RELATIONSHIP OF FOREIGN INSTITUTIONAL OWNERSHIP AND MANAGEMENT INCENTIVES TO TAX AVOIDANCE

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RELATIONSHIP OF FOREIGN INSTITUTIONAL OWNERSHIP AND MANAGEMENT INCENTIVES TO TAX AVOIDANCE

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**Abstract**

This study aims to examine whether foreign institutional ownership and management incentives can prevent tax avoidance practices in companies. The study was carried out on the manufacturing companies registered on IDX in the 2018-2020 period with 150 observations taken from 50 samples of companies. The sample selection used was purposive sampling. The data were analyzed using multiple regression. The results show that ownership of foreign institutions and management incentives negatively affect tax avoidance, which means that both factors can reduce tax avoidance. This result confirms the perspective of the agency theory used. Likewise, this study helps to enrich agency theory through the role of foreign institutional ownership and management incentives in tax avoidance, and it also helps to assist companies in considering these two factors to minimize tax avoidance practices.

**Keywords:** management incentives, foreign institutional ownership, tax avoidance

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**Kata kunci:** insentif manajemen, kepemilikan institusi asing, penghindaran pajak
INTRODUCTION

According to the Tax Justice Network report, Indonesia suffers annual losses of up to IDR 68.7 trillion as a result of the high rate of tax avoidance committed by both corporate and private taxpayers. One of the many factors driving Corporate Taxpayers to avoid taxes is the high tax rate on corporations (Becker et al. 2013). According to these reports, corporate tax avoidance attempts have recently been scrutinized by the government and the media (Dyreng et al. 2016; Graham et al. 2014). Because it has implications for reducing state cash income on the tax sector, this supervision raises significant concerns about the risks that have emerged (Sumartono and Puspasari 2021). Tax avoidance, on the other hand, can increase profitability (Annuar et al. 2014), but it can harm a company's reputation if discovered by the fiscal authorities because tax evasion is carried out aggressively (Huseynov et al. 2017).

Several studies have been conducted in this regard to investigate the relationship between tax avoidance practices and ownership structures (Badertscher et al. 2013; Fernández-Rodríguez et al. 2019; Shi et al. 2020). Foreign institutional ownership as part of this structure has a role in the level of tax avoidance (Richardson et al. 2016). Empirical evidence suggests that foreign institutional ownership can reduce corporate tax evasion (Hasan et al. 2021; Khurana and Moser 2013). Foreign institutions, according to Hasan et al. (2021), create distance between institutions, resulting in a lack of trust in the local management of the companies in which they invest. This is due to the assumption that tax evasion leads to opportunistic management behavior, which later prevents investors from understanding company operations (Richardson et al. 2016). In this case, foreign institutional ownership will express their concern through voting regarding the involvement of companies engaged in aggressive tax avoidance, thereby challenging management's decision to engage in high tax avoidance (Hasan et al. 2021). As a result, many businesses have begun to pay significant taxes each year (Thomsen and Watrin 2018). There are also other empirical findings which show that foreign institutional ownership can increase tax evasion because it can increase the shareholder wealth value (Alkurdi and Mardini 2020; Khan et al. 2017; Salihu et al. 2015).

Other research has provided insight into the impact of management on corporate tax strategies (Dyreng et al. 2010). This can be seen by providing management with incentives based on the level of tax avoidance (Halioui et al. 2016; Huang et al. 2018; Rego and Wilson 2012). Incentives are thought to be an effective tool for discouraging harmful managerial practices, like aggressive tax avoidance prevention (Kovermann and Velte 2019). In his study, Chi et al. (2017) stated that incentive compensation has an effect on low levels of tax avoidance. This is due to the fact that providing optimal incentives can help to avoid conflicts of interest, which is one way to reduce aggressive tax avoidance behavior (Croci et al. 2012). It is assumed that by providing incentive compensation to management, this will reduce opportunities for tax evasion and the risks that will arise (Armstrong et al. 2015). However, studies by Minnick and Noga (2010) and Rego and Wilson (2012) show that incentives can increase tax evasion because the gifts increase when management is more committed to lowering the company's tax burden. Several studies in Indonesia show varying results on the impact of tax avoidance by companies from various perspectives, such as ownership structure to internal information quality (Afrika 2021; Akbar et
The differences in the findings were able to fill in the gaps in this study for further testing. This study refers to Hasan et al. (2021) research on tax avoidance strategies. This study employs going public companies in the manufacturing sector for the 2018-2020 period, which were chosen based on the company's significant contribution to tax revenues, which began to appear in 2018 (https://kemenperin.go.id/artikel/18640/). The literature on tax avoidance, on the other hand, is dominated by factors that increase the occurrence of this practice, such as the composition of the company's board of directors, company characteristics, and executives (Boussaidi and Hamed 2015; Cragun et al. 2020; Ham et al. 2018; Ogbemid 2017). Meanwhile, discussions about the factors that discourage tax evasion have not been thoroughly explored (Barros and Sarmento 2020). As a result, this study was also conducted to fill a gap in examining the factors that cause the prevention of tax avoidance practices in businesses.

