



The Effect of Corporate Governance Mechanisms on Effective Tax Rate: An Empirical Study of Industrial Sector Companies Listed on the Indonesia Stock Exchange for the 2020–2024 Period

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ABSTRACT

Listed businesses in the industrial sector on the Indonesia Stock Exchange for the years 2020–2024 will have their ETR examined in this research. This study takes a quantitative approach by drawing on secondary sources and a purposeful sampling strategy; the end result is a 65-observation sample consisting of 13 different organizations. After running the data through the Chow and Hausman tests, which are part of panel data regression in EViews, the results show that the FEM is the most appropriate model to apply. While institutional ownership does have a positive and substantial influence on the ETR, the data demonstrate that the audit committee and independent commissioners do not. At the same time, the ETR is significantly affected by each of the corporate governance factors. Consistent with agency theory, these results show that external monitoring systems are superior in limiting opportunistic management conduct.

INTRODUCTION

Taxes are an important aspect of every government's income system, but they are especially important in developing nations like Indonesia's for funding public welfare and economic growth. According to Oktaviani et al. (2023), when it comes to corporations, tax obligations are seen as a drag on net revenue, which in turn motivates management to use tax planning strategies in order to minimize them. According to Lubis et al. (2023), the Effective Tax Rate (ETR) is a popular metric for determining a company's tax burden. It is calculated as the ratio of tax cost to pre-tax revenue and is often used as a stand-in for identifying tax evasion strategies. A lower ETR can indicate that a business is trying to legitimately minimize its tax bill by using a bunch of different tactics (Putri, 2024). This is a common occurrence among industrial sector businesses listed on the Indonesia Stock Exchange. These corporations have a lot of financial and policy freedom, and they provide a lot to the country's tax income.

While evading taxes does not technically break any laws, it does put governmental interests at odds with company objectives, which is why good corporate governance is necessary to provide efficient monitoring procedures (Pratama & Venusita, 2025). Previous studies suggest that weak corporate governance may provide opportunities for management to engage in opportunistic behavior in determining tax policies, particularly by exploiting regulatory loopholes to reduce corporate tax burdens (Ramadhani & Utomo, 2023). But there is still a lack of consistency in the empirical data when it comes to how corporate governance procedures affect the ETR. Audit committees and institutional ownership are two strategies that have been shown to reduce tax evasion by increasing openness and monitoring, according to certain research, while other studies report insignificant or even contradictory results (Najwanadia & Zulfikar, 2026). In addition, global and national economic dynamics in the post-COVID-19 pandemic era have also influenced corporate behavior in tax management, including strategies aimed at improving tax efficiency among industrial sector companies (Miranda & Komalasari, 2025).

Agency Theory, upon which this research is based, provides an explanation for why managers and shareholders have competing interests when making business decisions. This conflict may encourage management to engage in tax avoidance practices to enhance short-term financial performance, although such actions may potentially harm the firm's long-term interests (Nurdiansyah & Yustisi, 2025). In this context, corporate governance mechanisms serve as control instruments aimed at reducing information asymmetry and limiting opportunistic managerial behavior (Ramadhani & Utomo, 2023). Improved financial reporting supervision is one of the audit committee's primary responsibilities, independent commissioners play a role in maintaining objectivity in decision-making, while institutional ownership exerts external pressure that can strengthen managerial discipline (Palupi et al., 2021). These three mechanisms are expected to influence corporate tax policies, which are reflected in the Effective Tax Rate (ETR).

In addition, the features of the industrial sector informed the selection of organizations operating inside it as the subject of this research, which include high operational complexity, substantial asset intensity, and extensive involvement in production activities. These characteristics provide greater opportunities for tax

planning compared to other sectors (Widianti & Prasetyo, 2023). Industrial firms also tend to engage in cross-segment transactions and incur significant operational costs, which may be utilized as part of tax efficiency strategies (Putri et al., 2025). In addition, the industrial sector is one of the main contributors to national tax revenues and economic growth, making corporate tax behavior in this sector highly relevant for empirical investigation (Oktaviani et al., 2023). To better understand the connection between corporate governance and the ETR for complex and large-scale enterprises in Indonesia, we will pick the industrial sector.

