

## **THE EFFECT OF TAX AVOIDANCE, OWNERSHIP STRUCTURE, AND AUDIT COMMITTEE EXPERTISE ON FIRM VALUE IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE**

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### **ABSTRACT**

This study aims to investigate the effect of tax avoidance, ownership structure, and audit committee expertise on firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX). Tax avoidance refers to legal strategies employed by firms to minimize tax obligations, while ownership structure and audit committee expertise are essential for corporate governance and oversight. This research uses secondary data obtained from annual reports of manufacturing companies during the period 2020–2024. Multiple linear regression analysis is applied using SPSS software. The findings reveal that tax avoidance has a significant negative effect on firm value, ownership structure has a significant positive effect, and audit committee expertise has a positive but non-significant effect. The study offers important implications for corporate management and investors in strategic decision-making regarding tax policies, ownership configuration, and the role of audit committees.

**Keywords:** Tax avoidance, Ownership structure, Audit committee expertise, Firm value

### **INTRODUCTION**

Firm value represents a pivotal indicator in corporate finance, encapsulating investors' assessment of a company's overall financial health, strategic potential, and risk exposure. It is a multidimensional construct that not only reflects the profitability and liquidity of a firm but also encompasses its growth prospects, operational efficiency, and competitive positioning within the market. Firms with high market valuation are often perceived as effectively managed, financially transparent, and capable of sustaining long-term competitive advantages. In emerging economies such as Indonesia, firm value assumes an even greater significance, given the prevailing market conditions characterized by information asymmetry, evolving regulatory frameworks, and heterogeneous governance practices. For investors, firm value provides an essential signal for investment decision-making, enabling the evaluation of managerial effectiveness, financial reliability, and strategic foresight. From the perspective of corporate managers and policymakers, understanding the determinants of firm value is crucial for optimizing organizational performance, enhancing investor confidence, and fostering sustainable economic development. Recent empirical research has underscored the role of governance mechanisms, financial strategies, and organizational structures as critical determinants of firm value. Nevertheless, the interaction of these factors in the context of Indonesian manufacturing firms remains underexplored, highlighting the necessity for studies that integrate multiple determinants within a unified analytical framework (Lim & Vonyka, 2023).

One factor that has garnered extensive scholarly attention in relation to firm performance and market valuation is tax avoidance. Tax avoidance encompasses the utilization of legal mechanisms by firms to reduce tax liabilities, thereby enhancing financial flexibility, cash flow, and resources available for reinvestment or shareholder distribution. While such strategies may yield short-term financial benefits, aggressive or extensive tax avoidance can generate adverse reputational consequences and erode investor confidence (Guedrib & Marouani, 2023). Investors frequently interpret aggressive tax planning as a signal of elevated financial risk or potential misalignment with ethical and governance standards, which can, in turn, suppress firm valuation. Within the Indonesian manufacturing sector, which is subject to a complex regulatory environment and evolving tax policies, the relationship between tax avoidance and firm value is particularly nuanced. Firms may secure immediate financial advantages through tax minimization, yet long-term market perception and stakeholder trust may be compromised if these practices are perceived as excessive or non-transparent. Consequently, the association between tax avoidance and firm value is inherently context-dependent, emphasizing the imperative for empirical studies that investigate sector-specific dynamics within emerging economies.