The different observation period and industrial samples distinguish this study from earlier studies conducted in the Indonesian context. Akbar et al. (2021) used a sample of mining companies for the foreign institution ownership variable, whereas Idzni and Purwanto (2017), and Maisarah and Setiawan (2021) used non-financial industries. While research on management incentives had been found to be negatively related to tax evasion using a sample of companies on the IDX (Amri 2017; Budadnyani 2022; Putri and Yanti (2022), it does not use a specific industry. This study employs a specific sample, namely manufacturing companies, which were the most involved in tax avoidance in 2018 (https://kemenperin.go.id/artikel/18640). Furthermore, variables such as foreign institutional ownership and management incentives can indicate a low level of corporate tax avoidance (Chi et al. 2017; Hasan et al. 2021). As a result, these two variables are expected to explain the relationship with the tax avoidance variable in Indonesian manufacturing companies.

This research makes several significant contributions. First, the theoretical contribution is to enrich agency theory by examining the role of foreign institutional ownership and management incentives to reduce tax avoidance practices. Second, practical contributions include assisting companies in considering factors such as foreign institutional ownership and management incentives to reduce corporate tax avoidance. The risks associated with tax avoidance are expected to be taken into account by stakeholders, who will pay closer attention to the actions to be taken in order to reduce the number of cases of tax evasion.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory Hypothesis

The effect of foreign institutional ownership and management incentives on tax avoidance is conceptualized using agency theory. According to Jensen and Meckling’s (1976) theory, principal shareholders delegate authority to management agents in the management of the company. This demonstrates the existence of a contractual relationship in which management is expected to help the principal achieve his goals. As a result, agents must complete the tasks delegated to them by the principal (Fama and Jensen 1983). The interests of the principal, on the other hand, do not always coincide with the interests of the agent, resulting in agency problems or conflicts of interest (Fama 1980; Liu et al. 2016). The extent of tax avoidance reflects the agency problem (Tang and Firth 2011). This demonstrates that there are conflicting interests between
principals and agents in terms of corporate tax avoidance.

The conflict of interest that occurs can be seen through the agent choosing a different level of tax avoidance from the principal. A lower level of tax avoidance may be preferred by shareholders because it results in less corporate risk (Kovermann and Velte 2019). Management, on the other hand, usually prefers a higher level of tax avoidance because it increases after-tax cash flow, which ultimately increases the company's value (Amidu et al. 2019). This is also consistent with the political cost hypothesis in positive accounting theory (Watts and Zimmerman 1990). According to this hypothesis, there is an agency relationship between management and the government as the principal, in which management will tend to minimize political costs borne, namely tax rates, in order to maximize profit (Scoot 2003). This agency relationship creates a conflict of interest, limiting the government's ability to increase tax revenue for the state (Scott 2009).

According to the agency theory viewpoint, opportunistic actions taken by management can sometimes result in decisions that are detrimental to the company (Jensen and Meckling 1976). The incentives provided to agents indicate that they can reduce opportunistic actions and management interests that are not aligned with the principal's interests (Alkurdi and Mardini 2020). In this case, incentives are part of reducing conflicts that arise between agents and principals in achieving their goals (Croci et al. 2012). According to agency theory, as long as there is strong monitoring and incentive alignment, management will choose the level desired by the principals (Kovermann and Velte 2019).

