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The Impact of Directors with Foreign Experience and Foreign Institutional Ownership on Tax Avoidance

Widyana Rahma Cahyani[1], Ika Putri Larasati[2]

[1,2]State University of Malang, Indonesia

ABSTRACT: The objective of this study is to investigate how directors with foreign experience and foreign institutional ownership affect tax avoidance in Indonesia. The samples for this study were manufacturing sector companies listed on the Indonesia Stock Exchange from 2018-2021. This study used the explanatory quantitative research method with multiple linear regression analysis. It was found that directors with foreign experience who return to Indonesia have a mindset of maximizing shareholder wealth and thus attempt to avoid taxes. Foreign institutional ownership did not have a significant impact on tax avoidance for manufacturing companies listed on the IDX from 2018-2021.

KEYWORDS: foreign experience of directors; foreign institutional ownership; foreign institutional investors; tax avoidance; management characteristic; company characteristic.

I. INTRODUCTION

The practice of tax avoidance is a phenomenon frequently discussed in various countries and a very complex issue because it involves internal and external parties to companies (Rustiarini & Sudiartana, 2021). Research on tax avoidance continues to become a topic of discussion and debate among practitioners and scholars (Yulistia et al., 2020). This occurs because the practice of tax avoidance still resides in a grey area: the practice is considered not to violate any law, yet the action on the other hand can cause losses for the state because there is a reduction in state treasury revenue. From the viewpoint of scholars, the practice of tax avoidance also still becomes a research focus that is interesting to be discussed, because although the practice violates no tax regulations, tax avoidance is considered immoral (de Colle & Scarpa, 2020).

The phenomenon of tax avoidance by global companies such as Apple, Facebook, and Starbucks (Davis et al., 2018; Kovermann & Velte, 2019) has given the impression that the practice is a phenomenon that is widespread in the current world of business. The State of Tax Justice 2020: Tax Justice in the time of COVID-19 stated that Indonesia ranked fourth among countries in Asia, after India, China, and Japan. The condition experienced by Indonesia regarding the practice of tax avoidance has resulted in increased supervision that leads to concerns over the risks that may be incurred, because this has the implications of a reduction in state treasury revenue through the taxation sector (Sumartono & Puspasari, 2021). This matter also attracts public attention, particularly for scholars who focus on the practice of tax avoidance (Dyreng et al., 2008; Huseynov et al., 2017; Kanagaretnam et al., 2016; Mahaputra et al., 2018). Based on the above phenomenon, an empirical study regarding tax avoidance needs to be conducted.

Empirical research regarding the practice of tax avoidance in general concerns the factors that support an uptick in the practice, such as activities or policies that are instituted by management (Made et al., 2022). Management activities are linked to corporate social responsibility (Dande, 2018; Luke & Zulaikha, 2016; Mahdi et al., 2019), managerial ownership (Atari, 2016; Lubis et al., 2018; Nugraheni & Murtin, 2019), managerial capabilities (Koester et al., 2016; Nurfauzi & Firmansyah, 2018; Park et al., 2015), and risk of tax litigation (Donelson et al., 2022). However, research that relates to the practice of tax avoidance considering management heterogeneity or characteristics is still limited (Dyreng et al., 2008, 2010; Made et al., 2022; Wen et al., 2020). Dyreng et al. (2010) suggested the further exploration of factors that may explain tax avoidance as seen through the heterogeneity (characteristic) of management. Some studies have explored factors that affect tax avoidance as seen through management characteristics, such as CEO overconfidence (Olsen & Stekelberg, 2015), CEO political preferences (Francis et al., 2016), and gender diversity (Prasetyo, 2019). Characteristics based on the foreign experience of directors as the heads of management will be able

to supplement the literature regarding the relationship between management heterogeneity and tax avoidance (Wen et al., 2020). Additionally, foreign institutional ownership also becomes interesting to be researched. This is because empirical studies regarding foreign institutional ownership in developed countries have focused on several issues in the company environment, such as company performance (Esa & Ghazali, 2012), company transparency (Haat et al., 2008; Haniffa & Cooke, 2002, 2005), dividend policies (Jeon et al., 2011), company management (Gillan & Starks, 2005), technology transfer (Rasi'ah, 2003; Wignaraja, 2008), and share value (Huang & Shiu, 2008; Sulong & Nor, 2008). However, research on the impact of foreign institutional ownership toward taxation in developing countries is still limited and becomes one of the kinds of ownership structures that have mostly not been explored in taxation literature (Hasan et al., 2022). This matter also becomes important to be researched, considering the high level of foreign direct investment and the importance of the taxation sector in Indonesia (Maisaroh & Setiawan, 2021). Based on the explanation above, this study takes the focus of analyzing the impact of directors possessing foreign experience and foreign institutional ownership as factors that affect tax avoidance.

