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The Role of Board Independence in Moderating Board Size on Tax Avoidance in Indonesia's Consumer Cyclical Sector

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Abstract

Corporate tax avoidance can reduce government revenue and expose firms to regulatory and reputational risks. Within Indonesia's two-tier corporate governance system, the Board of Directors is responsible for corporate management, while the Board of Commissioners oversees managerial activities. This study examined the relationship between the size of the Board of Directors and corporate tax avoidance and investigated whether the proportion of independent commissioners moderated this relationship in Indonesia's consumer cyclical sector. Data were obtained from annual reports and audited financial statements of 43 companies listed on the Indonesia Stock Exchange, selected through purposive sampling, yielding 172 firm-year observations from 2022 to 2025. Corporate tax avoidance was measured using the effective tax rate (ETR), with lower rates indicating higher levels of tax avoidance. The study employed a fixed-effects panel regression model with firm-clustered standard errors, controlling for firm size, leverage, and return on assets. The coefficient for board size was not statistically significant ($\beta = 0.0084$, $p = 0.624$), whereas the interaction between board size and board independence was positive and statistically significant ($\beta = 0.3403$, $p = 0.010$). This finding indicated that the relationship between board size and the ETR became more positive as the proportion of independent commissioners increased, suggesting an association with lower levels of tax avoidance. The study concluded that the composition of the supervisory board played an important moderating role in the relationship between board size and corporate tax avoidance among publicly listed consumer cyclical firms in Indonesia during the study period.

INTRODUCTION

Tax revenue is a major source of government funding for public services and economic development. However, corporations may engage in various forms of tax planning, including aggressive strategies, to minimize their tax liabilities. Such practices may constitute corporate tax avoidance. A prominent example involves Apple, whose European profits channeled through Ireland were subject to an effective tax rate of approximately 0.005% in 2014. The company was subsequently required to repay approximately €13 billion in tax benefits deemed unlawful state aid (Court of Justice of the European Union, 2024; European Commission, 2016). Although tax avoidance differs from illegal tax evasion, it may still expose companies

to regulatory and reputational risks (Austin & Wilson, 2017). Corporate tax avoidance has also raised concerns in Indonesia, including within industries classified under the consumer cyclical sector. In the media and entertainment industry, the Directorate General of Taxes reported that Netflix had not paid corporate income tax in Indonesia, despite generating estimated annual subscription revenue of approximately Rp629.74 billion from Indonesian consumers (Muamar, 2019). At the time, the absence of a permanent establishment in Indonesia and the processing of customer payments through overseas accounts complicated the imposition of corporate income tax. The Indonesian government subsequently began imposing value-added tax (VAT) on foreign digital services in July 2020 (Sembiring, 2020). More recently, the Indonesian Financial Transaction Reports and Analysis Center (PPATK) reported in 2026 that approximately Rp12.49 trillion in textile industry sales had allegedly been concealed through employee bank accounts. The case was referred to the Directorate General of Taxes for further investigation (Arief & Yuliawati, 2026). Furthermore, Saragih (2024) found that tax avoidance among Indonesian publicly listed companies increased during the COVID-19 pandemic as firms sought to preserve liquidity.

Corporate governance is among the factors that may influence corporate tax avoidance. Governance bodies play an important role in overseeing corporate decision-making, including decisions related to taxation (Armstrong et al., 2015). Indonesia adopts a two-tier corporate governance system in which the Board of Directors manages corporate operations, while a separate Board of Commissioners supervises and advises the directors (Diningrum & Kurniawati, 2024). Within this governance structure, the present study examined the size of the Board of Directors and the independence of the Board of Commissioners as distinct governance mechanisms. Board independence was specifically examined as a moderating variable because independent commissioners may influence how the size of the Board of Directors relates to corporate tax avoidance through their supervisory responsibilities.

This study focused on the consumer cyclical sector, partly because of its relatively high representation of women in corporate leadership positions in Indonesia. According to a census of IDX200 companies, women occupied 29% of executive leadership positions in consumer cyclical companies in 2021, representing the highest proportion among the 11 industry sectors examined. In comparison, women held approximately 13% of executive leadership positions in both the consumer non-cyclical and energy sectors and 10% in the basic materials sector (Indonesia Stock Exchange [IDX] & Indonesia Business Coalition for Women Empowerment [IBCWE], 2022).