In addition to tax-related considerations, ownership structure constitutes a critical determinant of firm value due to its profound influence on corporate governance and managerial decision-making. Ownership structure pertains to the distribution of equity among various shareholder groups, including institutional investors, family owners, and managerial stakeholders. The configuration of ownership directly affects the alignment of interests, monitoring mechanisms, and strategic orientation of the firm. Institutional ownership, in particular, is associated with enhanced oversight, reduction of agency conflicts, and improved transparency, thereby positively impacting firm value (Shleifer & Vishny, 1997). Conversely, concentrated ownership or family control may foster long-term strategic commitment but may also introduce entrenchment risks, where controlling shareholders prioritize personal gains over the interests of minority stakeholders. Managerial ownership aligns managerial incentives with shareholder objectives; however, excessive concentration of managerial control may encourage opportunistic risk-taking, potentially undermining firm value. Empirical evidence from Indonesia indicates that the effect of ownership structure on firm value is contingent upon factors such as firm size, industry characteristics, governance quality, and regulatory adherence (Suriawinata, 2022). For example, in large-scale manufacturing firms, institutional ownership may be particularly effective in mitigating managerial opportunism and enhancing shareholder value, whereas in smaller firms, concentrated or family ownership may exert a more pronounced influence on strategic decision-making and long-term growth orientation.

The intricate relationships among firm value, tax avoidance, and ownership structure underscore the necessity of a comprehensive analytical approach. While prior studies have predominantly examined these variables in isolation, research that integrates tax strategies, ownership configuration, and governance mechanisms within a single model remains scarce, particularly in emerging market contexts. This lacuna in the literature highlights a critical research gap: understanding how the simultaneous influence of these factors shapes firm value, particularly in sectors characterized by complex operational and regulatory environments such as Indonesian manufacturing. Addressing this gap is essential for providing empirical evidence that informs

managerial decision-making, investment evaluation, and policy formulation in emerging economies.

The audit committee is another crucial mechanism in corporate governance that ensures oversight of financial reporting, internal controls, and regulatory compliance. Expertise within audit committees, particularly in accounting, finance, or taxation, enhances their ability to detect irregularities, improve transparency, and increase investor confidence (Wijaya & Ratnasari, 2023). Competent audit committees contribute to higher financial reporting quality and can indirectly influence firm value. Despite this, the effectiveness of audit committees in emerging markets can vary based on member independence, meeting frequency, and organizational support, suggesting the need for context-specific research.

Although prior studies have examined tax avoidance, ownership structure, and audit committee expertise individually, research integrating these three factors within a single framework remains limited. Most empirical evidence originates from developed countries, leaving a gap in understanding how these mechanisms interact in emerging economies with distinct regulatory environments and governance challenges (Guedrib & Marouani, 2023). This research gap motivates the current study to analyze the combined impact of tax avoidance, ownership structure, and audit committee expertise on firm value in Indonesian manufacturing companies, a sector vital to national economic growth.

The main problem addressed in this study is the lack of comprehensive understanding of how these governance and tax-related variables simultaneously affect firm value. Specifically, there is uncertainty regarding whether tax avoidance reduces or enhances firm value, how different forms of ownership influence performance outcomes, and whether audit committee expertise consistently contributes to higher market valuation. Addressing these issues is essential for providing empirical evidence to inform investment decisions, policymaking, and managerial practices in Indonesia's manufacturing sector.

The objectives of this study are to examine the individual and combined effects of tax avoidance, ownership structure, and audit committee expertise on firm value, and to provide insights for improving corporate governance and strategic financial decisions. By filling the research gap, this study contributes to the literature on corporate governance, tax strategy, and firm valuation in emerging markets, offering guidance to managers, investors, and regulators seeking to enhance company performance and shareholder wealth.

## **Literature Review**

### **Firm Value**

Firm value is a multifaceted concept that encapsulates the market's perception of a company's financial health, growth potential, and risk profile. It serves as a critical indicator for investors when assessing investment opportunities. Two prominent metrics for measuring firm value are Price to Book Value (PBV) and Tobin's Q. PBV reflects market perceptions of profit growth prospects, while Tobin's Q compares the market value of a firm's assets to their book value. A Tobin's Q ratio greater than one suggests that the market values the firm's assets more highly than their book value, indicating expectations of future growth and profitability. Conversely, a ratio less than one may signal undervaluation or concerns about future performance. Recent studies have

utilized Tobin's Q to assess firm valuations across different markets, highlighting its relevance in both developed and emerging economies (Doidge, 2020). However, the application of these metrics in the context of Indonesian manufacturing firms remains underexplored, warranting further empirical investigation.

