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Could Size Moderate Managerial Ownership, Institutional Ownership, and Audit Quality of Tax Avoidance Occurs in Southeast Asia's Banking?

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Abstract

This study aims to determine the effect of managerial ownership, institutional ownership, and audit quality on tax avoidance and to determine the role of firm size as a moderator in strengthening or weakening the influence of the three independent variables on tax avoidance. The population used in this study is the financial statements and annual reports of banking companies in Southeast Asia which are available on the stock exchange sites of each country and the official websites of related companies in the 2015-2019 period. The sampling technique is used a purposive sampling method with the final result of as many as 144 units of analysis. Analysis of the data used is Multiple Linear Regression Analysis to determine the independent influence variables on dependence and Moderation Regression Analysis to determine the role of moderating variables. The result shows that managerial ownership and audit quality do not affect tax avoidance, while institutional ownership can negatively affect tax avoidance. Moderation analysis shows that firm size can affect independent institutional ownership variables and audit quality on tax avoidance. However, managerial ownership does not affect tax avoidance.

Keywords : Audit Quality, Firm Size, Institutional Ownership, Managerial Ownership, Tax Avoidance
JEL Classification : D53, G32, G34

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1. INTRODUCTION

Taxes are a source of state revenue so that with high tax revenues it is expected to be able to fund the development of a country which is expected to be able to improve people's welfare (Arianandini & Ramantha, 2018) . Based on data reported on worldbank.org, shows that several countries in Southeast Asia were listed as countries that received the lowest percentage of tax revenue from Gross Domestic Product (GDP) in 2018. This statement is proven in research by Prakosa & Hudiwinarsih (2018) ; (Agyei et al. 2020) who discovered the potential for tax evasion by the banking sector where this practice is used as a strategy to save costs and increase liquidity to ensure continuity and performance.

Tax recognition is contradictory between the government and companies where the government recognizes tax as one of the revenues, it is different for companies that recognize tax as an expense which reduces the company's net profit so that the difference in recognition also has an impact on the treatment of each party towards taxation. The government is trying its best to increase taxpayer compliance and awareness, although companies are still allowed to carry out tax planning by taking advantage of the ambiguity gaps, and weaknesses of the tax law without violating the applicable tax rules (*Tax Avoidance).* However, the company will experience a risk of a bad corporate image up to fines if the tax authorities find that there are tax evasion efforts that exceed and violate tax rules or what is called *Tax Evasion.* (Wijayani 2016) .

The decision to practice tax avoidance is inseparable from the existence of plans and strategies determined by the leaders of the company itself, as is the case with agency theory which states that each stakeholder will prioritize their interests, which among these interests are various and different. Therefore, with *good* Corporate *Governance, it* is expected to be able to prevent or reduce this practice. The elements of *good corporate governance in this study will be* proxied by managerial ownership, institutional ownership, and audit quality.

The research conducted by Fadhila (2017); Pramudito and Sari (2015); Putri and Lawita (2019) state that high managerial ownership will reduce management to practice *tax avoidance*. However, contrary to research by Krishna (2019); Prasetyo & Pramuka (2018) states that managerial ownership is unable to influence management in carrying out/not practicing *tax avoidance*.

Institutional ownership that has a larger portion of the total shares circulating in a company increases the level of supervision of managerial parties in carrying out their performance to be able to limit managerial decisions that risk the company's image such as *tax avoidance decisions*. Supported by Merslythalia & Lasmana's research (2017) ; Krishna (2019); Daughter & Son (2017) . However, in contrast to Putri & Lawita (2019) ; Prasetyo & Scouts (2018) ; Arianandini and Ramantha (2018) , proxied the financial statements audited by the *Big Four KAPs* can increase the credibility of information that it will make it difficult for management to do tax evasion. evidenced in the research results of Eksandy (2017) but contrary to the research of Husain & Alang (2019) which states that the financial statements audited by the *Big Four KAP* have no significant effect on tax evasion, and in research by Putranti, et.al (2015) which states that companies may affect the independence of the auditor.

The size of the company which is assessed by the larger total assets is considered to attract attention from the government because it is related to contributions in paying taxes which have the potential to be higher and increase from year to year so that it will make it difficult for managers to reduce the tax burden. It is supported by research by Riza, Putri & Suryarini (2017) which shows that the larger the company, the more likely it is for the company to carry out *tax avoidance.* The results of a different study were conducted by Ginting (2016); Merslythalia & Lasmana (2017) which state that company size has no significant effect on tax evasion.

