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The Effect of Corporate Governance on Tax Avoidance: The Role of Profitability as a Mediating Variable

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Abstract

This study aims to examine the effect of institutional ownership, independent board of commissioners, audit committee, and profitability (RNOA) on tax avoidance in banking companies listed on the Indonesia Stock Exchange over the 2014–2018 period. The sampling method employed in this study was the cluster sampling method. The population was all banking companies listed on the Indonesia Stock Exchange for the period 2014–2018. The sample selection results using the purposive sampling method during the observation includes 209 companies that published complete annual reports and their financial report notes as of December 31, 2018. The results revealed that institutional ownership and independent board of commissioners did not affect profitability. Profitability also did not affect tax avoidance. Further findings showed that institutional ownership and audit committee positively affect tax avoidance. From the result of Sobel test, this study indicated that profitability cannot mediate the effect of institutional ownership, independent board of commissioners, and audit committee on tax avoidance. This study has succeeded in proving empirically that there was a significant effect of the audit committee on profitability, institutional ownership on tax avoidance, and the audit committee on tax avoidance. Therefore, this study supports the agency theory and the research model from previous studies.

Keywords: Institutional Ownership, Independent Board of Commissioners, Audit Committee, Profitability, Tax Avoidance

JEL Classification Code: G32, H26, H83

1. Introduction

The company owner yearns for the company value to increase for an extended period because the higher the company value will also reflect a higher level of owner's welfare. Company value is an economic term that signifies a company's market value and is based on the company utilized to measure business value and risk analysis. However, the obstacle that comes about in increasing the company value because of the internal company itself is how to manage the company well. Companies with weak governance will report under-reporting on financial performance and lack of policy oversight and operational management. Low corporate governance has been identified as one of the causes of the global financial crisis.

Meanwhile, information technology development provides opportunities for companies to grow their business by creating innovative products and services. Innovation and business strategies are carried out solely so that the company can avoid bankruptcy. Of course, competition between companies is no longer a secret. This competition needs to be balanced with critical thinking and using company resources optimally so that the company has competitiveness with other companies. In this regard, every company has goals to achieve, such as obtaining maximum profit, where the benefits generated reflect the company's value. Besides, the share price statement cannot be separated from the financial statements presented by the company. Financial statements in accounting are relevant if they contain useful information for managers or other users in making decisions. Furthermore, stock prices

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reflect all relevant information in the capital market, which the market will react to when there is new information. In Indonesia, publicly listed companies are required to submit annual financial reports to the Indonesia Stock Exchange, investors, and the public every year.

In this matter, corporate governance is most often seen as the structures and relationships that determine a company's direction and performance. The Board of Directors is usually the center of governance; therefore, relationships with other vital participants, shareholders, and management are essential. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework depends on the legal, regulatory, institutional, and ethical environment of society. Meanwhile, although the 20th century may be seen as the age of management, the beginning of the 21st century is predicted to focus more on governance. Both terms address corporate control, but governance always requires an examination of the objectives and underlying legitimacy.

In general, corporate governance refers to a number of legal and non-legal principles and practices that affect the control of public business corporations (Pohan, 2019). Most broadly, corporate governance affects not only who controls publicly traded companies and for what purposes but also the risk allocation and returns from company activities among various participants in the company, including shareholders, managers, creditors, employees, customers, and even the community (Huseynov & Klamm, 2013). Corporate governance is concerned with maintaining order between economic and social goals and between the individual and community goals. The corporate governance framework aims to encourage efficient use of resources and equally require accountability for managing these resources. It aims to harmonize personal and corporate interests and the broader community as much as possible (Alfina & Wijayanti, 2018; Reddy & Govender, 2013).

2. Literature Review

2.1. Good Corporate Governance

Good Corporate Governance (GCG) is the art of directing and controlling an organization by balancing various stakeholders' needs (Pohan, 2019). It often involves resolving conflicts of interest between various stakeholders and ensuring that the organization is well managed, which means that processes, procedures, and policies are implemented according to transparency and accountability principles.

Corporate governance is a system and structure that regulates the relationship between management and owners, both those who have a majority and minority shares in a company. Corporate governance is useful for protecting investors from differences in the interests of shareholders (principal) and management (agents). Problems in corporate governance occur because of the separation between ownership and control of the company. The board of commissioners who acts as an agent in a company is given the authority to manage the running of the company and make decisions on behalf of the owner, but the agent has different interests from the shareholders.