Tax Avoidance

Tax avoidance is defined as a series of activities carried out by companies in the form of a closed tax planning strategy, which includes the practice of lowering the tax burden in order to increase short-term cash flow (Garcia-Meca et al. 2021). Avoiding taxes eventually leads to noncompliance by businesses (Dyreng et al. 2010). It enables businesses to aggressively lower their tax liabilities (Chan et al. 2013; Lanis and Richardson 2012). The tax avoidance literature debates whether this practice is effective for increasing cash flow or irresponsible because it robs communities of tax revenue (Lanis et al. 2019). As a result, this strategy is risky because it causes reputational harm as well as compliance costs for corporate tax administration (Vacca et al. 2020). Corporate tax avoidance practices are commonly measured using ETR—Effective Tax Rate (Hanlon and Heitzman 2010). This metric is also widely used in recent literature because it is useful in assessing corporate tax avoidance and reduction behavior (Dyreng et al. 2017; Garcia-Meca et al. 2021).

Foreign Institutional Ownership

Foreign institutional ownership is a part of ownership structure instruments (Ye et al. 2021), and it typically comes from institutions and countries that are not related to the companies in which it invests (Hasan et al. 2021). The presence of this ownership allows foreign institutions to participate in the management of company operations (Ambarwati 2021). Foreign institutional investors are thought to be capable of assisting companies in making efficient and sustainable decisions (Mangoting et al. 2019). This point of view suggests that foreign institutional ownership can help companies prevent tax avoidance by voting at company meetings. According to agency theory, this behavior creates a conflict of interest because of differences in goals with other management parties (Kovermann and Velte 2019). Foreign institutional ownership is measured by calculating the ratio of the number of shares owned by
Management Incentives

Incentives are defined as a form of compensation in the form of allowances, salaries, benefits, and bonuses given to parties involved in the company's management, including both the board of directors and the company's commissioners (Armstrong et al. 2012). Incentives are used in important corporate mechanisms to reduce the emergence of conflicts of interest (Armstrong et al. 2015). According to Jihene and Moez (2019), a good mechanism will lead companies to avoid risks from risky managerial practices. In this case, incentives are critical in motivating management to implement the right business strategy and reduce unethical practices (Ohnuma 2014). This is because management tends to minimize political costs incurred in the form of tax rates (Scott 2003), resulting in a conflict of interest with the government based on agency theory (Scott 2009). Total compensation in the form of salaries, benefits, welfare, and bonuses received by management in a full year divided by total sales is used to calculate management incentives (Armstrong et al. 2012).

HYPOTHESIS DEVELOPMENT

Foreign Institutional Ownership and Tax Avoidance

Foreign institutional ownership is considered to be capable of bringing good practices to the companies in which it invests in order to improve and maintain company quality (Aggarwal et al. 2011). This suggests that foreign institutional investors have significant influence over company decisions (Luong et al. 2017; Tsang et al. 2019). Tax evasion prevention activities have become an integral part of important business decisions (Hasan et al. 2021). Tax avoidance decisions, according to agency theory, will lead to agency problems due to differences in the interests of shareholders and management (Zemzem and Ftohi 2013), where foreign institutional investors tend to oppose management in high tax avoidance (Yoo and Koh 2014). It turns out that the risks associated with tax avoidance outweigh the benefits (Kovermann and Velte 2019).

Foreign institutional investors face geographical differences, resulting in a lack of trust in the local management of the companies in which they invest (Hasan et al. 2021). This notion is supported by the statement that foreign institutional investors frequently lack understanding of investment country tax regulations, including those pertaining to tax avoidance (Baik et al. 2013). Tax avoidance is associated with opportunistic management behavior and information asymmetry, which ultimately prevents investors from understanding company operations (Richardson et al. 2016). To avoid tax audits, management hides and covers up tax avoidance transactions and provides ambiguous financial reports (Kim et al. 2011). Technically, at company meetings, foreign institutional investors will vote on the company's involvement in aggressive tax avoidance, allowing them to oppose management's decision to engage in high tax avoidance (Hasan et al. 2021). The more ownership and voice they have, the more influence they have to force management decisions to reduce aggressive tax evasion (Maisaroh and Setiawan 2021).