Therefore, this study aims to examine the effect of managerial ownership, institutional ownership, and audit quality in influencing the leadership's decision to practice tax avoidance supported by firm size in strengthening or weakening the influence between the independent variables and the dependent variable which is expected to contribute to increasing similar research insights with a variety of banking companies in Southeast Asia.

2. HYPOTHESES DEVELOPMENT

Agency Theory and *Tax Avoidance*

Agency theory is defined as the relationship or contract that occurs between the *agent* and the *principal* where each party has different interests and from these differences, it creates information asymmetry and conflicts of interest so that it encourages the *agent* as a presenter of information to the *principal* not to present the real thing, especially if the information provided is delivered as a form of performance from the *agent*. As in the research of Ratnawati, et.al, (2019) the agency relationship can be seen between the government as the *principal* and the taxpayer (company) as an *agent* in recognizing taxation. The government considers taxes as income to improve people's welfare so that it seeks to optimize tax revenues. Meanwhile, the company as an agent considers taxes as a burden that reduces the company's net profit so it carries out tax planning to obtain more optimal profits. Companies are allowed to carry out tax planning to minimize tax payments as long as the planning still adheres to and does not violate applicable tax regulations (*tax avoidance)*

Managerial Ownership and *Tax Avoidance*

The proportion of ordinary shares owned by managerial parties (such as boards of directors and managers) influences company decisions. Managerial involvement as a shareholder as well as a decision-maker is expected to reduce information asymmetry. The managerial will feel that all risky decisions have an impact on all shareholders. The greater managerial ownership is considered capable of preventing management actions in making risky decisions such as *tax avoidance practices* as in Putri & Lawita's research (2019) ; Fadhila (2017) ; Pramudito & Sari (2015) which states that the greater the proportion of managerial ownership, the smaller the chance for managers to commit fraud. However, contrary to Krisna's research (2019) ; Prasetyo & Pramuka (2018) states that how high or low the proportion of managerial ownership does not affect the presence or absence of *tax avoidance practices* in the company.

H1: *Managerial Ownership affects Tax Avoidance*

Institutional Ownership and *Tax Avoidance*

Common stock ownership of government, institutional or other institutions such as mutual fund companies, insurance companies, foundations, and large corporations (institutional ownership). Institutional investors are considered to be more able to monitor management activities and control management performance optimally (Ginting, 2016) . The agency theory states that information asymmetry between management and shareholders can be minimized. Institutional ownership knows to be able to control and monitor management performance more effectively than managerial ownership (Arianandini and Ramantha 2018) . This statement is supported by Merslythalia & Lasmana's research (2017) ; Krishna's (2019); Putri & Putra (2017) which state that the proportion of institutional ownership can affect management policies taken and urges management not to act selfishly. Unlike the case with Arianandini & Ramantha's research (2018); Prasetyo & Scouts (2018); Putri & Lawita (2019) which states that institutional ownership supports management decisions to minimize the tax burden to obtain large *returns* due to large profits.

H2: *Institutional Ownership affects Tax Avoidance*

Audit Quality and *Tax Avoidance*

Audit quality can be seen in companies audited by KAP affiliated with KAP *Big Four* (Deloitte, PWC, EY, and KPMG). The *Big Four* KAPs prioritize the best quality human resources and have a lower level of fraud, making it difficult for management to implement tax avoidance policies (Damayanti & Susanto, 2016) . It is proven in Eksandy's research (2017) which considers that companies audited by the Big Four KAP can prevent tax evasion. However, this is contrary to the research by Husain & Alang 92019) which states that the financial statements audited by the *Big Four KAPs* have no significant effect on tax evasion. Also, Putranti's research, et.al, (2015) states that companies can influence auditor independence.

H3: *Audit Quality affect Tax Avoidance*

The Moderating Role of Firm Size

Large companies are the government's target for obtaining high taxes because of the ability of large companies to obtain high profits (Affianti & Supriyati, 2019) . The attention of the tax authorities in assessing the tax compliance of large companies in reporting their obligations is considered large so large companies will tend to report their obligations according to applicable regulations and to avoid risks that can threaten their corporate image. The complexity of information in large companies is a managerial consideration in making all risky decisions. Management participation as a shareholder in a large company is considered capable of preventing *tax avoidance practices.* According to research by Daughters & Boys (2017); Marlinda, et al (2020), which states that the larger the size of the company, the lower the practice of *tax avoidance.* While Fadhila 's Research (2017); Putri & Lawita (2019) states that greater managerial ownership will reduce managerial tendencies to develop tax avoidance policies.