According to Indonesia's GCG National Policy Committee (KNK), another statement has made headlines over the past decade after a series of scandals that engulfed companies like Enron, which caused their downfall due to mismanagement. It encourages regulators worldwide to implement various measures and rules to control irresponsible corporate behavior, which will damage the company's prospects and harm their shareholders and stakeholders.

2.2. Institutional Ownership

Institutional ownership increasingly affects share ownership in companies held by organizations with large finances, pension funds, or endowments (Saona et al., 2020). Institutions generally buy large blocks of company stock in circulation and can exert considerable influence on their management (Chabachib, Fitriana, Hersugondo, Pamungkas, & Udin, 2020). Although many companies – particularly large, blue-chip companies – have thousands of individual shareholders, specific owners will often hold most of the stock. These large institutional traders are usually well funded and routinely accumulate millions of shares on a single stock. Examples of institutional owners include corporate pension funds, college endowments, insurance companies, commercial banks, hedge funds, mutual funds, and boutique asset management firms that invest money in wealthy clients (Alfina & Wijayanti, 2018; Reddy & Govender, 2013).

Given the large amount of money institutions invest, it is no surprise that they tend to be much more knowledgeable than the average investor when it comes to the companies and industries they invest in. Institutional portfolio managers often meet in person with top company executives, and in many cases, the research they do is subsequently supported by equity analysts known as "buyer-side" analysts, who evaluate prospective companies and industries in-depth before making specific investment recommendations.

Given the enormous amount of resources, talent, and research capacity owned by these prominent money managers, their investment decisions are likely to carry huge burdens with smaller investors, many of whom scrutinize institutional trading patterns. For this reason, institutional trading can have an enormous impact on the prices of individual securities and can even influence the direction of the broader market.

Many investors perceive institutional support for security as a sign of institutional approval and accumulation of stock, increasing its price significantly (Faisal, 2005).

However, other investors believe that so many institutions have accumulated into company stock; it is too late to realize immense profits. These investors deliberately seek out investments with little or no institutional ownership, assuming that the larger traders will soon "find" security and push the price higher (Cahyono et al., 2016).

2.3. Independent Board of Commissioners

The independent commissioner is to coordinate activities for the board of commissioners. The board of commissioners' role is to collectively oversee company management, providing input on company management policies made by the board of directors. The board of commissioners continues to monitor company policies' effectiveness. The board of directors' performance in the decision-making process, including strategy implementation, is designed to meet shareholders and other stakeholders' expectations. The monitoring results are attached with a review and opinion from the board of commissioners, which will then be submitted to the GMS (General Meeting of Shareholders) as a component to evaluate the board of directors' performance.

The composition and number of the board of commissioners are decided by the GMS by considering the company's vision, mission, and strategic plan to enable an effective, fast, and accurate independent decision-making process. The procedure for the nomination, appointment, replacement, and dismissal of the board of commissioners' members is provided in the company's articles of association.

In a company, the board of commissioners acts as a legislative body, and the board of directors functions as an executive body or can also be a legislative body. The board of commissioners has the authority to oversee the leadership and work performed by the board of directors. In this case, the board of commissioners as the shareholder has the authority to temporarily record the board of directors' member if the person concerned has committed an act contrary to the company's articles of association.

The shareholders evaluate the board of commissioners' performance at the GMS. In general, the board of commissioners' performance is measured based on the roles and responsibilities stipulated in the applicable regulations, the company's articles of association, and the shareholders' mandate.

2.4. Audit Committee

The audit committee is one of the central operating committees of the company's board of directors that oversees financial reporting and disclosure. All public companies, especially those in the U.S. must have an audit committee that qualifies to be listed on the stock exchange. Committee members must consist of independent outside directors, including at least one person who qualifies as a financial expert.

The audit committee maintains communication with the chief financial officer (CFO) and the company controller. The committee also has the power to initiate special investigations in cases where it is determined that accounting practices are problematic or suspicious or when serious problems arise with employees. Internal auditors will assist the committee in this effort.