Hambrick (2007) and Hambrick & Mason (1984) stated that heterogeneity as in management background underlies the process of decision-making in a company. This aspect also applies to directors who occupy peak positions of management in companies. The heterogeneity of directors can be seen from work experience, relations, education, and functions (O'Shannassy, 2015). The experience they gain can be from inside or outside the country (Hambrick & Mason, 1984). Directors can be said to possess foreign experience from abroad if they gain experience, education, and occupation that are sourced from other countries (Hambrick & Mason, 1984; Wen et al., 2020; Yuan & Wen, 2018). The obtained foreign experience will have an impact of the ways of thinking of directors, and this will in turn affect the strategy selection and decision-making of a company (Kwalomine, 2018; Made et al., 2022). Therefore, the foreign experience of directors can affect the process in determining strategies of tax management, for which one of these concerns tax avoidance (Wen et al., 2020). According to Made et al. (2022), directors who possess foreign experience are able to make analyses of cost and benefit in relation to tax avoidance in a reasonable manner and thus will have implications of the strategies that are selected and decisions that are made. In line with the cost and benefit theory, directors as decision makers will consider the expenses incurred as a part of a strategy (Drèze & Stern, 1987). Wen et al. (2020) had conducted a study on the impact of directors with foreign experience on tax avoidance in China, and provided evidence that directors with foreign experience will tend to protect investors and to have a significant effect in decreasing the practice of tax avoidance. The findings of the research were reinforced by the finding of Made et al. (2022) that directors with foreign experience have a negative impact on tax aggressiveness and thus can assist to decrease efforts of tax avoidance in Indonesia.

The practice of tax avoidance also relates to the level of investment between countries (Hasan et al., 2022). According to data from the Indonesian Central Statistics Agency for the period from 2019-2021, the actualization of Foreign Investment showed a greater increase in comparison to Domestic Investment (Maisaroh & Setiawan, 2021). The actualization of Domestic Investment for the period of 2021 was 49.2%, while the actualization of Foreign Investment was 50.8% (www.bkpm.go.id). Companies with foreign ownership, including those with Foreign Institutional Investors (FIIs), conduct business activities globally in various countries (Maisaroh & Setiawan, 2021). Foreign institutional ownership as one of the parts of the ownership structure of a company plays a role in the level of tax avoidance (Richardson et al., 2016). Companies with foreign ownership pay greater attention to long-term cost compared to the benefits that would have resulted from the practice of tax avoidance (Maisaroh & Setiawan, 2021). This is supported by the cost and benefit theory that claims that cost and benefit analysis can provide an evaluation of a decision through in-depth considerations of the impact or risks that would be incurred (Drèze & Stern, 1987). Empirical findings indicate that foreign institutional ownership is able to reduce practices of company tax avoidance (Hasan et al., 2022). This is because foreign investors tend to dislike acts of tax avoidance in companies because tax avoidance is considered not to be beneficial to the company, but only beneficial to just the party of the management (Hasan et al., 2022). In contrast to prior research (Hasan et al., 2022; Wen et al., 2020), this study uses a proxy that had been formulated by Tang & Firth (2012), which is Abnormal Book-Tax Difference (ABTD). This proxy is considered more accurate in measuring tax avoidance because it contains information that can reveal differences between values in the accounting book and values in the fiscal book that are controlled by company management (Indarto & Widarjo, 2021) compared to ETR GAAP/Cash ETR and total BTD that have been used in prior studies. Furthermore, ABTD is also considered to be able specifically to capture opportunistic activities that are performed by the management, for which one of these concerns tax avoidance (Tang & Firth, 2012). Therefore, this study uses the measurement of Abnormal Book-Tax Difference (ABTD) to quantify tax avoidance. Based on the discussion in the background, the objective of this study becomes to examine the impact of directors with foreign experience and foreign institutional ownership toward the practice of tax avoidance.

II. LITERATURE REVIEW AND HYPOTHESIS

A. Cost and Benefit Theory

Cost and benefit theory appraises or evaluates a decision through in-depth considerations of the impact and risks that would result (Drèze & Stern, 1987). According to this theory, analysis of cost and benefit allows a company to find out whether a selected choice for a decision and strategy is able to furnish added value (Drèze & Stern, 1987; Maisaroh & Setiawan, 2021; Vessey, 1994). By performing the analysis, if it can be found that the benefit is greater than the cost that was sacrificed, then it may be said that a decision that was made is appropriate (Drèze & Stern, 1987). Cost and benefit analysis covers a very broad field of activities, one of which includes its use to conceptualize the cost and benefit of the practice of tax avoidance (Maisaroh & Setiawan, 2021). One of the primary benefits of the practice of tax avoidance is that a company will be able to save on its cash flow (Annuar et al., 2014). The practice of tax avoidance allows the cash flow that enters a company to grow, thereby being able to increase the value of the company (Annuar et al., 2014). In addition to considerations from the benefit standpoint, decision makers must also consider the cost that would be incurred in the process of implementing a strategy (Drèze & Stern, 1987), one of which includes the strategy of tax avoidance (Maisaroh & Setiawan, 2021). This strategy will incur costs for a company, for example in the form of high costs for reputation and fees for tax consultants (Maisaroh & Setiawan, 2021; Wen et al., 2020).