This activity, on the other hand, reduces transparency and harms the company's reputation (Khurana and Moser 2013). As a result, foreign institutional investors encourage companies to pay taxes, recognizing that paying taxes is an important means for companies to fulfill their civil responsibilities (Shi et al. 2020). This implies that foreign institutional ownership may be able to prevent tax avoidance practices. Although previous research has found a positive relationship between foreign ownership and tax
avoidance (Alkurdi and Mardini 2020; Khan et al. 2017; Salihu et al. 2015), this study places foreign institutional ownership in the context of agency theory and finds a negative relationship with tax avoidance (Badertscher et al. 2013; Chen et al. 2010; Hasan et al. 2016 2021; Khurana and Moser 2013; Yoo and Koh 2014, Akbar et al. 2021; Idzni and Purwanto 2017; Maisaroh and Setiawan 2021), then the research hypothesis is:

H1: Foreign institutional ownership is negatively related to tax avoidance.

Management Incentive and Tax Avoidance

Tax avoidance is related to the political cost hypothesis, which states that when companies face political costs, such as tax rates, they tend to reduce the tax burden in order to minimize the costs incurred (Scoot 2003). This is due to management’s desire to boost the company's after-tax cash flow (Amidu et al. 2019). As a result, there is a conflict of interest between management and the principal, as well as between shareholders and the government when political costs are involved (Scott 2009). According to the agency theory viewpoint, incentive compensation is included in the mechanism to reduce conflict of interest (Jensen and Meckling 1976).

According to the agency theory viewpoint, management will choose the level desired by the principals as long as there is monitoring and strong incentive alignment (Kovermann and Velte 2019). Agency problems caused by competing interests can be resolved by providing incentives to agents (Alkurdi and Mardini 2020). As a result, incentives can be a factor in preventing tax avoidance in accordance with the principal's desired interests. According to empirical findings, incentive compensation is associated with corporate tax avoidance on average (Armstrong et al. 2012, 2015; Halioui et al. 2016; Huang et al. 2018; Rego and Wilson 2012). Giving management incentive compensation leads to increased supervision, which can put pressure on them to avoid aggressive tax avoidance practices (Chung et al. 2015). This is done to improve transparency in company performance and to avoid problems that will harm management (Hasan et al. 2014).

On the other hand, management admits that, while tax avoidance provides cash flow benefits, there are indications that it can harm the company's reputation (Huseynov et al. 2017). Management will also face high agency costs, such as the cost of dispute resolution and tax consultants, if they are involved in aggressive tax avoidance (Hasan et al. 2021). As a result, management incentive compensation is capable of preventing aggressive tax avoidance (Chi et al. 2017; Kabir et al. 2013). This also implies that management has benefited from the compensation incentives provided, so there is no need for tax avoidance, which is thought to benefit management personally. Despite the fact that research findings indicate a positive relationship between management incentives and tax avoidance (Minnick and Noga 2010; Rego and Wilson 2012). Previous research (Chi et al. 2017; Kabir et al. 2013; Amri 2017; Budiadnyan 2022; Putri and Yanti 2022) support this study’s position that management incentives are negatively related to tax avoidance. So, the research hypothesis is:

H2: Management incentives are negatively related to tax avoidance.

RESEARCH METHODS

Secondary data and documentation techniques were used in this study. As the research sample, data sources were obtained from company annual reports published on the IDX's official website https://www.idx.co.id/ as well as the company's official website. In this study, the population consisted of all manufacturing companies registered on the
### Table 1  
**Population and Sample Criteria**

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Companies in the manufacturing sector are listed on the IDX in 2018-2020</td>
<td>162</td>
</tr>
<tr>
<td>2.</td>
<td>The company does not publish annual reports sequentially for 2018-2020</td>
<td>12</td>
</tr>
<tr>
<td>3.</td>
<td>The company does not use Rupiah currency in the annual reports</td>
<td>29</td>
</tr>
<tr>
<td>4.</td>
<td>The company does not include information regarding foreign institutional ownership</td>
<td>40</td>
</tr>
<tr>
<td>5.</td>
<td>The company has a negative ETR value</td>
<td>31</td>
</tr>
</tbody>
</table>

**Number of observations: number of samples x study period 50 x 3 years**  
150

IDX between 2018 and 2020. Purposive sampling was used to select participants based on criteria determined by the researchers (Sekaran and Bougie 2016; Zikmund et al. 2013). Table 1 shows the final sample acquisition results.

