. (2017) explained that the higher the size of the company and the more the company has related parties in various countries, the company will try to minimize tax payments. Liu et al. (2017) also explained that

multinational companies often carry out transfer pricing with related parties in countries with lower tax rates. The goal is clear: to avoid paying high taxes.

Besides the transfer pricing, sales growth is another variable that affects corporate tax avoidance. Referring to agency theory from Jensen and Meckling (1976), the larger the company size, the higher the agency costs. Companies that do not meet agency costs will be relatively trapped in information asymmetry problems. Agents or management control more information than principals. As a result, management can look for loopholes to increase its incentives. In this context, higher sales growth indicates increasing company size. Thus, high sales growth can increase corporate tax avoidance, so from an agency theory perspective, TA behavior results from agents' efforts to maximize incentives.

Using agency theory, several studies, including Warand and Nurharjanti (2019), Afrianti et al. (2022), and Satria and Lunardi (2023), found a positive effect of sales growth on corporate tax avoidance. However, several other studies, including Faradisty et al. (2019) and Sumantri et al. (2022), found that high sales growth can reduce corporate tax avoidance. The higher the sales growth, the lower the corporate tax avoidance. It is because when a company's sales growth is high, the company tends to use it as a signal for investors to increase the value of their shares, as explained in the signaling theory from Spence (2002). Thus, management also minimizes corporate tax avoidance to maintain the company's reputation and deliver this signal.

On the other hand, the studies of Astrina et al. (2022), Wahyuni et al. (2017), Prawati et al. (2020), Umar et al. (2021), Sriyono and Andesto (2022), Oktaviyani and Munandar (2017), and Nadhifah and Arif (2020) did not find any effect of sales growth on corporate tax avoidance. However, even though previous studies show heterogeneity in sales growth's impact on corporate tax avoidance, this study still suspects that:

H₂: Sales growth affects corporate tax avoidance.

Institutional ownership is an essential variable to determine the effect of transfer pricing and sales growth on corporate tax avoidance. A company with a high institutional ownership composition impacts high levels of supervision. The effect of transfer pricing on increasing corporate tax avoidance is minimized if the company's institutional ownership composition tends to be high, predominantly if the institutional ownership comprises foreign investors (Hasan et al., 2022). Institutional investors prioritize a company's reputation to minimize management actions that can reduce its reputation. The high transfer pricing and sales growth can mitigate their effect on increasing corporate tax avoidance if the company's ownership composition has adequate institutional ownership.

According to agency theory, institutional ownership itself can affect corporate tax avoidance. The higher the institutional ownership, the more supervision there will be, but it can also reduce corporate tax avoidance. It is proven by several studies, including those conducted by Sonia and Suparmun (2019), Darsani and Sukartha (2021), Fauzan et al. (2021), and Hasan et al. (2022) who found that institutional ownership can reduce corporate tax avoidance. If institutional ownership reduces corporate tax avoidance, institutional investors on the board of commissioners are relatively effective in improving the company's GCG mechanisms.

However, the effect of institutional ownership on corporate tax avoidance is also contradictory. According to Chen et al. (2008), institutional ownership cannot constantly improve the quality of GCG. This is because institutional ownership will not play an influential role if it does not have control over the company, as proven by the representation of the board of commissioners. Corporate tax avoidance cannot be reduced if the institutional ownership percentage is too low. The presence of institutional ownership in the study of Jiang et al. (2020), Khan et al. (2017), and Eskandar and Ebrahimi (2020) could increase corporate tax avoidance. Their study argues that the primary orientation of institutional investors is profit in the form of dividends so that they will support management's implementation of corporate tax avoidance. Even though there is heterogeneity among research results regarding the effect of institutional

ownership on corporate tax avoidance, this study still suspects that:

H₃: Institutional ownership affects corporate tax avoidance.

If examined more deeply, institutional ownership is a variable that the company cannot control. This means that the size of institutional ownership is determined by market mechanisms, not solely by the company's financial performance. Even if the company's financial performance is high, institutional ownership will not necessarily increase. Institutional investors may have other considerations in determining investment, not just the company's financial performance. Because institutional ownership is relatively tricky for companies to control, it is suitable if it is also positioned as a moderating variable. It refers to Baron and Kenny (1986), who gave the example that the positive or negative effect of an independent and dependent variable can increase or decrease due to events or variables that cannot be controlled.