B. Tax Avoidance

Butje & Tjondro (2014) and Zain (2008) define tax avoidance as an effort of tax planning by way of profit management in order to decrease the tax burden that a company must bear by exploiting a loophole without violating taxation regulations. Various efforts may be made by companies for tax avoidance, among these being thin capitalization, treaty shopping, controlled foreign corporation, tax inversion, and manipulation of transfer price establishment to maximize profits (Bird & Davis-Nozemack, 2018). There are various kinds of proxies that can be used to measure the variable of tax avoidance, for example tax shelter firms, effective tax rate, total book tax differences, abnormal total book tax differences, and marginal tax rate (Hanlon & Heitzman, 2010). Tax avoidance that uses the proxy of Abnormal Book Tax Differences (ABTD) is calculated from estimating the residue value from the Book Tax Difference (BTD) regression model (Desai & Dharmapala, 2006; Hanlon & Heitzman, 2010; Tang & Firth, 2012). ABTD is considered to be more accurate because it can capture information that can expose differences in values found in the accounting book and fiscal book under the control of company management, and it can also specifically capture opportunistic components performed by the management, one of which is tax avoidance (Indarto & Widarjo, 2021; Tang & Firth, 2012).

C. Foreign Experience of Directors

According to Hambrick & Mason (1984), experience is one part of the management characteristics that is able to affect viewpoints, perceptions, and interpretations. Directors as the peak of management can gain experience from inside the country or outside the country (Hambrick & Mason, 1984). A director may be said to possess experience from outside the country (foreign experience) if the director obtains experience, education, and work from sources outside of the country of the director (Hambrick & Mason, 1984; Wen et al., 2020; Yuan & Wen., 2018). According to Wen et al. (2020) and Yuan & Wen (2018), directors with foreign experience are able to use their skills to identify opportunities and make strategic decisions that are better compared to directors without foreign experience. This matter is certainly related to decisions regarding tax avoidance. Directors with foreign experience are given a proxy by a dummy variable with reference to prior research, as Giannetti et al. (2015), Wen et al. (2020), and Yuan & Wen (2018). The utilized criteria is a given value of 1 if a company has a director with work experience and/or education from outside the country, and a given value of 0 otherwise.

D. Foreign Institutional Ownership

Ye et al. (2021) define foreign institutional ownership as a part of the ownership structure instrument where the majority shares of a company are possessed by foreign institutional investors. Foreign institutional ownership occurs when there is a long-term investment by investors from outside the country that enters a domestic multinational company (Alkurdi & Mardini, 2020). Foreign institutional ownership can be measured by using, as the proxy, the proportion of the number of possessed shares by foreign institutions divided by the total shares of the company (Herawanto et al., 2017; Salihu et al., 2015). This proxy is considered to be able to reflect the composition of foreign institutional shares against the total ownership of company shares (Hasan et al., 2022).

E. Research Hypothesis Development

a) Foreign Experience of Directors and Tax Avoidance

One of the characteristics of a director on the board of executives is the experience gained by that director, which will significantly determine the decisions or strategies to be made or taken to run the company business (Hambrick & Mason, 1984). Experience gained from outside the country (foreign experience), either work experience or education (or both), will be able to affect the decisions that are made, including the decision of tax planning (Made et al., 2022). When a director with foreign

experience returns to the country of origin (becoming a "returnee director"), the director will possess different considerations from a director without foreign experience regarding company tax avoidance decisions (Wen et al., 2020).

There exists the viewpoint that the strategy of tax avoidance is linked to the issue of reputation. Bankman (2004) stated that companies that aggressively pursue tax avoidance will be given the "poor corporate citizen" label, and this will thus have implications for the company performance in the negative direction. Next, Made et al. (2021) take the view that returnee directors will be more critical and sensitive regarding "tax shaming" compared to local directors, and thus returnee directors feel that they wish not to become involved with mass media on the issue of taxation. This is because returnee directors possess a "superstar and eyeball effect" that leads society to place special attention toward a director if there is involvement in negative issues of taxation (Wen et al., 2020). Furthermore, an aggressive level of tax avoidance will also lead to consequences of damaged company reputation and director image as well as high reputation costs (Desai & Dharmapala, 2006). As an example, a major company in the U.K. is willing to pay an additional company tax that is quite high to avoid embarrassment and damage to reputation (moneyweek.com, 2018; Wen et al., 2020). Therefore, it can be concluded that directors with foreign experience will reduce the aggressiveness of tax avoidance because the action will trigger greater consequences compared to the obtained benefits. This explanation is in line with the cost and benefit theory, where a director as the decision maker will consider the cost that is incurred from a strategy, for example reputation cost due to the strategy of tax avoidance. The explanation above is supported by the findings of Wen et al. (2020) who indicated that the presence of a board of directors with foreign experience would be able to decrease the practice of tax avoidance in China. Based on the explanation above, the following is the formulation of the first hypothesis for this research:

H1: Directors with foreign experience have a negative effect on tax avoidance.

b) Foreign Institutional Ownership and Tax Avoidance

Foreign institutional ownership or what is also called Foreign Institutional Investor (FII) is an ownership structure where the shares of a company in circulation are possessed by foreign investors (Ye et al., 2021). Foreign institutional ownership is judged to be able to repair the management of a company and thereby to be able to improve the quality of the company (Aggarwal et al., 2011; Khanna & Palepu, 2000). This indicates that foreign investors are able to affect company policies (Luong et al., 2017; Tsang A, Xie F, 2019), including the decision for tax avoidance. According to Maisaroh & Setiawan (2021), companies with foreign institutional ownership tend to pay attention to long-term cost compared to the benefits that would result when they make efforts of tax avoidance. This is in line with the cost and benefit theory, which requires considerations to be made regarding the cost and benefits that will be incurred from a taken decision or selected strategy (Drèze & Stern, 1987).

Yoo & Koh (2014) stated that foreign institutional ownership tends to oppose managements from committing practices of tax avoidance because the practice has a high risk in comparison to the obtained benefits (Kovermann & Velte, 2019). One of the consequences or risks that are caused by the practice of tax avoidance is the emergence of costs of observation and conflict resolution for foreign investors when a company is involved in tax avoidance activities. Therefore, foreign investors tend to direct companies to obey the payment of taxes, because they also consider the risk of damage as well as the emergence of reputation cost for companies if they are involved in tax avoidance (Shi et al., 2020). This statement is supported by several empirical findings that foreign institutional ownership is able to decrease practices of tax avoidance (Hasan et al., 2016, 2022). Based on the explanation above, the following is the formulation of the second hypothesis:

H2: Foreign institutional ownership has a negative effect on tax avoidance.

III. METHODOLOGY

A. Operational Definitions

a) Tax Avoidance

According to Butje & Tjondro (2014) and Hanlon & Heitzman (2010), tax avoidance is an effort by a company in order to minimize payment of income tax by utilizing grey areas in taxation regulation. This study measured tax avoidance using the proxy of Abnormal Book-Tax Differences (ABTD), which is calculated from the estimation of the residual value for the Book-Tax Differences (BTD) regression model (Desai & Dharmapala, 2006; Hanlon & Heitzman, 2010; Tang & Firth, 2012). Tang and Firth (2011) developed this regression model in order to separate two components of the total BTD into ABTD and NBTD. This portion of the BTD is the difference of the total BTD and the NBTD, which is called the ABTD (the "unexplained portion"); the ABTD reflects management actions such as profit management and tax planning, while the NBTD does not consider these two aspects. According to Falbo & Firmansyah (2021), the ABTD proxy has the advantage of being able to differentiate between profit disparity due to taxation regulations as well as accounting and the opportunistic components that are implemented by the management. Furthermore, ABTD is considered more accurate in measuring tax avoidance because it is able to capture information that may reveal differences between values in the accounting book and fiscal book of a company as controlled by its management (Indarto

& Widarjo, 2021). A large ABTD value gives the signal that a company is more aggressive in making efforts of tax avoidance (Indarto & Widarjo, 2021; Tang & Firth, 2012). This research used the proxy formulated by Tang & Firth (2012) that was then developed by Rachmawati & Martani (2014) in order to be more in line with the situation in Indonesia. The following is the regression equation that is used to calculate the residual value of Abnormal Book-Tax Differences:

$$BTDit. = \beta 0 + \beta 1\Delta INVit + \beta 2\Delta REVit + \beta 3TLit + \beta 4TLUit + \beta 5\Delta EBit + \beta 6BTDit{-}1 + \varepsilon it$$

Remarks:

BTDit = Book-tax differences of company i for the year t
ΔINVi = Changes in fixed assets and intangible assets of company i for the year t
ΔREVit = Change in revenue of company i for the year t
Tlit = Total accounting loss of company i for the year t
TLUit = Total compensatory loss of company i for the year t
ΔEbit = Change in work benefit value of company i for the year t
BTDit-1 = Value of book-tax differences for the year t-1

b) Directors with Foreign Experience

Directors with foreign experience are defined as company leaders who possess experience such as education and work that are gained from outside the country (Hambrick & Mason, 1984; Wen et al., 2020; Yuan & Wen, 2018). Directors with foreign experience are given a proxy in the form of a dummy variable that has a value of 1 if there is an executive director with foreign experience for the year t and a value of 0 otherwise. The chief director (CEO) position was chosen because this position is considered top-level management in a company and possesses full responsibility for all operational activities of the company (Made et al., 2022; Sudana & Aristina, 2017), and thus the director possesses authority in making important decisions in the company. Information about the foreign experience of directors were obtained from the annual reports of the companies. The application of a dummy variable follows criteria that refer to the studies by Giannetti et al., (2015), Made et al., (2022), Wen et al., (2020), and Yuan & Wen (2018):