Institutional investors assume that large companies are more capable of managing the company and have the potential to earn higher profits so that they can provide high *returns* continuously. (Natapura 2009) . Management's practice of tax planning in maximizing profits can be limited by the existence of institutional ownership which is considered to have the ability to oversee managerial decisions to prevent tax evasion practices. Ratnawati et al (2019) concluded that the larger the company can strengthen the effect of institutional ownership in limiting management behavior when committing tax avoidance.

To create transparency among stakeholders, large companies that have a high level of information complexity will use auditors that are considered well-known by the public in producing quality audits, namely the *Big Four KAP*. Based on research by daughters and sons (2017); Marlinda, et al (2020) states that the size of the company will make it difficult to apply *tax avoidance practices* that are risky to corporate image and research by Annisa (2008); Eksandy (2017) which states that the higher the quality of the audit, the more difficult it will be to practice *tax avoidance*.

H4: *Firm size as a moderating variable strengthens the negative effect of managerial ownership on tax avoidance.*

H5: *Firm size as a moderating variable strengthens the negative effect of institutional ownership on tax avoidance.*

H6: *Firm size as a moderating variable strengthens the negative effect of audit quality on tax avoidance.*

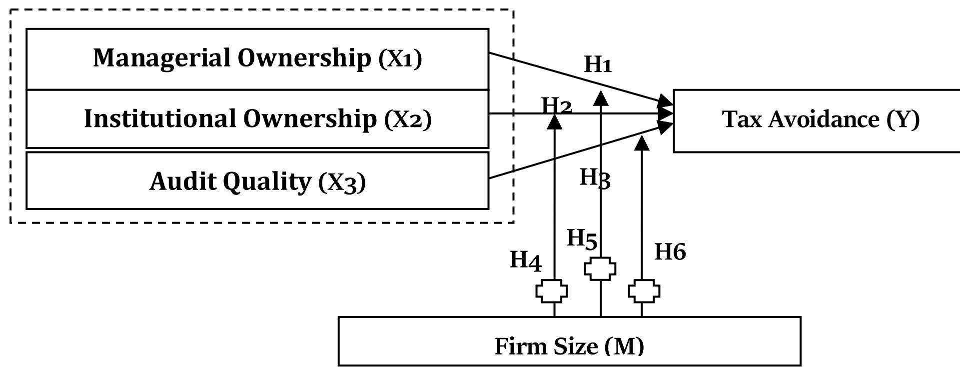

Figure 1. Research Framework

3. METHOD, DATA, AND ANALYSIS

Samples and Data

The sample in this study is in the form of financial reports and annual reports of banking companies in 10 Southeast Asian countries in the 2015-2019 period obtained through the stock exchange sites of each country or related company sites. Determination of the selected sample using a *purposive sampling technique* with the criteria: 1) banking companies in the Southeast Asia region, 2) companies that do not experience losses, 3) the CuETR value lies between 0 and 1, 4) ownership structure has a value of ≤1, and 5) the audit quality variable is a dummy variable with a value of 0 or 1.

Table 1. Measurement of Independent Variables and Moderating Variables

Variable	Measurement	Reference
Managerial Ownership (MNGR)	The sum of ordinary shareholdings held by managers such as the board of directors and managers to the total number of shares outstanding.	Prasetyo & Scouts (2018)
Institutional Ownership (INST)	The amount of ownership owned by the institution or institution, and the government of all outstanding shares.	Goddess (2019)
Audit Quality (AUDIT)	Score 1 for companies audited by KAP *Big Four* and score 0 for companies not audited by KAP *Big Four*.	Exandy (2017)
Firm Size (SIZE)	$SIZE = Ln\,Total\ Asset$	Ratnawati, *et al* , (2019)

Operational Definition and Variable Measurement

Dependent Variable

The variable that is the core of the problem to be studied in this study is *tax avoidance* which is defined as the practice of tax planning without violating applicable tax regulations (Pohan 2019) . The measurement used in this study is the same as the research conducted by Prakosa & Hudiwinarsih (2018) , namely using the *Current Effective Tax Rate* (CuETR) which is measured by a comparison between income tax expense in the current year (current tax expense) and net profit before tax so that describes the degree of tax avoidance in the short run. The greater the CuETR results obtained, the lower the level of *tax avoidance* is.