The consumer cyclical sector also plays an important role in Indonesia's economy and tax revenue generation. Companies in this sector are particularly sensitive to household consumption, which accounted for 53.88% of Indonesia's gross domestic product in 2025 (Antara, 2026). Furthermore, the trade sector, which includes activities associated with many consumer cyclical companies, contributed the largest share of tax revenue collected through April 2026, accounting for 24.9% of total tax collections (Sigit, 2026). Because demand for consumer cyclical products and services fluctuates with economic conditions, firms may experience financial pressures during economic downturns, potentially creating incentives for aggressive tax planning. This tendency is consistent with evidence that Indonesian publicly listed companies increased tax avoidance during the COVID-19 pandemic to preserve liquidity (Saragih, 2024). Conversely, companies operating well-known consumer brands may face

greater public scrutiny, potentially discouraging aggressive tax planning because of associated reputational risks (Austin & Wilson, 2017).

Previous research has reported inconsistent findings regarding the relationships between corporate governance characteristics and tax avoidance. Lanis et al. (2017), Anggraeni and Kurnianto (2020), and Hoseini et al. (2019) reported that greater female representation on corporate boards was associated with lower levels of tax avoidance. Conversely, Kalbuana et al. (2023) found that female directors were associated with increased tax avoidance among Indonesian LQ45 companies, whereas Indriani and Mahfirah (2025) identified no statistically significant relationship. Regarding board size, several studies reported that larger boards were associated with greater tax avoidance (Anggraeni & Kurnianto, 2020; Hoseini et al., 2019; Kalbuana et al., 2023). However, Kalbuana et al. (2023) measured board size using the number of commissioners rather than directors, highlighting differences in the operationalization of corporate governance variables. Meanwhile, Ogbodo and Omonigho (2021) reported a positive but statistically insignificant relationship, whereas Halioui et al. (2016) found that larger boards were associated with lower tax aggressiveness among firms in the United States. Findings concerning board independence have also been inconsistent (Alhady, 2021). Pasaribu and Agustini (2026) reported a positive relationship between independent commissioners and tax avoidance among consumer non-cyclical companies, while Thirza and Lukman (2025) and Sari et al. (2026) found no statistically significant direct relationship.

These inconsistencies highlight the need for further investigation into the relationships between board characteristics and corporate tax avoidance, particularly within Indonesia's consumer cyclical sector. Previous Indonesian studies have predominantly examined manufacturing companies, consumer non-cyclical firms, consumer goods companies, or samples comprising multiple industries. Although Safira et al. (2026) investigated the relationship between sustainability commitments and corporate tax practices within the consumer cyclical sector, the interaction between the size of the Board of Directors and the independence of the Board of Commissioners in explaining corporate tax avoidance remains insufficiently explored. Specifically, limited empirical evidence is available regarding whether board independence moderates the relationship between board size and tax avoidance in this sector. This gap is particularly relevant given the sector's economic significance, sensitivity to fluctuations in consumer demand, and distinctive corporate leadership characteristics, including its relatively high representation of women in executive positions.

To address this research gap, the study examined the relationship between the size of the Board of Directors and corporate tax avoidance, with the proportion of independent commissioners serving as a moderating variable. The research focused on consumer cyclical companies listed on the Indonesia Stock Exchange during the 2022–2025 period. This observation period followed the heightened tax avoidance reported during the COVID-19 pandemic (Saragih, 2024) and covered four consecutive years of corporate financial reporting.

Accordingly, this study aimed to investigate the relationship between board size and corporate tax avoidance and determine whether board independence moderated this relationship among consumer cyclical companies listed on the Indonesia Stock Exchange.