#### Variables and Measurements

The researchers used the Effective Tax Rate/ETR proxy to measure the dependent variable, which was tax avoidance, as done by (Balakrishnan et al. 2019; Fernández-Rodriguez et al. 2019; Garcia-Meca et al. 2021; and Shi et al. 2020). This metric is also widely used in recent literature because it is useful in assessing corporate tax avoidance and reduction behavior (Dyreng et al. 2017; Garcia-Meca et al. 2021). Negative ETR values were excluded from research in order for these values not to be distorted, reducing test power (Richardson and Lanis 2007). Tax avoidance is defined by Garcia-Meca et al. (2021) as actions taken by companies to minimize and reduce their tax burden. The calculation was done by dividing the total tax burden by the income before taxes. Furthermore, in Ye et al.’s research (2021), the first independent variable, namely foreign institutional ownership, is interpreted as a component of the ownership structure in which the shareholders are foreign institutional parties. This variable is calculated by dividing the number of shares held by foreign institutions by the number of shares held by the company (Gaaya et al. 2017; Salihu et al. 2015). The next variable is incentives, which are defined as a type of compensation provided to company management personnel in the form of salaries, allowances, bonuses, and welfare (Armstrong et al. 2012). Measurements for the second independent variable follow the previous study conducted by Armstrong et al. (2012, 2015) by dividing total annual compensation (including salaries, benefits, welfare, and bonuses) by total annual sales for the entire year. This study, on the other hand, used control variables such as company size, profitability, and leverage (Alkurdi and Mardini 2020). The logarithm of the company's total assets is used to calculate company size (Richardson et al. 2016), ROA/Return on Assets profitability is calculated by income before tax divided by total assets (Gaaya et al. 2017), and leverage is calculated by total debt divided by total company assets (Salihu et al. 2015).

#### Data Analysis Technique

The analytical model used in this study was adapted from previous work by Alkurdi and Mardini (2020) and Hasan et al. (2021). Multiple regression is used in this study to analyze the relationship between one dependent variable and several independent variables, as well as to...
Table 2

Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y Tax Avoidance</td>
<td>150</td>
<td>0.0171</td>
<td>0.5989</td>
<td>0.2999</td>
<td>0.17407</td>
</tr>
<tr>
<td>X1 Foreign Institutional Ownership</td>
<td>150</td>
<td>0.0001</td>
<td>0.9757</td>
<td>0.32510</td>
<td>0.32822</td>
</tr>
<tr>
<td>X2 Management Incentive</td>
<td>150</td>
<td>0.0048</td>
<td>0.1290</td>
<td>0.04090</td>
<td>0.02693</td>
</tr>
<tr>
<td>C1 Size</td>
<td>150</td>
<td>19.7545</td>
<td>34.4425</td>
<td>28.56873.00887</td>
<td></td>
</tr>
<tr>
<td>C2 Profitability</td>
<td>150</td>
<td>0.0000</td>
<td>0.5786</td>
<td>0.11180</td>
<td>0.10729</td>
</tr>
<tr>
<td>C3 Leverage</td>
<td>150</td>
<td>0.0035</td>
<td>0.8448</td>
<td>0.37780</td>
<td>0.18871</td>
</tr>
</tbody>
</table>

interpret the relationship between each of these variables (Hair et al. 2019). This is consistent with the research objective, which is to investigate the relationship between foreign institutional ownership and management incentives in preventing tax avoidance. The estimation model's equation takes the following form:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 C_1 + \beta_4 C_2 + \beta_5 C_3 + \epsilon \]

Description:

- \( Y \) = ETR/Effective Tax Rate
- \( \alpha \) = Constant
- \( \beta_1 - \beta_5 \) = Regression Coefficient
- \( X_1 \) = Foreign Institutional Ownership
- \( X_2 \) = Management Incentives
- \( C_1 \) = Control Variable Company Size
- \( C_2 \) = Control Variable Profitability
- \( C_3 \) = Control Variable Leverage

RESULTS AND DISCUSSION

This study presents descriptive statistics for the dependent, independent, and control variables, which are used to illustrate the data. Table 2 displays these findings.

According to Table 2, the average ETR performed by manufacturing companies during the study period was 0.2999. This demonstrates that tax evasion in the manufacturing sector was still low during the study period. The greater the company's tax avoidance, the smaller the ETR value; conversely, the greater the company's tax avoidance, the smaller the ETR value. During the study period, the average value of foreign institutional ownership owned by companies was 0.3251. During the research period, the average value of providing incentives to management was 0.0409.