Given this context, the purpose of this research is to examine, from 2020 to 2024, how the Effective Tax Rate (ETR) of industrial sector firms listed on the Indonesia Stock Exchange changed as a result of various corporate governance methods. More specifically, this project seeks to answer the following research questions: (1) How does the audit committee impact the ETR? (2) Is the Effective Tax Rate impacted by independent commissioners? (3) Is there a relationship between institutional ownership and the effective tax rate? the fourth question is whether the effective tax rate is affected by company governance procedures all at once. In keeping with these inquiries, the paper puts out the theory that the ETR, a measure of corporate tax policy, is affected by all corporate governance mechanisms, either singly or in combination.

By conducting an empirical examination of the link between corporate tax policy and corporate governance procedures in a developing country, this research is anticipated to provide a scholarly addition to the development of accounting and taxation literature. This research is unique because it uses the ETR as its main proxy and incorporates three important corporate governance mechanisms into a single empirical model. It also focuses on companies in the industrial sector and uses a recent observation period that reflects conditions after the pandemic. Furthermore, the research is anticipated to provide regulators, investors, and business management with actionable insights on how to enhance tax compliance by boosting the efficacy of corporate governance and reducing tax avoidance techniques.

LITERATURE REVIEW

Agency Theory

The connection between owners and management may lead to conflicts of interest owing to different aims and information asymmetry. This can be explained by Agency Theory, which was introduced by Michael C. Jensen and William H. Meckling (1976). When it comes to taxes, this disagreement could make management think twice about paying their fair share of taxes, which might lead to a lower ETR and more profits for the company (Lubis et al., 2023). Therefore, corporate governance mechanisms are required as monitoring tools to limit opportunistic managerial behavior and to enhance transparency and corporate compliance with tax obligations.

Corporate Governance

The term "corporate governance" is used to describe a set of rules and regulations put in place to guide and manage a business with the goal of making everyone involved in the company's operations better off (Halim & Yuniarwati, 2023). According to Miranda and Komalasari (2025), corporate governance systems including audit committees, independent commissioners, and institutional ownership

serve as instruments for both internal and external oversight, which may help restrict managers' ability to take advantage of situations. In the context of taxes, good corporate governance is thought to raise the ETR by increasing tax compliance and decreasing tax evasion (Najwanadia & Zulfikar, 2026).

Effective Tax Rate

By dividing tax expenditure by pre-tax revenue, one may get the ETR, which is a measure of the tax burden on a corporation. ETR reflects the level of tax compliance as well as the effectiveness of tax strategies implemented by corporate management. In accounting and taxation research, ETR is frequently used as a proxy to identify tax avoidance practices, where an ETR lower than the applicable statutory tax rate may indicate that a company is engaging in efforts to minimize its tax obligations through legal means.

From the perspective of Agency Theory, the Effective Tax Rate (ETR) also reflects the potential for conflicts of interest between management as agents and shareholders as principals. Management tends to have incentives to reduce tax burdens in order to increase profits, which may improve short-term performance but potentially expose the firm to long-term risks. Therefore, the presence of corporate governance mechanisms becomes essential to monitor corporate tax policies to ensure they remain aligned with the principles of transparency and accountability, thereby reducing opportunistic behavior in tax management.

The Effect of Audit Committee on Effective Tax

As an important part of good corporate governance, the audit committee checks the accuracy of financial reports and the efficiency of the business's internal controls. Management strategies, including tax management, may be better overseen when an independent and competent audit committee is present (Palupi et al., 2021). According to Pratama and Venusita (2025), a more effective audit committee is linked to greater levels of corporate tax compliance, and prior research have shown that the audit committee significantly affects the ETR. By making financial reporting more open and accountable, the audit committee may be able to curb tax evasion techniques. The following theory is advanced in light of the preceding discussion: "H1: The Audit Committee has an effect on the Effective Tax Rate."