Stakeholder theory provides a theoretical foundation for understanding corporate responsibilities beyond the interests of shareholders. According to this perspective, corporations have responsibilities toward multiple stakeholder groups, including employees,

customers, suppliers, governments, and surrounding communities (Awa et al., 2024). Corporate taxation is relevant to this framework because tax payments contribute to financing public services, infrastructure, and economic development. Corporate decisions that substantially reduce tax obligations may therefore have implications for government revenue and broader stakeholder interests. Corporate governance plays an important role in balancing these interests because governance bodies are responsible for directing and overseeing significant corporate decisions. A larger Board of Directors may provide a broader range of expertise, knowledge, and professional experience (Zubeltzu-Jaka et al., 2020), while a higher proportion of independent commissioners may strengthen supervisory objectivity and accountability.

Agency theory also provides a relevant framework for examining corporate tax avoidance because tax-related decisions involve managerial discretion and information asymmetry. Corporate managers generally possess more detailed information about tax planning strategies than shareholders and other external stakeholders. Although reducing tax liabilities may generate financial benefits, aggressive tax strategies can expose firms to regulatory scrutiny and reputational damage. Effective corporate governance mechanisms are therefore important for monitoring managerial decisions and mitigating potential conflicts of interest (Armstrong et al., 2015). Within this framework, the size of the Board of Directors may influence the diversity of expertise and deliberative capacity available for corporate decision-making, while board independence may strengthen oversight by reducing managerial influence over supervisory decisions. Indonesia's two-tier governance system provides a particularly relevant institutional context for applying agency theory. The Board of Directors performs the managerial function, including decisions related to corporate taxation, while independent commissioners contribute to monitoring and supervising the directors. Accordingly, agency theory suggests that corporate tax avoidance may be associated with both the characteristics of the Board of Directors and the independence of the Board of Commissioners.

A larger Board of Directors may provide greater collective expertise and broader opportunities for evaluating corporate decisions, including tax planning strategies. From an agency theory perspective, additional directors may strengthen internal deliberation and accountability, potentially limiting managerial discretion to pursue aggressive tax planning (Armstrong et al., 2015; Jensen & Meckling, 1976). Consistent with this argument, Halioui et al. (2016) found that larger boards were associated with lower tax aggressiveness among companies listed in the NASDAQ 100 index in the United States. Such governance considerations are particularly relevant to the consumer cyclical sector, where corporate performance is sensitive to changes in household spending and broader economic conditions. During periods of declining consumer demand, a larger Board of Directors may offer more diverse perspectives when assessing tax-related decisions and their potential financial and reputational consequences. This consideration is especially important for companies operating highly visible consumer brands, as aggressive tax planning may generate reputational risks and attract public scrutiny (Austin & Wilson, 2017).

METHOD

The research framework is shown below.