The first control variable shows that the size of manufacturing companies ranged from 19.75 to 34.44 during the study period, from the smallest to the largest. 28.5687 is the average value. The next control variable, profitability, demonstrates manufacturing companies' lack of ability and success in generating profits during the study period, with values ranging from 0.00 to 0.58 and an average of 0.1118. The last control variable, leverage, reveals that manufacturing companies' ability to use debt ranged from 0.00 to 0.84 during the study period, with an average value of 0.3778 obtained.

This study has fulfilled the classical assumption test with the result of values of asymp. sig. 2-tailed normality test conducted via the Kolmogorov-Smirnov of 0.200; tolerance value > 0.10 and VIF < 10 on the multicollinearity test; sig. value through the Glejser test > 0.05; and the autocorrelation test of 2.021 is between 1.802 and 2.198. Furthermore, the coefficient of determination \( R^2 \) results show that the independent and control variables explain 17.8% of tax evasion, while the remaining multicollinearity test; sig. value through the Glejser test > 0.05; and the autocorrelation test of 2.021 is between 1.802 and 2.198. Furthermore, the coefficient of determination \( R^2 \) results show that the
Table 3

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients\textsuperscript{a} t-test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficient</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>1</td>
<td>Constant</td>
</tr>
<tr>
<td>\textbf{X1} Foreign Institutional Ownership</td>
<td>-0.112</td>
</tr>
<tr>
<td>\textbf{X2} Management Incentives</td>
<td>-0.992</td>
</tr>
<tr>
<td>\textbf{C1} Size</td>
<td>-0.020</td>
</tr>
<tr>
<td>\textbf{C2} Profitability</td>
<td>-0.205</td>
</tr>
<tr>
<td>\textbf{C3} Leverage</td>
<td>-0.014</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Dependent Variable: Y Tax Avoidance

independent and control variables explain 17.8% of tax evasion, while the remaining 82.2% is explained by other variables not discussed in this study.

The hypothesis will then be tested in research. The following results are obtained based on the t-test results shown in Table 3: The t-value for foreign institutional ownership variable X\textsubscript{1} is -2.739 and the p-value is 0.007. According to the one-tailed test results, t count > t table, 2.739 > 1.656 (\(\alpha=0.05\)); db residual 144 and p-value 0.007 level of significance \(\alpha=0.05\), indicating that H\textsubscript{1} states that there is a significant relationship between foreign institutional ownership and tax evasion Y. The coefficient's negative value of -0.112 indicates that foreign institutional ownership has a negative relationship with tax evasion. This is consistent with the first hypothesis' research predictions, namely that foreign institutional ownership has a negative relationship with tax evasion.

Management incentives X\textsubscript{2} is the next independent variable, with a t value of -1.998 and a p value of 0.048. The one-tailed test results show t count > t table, 1.998 > 1.656 (\(\alpha=0.05\)); db residual 144 and p-value 0.048 level of significance \(\alpha=0.05\), indicating that H\textsubscript{2} states that there is a significant negative relationship between management incentives and tax evasion. A negative coefficient of -0.992 indicates that management incentives are correlated with tax avoidance. This is consistent with the second hypothesis' research predictions, namely that management incentives are negatively related to tax avoidance.

Further hypothesis testing for the relationship between the three control variables, namely company size C\textsubscript{1}, profitability C\textsubscript{2}, and leverage C\textsubscript{3}, yields a t-count value of -4.261; -1.610; -0.197 and a p value of 0.000; 0.110; 0.844. Based on the one-tailed test, the C1 test results show t count > t table, namely 4.261 > 1.656 (\(\alpha=0.05\)); db residual 144 and p value 0.000 level of significance \(\alpha=0.05\), indicating a significant negative relationship individually to tax avoidance. However, based on the one-tailed test, the results of tests C\textsubscript{2} and C\textsubscript{3} show t count < t table, namely 1.610 < 1.656 and 0.197 < 1.656, and the p value is > level of significance \(\alpha=0.05\), indicating that there is no individually significant relationship to tax avoidance.