Independent Variables and Moderating Variables

This study uses three independent variables or variables that influence the dependent variable, namely managerial ownership, institutional ownership, and audit quality. The

moderating variable or variable that can influence the strength or weakness of the relationship between the dependent and independent variables used is company size. The independent variable measurements and moderating variables used in this study are presented in table 1.

Statistical Testing

Multiple Linear Regression Model

In this study, multiple regression analysis was used to test hypotheses 1, 2, and 3, namely the effect of the independent variables in the form of managerial ownership, institutional ownership, and audit quality on the dependent variable in the form of *Tax Avoidance* with the following equation:

$$Y = a + \beta_1 MNGR + \beta_2 INST + \beta_3 AUDIT + \beta_4 SIZE + \varepsilon$$

Where:

Y = *Tax Avoidance* (CETR)
α = constant, the value of Y when the independent variable is 0
β1 _ = Multiple regression coefficients of managerial ownership to Y
β2 _ = Multiple regression coefficients of institutional ownership to Y
β3 _ = Multiple regression coefficients of audit quality to Y
β 4 = Coefficient of multiple regression of firm size to Y
ε = *Error term*, the level of alleged error in the study

Moderate Regression Model i

This analysis examines the influence of the moderating variable in strengthening or weakening the influence of the independent variable on the dependent variable so that hypotheses 4, 5, and 6 can be identified through the following equation:

$$Y = \alpha + \beta_1 ZX_1 + \beta_2 ZX_2 + \beta_3 ZX_3 + \beta_4 ZM + \beta 5 AbsZX_1 - ZM + \beta 6 AbsZX_2 - ZM + \beta 6 AbsZX_3 - ZM$$

Where:

Y = *Tax Avoidance* (CETR)
α = Constant
$\beta_1 ZX_1$ = Coefficient of *standardized* managerial ownership
$\beta_2 ZX_2$ = Coefficient of *standardized* institutional ownership
$\beta_3 ZX_3$ = Coefficient of *standardized* audit quality
$\beta_4 ZM$ = Coefficient of *standardized* firm size
$\beta 5 AbsZX_1 - ZM$ = *absolute standardized* coefficient *moderation* 1
$\beta 6 AbsZX_2 - ZM$ = *absolute standardized moderating* coefficient 2
$\beta 6 AbsZX_3 - ZM$ = *absolute standardized* coefficient *moderation* 3

4. RESULTS

The results of sample data collection obtained 144 sample data that met the criteria. The results of testing the regression and moderation statistics are shown in table 2 as follows:

Table 2. Sample Data Collection Results

No.	Information	Country	2015	2016	2017	2018	2019
1	Banking Companies in Southeast Asia	Brunei	2	2	2	2	2
		Singapore	2	2	2	2	2
		Thailand	5	5	5	5	5
		Malaysia	8	8	8	8	8
		Vietnamese	2	2	2	2	2

No.	Information	Country	2015	2016	2017	2018	2019
		Philippines	2	2	2	2	2
		Cambodia	2	2	2	2	2
		Laos	1	1	1	1	1
		Myanmar	3	3	3	3	3
		Indonesia	44	44	44	46	46
Total Sample Before Elimination			**71**	**71**	**71**	**73**	**73**
2	Eliminated data						
a	Companies that do not publish financial statements and annual reports from 2015-2019	Brunei	2	-	-	-	-
		Myanmar	-	-	-	-	1
		Indonesia	-	1	-	-	2
Total			**2**	**1**	**0**	**0**	**3**
b	Companies that experience losses	Singapore	-	-	-	-	1
		Malaysia	-	1	-	-	
		Indonesia	-	2	2	-	2
Total			**0**	**3**	**2**	**0**	**3**
c	Companies that do not present complete data related to the variables studied	Singapore	1	-	2	3	2
		Thailand	5	-	-	-	-
		Malaysia	2	-	-	-	
		Vietnam	-	1	-	-	1
		Philiphine	1	1	1	2	2
		Myanmar	3	1	1	3	2
		Indonesia	19	14	-	-	-
Total			**31**	**17**	**4**	**8**	**7**
d	Companies that present data do not comply with the requirements in point 4	Singapore	1	2	-	-	-
		Thailand	-	5	5	5	5
		Malaysia	3	3	4	2	3
		Philippines	1	1	1	-	-
		Myanmar	-	2	2	-	-
		Indonesia	14	23	6	6	5
Total			**19**	**36**	**18**	**13**	**13**
Total Samples eliminated each year			52	57	24	21	26
Total Sample after elimination			**19**	**14**	**47**	**52**	**47**
Outliers Data			6	4	8	10	7
Total Sample after outliers			**13**	**10**	**39**	**42**	**40**
Overall Total Sample					**144**		

The first test is in the form of descriptive statistical analysis which presents a total sample of 144 data.