1)The director in the company possesses work experience from outside the country
2) The director in the company possesses educational experience from outside the country

c) Foreign Institutional Ownership

Foreign institutional ownership or Foreign Institutional Investor (FII) can be defined as the total number of company shares held by foreign institutions (Ambarwati, 2021; Yulistia et al., 2020). This study differs from the previous study by Yulistia et al. (2020) who measured foreign institutional ownership by a dummy variable. This study involved the measurement of foreign institutional ownership by way of formulating the proportion of the number of shares possessed by foreign institutions divided by the total number of company shares (Herawanto et al., 2017; Salihu et al., 2015). This proxy is able to reflect the composition of company shares that are possessed by foreign institutional ownership toward the total number of company shares (Hasan et al., 2022). The equation becomes the following:

Foreign Institutional Ownership = (Number of shares of foreign institutions/Total number of shares in circulation) x 100%

B. Population and Sample

The samples for this research were manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period from 2018-2021. The manufacturing sector was chosen because the sector is composed of companies with larger scales compared to other companies, and thus both domestic and international investors often invest in this sector. The manufacturing sector provided greater contributions to state tax revenue in the first quarter of 2018 compared to other sectors (Kemenperin.go.id). This study used the period from 2018-2021, being after the establishment of Minister of Finance of the Republic of Indonesia Regulation Number 19/PMK.03/2018 on the Technical Guidelines for Access to Financial Information for the Interest of Taxation, which is one of the legal bases to decrease the practice of tax avoidance by foreign investment companies in Indonesia and was enacted on August 23, 2017. The population for this study was 168, which covered manufacturing companies listed on the IDX in the period from 2018-2021. The sampling criteria were 1) manufacturing companies that published their financial reports consecutively in the period from 2018-2021; 2) manufacturing companies that possess foreign institutional ownership; and 3) manufacturing companies that possess foreign institutional shares with significant impact (20%). Based on these criteria, the samples for this study numbered to 47 companies.

C. Research Data Analysis

1. Research Design

This research used the quantitative explanatory method by analyzing and explaining the relationship between variables, as the independent variable (X) of directors with foreign experience and foreign institutional ownership, and the dependent variable (Y) of tax avoidance.

2. Data Analysis Method

The method of quantitative analysis was used in this research by conducting theoretical testing through secondary data analysis with multiple linear regression analysis. Classical assumptions testing and hypothesis testing was conducted based on the multiple linear regression. The following is the explanation on the data analysis method:

3. Descriptive Statistics Analysis

According to Ghozali (2018: 19), descriptive statistics are used to provide descriptions of the variables that are used in the research. This analysis was performed in order to provide interpretations regarding the variables that are used, considering them from their maximum, minimum, average (mean), sum, range, variance, standard deviation, skewness, and kurtosis values (Ghozali, 2018:19).

4. Classical Assumptions Testing

Hair et al. (2019) stated that classical assumptions testing is used a procedure to check the appropriateness of the model in order to avoid potential inaccuracy and bias. Classical assumptions testing is comprised of the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

- Normality Test

  The normality test has the objective of testing whether interfering variables or the residual has a normal distribution in the regression model (Ghozali, 2018). The Kolmogorov-Smirnov test was used to test whether there is an indication of normal distribution. If $p > 0.05$, then the data has normal distribution.

- Multicollinearity Test

  The objective of the multicollinearity test is to test whether in a regression model there exists correlation among free variables. The detection of correlation in the regression model can be made through the values for tolerance and Variance Inflation Factor (VIF). If tolerance ≤ 0.10 or VIF ≥ 10, then there is multicollinearity (Ghozali, 2018). A good regression model should not have correlation among the free variables.

- Autocorrelation Test

  The autocorrelation test functions to test whether in the regression model there is correlation between the interfering error of period t and the interfering error of period t-1 (Ghozali, 2018). Autocorrelation occurs due to consecutive observations within related times. The Durbin-Watson (DW) test was used to find whether or not there is autocorrelation in the regression model. The range for making the decision of the presence or absence of autocorrelation is $du < d < 4 - du$, (Ghozali, 2018:96).