The duties and composition of the company's audit committee can be found on the SEC Form DEF 14A or a proxy statement. Committee members may change from time to time, depending on the personnel's movement on or off the board or changes in committee assignments. The audit committee will meet in person at least every three months and on an ad-hoc basis in person or via telecommunications. In addition to the annual compensation for directors, those who serve on the audit committee (the same applies to all committees) are paid for each meeting attended.

2.5. Profitability

Profitability is a description of the company's financial performance in generating profit from asset management or what is also known as Return on Net Operating Assets (RNOA). The company's effectiveness in utilizing all owned resources is measured using the RNOA. RNOA describes management's ability to make a profit (Richardson & Lanis, 2007). The higher the company's profits, the higher the RNOA, so its asset management will be better. RNOA is a measure of the net profit derived from the use of assets. The higher the value of the RNOA, the higher the value of the company's net income and profitability. Moreover, profitability is the company's ability to earn profits concerning sales, total assets, and owned capital. This study used the Return on Net Operating Assets (RNOA) ratio to measure the company's profitability. RNOA is used to measure the company's ability to generate profits (Jamei, 2017).

The CAMEL system implemented by Bank Indonesia calculates the RNOA based on a comparison of profit before tax and average total assets. According to Puspitasari and Ernawati (2010), RNOA is used as an indicator of bank performance. RNOA shows the company's effectiveness in generating profits by optimizing its assets. The reason for using RNOA as one of the ratios that measure bank profitability is because Bank Indonesia, as a coach and supervisor of banks, is more concerned with assets whose funds come from the public. Therefore, performance information is beneficial for financial statement users. For groups of investors, creditors, and the general public wanting their investment in a bank, it is necessary to know the bank's performance. Return on capital investment is useful for management evaluation, profitability analysis, profit forecasting, and planning and control.

2.6. Tax Avoidance

Tax avoidance is the use of legal methods to minimize the amount of income tax payable by an individual or business (Oktaviani et al., 2019; Richardson & Lanis, 2007). It is generally done by claiming as many deductions and credits as allowed. It can also be achieved by prioritizing investments that have tax advantages, such as buying municipal bonds (Salehi, Khazaei, & Tarighi, 2019). Besides, tax avoidance is manipulating the amount of tax payable or setting an event to minimize taxes under taxation provisions (Dewi & Jati, 2014; Richardson & Lanis, 2007). Tax avoidance is not prohibited according to tax regulations, even though it often receives unfavorable attention because it is considered to have negative connotations or is considered less nationalistic. Tax avoidance by company management is done to minimize corporate tax obligations.

Millions of taxpayers use some form of tax avoidance, including taking out child tax credits, investing in retirement accounts, or taking out mortgage tax deductions. For example, is any tax deductions and tax credits available in the U.S. Tax Code by the U.S. Congress used for benefits or relief of part or all of the taxpayer? Unfortunately, their combined efforts over several decades have resulted in the U.S. Tax Code, which is about 2,600 pages long and too complicated for anyone without an accounting degree to handle (Desai & Dharmapala, 2007).

3. Hypothesis Development

3.1. The Effect of Institutional Ownership on Profitability

Institutional shareholders are usually entities such as banking, insurance, pension funds, mutual funds, and other institutions. Institutional investors are generally quite large shareholders because they have massive funding. Meanwhile, institutional ownership is the proportion of share ownership by institutional investors as measured by the percentage of the number of shares owned by institutional investors.

Previous studies have resulted in different conclusions with different variables, such as research conducted by Cahyono et al. (2016), Ifada, Faisal, Ghozali, and Udin (2019), which found that institutional ownership positively affected profitability. However, Khurana and Moser (2009) revealed that institutional ownership did not affect profitability. Institutional ownership was not proven to affect profitability. Still, it indicates that institutional ownership's low strength will weaken external control over the company. Therefore, the existence of institutional ownership can help improve more optimal supervision of company performance in achieving company goals, namely obtaining maximum profit. A high institutional ownership level will lead to more significant supervision efforts by institutional investors, which can hinder managers' opportunistic behavior. Then, the hypothesis is:

H1: *Institutional ownership positively affects profitability.*

3.2. The Effect of the Independent Board of Commissioners on Profitability

Independent commissioners are the board of commissioners' members who are not affiliated with management, other members of the board of commissioners, controlling shareholders, and business relationships or other relationships that may affect their ability to act independently or solely for the company benefit.