Table 3. Results of Descriptive Statistical Analysis

	N	Min	Max	Means	std. Dev
CETR	144	0.00	0.46	0.23	0.09
MNJR	144	0.00	0.78	0.05	0.12
INST	144	0.00	1.00	0.70	0.29
AUDIT	144	0	1	0.59	0.49
SIZE	144	14.07	22.54	17.48	2.02

Based on this information in table 3, *Tax Avoidance* (CETR) which has an average of 0.23, means that 50 data have values below the average or only around 35%. In Hanlon & Heitzman's (2011) study , the lower the CETR, the lower the taxpayer compliance, so 65% of other banks are considered not to comply with their tax obligations. Managerial Ownership (MNJR) which has an average value of only 0.05 indicates that the majority of banks in Southeast Asia have a relatively low composition of managerial ownership or even none. However, the oversight role of tax avoidance decisions can still be replaced by

institutional ownership (INST) which appears to have a much higher average value. Audit Quality is a *dummy* variable with a value of 1 on the financial statements audited by the *Big Four KAPs* so it can be seen that the majority of banks in Southeast Asia have difficulty manipulating their financial statements because they are audited by the *Big Four KAPs*. Banking in Southeast Asia is also dominated by large companies, seen from the average SIZE value which is close to the maximum value indicating that the majority of banks in Southeast Asia comply with tax regulations to avoid suspicion from the tax authorities that could threaten company value.

Table 4. Classical Assumption Test Results

	Normality	**Multicollinearity**		**Autocorrelation**	**Heteroscedasticity**
	One-Sample Kolmogorov-Smirnov Test Exact Sig.	**Collinearity Statistics**		**Run Test Asym Sig.**	**Glaciers Sig.**
		tolerance	VIF		
(Constant)					0.001
MNJR		0.808	1,238		0.722
INST		0.804	1,243		0.748
AUDITS		0.832	1.203		0.889
SIZE		0849	1.177		0.047
Unstandardized Residuals	0.055			0.500	

In Table 4 it can be explained that the classical assumption test consisting of a normality test, multi-co-linearity test, heteroscedasticity test, and autocorrelation test ensures that the regression model can provide precise, accurate, and unbiased results so that all the variables used can meet the requirements of the regression model the good one. Except for the Firm size variable (SIZE), which it has a significance value of less than 0.05 on the heteroscedasticity test.

Table 5. Results of Multiple Linear Regression Analysis

Variable	**Unstandardized Coefficients B**	**CETR Model**	
		t-count	**Sig.**
Constant	0.361	5.498	0.000
MNJR	0.027	0.443	0.658
INST	0.054	2.105	0.037
AUDIT	0.007	0.500	0.618
SIZE	-0.010	-2.767	0.006
R Square		0.093	
Adj R Square		0.067	
F count		3.523	
Sig F		0.009	

5. DISCUSSION

Effect of Managerial Ownership on Tax Avoidance

Managerial ownership has no significant effect on *tax avoidance*. Minimal or almost no managerial share ownership in the majority of banks in Southeast Asia so the corporate strategic decisions lack management involvement. The decision to take *tax avoidance efforts* is more influenced by other parties such as the board of commissioners or majority

shareholders. The majority shareholders have an interest in the company related to company returns. A large *return* increases the value of their wealth which is realized by increasing the value of shareholder equity. These results are in line with the research by Krisna (2019) , Prasetyo & Pramuka (2018) and are contrary to the research by Alkurdi & Mardini (2020) which states that managerial ownership harms *tax avoidance*.

Effect of Institutional Ownership on Tax Avoidance

affects *tax a*voidance. The majority of banks in Southeast Asia have a fairly high proportion of institutional ownership so they can oversee management actions in *tax avoidance practices*. Effective control is carried out by the majority shareholder. Confidence in other shareholders is getting bigger, the company can avoid actions that are detrimental and threaten the survival of the company in the long term. The results of this study are consistent with research conducted by Prakosa and Hudiwinarsih (2018), Dewi (2019) which states that greater institutional ownership encourages managerial parties to comply with tax payments. However, research (Jamei 2017) found that institutional ownership does not affect *tax avoidance*.