The calculated F value is 6,224 with a p value of 0 based on the feasibility test of the regression model between variables, as shown in Table 4. The test results show a p value of 0.000 < \(\alpha\) of a level of significance of \(\alpha=0.05\), indicating that there is a significant relationship between foreign institutional ownership X\textsubscript{1}, management incentives X\textsubscript{2}, and the tax avoidance control variable Y.
Table 4
ANOVA F Test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.802</td>
<td>5</td>
<td>0.160</td>
<td>6.224</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>3.712</td>
<td>144</td>
<td>0.026</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.514</td>
<td>149</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y
b. Predictors: Constant, X1, X2, C1, C2, C3

Table 5
Coefficients Robustness Test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>B</th>
<th>Std. Error</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td>0.966</td>
<td>0.133</td>
<td>7.27</td>
<td>0.000</td>
</tr>
<tr>
<td>X1 Foreign Institutional Ownership</td>
<td></td>
<td>-0.112</td>
<td>0.039</td>
<td>-2.89</td>
<td>0.004</td>
</tr>
<tr>
<td>X2 Management Incentive</td>
<td></td>
<td>-0.992</td>
<td>0.478</td>
<td>-2.08</td>
<td>0.040</td>
</tr>
<tr>
<td>C1 Size</td>
<td></td>
<td>-0.020</td>
<td>0.005</td>
<td>-4.35</td>
<td>0.000</td>
</tr>
<tr>
<td>C2 Profitability</td>
<td></td>
<td>-0.205</td>
<td>0.125</td>
<td>-1.65</td>
<td>0.102</td>
</tr>
<tr>
<td>C3 Leverage</td>
<td></td>
<td>-0.014</td>
<td>0.075</td>
<td>-0.19</td>
<td>0.853</td>
</tr>
</tbody>
</table>

A robustness test was also performed in this study, which included variables such as tax avoidance by proxy ETR, foreign institutional ownership and management incentives, as well as several control variables such as company size, profitability, and leverage. Table 5 shows the robustness test results for the foreign institutional ownership variable, which has a calculated t value of -2.89 and a p value of 0.004. Based on the one-tailed test, the test results show t count > t table, namely 2.89 > 1.656 (α=0.05); db residual 144 and p value 0.004 < level of significance α=0.05, so that H2 states that there is a significant negative relationship from management incentives to tax evasion. A negative coefficient of -0.992 indicates that management incentives are associated with tax avoidance. This is consistent with the research predictions in the second hypothesis.

Discussion
Foreign Institutional Ownership and Tax Avoidance

The hypothesis test results show a negative relationship between foreign institutional ownership and tax avoidance. As a result, the first hypothesis is accepted, implying that foreign institutional ownership can reduce tax avoidance in companies. The distance between institutions causes the effect. It is due to the fact that foreign institutional investors come from and are from institutions and countries that differ from the companies in which they invest (Hasan et al. 2021). Distance between institutions eventually leads to a lack of trust in the local management of the companies in which they invest, which is based on management's opportunistic tax avoidance
behavior (Hasan et al. 2016). According to agency theory, this opportunistic behavior leads to information asymmetry, which can be harmful to foreign institutions (Jensen and Meckling 1976). According to this theoretical perspective (Jensen and Meckling 1976), foreign institutional investors seek to defend their interests in order to hinder management's ability to avoid taxes, resulting in agency problems due to the contradictory relationship between foreign institutional investors and management.

Accordingly, foreign institutional investors will technically express their preferences as shareholders through voting or voting methods at company meetings (Hasan et al. 2021). It became an instrument for investors to express their concern about the involvement of companies that engaged in high tax avoidance. The greater the share ownership, the greater the influence of voting rights in opposing management's decisions not to engage in aggressive tax avoidance. The greater the share ownership, the greater the influence of voting rights in opposing management's decisions not to engage in aggressive tax avoidance (Maisaroh and Setiawan 2021; Richardson et al. 2016). This statement indicates that foreign institutional investors are more concerned with the company's long-term value by attempting to maintain the company's quality (Aggarwal et al. 2011). The presence of foreign institutional investors is critical in ensuring that management acts ethically and in the best interests of the company’s owners (Shi et al. 2020).