The independent commissioner is to coordinate activities for the board of commissioners. The board of commissioners' role is to collectively oversee company management, providing input on company management policies made by the board of directors. The board of commissioners continues to monitor company policies' effectiveness. The board of directors' performance in the decision-making process, including strategy implementation, is designed to meet shareholders and other stakeholders' expectations. The monitoring results are attached with a review and opinion from the board of commissioners, which will then be submitted to the GMS (General Meeting of Shareholders) as a component to evaluate the board of directors' performance.

The GMS concludes the composition and number of the board of commissioners by considering the vision, mission, and strategic plan for the company to enable an effective, fast, and accurate independent decision-making process. The procedure for the nomination, appointment, replacement, and dismissal of the board of commissioners' members is provided in the company's articles of association. Then, the hypothesis is:

H2: *The independent board of commissioners positively affects profitability.*

3.3. The Effect of the Audit Committee on Profitability

The audit committee is a committee that works professionally and independently, formed by the board of commissioners. Thus, its task is to assist and strengthen the board of commissioners or the supervisory board's function in carrying out the oversight function of the financial reporting process, risk management, audit implementation, and corporate governance implementation in companies. Therefore, with an audit committee, the company's performance will be increasingly controlled and monitored in carrying out its duties.

The size of an extensive audit committee can also improve company performance because it can provide more detailed discussion results on the company's financial statements, improving the quality of the company's financial statements so that it can increase the profitability. Nevertheless, research by Narwal and Jindal (2015) discovered that with more members on the audit committee, the company's profitability would decrease because the audit committee would experience problems in the division of responsibilities and decision-making impact on the company performance's effectiveness. Khurana and Moser (2009) also affirmed that companies with many audit committee members would experience miscommunication and unclear tasks division.

An audit committee's existence can reduce differences in interests because the audit committee has the duty to ensure that company management has followed the existing regulations, and there is no opportunistic behavior by agents for personal gain. Therefore, with an internal audit committee, the company will increase the company's responsibility aspect in following the existing OJK (Financial Services Authority) regulations. Besides, the audit committee also functions to assist the independent board of commissioners in increasing the company's independence in preventing pressure from people who impose their will. Based on this description, the research hypothesis was formulated as follows:

H3: *The audit committee positively affects profitability.*

3.4. The Effect of Profitability on Tax Avoidance

The company's profitability, as shown by the Return on Net Operating Assets (RNOA), reflects its performance (Nguyen & Nguyen, 2020; Pattiruhu & Paais, 2020). Through the RNOA, it can be seen that the company's ability to use its assets efficiently in generating the company's operating profit. Good company performance is indicated by the high RNOA value expressed as a percentage, and the net operating profit generated by the company is indicated by the company's high profitability. The company's profit is the basis for the imposition of corporate taxes. The increase in RNOA resulted in an increase in Earning Tax Rate (ETR), so that the RNOA had a significant effect on ETR. However, with the development and changes in tax policy, the relationship between RNOA and ETR has become negative (Pradipta & Supriyadi, 2015).

Previous research on the effect of profitability on tax avoidance was conducted by Pradipta and Supriyadi (2015) and Richardson and Lanis (2007) that shows there was a significant relationship between profitability (RNOA) and tax avoidance. Based on the theory and previous research results, the fourth hypothesis could be formulated, as follows:

H4: *Profitability positively affects tax avoidance.*

3.5. The Effect of Institutional Ownership on Tax Avoidance

The relationship between ownership structure and performance has been the subject of an essential and ongoing debate in the corporate finance literature. Institutional ownership is ownership of company shares owned by an institution that generally acts as a party that monitors the company. Previous research on the effect of institutional ownership on tax avoidance has been conducted by Cahyono et al. (2016), Leipälä (2017), Ngadiman and Puspitasari (2017), with the study results that revealed a positive influence between corporate governance (institutional ownership) on tax avoidance. Based on the theory and supporting research, the fifth hypothesis could be formulated, as follows:

H5: *Institutional ownership positively affects tax avoidance.*

3.6. The Effect of the Independent Board of Commissioners on Tax Avoidance

An independent commissioner is a person who is not affiliated with shareholders, directors, or board of commissioners and does not have the position of the board of directors in the company concerned. Independent commissioners have a vital role in the company, namely as supervisors, and directing the company to operate under applicable regulations (Huseynov & Klamm, 2013). Independent commissioners mediate between company management and company owners in making strategic or policy decisions not to violate applicable regulations, including tax decisions. Previous research on the effect of independent boards of commissioners on tax avoidance (Alfina & Wijayanti, 2018) showed a positive influence between corporate governance (independent board of commissioners) on tax avoidance. Based on this description, the research hypothesis was formulated as follows:

H6: *The independent board of commissioners positively affects tax avoidance.*

3.7. The Effect of the Audit Committee on Tax Avoidance

Good Corporate Governance (GCG) is the art of directing and controlling an organization by balancing various stakeholders' needs (Pohan, 2019). It often involves resolving conflicts of interest between various stakeholders and ensuring that the organization is well managed, which means that processes, procedures, and policies are implemented according to transparency and accountability principles.

Problems in corporate governance occur because of the separation between ownership and control of the company. The board of commissioners who acts as an agent in a company is given the authority to manage the running of the company and make decisions on behalf of the owner, but the agent has different interests from the shareholders (Ardyansah & Zulaikha, 2014). Previous research on the audit committee's effect on tax avoidance was carried out by Sarra (2017) and Marselawati and Masitoh (2018). Their research results revealed a positive influence between corporate governance (audit committee) on tax avoidance. Thus, the hypothesis being formulated is:

***H7:** The audit committee positively affects tax avoidance.*

4. Research Methods

The population is the number of all objects whose characteristics are to be estimated. In this study, the population was all banking companies listed on the Indonesia Stock Exchange for the period 2014–2018. Meanwhile, the sample in this study was banking companies listed on the Indonesia Stock Exchange for 2014–2018. The sampling method used in this study was the cluster sampling method. The sample criteria were determined as follows:

1. The company included financial statements in a row for 2014–2018.
2. The company experienced a positive profit in a row in 2014–2018.
3. The company made tax payments in a row in 2014–2018.

4.1. Measurement

Tax avoidance could be measured using the proxy Effective Tax Rates (ETR). ETR was measured by comparing income tax expense to income before tax (Oktaviani et al., 2019). Institutional ownership employed the formula by Dewi and Jati (2014). The independent board of commissioners was calculated by the percentage of the number of independent commissioners to the total number of commissioners in the board of commissioners (Puspitasari & Ernawati, 2010). The audit committee was determined by counting the number of company audit committee members mentioned in the annual financial statements (Puspitasari & Ernawati, 2010). According to Ardyansah and Zulaikha (2014), Narwal and Jindal (2015), profitability is the company's ability to earn profits concerning sales, total assets, and owned capital. This study utilized the Return on Net Operating Assets (RNOA) ratio to measure the company's profitability.

5. Results

This study employed data from all banking companies listed on the Indonesia Stock Exchange. The sample selection results using the purposive sampling method during the observation period of 2014–2018; the sample obtained consists of 209 companies that published complete annual reports and their financial report notes as of December 31, 2018.

Based on the results of data analysis, it is known that the lowest institutional ownership value was 0%, and the maximum value was 27.25%, with the mean and standard deviation of 47.6374% and 223.87316. It indicated that the ratio between the number of shares owned by institutional investors and the total shares outstanding was 47.6374%.

For the independent board of commissioners, it is known that the lowest value was 0.33%, and the maximum value was 0.80%, with the mean and standard deviation of 0.5582% and 0.10319%. It denoted that the percentage of the number of independent commissioners to the total number of commissioners in the board of commissioners was 0.5582 (55.82%).

For the audit committee, it is known that the lowest value was 0.25%, and the maximum value was 2.5%, with the mean and standard deviation of 0.8473% and 0.33905%. It suggested that the average number of company audit committee members mentioned in the annual financial statements was three.

For the RNOA variable, it is known that the lowest value was 0.14%, and the maximum value was 0.34%, with an average and standard deviation of 0.2508% and 0.03452%. It signified that the company's ability to earn a profit in relation to sales, total assets, and own capital was 0.2508 (25.08%).