The Effect of Independent Commissioners on Effective Tax Rate

Independent commissioners act as external parties who do not have direct relationships with management, and are therefore expected to provide objective oversight of corporate policies. Independent commissioners may improve the quality of supervision over management choices, which in turn reduces the risk of tax evasion in the context of taxes (Nurdiansyah & Yustisi, 2025). The percentage and degree of independence of independent commissioners within the board structure determines their efficacy in affecting the ETR, according to earlier research, which have shown conflicting outcomes (Ramadhani & Utomo, 2023). Therefore, impartial commissioners play a key role in guaranteeing fiscally prudent practices that are in

line with principles of good corporate governance. The following theory is advanced in light of this reasoning:

“H2: Independent Commissioners have an effect on the Effective Tax Rate.”

The Effect of Institutional Ownership on Effective Tax Rate

When large financial organizations like banks, investment firms, and other similar entities acquire a portion of a company's stock, it means they have the power and motivation to keep an eye on the company's leadership. Having more institutional investors may put more pressure on the company's leadership to be open and accountable, especially when it comes to tax policy choices (Najwanadia & Zulfikar, 2026). Higher levels of institutional ownership are linked to an increased ETR, which is a measure of corporate tax compliance, according to empirical research (Widianti & Prasetyo, 2023). This is because institutional ownership has a negative influence on tax evasion. It might be inferred from this that institutional investors operate as a watchdog over management decisions, limiting tax evasion tactics. Based on the above discussion, the following hypothesis is proposed:

“H3: Institutional Ownership has an effect on the Effective Tax Rate.”

The Simultaneous Effect of Audit Committee, Independent Commissioners, and Institutional Ownership on Effective Tax Rate

It is believed that audit committees, independent commissioners, and institutional ownership, which are all parts of corporate governance structures, will have a more substantial impact on corporate tax policy than their individual components. The combination of these internal and external monitoring mechanisms is capable of creating a comprehensive control system to reduce tax avoidance practices (Putri, 2024). According to research, the impact of all three of these factors on the ETR at once is the most effective way to increase tax compliance among corporations (Lubis et al., 2023). Therefore, integrating these three corporate governance mechanisms into a single analytical model is essential to comprehensively understand how corporate governance influences tax policy. The following theory is advanced in light of the preceding discussion:

“H4: Audit Committee, Independent Commissioners, and Institutional Ownership simultaneously have an effect on the Effective Tax Rate.”

RESEARCH METHODOLOGY

Research Design

Companies listed on the Indonesia Stock Exchange between 2020 and 2024 that operate in the industrial sector are the subject of this quantitative research's case study methodology. Since the purpose of this research is to apply objective and quantifiable statistical analysis to determine the nature of the causal link between corporate governance procedures and the ETR, a quantitative method will be used. The case study strategy enables a more focused investigation of the characteristics of the industrial sector, which is known for its complexity in corporate governance practices and tax policy decisions.

Population and Sample

Companies operating in the industrial sector that were listed on the Indonesia Stock Exchange between 2020 and 2024 make up the study's population. This method of choosing samples makes use of purposive sampling, which is picking samples according to predetermined criteria that are in line with the aims of the study. To be eligible for inclusion in the sample, businesses must meet the following requirements: (1) they must be listed continuously throughout the observation period; (2) they must submit full financial statements and annual reports; (3) they must have full data for all research variables; and (4) they must not have suffered consecutive losses throughout the research period. From the whole population to the final sample used in this research, the steps in selecting the sample are laid out in a table.

Table 1. Purposive Sampling Process

| No | Description | Total |
|---------------------------|---|-----------|
| 1 | Industrial sector companies listed on the Indonesia Stock Exchange (IDX) | 65 |
| 2 | Companies not consistently listed on the Indonesia Stock Exchange during the 2020–2024 period | -19 |
| 3 | Companies that did not consistently publish annual reports during the 2020–2024 period | -8 |
| 4 | Companies that do not present financial statements in Indonesian Rupiah | -3 |
| 5 | Companies with incomplete data | -22 |
| Total Companies | | 13 |
| Observation Period | | 5 |
| Total Observations | | 65 |

Source: Author's processed data, 2026.