In companies with high institutional ownership conditions, the effect of transfer pricing on corporate tax avoidance can become lower. Institutional ownership can prevent management from using transfer pricing as a loophole in tax avoidance. This institutional ownership is one of the critical GCG mechanisms for monitoring management's performance. The percentage of institutional ownership in a company will impact the quality of supervision. If institutional investors have proportional control, the probability of company directors carrying out fraudulent activities, including corporate tax avoidance, can be lower (Chairunesia, 2023). Therefore, this study suspects that:

H₄: Institutional ownership moderates the effect of transfer pricing on corporate tax avoidance.

Institutional ownership can also be an effective control mechanism to maintain the company's reputation so that even when sales growth is high, the company does not increase corporate tax avoidance. Damayanti and Wulandari (2021) revealed that institutional ownership tends to control the firm to avoid tax avoidance. If institutional investors' orientation is reputation and company value, they will try to prevent corporate tax avoidance. According to this assumption, we conjecture that:

H₅: Institutional ownership moderates the effect of sales growth on tax avoidance.

Besides testing the effect of transfer pricing, sales growth, and institutional ownership on corporate tax avoidance and the moderating role of institutional ownership, this study also uses profitability, leverage, and company size as vectors to control individual heterogeneity. These variables are used because they have been proven to affect corporate tax avoidance. For example, studies by Kim and Im (2017), Sari et al. (2020), Arianandini and Ramantha (2018), Tebiono et al. (2019), Napitupulu et al. (2019), Handayani (2018), and Gultom (2021), found that profitability as proxied by return on assets (ROA) was proven to increase TA. Furthermore, the study of Maula et al. (2017), Wahyuni et al. (2017), and Kismanah and Masitoh (2018) found a positive effect of leverage as proxied through the debt to equity ratio (DER) on TA. On the other hand, studies by Kim and Im (2017) and Handayani (2018) prove empirically that company size could increase corporate tax avoidance. Thus, our theoretical model is as Figure 1.

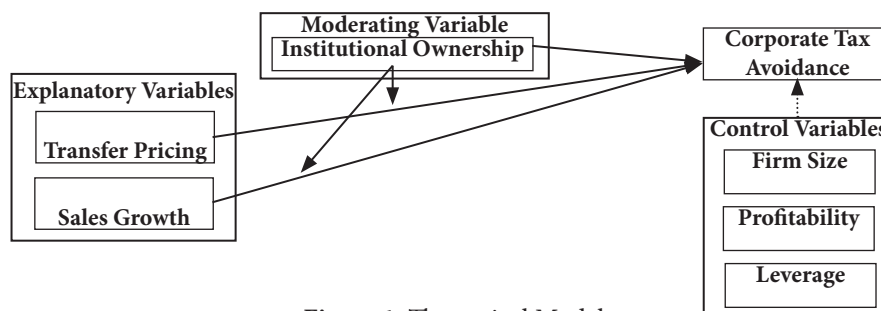


Figure 1. Theoretical Model

Figure 1 is compiled based on theories, previous studies, and hypotheses developed by this study. It explains that transfer pricing and sales growth are the explanatory variables predicted to influence corporate tax avoidance. The institutional ownership variable as a mediator will be tested to determine whether it can minimize or maximize the influence of these two explanatory variables on corporate tax avoidance. Meanwhile, the variables of firm size, profitability, and leverage play a role in controlling individual heterogeneity.

METHODS

This study examines 12 food and beverage sub-sector manufacturing companies on the Indonesian Stock Exchange (BEI). We chose this sub-sector because it reflects national economic conditions relatively, considering the enormous contribution of this industry to the economy. Moreover, the food and beverage industry supports the Indonesian economy (Harianto, 2024). These companies were selected by a purposive sampling method by considering five criteria: having been registered on the IDX since 2015, having related parties, reporting their financial information in rupiah units, their share composition containing institutional shares, and having adequate financial details for data collection. Of the 12 companies taken as samples, this study took observation periods twice a year, from the 2nd and 4th quarter reports of 2015 to 2022. Thus, this study's total data (observations) were 192 ($i=12, t=16$), which can be seen in Table 1.

Table 2 explains about the regressand in this study is corporate tax avoidance, which is measured using the effective tax rate (ETR). ETR is an opposite proxy for tax avoidance, so if the company's ETR value is high, it indicates a high corporate tax burden. However, if the ETR value is low, the company avoids tax. Several scholars recommend using ETR in measuring tax avoidance, namely Donohoe (2015), Thomsen and Watrin (2018), Aronmwan and Okaiwele (2020), and Drake et al. (2020). The ETR calculation in this study divides the total tax expense by the company's profit before tax.