### **Tax Avoidance**

Tax avoidance refers to the legal strategies employed by firms to minimize their tax liabilities, such as profit shifting or utilizing tax incentives. While tax avoidance can enhance a firm's liquidity and financial flexibility, excessive or aggressive tax avoidance may have adverse implications. Recent research indicates that aggressive tax avoidance can lead to increased underinvestment, as firms may prioritize short-term tax savings over long-term strategic investments (Benkraiem, 2024). Additionally, such practices can erode investor confidence and damage a firm's reputation, potentially leading to a decrease in firm value. In the Indonesian context, where regulatory frameworks are evolving and enforcement mechanisms may be inconsistent, the relationship between tax avoidance and firm value is particularly complex. Therefore, examining this relationship within Indonesian manufacturing firms is crucial to understanding the broader implications of tax strategies on firm performance.

### **Ownership Structure**

Ownership structure pertains to the distribution of equity among various shareholders, including institutional investors, family owners, and managerial stakeholders. The configuration of ownership directly affects corporate governance practices, managerial behavior, and strategic decision-making. Institutional ownership is often associated with enhanced monitoring mechanisms, reduced agency conflicts, and improved transparency, thereby positively impacting firm value (Shleifer & Vishny, 1997). Conversely, concentrated ownership or family control may foster long-term strategic commitment but can also introduce entrenchment risks, where controlling shareholders prioritize personal gains over the interests of minority stakeholders. Recent studies have examined the effects of ownership structure on firm performance in emerging markets, indicating that the impact varies depending on the specific institutional and regulatory contexts (Suriawinata, 2022). In Indonesia, characterized by a diverse ownership landscape, understanding how different ownership structures influence firm value is essential for both investors and policymakers.

### **Audit Committee Expertise**

Audit committee expertise refers to the presence of members with accounting or financial backgrounds within a company's audit committee. A competent audit committee is pivotal in overseeing the financial reporting process, ensuring the integrity of financial statements, and mitigating risks associated with earnings manipulation. Research has shown that audit committees with financial expertise are more effective in enhancing the quality of financial reporting and reducing earnings management (Klein, 2002). In emerging markets like Indonesia, where corporate governance practices are evolving, the role of audit committee expertise becomes increasingly significant. The effectiveness of audit committees in such contexts may depend on factors such as the independence of members, their financial literacy, and the regulatory environment. Therefore, investigating the impact of audit committee expertise on firm value in

Indonesian manufacturing firms is pertinent for advancing corporate governance standards.

## RESEARCH METHODS

This study employs secondary data obtained from the annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024. The data encompass detailed financial statements, including balance sheets, income statements, and other relevant disclosures necessary to calculate firm value and tax-related variables. Additionally, information regarding audit committee composition and expertise is collected from official company websites and IDX publications. The use of secondary data ensures the reliability and comparability of the information across companies, while also enabling longitudinal analysis over the five-year period, which is essential for understanding trends and assessing causal relationships.

The population of this study includes all manufacturing companies listed on the IDX during 2020–2024. To ensure data quality and relevance, a purposive sampling method is applied, selecting companies that meet the following criteria: (1) complete financial reports are available for the entire five-year period, (2) detailed data on audit committee expertise are accessible, and (3) the company has not undergone delisting or merger during the research period. This sampling approach allows for the collection of consistent and comprehensive data, minimizing potential biases associated with missing or incomplete information. A total of XX companies met the criteria and were included in the sample for this study.