Data Sources

This research makes use of secondary data culled from the annual reports and financial accounts of businesses operating in the industrial sector. All of the information came from the firms' online websites and the Indonesia Stock Exchange's official website. Since secondary data has already been audited and formally published, it is acceptable for empirical analysis and is therefore seen to have a high level of dependability when used in quantitative research. By locating and analyzing data pertinent to the study variables, data was collected using the documentation approach.

Variable Measurement

An audit committee, independent commissioners, and institutional ownership are the three independent factors used in this research. The dependent variable is ETR, which is defined as the ratio of tax cost to pre-tax revenue. Table 2 below presents the operationalization of variables in detail, and all variables are assessed using a ratio scale.

Table 2. Operational Definition of Variables

| No | Variable | Measurement Indicators | Scale |
|------------------------------|--------------------------------|--|-------|
| Dependent Variable | | | |
| 1 | Effective Tax Rate (ETR) | ETR = Tax Expense / Pre-Tax Income | Ratio |
| Independent Variables | | | |
| 2 | Audit Committee (AC) | Number of audit committee members in the company | Ratio |
| 3 | Independent Commissioners (IC) | Proportion of independent commissioners = Number of independent commissioners / Total board of commissioners | Ratio |

| No | Variable | Measurement Indicators | Scale |
|----|--------------------------------|---|-------|
| 4 | Institutional Ownership (INST) | Institutional ownership = Number of shares owned by institutions / Total outstanding shares | Ratio |

Source: Author's processed data, 2026.

Data Analysis Technique and Regression Model

This study's data analysis approach makes use of EViews software for descriptive statistics and panel data regression analysis. Panel data regression, which integrates time series and cross-sectional data, allows for a more precise examination of the impact of independent factors on the Effective Tax Rate, in contrast to descriptive analysis, which is used to characterize the research data.

Finding out which of three panel data regression models CEM, FEM, and REM is most suitable is part of the analytic process. The Chow, Hausman, and Lagrange Multiplier tests are used for this purpose. The next step in verifying the model's validity is to run classical assumption tests. Here is the formula for the regression model that was utilized in this study:

$$ETR = a + \beta_1 AC + \beta_2 IC + \beta_3 INST + \varepsilon$$

Keterangan:

ETR = Effective Tax Rate

AC = Audit Committee

IC = Independent Commissioners

INST = Institutional Ownership

a = Constant

β_1 - β_3 = Coefficients

ε = Error

At the 5% level of significance, we evaluate our hypotheses using two tests: the t-test, which looks at how each independent variable affects the ETR partially, and the F-test, which looks at how all independent variables affect the ETR simultaneously. In order to examine the correlations among variables, this research uses EViews, which allows quick panel data processing and gives more robust results.

RESULTS AND DISCUSSION

This study offers the findings of an empirical analysis that aimed at assessing the influence of corporate governance procedures on the ETR. The analysis was based on data processing that took place on industrial sector businesses listed on the Indonesia Stock Exchange from 2020 to 2024. In order to fully grasp the interrelationships of the study variables, the acquired data are subjected to further analysis.

Descriptive Statistical Analysis

The descriptive statistical analysis that was conducted on 65 observations spanning the years 2020–2024 and involving a sample of 13 firms describes the study data features as follows. For every research variable, this analysis provides the mean, minimum, and maximum values as well as measures of data dispersion.

Table 3. Descriptive Statistical Results

| | Y | X1 | X2 | X3 |
|-----------|----------|----------|----------|-----------|
| Mean | 0.244850 | 3.107692 | 0.374423 | 0.455093 |
| Median | 0.220500 | 3.000000 | 0.333300 | 0.461100 |
| Maximum | 0.894200 | 4.000000 | 0.500000 | 0.927900 |
| Minimum | 0.040900 | 2.000000 | 0.200000 | 0.060000 |
| Std. Dev. | 0.115491 | 0.437431 | 0.083033 | 0.289613 |
| Skewness | 3.211292 | 0.557309 | 0.256862 | -0.069082 |
| Kurtosis | 17.32765 | 4.708297 | 2.458334 | 1.561460 |

Source: Data processed with EViews 12, 2026.