The regressors in this study are transfer pricing (TP), sales growth (SG), and institutional ownership (IO). However, this study also includes firm size (SIZE), profitability proxied by return on assets (ROA), and leverage proxied by debt-to-equity ratio (DER) as regressors to control for individual heterogeneity. In this study, transfer pricing is measured by dividing the total gross profit from sales to related parties by the total gross profit from sales to non-related parties, as Lo et al. (2010) explained. If transfer pricing is low, the profit from transfer pricing into the company will also be lower. On the other hand, a high transfer pricing value indicates that the level of transfer pricing outside the company is also getting higher. A positive transfer pricing value indicates transfer pricing within the company, whereas if it is negative, it indicates transfer pricing outside the company (Susanti & Firmansyah, 2018).

Table 1. Purposive Sampling Criteria

Food and beverage sub-sector manufacturing companies listed on the IDX as of 2022		26
Less by inclusion criteria		
1	Food and beverage sub-sector companies that IPOed after 2015	-12
2	Companies that do not have related parties	0
3	Manufacturing sector companies that use foreign currency in their financial reporting	0
4	Companies that do not have institutional investors	0
5	Companies with inadequate financial information	0
i	Number of Selected Companies/Total Sample Companies	14
t	Number of Observation Periods	16
Total Observations (i x t)		192

Table 2. Variables Operationalization

Variables	Theoretical Definition	Proxy	Formula
Corporate Tax Avoidance (CTA)	Tax avoidance can be defined as activities carried out to avoid taxes. These activities can be described as non-criminal, not as legal behavior (Barker, 2009) The company's transfer of transactions to related parties can be used to avoid tax burdens (Susanti & Firmansyah, 2018)	ETR	$ETR = \text{Total Income Tax Expense} / \text{Total Earnings Before Tax} \dots \dots \dots (1)$
Transfer Pricing (TP)	The company's transfer of transactions to related parties can be used to avoid tax burdens (Susanti & Firmansyah, 2018)	Transfer Pricing	$TP = RPTGP / NRPTGP \dots (2)$ RTGP is the related parties' total gross profit ratio (the total gross profit from sales to related parties). The NRPTGP is the non-related parties' total gross profit ratio. It is the total gross profit from sales to unrelated parties.
Sales Growth (SG)	Marginal change in total sales from the current year period to the previous period	Sales Growth	$SG = (\text{Total Sales}_t - \text{Total Sales}_{t-1}) / \text{Total Sales}_{t-1} \dots \dots (3)$ SG is sales growth from reducing total sales for the current period (year t) from the previous year's period (t-1). The deduction results are then divided by the prior year's total sales.
Institutional Ownership (IO)	Share ownership by institutional parties such as governments, foreign institutions, trust funds, insurance companies, banks, investment companies, and institutions (Nashier & Gupta, 2016)	Percentage of Institutional Shares	$IO = \text{Total Institutional Ownership} / \text{Outstanding Shares} \dots \dots \dots (4)$
Firm Size (SIZE)	Firm size is the company's financial capability in a certain period. Company size can be viewed from asset ownership, sales level, and market capitalization.	Ln Total Assets	$\text{Firm Size} = \text{LN Total Asset} \dots \dots \dots (5)$
Profitability (PROF)	Profitability is a measure of a company's achievements that arise from the management decision-making process because it is related to the effectiveness of capital utilization, efficiency and profitability of performance activities (Fidhayatin & Dewi, 2012)	ROA	$ROA = \text{NIAT} / \text{TA} \dots \dots \dots (6)$ NIAT is Net Income After Tax or total net profit after tax. Meanwhile, TA is the company's Total Assets.
Leverage (LEV)	Leverage shows how much the company can pay off all its liabilities if the company is liquidated (Kasmir, 2014)	DER	$DER = \text{Total Liabilities} / \text{Total Equities} \dots \dots \dots (7)$
Tax Rate 25% (TAR25)	The Corporate Income Tax rate is 25%, which applies before 2022	DTAR25	Valued by 1 for the years 2015 to 2021. Meanwhile, in 2022, valued by 0

This study tests transfer pricing and sales growth's effect on corporate tax avoidance and the moderating role of institutional ownership. According to Baron and Kenny (1986), three path coefficients should be estimated to test moderation's role. The first path is the effect of the independent on the dependent variables. The second path is the effect of the moderator variable on the dependent variable, and the third path is the effect of the interaction between the independent variable and the moderator on the dependent variable. They will produce two models if these three paths are estimated using an equation. The first model tests the first and second paths, while the second model tests the third path. Equation (8) shows the first model of this study.

$$CTA_{it} = \alpha + \beta_1 TP_{it} + \beta_2 SG_{it} + \beta_3 SIZE_{it} + \beta_4 PROF_{it} + \beta_5 LEV_{it} + \beta_6 TAR25_{it} + u_{it} \dots \dots \dots (8)$$

CTA is tax avoidance proxied by the effective tax rate. TP is transfer pricing, and SG is sales growth. SIZE, PROF, and LEV are vectors that control individual heterogeneity. TAR25 is the dummy variable to control for bias caused by changes in corporate income tax rates. Meanwhile, u_{it} is an error term consisting of μ_i and v_{it} .