The tax avoidance scheme is associated with a management attitude that tends to cover up and hide transactions, resulting in unclear financial reports in order to avoid tax audits (Balakrishnan et al. 2019). This, of course, will make it difficult for investors to understand the company's operations, as financial reports are the primary source of information used in evaluating companies (Chen et al. 2018). On the other hand, this practice may result in stock market losses for investors as a result of bad news, allowing the company's stock price to fall (Kim et al. 2011). Foreign institutional ownership is considered to be more sensitive to returns on investment in this case, so they try to make the right adjustments by bringing good practices to the company (Yoo and Koh 2014). Another consequence is that legal problem must be considered because it will harm the company's reputation and value (Chen et al. 2010). According to this, tax avoidance actions do not always result in benefits that increase company value, but instead raise other, more serious risks (Khurana and Moser 2013; Kovermann and Velte 2019). As a result, foreign institutional investors tend to restrict the company's tax avoidance activities. This is also consistent with previous research, which shows a negative relationship between foreign institution ownership and tax avoidance (Hasan et al. 2021).

Management Incentive and Tax Avoidance

According to the findings of hypothesis testing, there is a negative relationship between management incentives and corporate tax avoidance. As a result, the second hypothesis is accepted, implying that offering incentive compensation can reduce management's enthusiasm for tax avoidance. Management prefers the benefits provided to them, so tax avoidance can be reduced (Beck and Lisowsky 2014). This means that providing incentives to discourage tax avoidance can be considered (Lisowsky 2010). As a result, these findings are consistent with the perspective of agency theory, which states that incentive compensation is an important part of reducing conflicts of interest (Jensen and Meckling 1976). Positive accounting theory, as part of agency theory, asserts that there are conflicting interests between agents and principals, both the government and shareholders, because management
typically seeks to minimize political costs and act opportunistically (Chung et al. 2015; Scoot 2003; Watts and Zimmerman 1990). According to Jensen and Meckling (1976), providing incentives is a solution for overcoming differences in interests between principals and management.

Tax avoidance is associated with risks that will be considered by management (Armstrong et al. 2015). Some of the risks include causing damage to the company's reputation (Huseynov et al. 2017) and incurring high agency costs, such as the costs of dispute resolution and tax consultants (Hasan et al. 2021). In general, deferred incentive compensation can typically be provided in other forms (Chi et al. 2017). One of them is the promise of a monetary reward upon retirement, so management will prefer to avoid risks in order to protect the value of their company (Chi et al. 2017). Compensation helps to align the interests of various parties, so management will benefit more if they avoid risks that could jeopardize their company (Kabir et al. 2013). Tax avoidance, on the other hand, can reduce future cash flows, allowing financial difficulties to occur and limiting the possibility of wage increases (Noga and Schnader 2013).

The level of compensation provided can limit management's opportunistic behavior to engage in aggressive tax avoidance, which has an effect on the large risks that arise (Croci et al. 2012). The provision of incentive compensation also indicates that the management has obtained their welfare, so there is no need to engage in tax avoidance to satisfy personal interests. This is also consistent with previous research that shows that when management receives incentive compensation, tax avoidance practices decrease (Wang and Yao 2021).

**CONCLUSION**

This research has been able to demonstrate that the alternative hypothesis is accepted. First, there is a relationship between foreign institutional ownership and tax avoidance. Second, there is a relationship between management incentives and tax avoidance. These findings provide empirical evidence that these two variables can reduce tax avoidance in Indonesia's manufacturing industry. These findings also support the use of agency theory to explain the relationship between foreign institutional ownership variables and management incentives on tax evasion. This study's findings encourage principals to pay attention to and increase management incentives, as well as to encourage foreign institutional ownership in order to prevent and reduce tax evasion.

The use of multiple linear regression analysis is a limitation in this study. Because the panel data regression model with the fixed effect model (FEM) can distinguish between units of observation (firm and year), it can be used in future research. The difference in the intercept shows the difference in the unit of observation (firm), whereas the slope or constant is fixed over several observation periods (years), allowing FEM to produce a better estimation model. Future research could also broaden the scope of ownership structure factors, such as domestic, family, and managerial ownership. Furthermore, tax avoidance can be measured in other methods, including Cash Effective Tax Rate (CETR), Book-Tax Differences (BTD), and Long-term Cash ETR (CETR2). Finally, we can broaden the sample and time period to compare the results of the tax avoidance trend that has occurred in various Indonesian corporate industries over a longer period of time.
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