Based on Table 3, the average value of the Effective Tax Rate (ETR) of 0.2448 indicates that, on average, the sampled companies pay approximately 24.48% of their pre-tax income as tax, with considerable variation indicated by the range between the minimum and maximum values. The audit committee variable (X1) has an average of around three members with relatively low variation, while independent commissioners (X2) show an average proportion of 37.44%, indicating compliance with applicable regulations. Institutional ownership (X3) has an average of 45.51% with a relatively high level of variation across firms. Overall, corporate governance variables tend to be more stable compared to ETR, while the data distribution suggests a tendency toward non-normality, particularly in the ETR variable, which exhibits high levels of skewness and kurtosis.

Panel Data Regression Model Estimation Test

Table 4. Result of Chow Test

| Effects Test | Statistic | d.f. | Prob. |
|--------------------------|-----------|----------|--------|
| Cross-section F | 3.438642 | (12, 49) | 0.0011 |
| Cross-section Chi-square | 39.709485 | 12 | 0.0001 |

Source: Data processed with EViews 12, 2026.

The FEM is preferred over the CEM when the probability value is less than 0.05, according to the Chow test findings.

Table 5. Result of Hausman Test

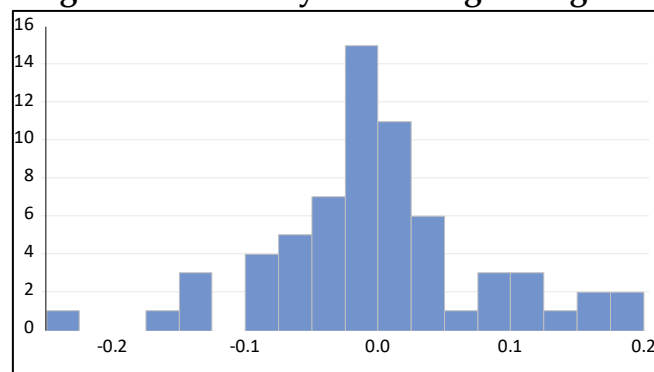
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|----------------------|-------------------|--------------|--------|
| Cross-section random | 25.959714 | 3 | 0.0000 |

Source: Data processed with EViews 12, 2026.

The FEM is the most suitable model to be employed in this investigation, according to the findings of both the Chow test and the Hausman test, which show probability values below 0.05.

**Classical Assumption Test
 Normality Test**

Figure 1. Normality Test Using Histogram



Source: Data processed with EViews 12, 2026.

The outcome of the normality test using a histogram in EViews software suggests that the residual data distribution follows a very symmetrical bell-shaped curve, free of any notable skewness. This proves that the data follow a normal distribution with no outliers or very unusual values. Therefore, it is safe to proceed with hypothesis testing using the regression model in this investigation as it meets the normalcy assumption.

Panel Data Regression Analysis

Table 6. Panel Data Regression Results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|--------|
| C | 0.075923 | 0.292259 | 0.259778 | 0.7961 |
| X1 | -0.103553 | 0.086726 | -1.194022 | 0.2382 |
| X2 | -0.276454 | 0.243789 | -1.133992 | 0.2623 |
| X3 | 1.305774 | 0.230622 | 5.661957 | 0.0000 |

Source: Data processed with EViews 12, 2026.

Table 6 shows the processed data, and the following is the regression equation model that came from it:

$$ETR = \alpha + \beta_1 AC + \beta_2 IC + \beta_3 INST + \epsilon$$

$$ETR = 0.0759 - (0.1035AC) - (0.2764IC) + (1.3057INST) + \epsilon$$

Because all other independent variables are kept constant, the Effective Tax Rate (ETR) remains at a constant value of 0.0759. There is no statistically significant association between the audit committee (AC) and independent commissioners (IC), but their negative coefficients – -0.1035 and -0.2764, respectively – suggest that a rise in both factors tends to diminish the ETR. The ETR will rise by 1.3057 percentage points for every one percentage point increase in institutional ownership, according to the INST coefficient of 1.3057. Corporate tax compliance seems to be positively correlated with institutional ownership. Institutional ownership encourages enterprises to comply better with their tax requirements since it strengthens the oversight of management.