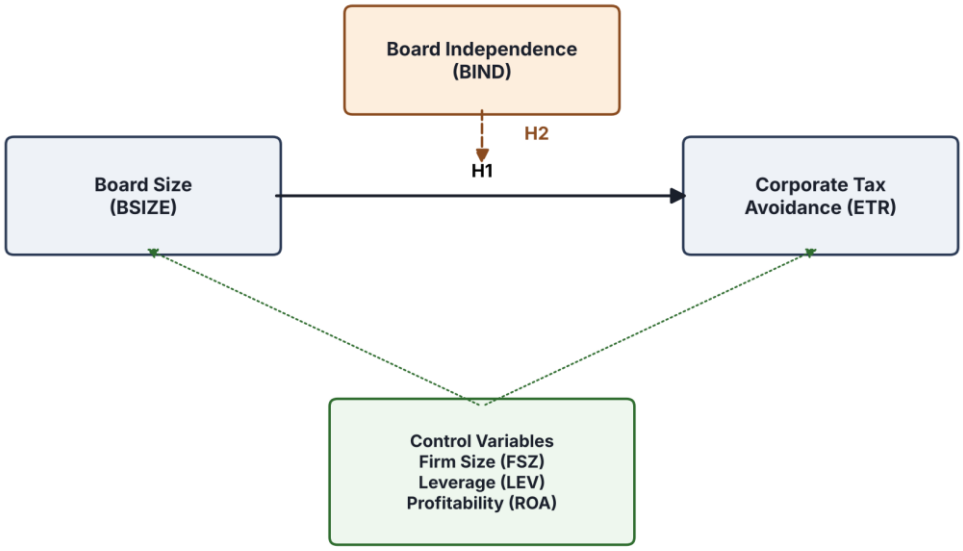

Figure 1. Research Framework

The population of this study is all consumer cyclical companies on the Indonesia Stock Exchange in the 2022-2025 observation period. Purposive sampling was used because the research requires complete governance and financial information for every company year. The sample was selected using the following criteria: the company was classified in the consumer cyclical sector of the Indonesia Stock Exchange during the observation period and was listed on or before 31 December 2022; the annual reports including audited financial statements were complete and accessible for each year from 2022 through 2025; the reports gave enough information on both the Board of Directors and the Board of Commissioners for the governance variables to be calculated; the financial statements disclosed profit before tax, income tax expense, net income, total assets, and total liabilities, which are needed for the Effective Tax Rate, firm size, leverage, and profitability; and the company reported a positive profit before tax in every year from 2022 through 2025. The sample selection is as follows:

Table 1. Sample Selection

Sample Criteria	Total
Consumer cyclical companies listed on the Indonesia Stock Exchange (IDX list as of 28 September 2026)	162
Less: companies listed after 31 December 2022, so that their reports do not cover the full 2022-2025 period	(28)
Less: companies whose annual reports for 2022-2025 were incomplete or not accessible	(32)
Less: companies that reported a loss before tax in at least one year during 2022-2025	(59)
Final sample	43
Firm-year observations: 43 companies x 4 years	172

The research uses Tax Avoidance as the dependent variable calculated by the Effective Tax Rate, board size as the independent variable, and board independence as the moderating variable. Firm size, leverage, and ROA are used as control variables. The measurement of each variable is shown in the table below.

Table 2. Variables Measurement

Variable Type	Research Variable	Formula
Dependent	Tax Avoidance (ETR)	ETR = Tax Expense / Profit Before Tax (lower ETR = higher tax avoidance)
Independent	Board Size (BSIZE)	BSIZE = Total Members of the Board of Directors
Moderating	Board Independence (BIND)	BIND = Independent Commissioners / Total Commissioners
Control	Firm Size (FSZ)	FSZ = ln(Total Assets)
Control	Leverage (LEV)	LEV = Total Debt / Total Equity
Control	Profitability (ROA)	ROA = Net Income / Total Assets

The data was collected from the annual reports and audited financial statements. For governance, the data cover the number of Board of Directors members and whether each member of the Board of Commissioners is independent. For financials, the data covers profit before tax, net income, total assets and total liabilities. Net income means total consolidated net income, including the portion attributable to non-controlling interests, and income tax expense is calculated as profit before tax minus net income. This research uses panel-data regression executed in STATA 17.

RESULTS AND DISCUSSION

Sector Analysis

Companies listed on the Indonesia Stock Exchange are grouped using the IDX Industrial Classification (IDX-IC), which has been applied since January 25, 2021. The IDX-IC consists of 12 sectors, 35 sub-sectors, 69 industries, and 130 sub-industries (Sidik, 2021). Consumer cyclicals is one of these 12 sectors, consisting of companies that produce or sell goods or services that are non-essential to survival, such as car parts, furniture, appliances, clothes, jewelry, hotels, restaurants, TV, and shops. Household income and consumer confidence affect the demand for these products, so the sector's performance follows the phases of the economy. This is unlike the consumer non-cyclical sector that covers food, beverage, and household items, which fulfills basic needs and enjoys relatively consistent demand. Under the IDX-IC, the consumer cyclical sector is divided into seven sub-sectors: automobiles and components, household goods, leisure goods, apparel and luxury goods, consumer services, media and entertainment, and retailing.

Descriptive Analysis

The Effective Tax Rate (ETR) has a mean of 0.2303 and a median of 0.2060. On average, the sample companies recognize income tax expense of about 23% of their profit before tax. The statutory corporate income tax rate in Indonesia is 22% (Republic of Indonesia, 2021). In 92 of the 172 observations (53.49%), the ETR is lower than 22%, which indicates

that tax avoidance is present in the sample. The standard deviation of 0.1536 shows that the tax burden varies across company-years.