- Heteroscedasticity Test

  The heteroscedasticity test is used to test whether in the regression model there is an inequality of variance of the residual from one observation to another (Ghozali, 2018). A good regression model is one that is homoscedastic or without heteroscedasticity (Basuki, 2017), because if the data is inconsistent and contains bias, it becomes difficult to make estimations (Widana & Muliani, 2020). This research used the Glejtser test, which is performed by taking the absolute value of the residual and regressing the absolute value for the dependent and independent variables (directors with foreign experience and foreign institutional ownership). If $p > 0.05$, this indicates that the data has homoscedasticity, and the converse is otherwise (Widana & Muliani, 2020).

***D.* Hypothesis Testing**

a. Multiple Linear Regression Analysis

This research used multiple linear regression analysis to find the impact of directors with foreign experience and foreign institutional ownership toward tax avoidance. The equation of multiple linear regression for this research is the following:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \varepsilon$$

Remarks:

Y = Abnormal Book-Tax Difference
α = Constant
β1-β2 = Regression coefficient
X1 = Directors with foreign experience

X2 = Foreign Institutional Ownership

ε = Error

b. Statistical t-Test

The significance testing for an individual parameter (t-test) indicates how great the impact of the independent variable (X) individually is in explaining the variations of the dependent variable (Ghozali, 2018; Hair et al., 2019). According to Ghozali (2018), the significance test for an individual parameter can be performed by comparing the significance value of the free variable at a confidence level of 5%. If the significance value < 5%, it can be said that the research results will accept the hypothesis Ha and reject the hypothesis Ho.

IV. RESULTS AND DISCUSSION

A. Results

Table 1. Results of Descriptive Statistics

Variable	N	% Frequency	Mean
Directors with Foreign Experience (DPA)	188	78.7%	-
Foreign Institutional Ownership (KIA)	188	100%	0,599
Abnormal Book Tax Differences (ABTD)	188	100%	24.731

Table 1 presents the information on descriptive statistics for all variables of this research. Manufacturing sector companies that possessed directors with foreign experience numbered to 148 or a percentage of 78.7%, while the remaining 21.3% were companies that did not possess directors with foreign experience. This indicated that most of the manufacturing companies listed on the IDX from 2018-2021 had directors with foreign experience in the aspects of work experience and education. The second independent variable, which is foreign institutional ownership, had a mean value of 59.98%, which meant that the majority ownership of manufacturing sector companies listed on the IDX for the research period was from foreign institutional investors, while the remaining 40.02% was domestic ownership. The mean Abnormal Book-Tax Difference value of 24.7311 indicated that the average tax avoidance of manufacturing companies listed on the IDX from 2018-2021 amounted to 24.73 billion rupiahs.

Table 2. Results of Classical Assumptions Testing

Variables	Kolmogorov -Smirnov Z	Asymp. Sig. (2-tailed)	Sig.	Collinearity Statistic		Autocorrelation		Heteroscedasticity	
				Tolerance	VIF	df1	DW	t	Sig
DPA	0.834	0.489	0.031	0.908	1.102	2	1.993	0.519	0.604
KIA			0.519	0.908	1.102			-2.694	0.088

Classical assumptions testing in this research covered tests of normality, multicollinearity, autocorrelation, and heteroscedasticity. Based on the results of the one-sample Kolmogorov-Smirnov statistical test (Table 2), the value of p (asymp. sig. 2 tailed) was 0.489, which is greater than 0.05, and therefore it can be concluded that the residual data has a normal distribution.

The results of the multicollinearity test can be seen by the values for tolerance and variance inflation factor (VIF). Tolerance ≤ 0.10 or VIF ≥ 10 values indicate the presence of multicollinearity (Ghozali, 2018). From the table above, the tolerance values of the free variables were not less than 0.1 and the VIF values of the variables were also not greater than 10. Based on the above, it can be concluded that the regression model is free from multicollinearity.

Table 2 shows the results of the autocorrelation test with 188 as the number of samples (n = 188), 5% as the significance level, and 2 independent variables (k = 2). From the calculation results, the du value for the Durbin-Watson table was found to be 1.782. The Durbin-Watson value (d) was 1.993 as in Table 2, thus 1.782 < 1.993 < 2.218. Based on this range for decision-making, the regression model can be concluded to be free from autocorrelation.

For the heteroscedasticity test, the significance values for the variable of directors with foreign experience was 0.604 and the variable of foreign institutional ownership was 0.088. Both values are greater than the confidence level of 0.05 (5%) and thus the regression model is free from heteroscedasticity.