Furthermore, the regression model to test the moderating role of institutional ownership (IO) in this study is shown in equation (9). MODTP is the interaction between TP and IO obtained from $TP \times IO$, while MODSG is $TP \times IO$. It tests the moderation role of institutional ownership on the effect of transfer pricing on corporate tax avoidance. As for $SG \times IO$, it is an interaction variable between sales growth and institutional ownership. Thus, SIZE, PROF, and LEV are vectors that control individual heterogeneity. TAR25 is the dummy variable to control for bias caused by changes in corporate income tax rates. Meanwhile, u_{it} is an error term consisting of μ_i and v_{it} , which follows the one-way error component model assumption. In this case, the μ is the individual-specific effect, while v is the remainder disturbance in the regression that varies by individual and time.

$$CTA_{it} = \alpha + \beta_1 IO_{it} + \beta_2 MODTP_{it} + \beta_3 MODSG_{it} + \beta_4 SIZE_{it} + \beta_5 PROF_{it} + \beta_6 LEV_{it} + \beta_7 TAR25_{it} + \beta_8 TAR20_{it} + u_{it} \dots \dots \dots (9)$$

The data in this study is a panel, so three estimators will be used: ordinary least squares (OLS), fixed effect (FE), and random effect (RE). One of these three estimators will be selected to test the study hypothesis. Thus, we employ the Chow, Hausman, and Breusch Pagan LM tests to determine the best estimator.

RESULTS AND DISCUSSIONS

A general overview of the data in this study can be seen from the results of descriptive statistical analysis, which can be seen in Table 3. The institutional ownership variable is the percentage of institutional ownership calculated by dividing the total institutional shares by the total outstanding shares. ROA is obtained by dividing total net profit by total assets. The mean value from Table 3 shows that the ROA of food and beverage sector companies is relatively small, only in the range of 5%. The smallest value is -1.4%, showing the company experienced losses. Meanwhile, the average DER value is still in a reasonably healthy range, 36.6%. As for SIZE, it is the natural logarithm value of the company's total assets.

Table 3 shows that the average ETR value is relatively low, indicating high corporate tax avoidance. The mean value of the ETR could also mean that the company's tax burden paid is only 16.4% of its total net profit. The mean value of the ETR is quite different from the average ETR for mining sector companies, which is 37%, based on calculations by Nabhillah and Wahyudi (2022). On the other hand, the company's average transfer pricing shows a positive figure, indicating that transfer pricing practices are more significant than out. For sales growth, the mean is only 1.1% each semester. The lowest sales growth figure reached -50.9% when Indonesia faced the COVID-19 pandemic. Thus, before estimating study models, we correlate all independent variables to detect multicollinearity bias.

Table 3. Descriptive Statistics of Variables

	Obs	Mean	Std.Dev	Min	Max
ETR	192	0.164	0.075	0.092	0.341
TP	192	1.680	3.864	-3.859	15.672
SG	192	0.011	0.181	-0.509	0.749
IO	192	0.231	0.108	0.015	0.476
ROA	192	0.054	0.044	-0.014	0.241
DER	192	0.366	0.283	-0.191	1.044
SIZE	192	6.005	0.369	4.205	6.735

Table 4 informs that MODTP and MODSG are the variables used to test the moderating role of institutional ownership. These two variables are tested in Eq2. Thus, it is inevitable that the explanatory variables tested in Eq1 and Eq2 are not correlated. The multicollinearity bias certainly does not occur in this study.

Table 4. Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
TP (1)	1.000								
SG (2)	0.101	1.000							
IO (3)	-0.297	0.335	1.000						
MODTP (4)	0.935	0.101	-0.210	1.000					
MODSG (5)	-0.013	0.809	0.136	-0.003	1.000				
ROA (6)	0.079	-0.125	-0.308	0.096	-0.062	1.000			
DER (7)	-0.343	-0.270	0.142	-0.385	-0.073	-0.320	1.000		
SIZE (8)	-0.185	0.077	-0.276	-0.189	0.155	0.395	-0.050	1.000	
TAR25 (9)	-0.105	0.081	0.193	-0.112	0.013	-0.152	0.105	0.042	1.000

Table 5 shows that the best estimator is RE. The results show that transfer pricing could not affect corporate tax avoidance. This means that the transfer pricing for companies in the food and beverage sub-sector manufacturing sector has not been proven to be a method of tax avoidance. On the other hand, Table 3 shows that sales growth reduces ETR. In other words, sales growth affects tax avoidance positively. The higher the sales growth, the higher the company's tax avoidance. The estimation results have adequate goodness of fit because the statistical F probability value is lower than 0.05. The model also does not experience heteroscedasticity problems based on the BP/CW (Breusch Pagan/ Cook-Weisberg) test. Furthermore, the results of the Eq2 analysis to examine the moderating role of institutional ownership.