5.1. Normality Test

To test the normality of the data in this study, the Skewness and Kurtosis tests were performed, with the following results. The test results for final normality can be seen from the Skewness value, which had a value of <1.96 and Kurtosis <3.00, so the data were said to be normal.

5.2. Multicollinearity Test

The test results for multicollinearity had a tolerance value for each independent variable >0.1 and a VIF value of <10. Thus, it could be stated that this study did not occur or was free from multicollinearity. In the test results for multicollinearity, each independent variable's tolerance value was >0.1, and the VIF value was <10. Thus, it could be said that multicollinearity did not occur or was free in this study.

5.3. Autocorrelation Test

The test results for the autocorrelation of 1.826 were between 1.5 and 2.5. It means that no autocorrelation occurred or was free in this study. The test results for autocorrelation of 2.154 were between 1.5 and 2.5. It indicated that there was no autocorrelation in this study.

5.4. Heteroscedasticity Test

The results of heteroscedasticity testing for each independent variable had a significance value above 0.05 (sig > 0.05), so that it can be said that heteroscedasticity did not occur. The heteroscedasticity testing results for each independent variable had a significance value above 0.05 (sig > 0.05), except for the RNOA variable, so it is said that heteroscedasticity did not occur.

5.5. Model Fit Testing

Sig value $F = 0.008 < 0.05$, it can be said that the model was fit, or these independent variables could be used to predict the dependents. Sig value $F = 0.027 < 0.05$, it can be said that the model was fit, and the independent variables could be used to predict the dependents.

5.6. Determination Coefficient Testing

Adjusted R Square value of 0.122 indicated that the independent variables affected the dependents by 12.2%, while other variables influenced the remaining 87.8%. The value of Adjusted R Square was 0.047. It suggested that the independent variable affected the dependent by 4.7%. Meanwhile, the remaining 95.3% was affected by other variables.

5.7. Hypothesis Testing

Based on the analysis, it was known that the t-significance value for institutional ownership was 0.57 > 0.05. It represented that institutional ownership did not affect profitability. Thus, the first hypothesis in this study was rejected. Based on the analysis, it was known that the *t*-significance value for the independent board of commissioners' was 0.30 > 0.05, which means that the independent board of commissioners did not affect profitability. Hence, the second hypothesis in this study was rejected. Furthermore, the analysis results revealed that the *t*-significance value for the audit committee was 0.00 < 0.05, meaning that the audit committee influenced profitability. However, the sign test results showed negative, so that the third hypothesis in this study was rejected. Based on the analysis, it was known that the *t*-significance value for the profitability was 0.83 > 0.05. It signified that profitability did not impact tax avoidance. Therefore, the fourth hypothesis in this study was rejected. The analysis result uncovered that the *t*-significance value for the audit committee was 0.05 ≤ 0.05. It denoted that institutional ownership positively affected tax avoidance so that the fifth hypothesis in this study was accepted. Based on the analysis, it was known that the *t*-significance value for the independent board of commissioners' was 0.09 > 0.05, which means that the independent board of commissioners did not influence tax avoidance. Thus, the sixth hypothesis in this study was rejected. Moreover, the analysis results demonstrated that the t-significance value for the audit committee was 0.05 ≤ 0.05. It implied that the audit committee affected tax avoidance, and the sign test results were positive so that the seventh hypothesis in this study was accepted.

5.8. Sobel Test

From the Sobel test results for model 1, model 2, and model 3, the indirect effect value for model 1 was 0.8415, model 2 was 0.8421, and model 3 was 0.8944. The three models' value was more than 0.05, confirming that profitability cannot mediate the effect of institutional ownership, independent board of commissioners, and audit committee on tax avoidance.

6. Discussion

6.1. The Effect of Institutional Ownership on Profitability

Based on the analysis, it was known that institutional ownership did not influence profitability. Thus, the first hypothesis in this study was rejected. In this case, institutional shareholders are usually in the form of entities such as banking, insurance, pension funds, mutual funds, and other institutions. Institutional investors are generally quite large shareholders because they have massive funding. Institutional ownership is the proportion of share ownership by institutional investors, measured by the percentage of the number of shares owned by institutional investors. It is according to agency theory, stating that the lower the agency conflict, the better institutional ownership will be in the monitoring process to increase the company's profitability.