Table 3. Results of Hypothesis Testing

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Coefficient of determination		
	B	Std. Error	Beta			R	R^2	Adjusted R Square
Constant	24.416	0.377		64.722	0.000			
DPA	0.683	0.313	0.166	2.180	0.031	0.158[a]	0.025	0.015
KIA	-0.370	0.573	-0.049	-0.647	0.519			

Based on Table 3, the significance value for the variable of directors with foreign experience was 0.031, less than the confidence level of 5%. Therefore, the research results proved that the directors with foreign experience variable has an impact toward tax avoidance. The significance value for the variable of foreign institutional ownership was 0.519, which is greater than the confidence level of 5%. This indicated that the finding accepts hypothesis H02, for which foreign institutional ownership does not have an impact toward tax avoidance. As such, it can be concluded that an increase in foreign institutional ownership is not able to affect tax avoidance for manufacturing companies listed on the IDX in the period from 2018-2021. Next, the regression coefficients for the variable of directors with foreign experience was 0.683, while for the variable of foreign institutional ownership was -0.370. The equation for the regression model of this research from the results becomes the following:

$Y = 24.416 + 0.683DPA – 0.370KIA$

The constant value of 24.416 has the meaning that if the independent variables are assumed to be constant, then the tax avoidance of manufacturing companies listed on the IDX amounts to 24.416 billion rupiahs. The regression coefficient of directors with foreign experience is 0.683, and thus each increase in this variable by one unit will cause an increase in tax avoidance by 0.683 or 68.3%. Therefore, this research finding rejects Ha1 because it resulted in the finding that the directors with foreign experience variable has a positive impact toward tax avoidance. Next, the regression coefficient of foreign institutional ownership is 0.370 in the negative (-) direction, and thus each increase in the foreign institutional ownership variable by one unit causes a decrease in tax avoidance by 0.372 or 37.2%.

Table 3 indicates that the adjusted R2 value was 0.015. This indicated that 1.5% of the variable of tax avoidance may be explained by the variables of directors with foreign experience and foreign institutional ownership. The remaining 98.5% may be explained by variables outside the regression model.

B. DISCUSSION

The Impact of Directors with Foreign Experience toward Tax Avoidance

The research results indicated that there is an impact from directors with foreign experience toward tax avoidance. This finding is in line with the literature that states that one of the characteristics of a director can be determined by the obtained experience, which can have an influence on the decisions or strategies for running the company business (Hambrick & Mason, 1984). This statement is reaffirmed by Made et al. (2022), who take the argument that experience from outside the country, for both work and education, is able to affect decisions, including those for tax planning. Directors with foreign experience who return to their country of origin (and become returnee directors) will have different considerations in relation to decisions of tax avoidance than those without foreign experience (Wen et al., 2020). This is because directors with foreign experience are easily receptive to information, insights, and influence of thought from various countries, and thus the formed way of thinking is also different (Wen et al., 2020).

This study also found that there was a positive impact from directors with foreign experience on the variable of tax avoidance. This indicates that a greater number of companies that possess directors with foreign experience will cause an increase in the practice of tax avoidance on the manufacturing companies that were listed on the IDX in the period from 2018-2021. These research results contradict those of Wen et al., (2020) who had found that directors with foreign experience has an impact with a negative direction toward tax avoidance. This is suspected to be because of the differences in the levels of law enforcement and tax enforcement systems in China and Indonesia. China has a strict system of taxation supervision, and thus companies will have their own concerns about the consequences or risks that would be incurred. One of the consequences that will result is the damage to the reputation of companies and directors, which will incur a high reputation cost when companies commit tax avoidance (Wen et al., 2020). Therefore, returnee directors in China will have the mindset to avoid the act because of the high cost of reputation costs that are incurred (Wen et al., 2020).

This is in contrast to the condition in Indonesia, where the systems of law enforcement and tax enforcement are still considered weak, and thus taxpayers can easily take advantage of opportunities (loopholes) from this condition (Antonius & Tampubolon,

2019; Arliman, 2020). According to Wen et al. (2020), countries with weak systems of law enforcement and tax enforcement have a low level of aggressiveness for the detection of tax avoidance. This will also have the implication of a low level of concern for the damage to the reputation of directors and companies (Wen et al., 2020). On the other hand, Indonesia also implements a self-assessment system to collect state tax. This system provides the right to taxpayers to calculate, report, and pay the owed tax by themselves (Mardiasmo, 2016). As such, the self-assessment system is suspected to be able to provide chances to the management to perform opportunistic actions, one of which is tax avoidance (Wardani & Nurhayati, 2019). Therefore, returnee directors will take advantage of the situation to commit tax avoidance, for which one of the objectives is to maximize the wealth of shareholders.

Furthermore, returnee directors will adjust to the conditions related to the moral values that are adopted by a country regarding the awareness of taxpayers, which will have implications on taken decisions and selected strategies. According to data from the Directorate-General of Taxation, the actual ratio of tax compliance from taxpayers in the years from 2015-2021 is still below the standard established by the Organisation for Economic Co-operation and Development (OECD) of 85%. This reflects the tax compliance culture of the state of Indonesia, which is still weak and as such requires improvement. As such, the problem that is faced by Indonesia regarding the lack of awareness of taxpayers to pay the owed taxes will drive the company management to take advantage of as many opportunities as possible in order to be able to result in profits for the business. Based on the above explanation, this finding supports the literature that sees that tax avoidance becomes a burden for companies, and in this way, tax avoidance becomes one of the strategies for maximizing the wealth possessed by shareholders (Avi-Yonah, 2006; Freedman, 2003; Hanlon & Slemrod, 2009).