Board Size (BSIZE) ranges from 2 to 10 directors, with a mean of 4.4942 and a median of 4. About 76% of the observations have between two and five directors. The average value of Board Independence (BIND) is 0.4386 and the median is 0.4000, meaning about 44% of the seats on the Board of Commissioners are occupied by independent commissioners. No observation is less than a third, in accordance with the Financial Services Authority Regulation No. 33/POJK.04/2014, which requires independent commissioners to make up at least 30% of the Board of Commissioners (Otoritas Jasa Keuangan, 2014).

Firm Size (FSZ) uses the natural logarithm of total assets. The mean of 28.7105 equals total assets of about Rp2.94 trillion. Leverage (LEV) has a mean of 2.2301 and a median of 0.5891; the median shows that a typical sample company has total liabilities equal to about 59% of its equity. Profitability (ROA) has a mean of 0.0605 and a median of 0.0521, meaning the sample companies earn net income of about 6% of total assets on average.

Diagnostic and Regression Test

The Variance Inflation Factor (VIF) was used to test for multicollinearity among all predictors, including the interaction term. All VIF values are below 10, with the highest value of 1.96 for firm size and a mean VIF of 1.34, indicating that multicollinearity is not a problem. The Wooldridge test was used to test for first-order autocorrelation, producing a p-value of 0.0951, greater than 0.05, so the model is free from first-order autocorrelation. The Fixed Effects model regression is used to test the hypotheses with standard errors clustered by company, with Prob > F = 0.0035, indicating the overall regression model is highly statistically significant. Based on the regression result, the estimated equation is as follows:

$$ETR = -1.3909 + 0.0084\ BSIZE - 0.0430\ BIND + 0.3404\ BSIZE\ x\ BIND + 0.0612\ FSZ - 0.0010\ LEV - 2.2643\ ROA$$

The coefficient of board size (0.0084) has the expected positive sign, but it is not statistically significant at the 5% level. The interaction between board size and board independence has a positive coefficient of 0.3403 with a probability value of 0.010, which is significant at the 5% level. Among the control variables, leverage and profitability have negative and significant coefficients, while firm size is not significant. The F test for the joint significance of the model produces a value of 3.90 (p = 0.0035), and the within R^2 of 0.1991 shows that the model explains 19.91% of the variation in the ETR within companies over time.

Table 3. Hypothesis Testing Results

Hypothesis	Variable	Exp. Sign	Coef.	Prob.	Result
H1	BSIZE	+	0.0084	0.624	Not supported
H2	BSIZE x BIND	+	0.3403	0.010	Supported

Hypothesis 1 states that board size has a negative effect on corporate tax avoidance. The coefficient of board size is 0.0084 with a probability value of 0.624; the coefficient is positive as expected, but the probability value is above 0.05, so H1 is not supported. A larger Board of Directors is not associated with lower corporate tax avoidance by itself. A possible explanation is that the Board of Directors in Indonesia performs an executive function, so

additional directors do not add independent monitoring; this is in line with Indriani and Mahfirah (2025), who find that the size of the Board of Directors is not significantly associated with tax avoidance among Indonesian non-financial companies. Jensen (1993) also argues that the ability of a board to monitor management weakens as the board becomes larger, because coordination becomes more difficult. In addition, the variation in board size is limited: 20 of the 43 companies did not change the size of their board during 2022-2025.

Hypothesis 2 states that board independence positively moderates the relationship between board size and the ETR. The interaction between board size and board independence has a coefficient of 0.3403 with a probability value of 0.010, which is positive and significant at the 5% level, so H2 is supported. A larger Board of Directors is associated with a higher ETR, and therefore with less tax avoidance, when the proportion of independent commissioners is higher.