Table 5. Regression Results Eq 1

	I	II	III
Constant	0.139** (0.057)	0.299*** (0.039)	0.306*** (0.042)
TP	-0.001 (0.001)	0.002** (0.001)	0.002* (0.011)
SG	-0.145*** (0.019)	-0.045* (0.024)	-0.053** (0.023)
ROA	-0.506*** (0.088)	-0.38** (0.136)	-0.425*** (0.129)
DER	0.144*** (0.014)	-0.012 (0.011)	-0.012 (0.011)
SIZE	0.002 (0.01)	-0.02*** (0.006)	-0.02*** (0.006)
TAR25	-0.01 (0.008)	0.003 (0.002)	0.003 (0.003)
R ²	0.678	-	-

	I	II	III
Adj R ²	0.668	-	-
Within R ²	-	0.261	0.259
Between R ²	-	0.111	0.141
Overall R ²	-	0.114	0.143
F (Prob)	65.05 (0.000)	10.25 (0.000)	-
Total MSE	0.006	-	-
Root MSE	0.043	-	-
Wald Chi2 (Prob)	-	-	59.66 (0.000)
Chow (Prob)	289 (0.000)	-	-
Hausman (Prob)	-	2.85 (0.943)	-
Breusch Pagan (Prob)	-	-	513 (0.000)
sigma_u	-	0.073	0.044
sigma_e	-	0.010	0.010
rho	-	0.981	0.949
JT e (Prob)	4.28 (0.117)	-	1.55 (0.460)
JT u (Prob)	3.55 (0.169)	-	2.45 (0.293)
BP/CW (Prob)	3.33 (0.068)	-	2.78 (0.105)
M Wald (Prob)	-	510,000 (0.000)	-
Obs	192	192	192

Notes: significant at level 0.001, ***significant at level 0.05, **significant at level 0.10. Column I is the result of the OLS estimator, column II is FE, and column III is RE. Dependent variable = CTA proxied by ETR. The ROA, DER, and SIZE are variables that control individual heterogeneity. Chow test to examine the best model between OLS and FE. The Hausman test compares FE with RE, while the Breusch Pagan test compares RE and OLS. Standard errors are in parentheses.

Table 6 shows that the estimator selected is RE. This estimator produces a positive and significant coefficient of institutional ownership on ETR. It means that institutional ownership reduces tax avoidance. Table 6 also shows a positive and significant coefficient at the interaction of transfer pricing with institutional ownership on ETR. This means that institutional ownership has been proven to have a positive moderating role in the effect of transfer pricing on ETR. The high composition of institutional share ownership can increase the positive impact of transfer pricing on ETR. Because ETR is an opposite proxy for tax avoidance, institutional ownership can minimize the effect of transfer pricing on tax avoidance. In other words, the existence of institutional ownership will be able to prevent companies from using transfer pricing practices to avoid tax. On the other hand, the interaction variable between sales growth and institutional ownership produces a significant negative coefficient on ETR. It means that institutional ownership can negatively moderate the effect of sales growth on ETR. High institutional ownership will increase the negative effect of sales growth on ETR. In other words, high institutional ownership can exacerbate the positive effect of sales growth on tax avoidance.

Table 6. Regression Results Eq 2

	I	II	III
Constant	0.293*** (0.062)	0.373*** (0.028)	0.372*** (0.032)
IO	-0.208*** (0.033)	-0.192*** (0.017)	-0.191*** (0.018)
MODTP	-0.011 (0.007)	0.009*** (0.003)	0.009*** (0.003)
MODSG	-0.286*** (0.073)	-0.336*** (0.033)	-0.331*** (0.034)