This finding is also in line with the cost and benefit theory that claims that decision makers will conduct analyses of cost and benefit to find out whether decisions and strategies are able to result in added value (Drèze & Stern, 1987; Vessey, 1994). If through the analyses it is found that the benefit is greater than the cost, then a taken decision may be considered to be appropriate (Drèze & Stern, 1987). The benefit that is obtained when returnee directors commit tax avoidance is increased cash flow, where the cash flow entering the company grows larger, which will increase the company value (Annuar et al., 2014; Maisaroh & Setiawan, 2021). For shareholders, the benefit gained from tax avoidance is the greater obtained dividends (Maisaroh & Setiawan, 2021). For the management, the benefit gained from activities of tax avoidance is larger real earnings for the company, which will be able to increase the amounts of incentives or bonuses for the management (Maisaroh & Setiawan, 2021). From the cost standpoint, tax avoidance will generate the consequence of reputation cost for a company. Reputation cost and damage to the image of a director will become the gamble if society places great attention toward a company, which will endanger company reputation (Annuar et al., 2014). In the context of this study, returnee directors see that the benefit generated from tax avoidance is greater than the cost that would be incurred. This is supported by the condition in Indonesia, where the systems of law enforcement and tax enforcement may still be considered to be in a weak state (Antonius & Tampubolon, 2019; Arliman, 2020). This condition causes returnee directors to make the effort to take advantage of benefits (opportunities) by way of prioritizing the wealth of shareholders in order to be able to increase company value. Therefore, returnee directors will become driven to commit tax avoidance.

The Impact of Foreign Institutional Ownership toward Tax Avoidance

This study resulted in the finding that foreign institutional ownership did not have an impact toward tax avoidance. Thus, it can be concluded that a total increase in foreign ownership has a lack of impact on tax avoidance for the manufacturing companies that were listed on the IDX in the period from 2018-2021. These research results are contradictory to those of Hasan et al. (2022), who found that foreign institutional ownership had a negative effect on the variable of tax avoidance. The disparity of these findings are suspected to be because foreign investors are only interested in the rate of return of the capital being invested on a company, and thus they do not care about the strategies that are employed by the management for the company to obtain earnings (Idzni & Purwanto, 2017). This statement is supported by Jones (2007), who stated that investors are only interested on the monetary gains that are obtained from investment. As such, investors possess a lack of regard for the utilized strategies, for as long as a company still generates profits. Furthermore, the absence of impact from foreign institutional ownership toward tax avoidance is also supported by the findings of Tandean & Winnie (2016). In the research, it was explained that manufacturing companies possess a structure of institutional ownership, whether domestic or foreign; although they do possess involvement in supervising and affecting the actions by the management, institutional owners prioritize more on their prosperity in the generation of profits. This is because the institutional owners have entrusted the roles of supervision and management to the board of commissioners (Damayanti & Susanto, 2015), and thus investors will only focus on profits. In this way, it becomes possible that the presence or absence of foreign institutional ownership in a manufacturing company will not affect the strategy of tax avoidance because the considerations for the decision have been fully given or represented by the board of commissioners.

CONCLUSION

This study has the objective to research the roles of directors with foreign experience and foreign institutional ownership toward tax avoidance on the manufacturing companies that were listed on the IDX in the period from 2018-2021. The results of the research indicate that directors with foreign experience are proven to have an effect on tax avoidance. This indicates that the experience gained by directors from abroad, whether as work or educational experience, is able to affect the decisions and strategies that are committed, one of which includes the decision to commit tax avoidance. The research also indicates that directors with foreign experience have a positive effect on tax avoidance. This finding supports the literature that takes the view that the payment of taxes becomes a burden for companies, and thus tax avoidance becomes one of the strategies for maximizing the wealth of shareholders. As such, directors with foreign experience who then return to their countries of origin (as returnee directors) will possess the mindset to maximize the wealth of shareholders, and therefore they attempt to commit tax avoidance. Next, foreign institutional ownership is proven not to have an effect on practices of tax avoidance. This may be because foreign investors are only interested in the rate of return of the capital that was invested on companies, and as such they do not care about the strategies that the management utilizes to obtain earnings for companies.

Further research is expected to be able to add independent and/or moderating variables on other factors that may cause the strengthening or weakening of impact from directors with foreign experience toward tax avoidance. This is because based on the results of this study, there are other factors, such as the tax enforcement system and values of taxation morality or culture in the state of Indonesia, that are known to be able to affect the strength or weakness of the impact from directors with foreign experience toward tax avoidance.

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