The result is consistent with Agency Theory, which views independent monitoring as a mechanism that limits managerial discretion (Jensen & Meckling, 1976). When most commissioners are not independent, the Board of Commissioners is closer to management and controlling shareholders, so it is less willing to challenge tax decisions. This finding is also consistent with Husnain et al. (2021), who find in a one-tier board setting in Pakistan that a higher proportion of independent directors is associated with less tax avoidance, and with Khaoula and Moez (2019), who find that board independence has a negative moderating effect on the relationship between tax planning and firm value. In Indonesia, independent commissioners are found to moderate the effect on tax avoidance of other determinants, according to Sari et al. (2026) and Surya et al. (2026).

Independent commissioners can influence the tax decisions of the Board of Directors through several formal channels: reviewing the annual report and financial statements before submission to the general meeting of shareholders (Republic of Indonesia, 2007), reviewing the annual work plan of the Board of Directors, and chairing the audit committee that reviews financial information and regulatory compliance, including tax regulations (Otoritas Jasa Keuangan, 2015). Through these channels, independent commissioners can ask the Board of Directors to explain tax positions that appear aggressive. Taken together, the results suggest that independent commissioners are not associated with tax avoidance on their own; their role appears through the Board of Directors that they supervise, which also helps explain why H1 is not supported.

Among the control variables, leverage has a negative and significant coefficient (-0.0010, $p = 0.003$), consistent with the argument that interest expense is tax-deductible. ROA also has a negative and significant coefficient (-2.2643, $p = 0.004$), consistent with the expectation that more profitable companies have a greater incentive to engage in tax planning, and may also reflect items such as valuation allowances, goodwill impairments, and tax credits (Schwab et al., 2022). Firm size is not significant (0.0612, $p = 0.278$), consistent with Thirza and Lukman (2025).

CONCLUSION

This study concluded that the size of the Board of Directors alone was not significantly associated with corporate tax avoidance. However, the relationship between board size and tax avoidance varied according to the proportion of independent commissioners, suggesting

that larger boards were associated with lower tax avoidance when accompanied by greater supervisory independence. These findings highlighted the importance of examining the Board of Directors and the Board of Commissioners jointly within Indonesia's two-tier corporate governance system. For companies, the findings suggested that increasing the number of directors alone may not reduce tax avoidance. Instead, companies should strengthen the independence of the Board of Commissioners and ensure that independent commissioners actively oversee annual work plans, financial statements, and significant corporate tax positions. From a regulatory perspective, the Financial Services Authority (Otoritas Jasa Keuangan, OJK) could consider encouraging publicly listed companies to increase the proportion of independent commissioners beyond the regulatory minimum of 30% (Otoritas Jasa Keuangan, 2014), while also emphasizing the effectiveness of their supervisory responsibilities. For the Directorate General of Taxes, board size alone may be insufficient as an indicator of corporate tax risk, whereas its interaction with independent oversight could provide additional insights. Nevertheless, this study had several limitations, including its restriction to companies reporting positive pretax income throughout 2022–2025, reliance on a single accounting-based measure of tax avoidance, namely the effective tax rate (ETR), a relatively short four-year observation period during which board size exhibited limited variation, and the measurement of board independence solely through the proportion of independent commissioners. Future research could extend the observation period, incorporate companies from other sectors, employ alternative measures of tax avoidance, such as the cash effective tax rate (cash ETR) and book–tax differences (BTDs), and examine additional corporate governance characteristics, including audit committee composition, ownership structure, and audit quality.

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CONFLICT OF INTEREST

The author(s) declared that this work was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

AUTHOR CONTRIBUTIONS

All authors contributed to conceptualization, search and synthesis of literature, interpretation of results, manuscript preparation, and critical review of manuscripts. All authors have read and approved the final version of the manuscript.

GENERATIVE AI STATEMENT

The authors declared that generative AI was used in the creation of this manuscript, solely to assist with language refinement, grammatical correction, and improvement of manuscript readability. This application was conducted in adherence to established ethical guidelines regarding the use and disclosure of generative AI in scholarly research. All scientific concepts, interpretations, literature synthesis, analyses, and conclusions were developed by the authors,

who have provided substantial intellectual contributions to the work and assume full responsibility for the accuracy, integrity, and final content of the manuscript.

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