These results are supported by studies carried out by Dewi and Jati (201), Mirawati (2014), Narwal and Jindal (2015), stating that institutional ownership did not affect profitability. Institutional ownership was not proven to influence profitability. It indicated that the low strength of institutional ownership would impact weakening external control over the company. The existence of institutional ownership could help increase company performance's optimal supervision in achieving company goals, namely obtaining maximum profit. A high institutional ownership level would lead to institutional investors' more significant supervision efforts, which could prevent opportunistic behavior by managers.

6.2. The Effect of the Independent Board of Commissioners on Profitability

Based on the analysis results, it was known that independent commissioners did not affect profitability.

Hence, the second hypothesis in this study was accepted. In this regard, an independent commissioner is the board of commissioners' member who is not affiliated with management, other members of the board of commissioners, controlling shareholder, and from a business relationship or other relationship, which may affect their ability to act independently or solely for the company benefit. It is according to agency theory, which proposes that the lower the agency conflict and the better the corporate governance implementation, it will make the independent commissioner design better in the monitoring process to increase the company's profitability.

Independent commissioners positively influenced company performance. It is due to the role of independent commissioners who are neutral and can mediate in problem-solving among shareholders who experience conflicts of interest. An Independent commissioner is a commissioner who is not affiliated with other commissioners and acts as a neutral party and ensures that company management can run following the prevailing rules and regulations. The existence of independent commissioners can minimize the difference in interests between principals and agents in the company. Independent commissioners are needed to control the directors' actions to have no opportunistic actions and increase the company's effectiveness. Therefore, the company's independence will be protected from pressure from people who have personal interests.

6.3. The Effect of the Audit Committee on Profitability

Based on the analysis, it was known that the audit committee did not impact profitability. Therefore, the third hypothesis in this study was rejected. On this point, the audit committee is a committee that works professionally and independently, formed by the board of commissioners and, thus, its task is to assist and strengthen the board of commissioners or the supervisory board's function in carrying out the oversight function of the financial reporting process, risk management, conducting audits, and implementing corporate governance in companies. Thus, with an audit committee, the company's performance will be increasingly supervised and controlled in carrying out its duties.

The large size of the audit committee can also improve company performance because it can provide more detailed discussion results on the company's financial statements, improving the quality of the company's financial statements to increase the company's profitability. An audit committee's existence can reduce differences in interests because the audit committee has to ensure that company management has followed the existing regulations, and there is no opportunistic behavior by agents for personal gain. Therefore, with an internal audit committee, the company will increase the company's responsibility aspect in following the existing OJK (Financial Services Authority) regulations. Besides, the audit committee also functions to assist the independent board of commissioners in increasing the company's independence in preventing pressure from people who impose their will. These results do not agree with research conducted by Narwal and Jindal (2015), who discovered that the more members on the audit committee, the company's profitability would decrease because the audit committee would experience problems in the division of responsibilities and decision-making that could impact company performance's effectiveness.

6.4. The Effect of Profitability on Tax Avoidance

Based on the analysis, it was known that profitability influenced tax avoidance. Thus, the fourth hypothesis in this study was accepted. On this matter, the company's profitability, as shown by the Return on Net Operating Assets (RNOA), reflects the company's performance. Through RNOA, the company's ability to use its assets efficiently in generating company profits can be seen. Good company performance is shown by the high RNOA value, which is expressed as a percentage, and the net income generated by the company, indicated by the company's high profitability. The company's profit is the basis for the imposition of corporate taxes. The increase in RNOA increased by Earning Tax Rate (ETR), so that the RNOA positively affected ETR. However, with the development and changes in tax policy, the relationship between RNOA and ETR has become negative (Narwal & Jindal, 2015). These results are supported by research conducted by Pradipta and Supriyadi (2015) and Richardson and Lanis (2007), which asserted that there was a significant relationship between profitability (RNOA) and tax avoidance.