	I	II	III
ROA	-0.469*** (0.085)	-0.741*** (0.063)	-0.728*** (0.065)
DER	0.172*** (0.013)	-0.025*** (0.006)	-0.022*** (0.006)
SIZE	-0.019* (0.011)	-0.02*** (0.005)	-0.021*** (0.005)
TAR25	-0.006 (0.008)	0.006*** (0.002)	0.006*** (0.002)
R ²	0.689	-	-
Adj R ²	0.678	-	-
Within R ²	-	0.587	0.587
Between R ²	-	0.130	0.138
Overall R ²	-	0.139	0.148
F (Prob)	58.32 (0.000)	35.14 (0.000)	-
Total MSE	0.006	-	-
Root MSE	0.043	-	-
Wald Chi2 (Prob)	-	-	228 (0.000)
Chow (Prob)	509 (0.000)	-	-
Hausman (Prob)	-	2.99 (0.886)	-
Breusch Pagan (Prob)	-	-	555 (0.000)
sigma_u	-	0.073	0.046
sigma_e	-	0.008	0.008
rho	-	0.989	0.973
JT e (Prob)	3.45 (0.178)	-	1.98 (0.370)
JT u (Prob)	7.19 (0.027)	-	8.89 (0.011)
BP/CW (Prob)	0.04 (0.850)	-	3.53 (0.065)
M Wald (Prob)	-	4464 (0.000)	-
Obs	192	192	192

Notes: *significant at level 0.001, ***significant at level 0.05, ****significant at level 0.10. Column I is the result of the OLS estimator, column II is FE, and column III is RE. Dependent variable = CTA proxied by ETR. The variables ROA, DER, and SIZE control individual heterogeneity. Chow test to examine the best model between OLS and FE. The Hausman test compares FE with RE, while the Breusch Pagan test compares RE and OLS. Standard errors are in parentheses.

The tax avoidance proxy is ETR, so the coefficient notation is interpreted differently. If the coefficient is positive, then the explanatory variable affects corporate tax avoidance negatively and vice versa. Based on the results of the Eq1 and Eq2 estimates, it can be seen that institutional ownership has a quasi-moderating role, which can minimize the effect of transfer pricing on tax avoidance. Institutional ownership also has a quasi-moderating role, which can increase the positive impact of sales growth on corporate tax avoidance. This quasi-moderation role means that institutional ownership can moderate the impact of transfer pricing and sales growth and affect corporate tax avoidance. To provide a more detailed picture, the following is a summary of the results of hypothesis testing in this study which can be seen in Table 7.

Table 7. Summary of Hypothesis Test Results

No	Hypothesis	Coeff	p-value	Decision
H1	Transfer pricing affects corporate tax avoidance	0.002	0.069	Rejected
H2	Sales growth affects corporate tax avoidance	-0.053	0.021	Accepted
H3	Institutional ownership affects corporate tax avoidance	-0.191	0.000	Accepted

No	Hypothesis	Coeff	p-value	Decision
H4	Institutional ownership moderates the effect of transfer pricing on corporate tax avoidance	0.009	0.000	Accepted
H5	Institutional ownership moderates the effect of sales growth on corporate tax avoidance	-0.331	0.000	Accepted

The effect of transfer pricing on corporate tax avoidance

This study found no effect of transfer pricing on corporate tax avoidance. This result indicates that companies in the food and beverage sub-sector manufacturing sector are not suggested to avoid taxes in their transfer pricing transactions. In other words, if there is TA activity, then the gap used by the company does not come from transfer pricing. The results of this study contradict the study of Ramadhani et al. (2021), which proves the effect of transfer pricing on TA. According to Ramadhani et al. (2021), manufacturing sector companies registered in LQ 45 are indicated to carry out transfer pricing activities to minimize the tax burden. Apart from that, the results of this study also conflict with several other studies, such as Amidu et al. (2008), Bartelsman and Beetsma (2003), Barker et al. (2017), and Rosad et al. (2020). These studies state that TP is a loophole that is relatively often used as an effort to carry out corporate tax avoidance. According to them, the higher the transfer pricing, the greater the corporate tax avoidance.

One of the reasons that transfer pricing does not affect corporate tax avoidance is because the transfer pricing practice itself is relatively low (see Table 3). The low level of transfer pricing practices is because products from food and beverage sector companies tend not to last long. Therefore, TP in the form of products (goods transfer pricing) is relatively lower than other companies, as revealed by the study by Manoppo and Susanti (2022). In this study, several companies with relatively high transfer pricing are FKS Food Sejahtera, Wilmar Cahaya Sejahtera, and Siantar TOP. The remaining companies in the sample have relatively low transfer pricing.

The lack of effect of transfer pricing on corporate tax avoidance in this study debates the relevance of the political cost hypothesis from Watts and Zimmerman (1986) in the context of transfer pricing. Referring to Watts and Zimmerman (1986), management will choose the accounting method that is considered the most profitable, especially in conditions of high corporate political costs. One of these accounting techniques or policies is corporate tax avoidance, generated by transfer pricing. Transfer pricing by companies in the food and beverage sub-sector manufacturing sector has not been proven to be a motive for corporate tax avoidance. Thus, the transfer pricing in these companies is more of a routine activity, not an accounting policy designed to minimize political costs, which, in this case, is corporate tax avoidance.