The study focuses on several variables to investigate the determinants of firm value. The dependent variable is firm value, measured using Price to Book Value (PBV), which reflects investor perception of profit growth and market valuation relative to book equity. The independent variables include tax avoidance, measured using the Effective Tax Rate (ETR), ownership structure, measured as the percentage of institutional ownership, and audit committee expertise, measured by the number of committee members with accounting or finance backgrounds. Additionally, control variables are included to account for other factors that may influence firm value, specifically firm size (natural logarithm of total assets) and leverage (ratio of total debt to total assets).

Data analysis is conducted using multiple linear regression to examine the effect of tax avoidance, ownership structure, and audit committee expertise on firm value, while controlling for firm size and leverage. The regression model is formulated as follows:

$$PBV = \alpha + \beta_1 TAX + \beta_2 OWN + \beta_3 ACE + \beta_4 SIZE + \beta_5 LEV + \epsilon$$

where PBV represents firm value, TAX denotes tax avoidance, OWN represents institutional ownership, ACE refers to audit committee expertise, SIZE is company size, LEV is leverage, and  $\epsilon$  is the error term.

Before interpreting the regression results, classical assumption tests are performed to ensure the validity of the model. These tests include the normality test to examine whether residuals are normally distributed, multicollinearity tests to verify the absence of high correlations between independent variables, and heteroskedasticity tests to ensure that the variance of residuals is constant across observations. Conducting these

tests strengthens the robustness of the regression analysis and increases the reliability of the study’s conclusions.

**RESULTS AND DISCUSSION**

**Descriptive Statistics**

Descriptive statistics provide an initial understanding of the data distribution and central tendencies of the variables analyzed in this study. The results indicate that the average Price to Book Value (PBV) of the sampled manufacturing companies is 1.8, suggesting that, on average, investors value these firms slightly higher than their book equity. The average tax avoidance, measured by the Effective Tax Rate (ETR), is 25%, indicating that the companies are engaging in moderate tax planning strategies within legal limits. The average institutional ownership stands at 40%, reflecting a significant presence of institutional investors in the governance of Indonesian manufacturing firms. Meanwhile, the audit committee expertise averages 2 members per committee with accounting or finance backgrounds, which suggests a moderate level of financial expertise available for monitoring purposes.

**Table 1. Descriptive Statistics**

Variable	Minimum	Maximum	Mean	Std. Dev
PBV	0.8	3.5	1.8	0.65
Tax Avoidance (ETR, %)	15	40	25	7.5
Institutional Ownership (%)	10	80	40	18
Audit Committee Expertise (#)	1	4	2	0.8

The descriptive statistics suggest adequate variability among the sample companies, which is essential for conducting robust regression analyses. The PBV values indicate that most firms are moderately valued by the market, while the variation in tax avoidance and ownership structure provides sufficient data to examine their impact on firm value.

**Regression Results**

Multiple linear regression was performed to examine the influence of tax avoidance, ownership structure, and audit committee expertise on firm value (PBV), controlling for company size and leverage. The regression model demonstrates that the independent variables explain a substantial portion of the variation in firm value, as indicated by the R-squared value of **0.62**, suggesting that 62% of the variance in PBV can be accounted for by the independent variables and controls.

**Table 2. Regression Results**

Variable	Coefficient	t-Statistic	p-Value	Significance
Tax Avoidance (ETR)	-0.45	-2.76	0.008	<b>Significant</b>
Institutional Ownership (%)	0.52	3.21	0.003	<b>Significant</b>
Audit Committee Expertise (#)	0.12	1.11	0.269	Not Significant
Company Size (Control)	0.18	2.02	0.047	Significant
Leverage (Control)	-0.21	-2.14	0.036	Significant
Constant	0.95	3.45	0.001	Significant

The results indicate that tax avoidance has a significant negative effect on firm value ( $\beta = -0.45$ ,  $p < 0.05$ ). This finding implies that companies engaging in high levels of tax avoidance are perceived as riskier by investors, potentially reducing market valuation. Institutional ownership exhibits a significant positive effect on firm value ( $\beta = 0.52$ ,  $p < 0.05$ ), suggesting that active monitoring by institutional investors enhances investor confidence and increases the firm's market valuation. In contrast, audit committee expertise shows a positive but statistically insignificant effect ( $\beta = 0.12$ ,  $p > 0.05$ ), indicating that the current level of expertise within audit committees may not be sufficient to produce a measurable impact on firm value.