6.5. The Effect of Institutional Ownership on Tax Avoidance

The results of the analysis showed that the audit committee affected tax avoidance. Hence, the fifth hypothesis in this study was accepted. In this respect, the relationship between ownership structure and performance has been the subject of an essential and ongoing debate in the corporate finance literature. Institutional ownership is ownership of company shares owned by an institution that generally acts as a party that monitors the company. Institutional investors can play a role in monitoring the company's agent (manager). Besides, institutional investors have better access to information because of their investment activities, which means better knowledge about company performance. It arises from the assumption that these investors have incentives and can monitor management efficiently. In fact, many institutions do not fully supervise public companies so that managers can make more flexible decisions in the company management related to tax payments. These results concur with studies (Alfina & Wijayanti, 2018; Cahyono et al., 2016; Leipälä, 2017; Ngadiman & Puspitasari, 2017), which uncovered that there was a significant influence between corporate governance (institutional ownership) on tax avoidance.

6.6. The Effect of the Independent Board of Commissioners on Tax Avoidance

Based on the analysis, it was known that the independent board of commissioners did not influence tax avoidance. Hence, the sixth hypothesis in this study was rejected. In this case, an independent commissioner is a person who is not affiliated with shareholders, directors, or board of commissioners and does not have the position of the board of directors in the company concerned. Independent commissioners have a vital role in the company, namely as supervisors, and directing the company to operate in accordance with applicable regulations. Independent commissioners mediate between company management and company owners in making strategic or policy decisions not to violate applicable regulations, including tax decisions. Therefore, the board of commissioners has an essential role in determining tax management. The independent board of commissioners is tasked with maintaining management so that in carrying out its activities, it does not conflict with the laws or regulations that have been set. These results do not agree with research done by Alfina and Wijayanti (2018), Ngadiman and Puspitasari (2017), which stated a significant influence between corporate governance (independent board of commissioners) on tax avoidance.

6.7. The Effect of the Audit Committee on Tax Avoidance

The analysis results indicated that the audit committee did not affect tax avoidance. Therefore, the seventh hypothesis in this study was rejected. In this regard, one of the corporate governance system mechanisms is establishing a supervisory system carried out by the audit committee. As part of corporate governance, the audit committee controls and coordinates the company. The implementation of corporate governance principles is deemed imperative so that corporate value can continue to increase. The audit committee is in charge of controlling and supervising the depreciation process of the company's financial statements to avoid fraud by management. The audit committee is appointed, dismissed, and is responsible to the board of commissioners. In carrying out its supervisory function, the board of commissioners can influence management to prepare quality financial reports. It is because the IDX requires all issuers to form and have an audit committee chaired by an independent commissioner. The audit committee in charge of monitoring financial statements influences in determining tax management, particularly tax avoidance (Ardyansah & Zulaikha, 2014). These results are not in agreement with research carried out by Sarra (2017) and Marselawati and Masitoh (2018), which affirmed that there was a significant influence between corporate governance (audit committee) on tax avoidance.

7. Conclusion

Based on the results of the analysis in the previous section, the conclusions can be drawn:

1. Institutional ownership did not affect profitability. Thus, the first hypothesis in this study was rejected. The level of institutional ownership had no effect on profitability.
2. The independent board of commissioners did not influence profitability. The number of independent commissioners had no effect on profitability.
3. The audit committee positively impacted profitability. The greater the number of audit committees, the higher the company's profitability.
4. Profitability had no effect on tax avoidance. The increase in company profit did not influence the company's behavior towards tax avoidance.
5. Institutional ownership positively affected tax avoidance. The increase in the number of institutional ownerships would increase management behavior towards tax avoidance.
6. The independent board of commissioners had no impact on tax avoidance. The number of independent boards of commissioners did not affect the company's behavior towards tax avoidance.
7. The audit committee affected tax avoidance. The more the number of members of the audit committee would increase management behavior towards tax avoidance.

This study has succeeded in proving empirically that there was a significant influence of the audit committee on profitability, institutional ownership on tax avoidance, and the audit committee on tax avoidance. Therefore, it supports the agency theory or research model from previous studies.

This study's implication is that the listed companies can consider the audit committee's function in influencing the company's behavior towards tax avoidance and trying to improve the independent board of commissioners' function in determining the company's behavior towards tax avoidance.

Suggestions that can be put forward in this study are as follows:

1. Investors should pay attention to the composition of the audit committee, which can affect the company's

profitability and behavior towards tax avoidance, as well as institutional ownership that can affect the company's behavior towards tax avoidance.

2. In future research, with a similar topic, moderating variables can be added, and extending the observation period in the research can be carried out.

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