In addition, the absence of the effect of transfer pricing and corporate tax avoidance in this study also refutes one of the assumptions of positive accounting theory regarding the bonus hypothesis in the context of transfer pricing use. This assumption states that agents or company management will use accounting techniques, including corporate tax avoidance, to increase agent incentives. Although still relevant, the bonus hypothesis does not apply to companies in the food and beverage sub-sector manufacturing sector when using transfer pricing. Even though it contradicts positive accounting theory, this study's results align with Irawan et al. (2020), who state that companies do not use transfer pricing to carry out corporate tax avoidance. This study is also in line with Panjalusman et al. (2018), Falbo and Firmansyah (2018), Sitorus et al. (2022), and Pesak et al. (2022). They also found no effect of transfer pricing on corporate tax avoidance.

The effect of sales growth on corporate tax avoidance

This study found that a company's high sales growth can increase corporate tax avoidance. This finding is in line with agency theory, which states that the higher the size of the company (one of which is indicated by sales growth), the agent (management) will try to increase its incentives by generating tax avoidance (Desai & Dharmapala, 2006). The finding is in line with several

previous studies conducted by Wardan and Nurharjanti (2019), Afrianti et al. (2022), and Satria and Lunardi (2023). Their study also states that increased sales growth will boost corporate tax avoidance. These findings indicate that sales growth tends to be determined by people's purchasing power and population growth in food and beverage sub-sector manufacturing companies.

If people's purchasing power and economic conditions are stable, food and beverage products tend to increase quickly. The company carries out corporate tax avoidance to anticipate future uncertainty in this condition. This could be a reason why sales growth has a positive effect on CTA. Thus, the company's sales growth is one of the motives behind the company's corporate tax avoidance. Sales growth is not seen as part of the company's signal to investors to increase company value. Therefore, these findings refute the signaling theory, which indicates that sales growth can be one of the signals companies use to attract more investors. In the context of signaling theory, investor interest will impact the company's share price. On the contrary, the findings in this study confirm the relevance of agency theory, which indicates that the higher a company's sales growth, the more agents will be triggered to increase their incentives. One of the efforts to increase incentives is by conducting corporate tax avoidance.

The positive effect of sales growth on corporate tax avoidance found by this study also refutes several previous studies, including those conducted by Faradisty et al. (2019), Sumantri et al. (2022), Astrina et al. (2022), Wahyuni et al. (2017), Prawati et al. (2020), Umar et al. (2021), Sriyono and Andesto (2022), Oktaviyani and Munandar (2017), and Nadhifah and Arif (2020). Their study failed to find any positive effect of sales growth on corporate tax avoidance. Unfortunately, these studies do not explain why sales growth cannot affect corporate tax avoidance. For example, Sumantri et al. (2022) only explain that high sales growth will increase profits so that corporate tax avoidance will be higher. The estimation results in this study show that sales growth positively affects cash ETR. Another example is shown by Astrina et al. (2022), who 'only' explains that companies with high sales growth do not necessarily show large profits. This is because high operating costs will accompany the enormous sales growth, so profits remain low. On that basis, Astrina et al. (2022) stated that the level of sales growth cannot affect corporate tax avoidance.

The effect of institutional ownership on corporate tax avoidance

This study found that institutional ownership can increase corporate tax avoidance. These findings indicate that high institutional ownership can be a kind of burden for companies concerning dividend payments. The existence of these burdens can trigger companies to carry out corporate tax avoidance. This finding also shows that the primary orientation of institutional investors is more towards dividend profits. It is aligned with Chen et al. (2008), who states that if institutional investors are more oriented toward dividend profits or share prices, the presence of IO on the board of commissioners will be less effective in realizing better GCG mechanisms.

Referring to the study of Chen et al. (2008), there is a kind of threshold related to the effect of institutional ownership on corporate tax avoidance. This threshold is related to representation on the board of commissioners of institutional investors. Even if there are institutional investors, if they are not represented on the board of commissioners, their effect in minimizing corporate tax avoidance could be meaningless. On the contrary, institutional ownership could increase corporate tax avoidance. Lin (2010) states that the threshold referred to was 81.2%. If the institutional ownership in a company reaches this threshold, its effect on reducing corporate tax avoidance would be pretty significant. If this threshold value is compared with the average institutional ownership of companies, which is only 23.1% (see Table 3), then it is still far from this threshold. As a result, this low composition of institutional ownership increases corporate tax avoidance.