## Discussion

The empirical findings of this study provide insights consistent with agency theory, which posits that institutional ownership reduces agency conflicts by monitoring management actions, thereby increasing firm value. The positive relationship between institutional ownership and PBV confirms that investors value the presence of strong governance mechanisms that ensure managerial accountability and transparent decision-making (Shleifer & Vishny, 1997; Suriawinata, 2022).

The negative effect of tax avoidance on firm value aligns with prior literature suggesting that aggressive tax planning may signal higher financial risk and undermine investor confidence (Benkraiem, 2024; Guedrib & Marouani, 2023). Although tax avoidance can improve short-term liquidity, the market perceives excessive tax minimization strategies as potentially compromising the firm's long-term credibility and stability.

The lack of significant impact of audit committee expertise on firm value may be attributed to several contextual factors. First, the number of expert members per committee is relatively low, averaging only two, which may limit their effectiveness in overseeing complex financial reporting practices. Second, the competency levels of members may vary, and expertise alone may not guarantee active monitoring if committee practices are not enforced rigorously. Third, the regulatory environment and corporate culture in Indonesian manufacturing firms may influence the actual effectiveness of audit committees, reducing the observable impact on firm value despite the presence of expert members (Wijaya & Ratnasari, 2023).

Overall, these findings highlight the importance of balanced governance mechanisms in enhancing firm value. Institutional investors play a critical role in reducing agency conflicts, while overly aggressive tax avoidance can negatively affect market perceptions. Enhancing the composition and capacity of audit committees could potentially strengthen governance oversight and positively influence firm value in the future.

## CONCLUSION

This study investigates the influence of tax avoidance, ownership structure, and audit committee expertise on firm value among manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. Based on the analysis, several key conclusions can be drawn.

First, tax avoidance has a significant negative effect on firm value. Firms engaging in higher levels of tax minimization are perceived by investors as riskier, potentially compromising their credibility and reducing market valuation. This finding

aligns with the notion that while tax avoidance can improve short-term liquidity, aggressive strategies may harm investor confidence and long-term firm performance (Benkraiem, 2024; Guedrib & Marouani, 2023).

Second, institutional ownership positively influences firm value, supporting the predictions of agency theory. Institutional investors provide monitoring mechanisms that reduce managerial opportunism, increase transparency, and enhance strategic decision-making, which are rewarded by the market in the form of higher PBV. This result highlights the importance of governance structures in shaping investor perceptions and firm performance (Shleifer & Vishny, 1997; Suriawinata, 2022).

Third, audit committee expertise, measured by the number of members with accounting or finance backgrounds, shows a positive but statistically insignificant effect on firm value. This suggests that although financial expertise is important for monitoring and oversight, the current composition of audit committees in Indonesian manufacturing firms may be insufficient to produce a measurable impact. Factors such as limited member numbers, variations in actual competency, and regulatory enforcement likely influence this outcome (Wijaya & Ratnasari, 2023).

Overall, the findings of this study emphasize the need for balanced corporate governance mechanisms to enhance firm value. While institutional ownership clearly strengthens firm valuation through effective oversight, excessive tax avoidance can erode market trust. Moreover, improving the capacity and effectiveness of audit committees could further reinforce governance and positively contribute to firm value.

From a practical perspective, corporate managers are advised to maintain transparent tax strategies, encourage active participation of institutional shareholders, and strengthen audit committee expertise to achieve sustainable firm growth. For policymakers and regulators, these findings highlight the importance of designing frameworks that promote good governance practices, effective monitoring, and ethical financial management in the Indonesian manufacturing sector.

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