Effect of Audit Quality on Tax Avoidance

Audit quality has no significant effect on tax *avoidance*. The results of financial statement audits conducted by the *Big Four* KAPs are not able to guarantee that banking companies prevent or reduce *tax avoidance practices*. Public accounting firms that conduct audits of banking companies are not solely determined by decisions of company *stakeholders* but are also determined by banking authorities (eg the central bank/Indonesian bank in Indonesia). Banking companies must consider that all public accounting firms have the same position to be elected, not because they are affiliated or not, not because they are reputable or not. This research is supported by the research of Husain & Alang (2019) and is in contrast to the research of Eksandy, (2017) which results that audit quality has a positive effect on *tax avoidance* where the results of audits by Big 4 KAPs will make it difficult for companies to carry out aggressive tax policies.

Table 6. Moderation Regression Analysis Results

Variable	Standardized Coefficients B	CETR Model	
		t-count	**Sig.**
(Constant)		1,840	0.068
Zscore: MNJR	-0.198	-1,229	0.221
Zscore: INST	0.077	0.801	0.425
Zscore: AUDITS	0.088	1,024	0.308
Zscore: SIZE	-0.330	-3,680	0.000
Moderating_1	0.209	1,407	0.162
Moderating_2	-0.275	-3,319	0.001
Moderating_3	-0.162	-2,029	0.044
R Square		0.200	
Adj R Square		0.158	
Fcount		4,782	
Sig F		0.000	

The role of firm size as a moderating variable

The results of the moderation test show that firm size is not able to moderate the effect of managerial ownership on *tax avoidance*. Managerial ownership in banking companies has very little involvement in decision-making. In banks that are classified as large or small scale, managerial ownership is still small in number. Large companies do not guarantee that the portion of managerial ownership is also high, so they are unable to prove that large companies are considered to have high managerial ownership so that they can suppress *tax*

avoidance practices. In line with research by Ginting (2016) which states that firm size is unable to moderate the relationship between managerial ownership and *tax avoidance*.

Different moderating results on other independent variables. Firm size can moderate the effect of institutional ownership and audit quality on *tax avoidance*. Firm size affects weakening the relationship between institutional ownership and *tax avoidance*. Large companies are priority institutional investors with guarantees of good business management compared to small companies so this belief weakens institutional investor oversight of *tax avoidance decisions* by management. High institutional ownership of large companies can weaken oversight of management in making *tax avoidance decisions*. This research supports research Ratnawati *et al* (2019) that the bigger the company, the weaker the institutional investors are in overseeing *tax avoidance practices*. Firm size is also able to influence the relationship between audit quality and *tax avoidance*. The larger size of the company can weaken the effect of audit quality on *tax avoidance*. Potential resources owned by large companies can manage information that tends to be complex and complicated, making it difficult for the *Big Four KAPs* to examine their financial reports.

6. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Summary

The results of the study tested the effect of managerial ownership, institutional ownership, and audit quality on *tax avoidance* with company size as a moderating variable in banking companies in Southeast Asia in 2015-2019. *Tax avoidance* is one of the company's strategic steps to optimize company profits and reduce the company's payable tax burden. This *tax avoidance* effort demands the role of interested parties such as management, auditors, and other *stakeholders*. The results of the study conclude as follows: (1) institutional ownership has a significant effect on *tax avoidance*, while managerial ownership and audit quality have an insignificant effect on *tax avoidance* ; (2) company size moderates the effect of institutional ownership and audit quality on *tax avoidance*.

Implications

Tax avoidance is a choice for banking companies. Each country has a different tax policy and this certainly influences company decision-making. The implications of this research include: (1) the tax policy to be stipulated by the government should be adjusted to the conditions of companies in each country because the ability to generate company profits is very different; (2) central bank support is very important in maintaining the business continuity of banking companies so that a special centralized policy is needed to apply to banking companies; (3) the central bank is expected to establish policies that can maintain the security of public funds so that public trust will increase and the expected profit will also increase.

Limitations

Limitations in this study are the limitations of the data obtained due to the unavailability of complete data, and dissimilarities in presentation (eg language and currency used). This makes it difficult for researchers to perceive the size of each variable. Suggestions given for the next research step include: expanding the research object which is not only Asian and adding other dependent variables that can show output and *outcome tax avoidance.*

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