However, according to Jiang et al. (2020), high institutional ownership will increase corporate tax avoidance. According to the study of Jiang et al. (2020), expanding institutional ownership can significantly encourage corporate tax avoidance if the ownership concentration is low. Jiang et al. (2020) state that the current orientation of institutional investors is more about

profit, so an increase in institutional ownership will lead to a rise in profits. These high profits result in institutional investors tending to avoid taxes. Therefore, it aligns with the study of Khan et al. (2017) and Eskandar and Ebrahimi (2020), who also found that institutional ownership can increase corporate tax avoidance.

On the other hand, the findings in this study refute the relevance of agency theory in the context of supervision by institutional investors. Referring to agency theory, the involvement of institutional investors can improve supervision and GCG mechanisms. This is ultimately predicted to reduce corporate tax avoidance. However, institutional ownership increases the corporate tax avoidance of companies in the food and beverage manufacturing sector. Thus, these findings refute several studies, including Sonia and Suparmun (2019), Darsani and Sukartha (2021), Fauzan et al. (2021), and Hasan et al. (2022), which state that institutional ownership can reduce corporate tax avoidance. The findings in this study also refute several studies conducted by Sari et al. (2020) and Anggraeni and Febrianti (2019), who found no effect of institutional ownership on corporate tax avoidance.

The role of institutional ownership in moderating the effect of transfer pricing and sales growth on corporate tax avoidance

This study found that institutional ownership moderates the negative effect of transfer pricing on corporate tax avoidance. In other words, high institutional ownership will minimize the impact of transfer pricing on increasing corporate tax avoidance. Because institutional ownership partially affects corporate tax avoidance, the moderating role of institutional ownership on the effect of transfer pricing on corporate tax avoidance is quasi-moderation. In this context, quasi-moderation means that institutional ownership is not a purely moderating variable but needs to be positioned as a regular regressor to affect corporate tax avoidance. High institutional ownership would reduce the effect of transfer pricing on corporate tax avoidance.

These findings indicate that the magnitude of institutional ownership will pressure companies to use transfer pricing as a motive for corporate tax avoidance as little as possible. This condition can also show that the higher the institutional ownership, the more equal the composition of company ownership becomes, so the number of related parties owned will decrease. The reduction in related parties lowers the company's transfer pricing transactions. The low transfer pricing means it cannot affect corporate tax avoidance.

On the other hand, this study found a positive moderating role of institutional ownership on the effect of sales growth on TA. In other words, high institutional ownership could encourage companies to avoid corporate tax in a high sales growth position. The higher the company's sales growth, the more aggressive institutional investors become in pursuing dividends, so company management is triggered to increase corporate tax avoidance. The institutional ownership in this study can be a double-edged sword that can reduce the impact of transfer pricing on corporate tax avoidance while simultaneously exacerbating the increase in corporate tax avoidance because of the high level of sales growth.

CONCLUSIONS

This study found empirical evidence of a positive effect of sales growth and institutional ownership on corporate tax avoidance. This means that an increase in the company's sales growth and institutional ownership composition will trigger an increase in corporate tax avoidance. This study also found that institutional ownership can be a double-edged sword in corporate TA practices. On the one hand, institutional ownership could reduce the impact of transfer pricing on TA. On the other hand, institutional ownership could increase the positive effect of sales growth on corporate tax avoidance. Furthermore, this study found no effect of transfer pricing on corporate tax avoidance. In other words, transfer pricing in the food and beverage sub-sector manufacturing sector companies is a routine activity. It is not used as an opportunity to employ corporate tax avoidance.

This study implies the importance of increasing institutional investors' and company managers' awareness of corporate tax compliance. This is because the primary orientation of institutional investors in companies in the food and beverage sub-sector manufacturing sector is dividend profits rather than increasing reputation and company value. As a result, instead of being an element that improves the company's GCG mechanism, the presence of institutional investors can become a burden that causes management to carry out corporate tax avoidance practices. The burden in this context relates to dividend payments, where management becomes more motivated to provide enormous dividends to institutional investors.

This study has several limitations. This study did not check for possible endogeneity problems in the model. This study also did not present a theory that can specifically explain the role of institutional ownership in moderating the effect of transfer pricing and sales growth on corporate tax avoidance. In addition, this study only measured corporate tax avoidance using the ETR proxy. Various proxies can be used to measure corporate tax avoidance, such as the cash effective tax rate (CETR), book-tax difference (BTD), tax expense to operating cash flow, and others. Using other proxies in measuring corporate tax avoidance can be one methodical way to check the model's robustness. Future studies are hoped to fill these limitations.

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