Table 7. Partial t-Test Results under the Fixed Effect Model (FEM)

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|--------|
| C | 0.075923 | 0.292259 | 0.259778 | 0.7961 |
| X1 | -0.103553 | 0.086726 | -1.194022 | 0.2382 |
| X2 | -0.276454 | 0.243789 | -1.133992 | 0.2623 |
| X3 | 1.305774 | 0.230622 | 5.661957 | 0.0000 |

Source: Data processed with EViews 12, 2026

Table 7 shows the results of the t-tests, which indicate that the Audit Committee and Independent Commissioners do not significantly affect the dependent variable. X1 has a probability of 0.238 and X2 of 0.262, both of which are more than the 0.05 significance threshold, indicating this. As a result, there is no statistically significant relationship between the two factors and the dependent variable.

On the other hand, a t-statistic of 5.661 and a probability value of $0.000 < 0.05$ demonstrate that Institutional Ownership (X3) significantly and positively impacts the dependent variable. So, it seems that the dependent variable goes up whenever institutional ownership goes up. So, it's safe to say that the Audit Committee and Independent Commissioners don't have much of an impact inside this paradigm, while Institutional Ownership is the sole major player.

Table 8. F-Test Results (Simultaneous) Using FEM

| | | | |
|--------------------|----------|-----------------------|-----------|
| R-squared | 0.523441 | Mean dependent var | 0.244850 |
| Adjusted R-squared | 0.377556 | S.D. dependent var | 0.115491 |
| S.E. of regression | 0.091117 | Akaike info criterion | -1.743609 |
| Sum squared resid | 0.406811 | Schwarz criterion | -1.208375 |
| Log likelihood | 72.66729 | Hannan-Quinn criter. | -1.532425 |
| F-statistic | 3.588035 | Durbin-Watson stat | 2.543790 |
| Prob(F-statistic) | 0.000353 | | |

Source: Data processed with EViews 12, 2026

With a Prob(F-statistic) of $0.000353 < 0.05$, the F-test findings of the Fixed Effect Model (FEM) reveal an F-statistic value of 3.588. The model is deemed suitable for usage when the dependent variable is significantly affected by all of the independent variables at the same time. The model explains 52.3% of the variance in the dependent variable, with the remaining variation being driven by variables outside the research, according to the R-squared value of 0.523. The model's modest explanatory ability is shown by the Adjusted R-squared value of 0.377.

There also does not seem to be a significant issue with autocorrelation, since the Durbin-Watson score is 2.54. In general, the FEM model does a decent enough job of describing the interrelationships between the variables.

Table 9. Results of the Coefficient of Determination (R-squared Test)

| | | | |
|--------------------|----------|-----------------------|-----------|
| R-squared | 0.523441 | Mean dependent var | 0.244850 |
| Adjusted R-squared | 0.377556 | S.D. dependent var | 0.115491 |
| S.E. of regression | 0.091117 | Akaike info criterion | -1.743609 |
| Sum squared resid | 0.406811 | Schwarz criterion | -1.208375 |
| Log likelihood | 72.66729 | Hannan-Quinn criter. | -1.532425 |
| F-statistic | 3.588035 | Durbin-Watson stat | 2.543790 |
| Prob(F-statistic) | 0.000353 | | |

Source: Data processed with EViews 12, 2026

Table 9 displays the results of the coefficient of determination test. An adjusted R-squared value of 0.377 indicates that the model's independent variables can explain 37.7% of the dependent variable's variation, while external factors account for the remaining 62.3%. At the same time, the model's explanatory power is 52.3% before adjusting for the number of variables, as shown by the R-squared value of 0.523. So, it's safe to say that the model can only explain a minor amount of the connection between the variables, and that the dependent variable is still affected by factors not included in this research.

DISCUSSION

The Effect of Audit Committee on Effective Tax Rate

The first hypothesis test found no statistically significant relationship between the audit committee and the ETR. That the company's audit committee has not been successful in shaping its tax policy for corporations is evident from this. In principle, the audit committee is responsible for monitoring the financial reporting procedure and checking for regulatory conformity, particularly with regard to tax matters. Nevertheless, when put into action, this supervisory role could not go as smoothly as it might be because of members' limited skills, few meetings, or an absence of autonomy in making decisions. This result agrees with what Pratama dan Venusita (2025) have shown, which is that the audit committee's impact on tax evasion is dependent on how well it is implemented inside the corporation.

The Effect of Independent Commissioners on Effective Tax Rate

The results of the second hypothesis testing show that independent commissioners do not have a significant effect on the Effective Tax Rate. This indicates that the presence of independent commissioners has not been able to effectively reduce tax avoidance practices or improve corporate tax compliance. Theoretically, independent commissioners are expected to provide objective oversight of managerial policies. However, these findings suggest that their role has not been optimally implemented, possibly due to limited authority or the dominance of management in decision-making processes. This finding is consistent with Ramadhani dan Utomo (2023), who state that independent commissioners do not always have a significant effect on corporate tax policies.

The Effect of Institutional Ownership on Effective Tax Rate

The Effective Tax Rate is positively and significantly affected by institutional ownership, in contrast to the other factors. This data suggests that companies with more institutional ownership are more likely to pay their fair share of taxes. There is less tax evasion because institutional investors are better able and more motivated to keep tabs on management. According to Agency Theory, which proposes that external monitoring methods might lessen management-shareholder conflicts of interest, this conclusion is in line with that theory. Similarly, this finding is consistent with that of Najwanadia dan Zulfikar (2026), who discovered that institutional ownership helps make tax policy choices made by corporations more transparent and accountable.

The Effect of Audit Committee, Independent Commissioners, and Institutional Ownership on Effective Tax Rate

The audit committee, independent commissioners, and institutional ownership all have a substantial impact on the Effective Tax Rate, according to the findings of the simultaneous test. This indicates that the corporate governance processes may affect corporation tax policy as a whole, even while individual factors do not exhibit substantial partial impacts. These results show that there is no one mechanism that determines how successful corporate governance is; rather, it is the outcome of the interplay of several monitoring methods that work together. Improvements in tax compliance and reductions in tax evasion techniques inside corporations can only be achieved via the introduction of comprehensive corporate governance.

CONCLUSION

Studying industrial sector companies listed on the Indonesia Stock Exchange from 2020 to 2024 allowed researchers to draw the conclusion that various corporate governance mechanisms impact the ETR, a measure of corporate tax policy. At least in part, the ETR is unaffected by the audit committee and the independent commissioners. It seems that these two procedures have not been effective in their supervisory roles of preventing tax policy opportunism on the part of managers. According to Agency Theory, this situation shows that internal monitoring measures have not completely reduced conflicts of interest between owners and agents (management).

On the other hand, there is strong evidence that institutional ownership significantly improves the ETR. This data suggests that corporations are more likely to pay their fair share of taxes when there is a larger number of institutional owners. According to Agency Theory, which aims to eliminate managerial opportunism and information asymmetry, external monitoring systems are crucial. Management is compelled to be more open and accountable when institutional investors are present, and this includes when it comes to deciding on corporate tax policy.

At the same time, the ETR is shown to be significantly affected by the audit committee, independent commissioners, and institutional ownership. That corporate governance relies on a number of different monitoring methods rather than relying on a single mechanism alone to oversee tax policy is supported by this finding.

Within the framework of Agency Theory, these findings reinforce that controlling conflicts between agents and principals is more effective when supported by a comprehensive governance system, encompassing both internal and external mechanisms. Therefore, the implementation of strong and integrated corporate governance is key to improving tax compliance and reducing tax avoidance practices in firms.

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