

Political Connection, Foreign Ownership, and Tax Avoidance: Does Executive Gender Moderate the Relationship?

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ABSTRACT

Tax revenue is a vital source of income to support the economic development of a country. Therefore, this study aims to provide empirical evidence of the influence of political connections and foreign ownership on tax avoidance. This study also analyzes the moderating role of executive gender on the influence of political connections and foreign ownership on tax avoidance. This study used secondary panel data from a survey conducted by the World Bank Open from 2006-2018. This study's data was around 50,454 companies from all over the world. The hypothesis testing was performed using multinomial logistic regression. The results showed that political connection positively affected tax avoidance, but foreign ownership had no significant effect on tax avoidance. Furthermore, male executives strengthened the relationship between political connections and tax avoidance, but it did not moderate the effect of foreign ownership on tax avoidance. The findings suggested that the Directorate General of Taxation should scrutinize companies with political connections to optimize government tax revenue

ABSTRAK

Penerimaan pajak merupakan sumber pendapatan yang vital untuk mendukung pembangunan ekonomi suatu negara. Oleh karena itu, penelitian ini bertujuan untuk memberikan bukti empiris tentang pengaruh koneksi politik dan kepemilikan asing terhadap penghindaran pajak. Penelitian ini juga menganalisis peran moderasi gender pejabatan eksekutif pada pengaruh koneksi politik dan kepemilikan asing terhadap penghindaran pajak. Penelitian ini menggunakan data panel sekunder yang berasal dari hasil survei yang dilakukan oleh World Bank Open pada tahun 2006-2018. Jumlah data dalam penelitian ini adalah 50.454 perusahaan dari seluruh dunia. Pengujian hipotesis dilakukan dengan menggunakan regresi logistik multinomial. Hasil penelitian menunjukkan bahwa hubungan politik berpengaruh positif terhadap penghindaran pajak, tetapi kepemilikan asing tidak berpengaruh signifikan terhadap penghindaran pajak. Selanjutnya, eksekutif laki-laki memperkuat hubungan antara koneksi politik dan penghindaran pajak, tetapi tidak memoderasi pengaruh kepemilikan asing terhadap penghindaran pajak. Temuan penelitian ini menyarankan bahwa Direktorat Jenderal Pajak harus mencermati perusahaan yang memiliki koneksi politik untuk mengoptimalkan penerimaan pajak pemerintah.

1. INTRODUCTION

Tax avoidance mostly happens in every country (Badertscher et al., 2019; Oats & Tuck, 2019). It is an action by the business entities to minimize tax liability (Sari et al., 2017). Jacob (2014) described tax avoidance as tax liability reduction by exploiting taxation law weaknesses. Beer et al. (2020) stated that tax avoidance is tax reduction with legal tax savings. In a sense, tax avoidance is an activity done by the business entities to minimize tax liability which causes the tax government's revenue to be not optimal.

A study by Tax Justice Network Organization recorded that global tax avoidance caused a US\$ 427 billion loss for the worldwide economy (Dallyn, 2017). The organization has been examining indications of tax avoidance since 2016, and they also believe that the global loss of US\$427 billion results from the abuse of international corporate taxes and private-sector tax evasion. Tax avoidance is legal, but companies must consider the global costs of their tax avoidance activities. The company is expected to be more considerate of other parties so that no other party is significantly harmed in

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carrying out tax avoidance activities.

Two important antecedents of tax avoidance are political connection and foreign ownership (Yulistia et al., 2020; Annuar et al., 2014). Companies categorized as having political ties are companies in which the major shareholder (at least 10% of the voting rights) or one of the executives (CEO, president, vice president, chairman, or secretary) is a member of parliament or has ties to a politician or political party (Faccio, 2006). Companies with political connections have several advantages, one of which is getting access to changes in tax policy (Putra & Suhardianto, 2020). In addition, political connections will make companies feel they have protection from the government, which will encourage companies to have more tax avoidance. These advantages lead companies to do better tax planning that raises the potential for tax avoidance. Previous re-search has found that political connections affect tax avoidance (Ajili & Khelif, 2020; Ferdiawan & Firmansyah, 2017; Tsai et al., 2021; Wang & You, 2022). In contrast, Yulistia et al. (2020) found that political connection did not affect tax avoidance. As such, we can infer that previous studies relating to the nexus of political connection and tax avoidance have different results.

Foreign ownership is one resource that makes the company valuable (Alkurdi & Mardini, 2020; Joenoes & Rokhim, 2019). Foreign shareholders are seen as having better skills in monitoring the company better. Foreign ownership can improve corporate governance and public disclosure (Alshbili et al., 2020). They can reduce managers' deviant behavior, such as excessive consumption and earnings management (Chen et al., 2022; Guo et al., 2015; Han et al., 2022). It implies that foreign ownership will reduce tax avoidance. Previous research found that foreign ownership has a negative effect on tax avoidance (Suranta et al., 2020; Wen et al., 2020). However, Saputra et al. (2017) and Yulistia et al. (2020) validated that foreign ownership positively affects tax avoidance. Due to the results shown, it can be concluded that there are differences in the results of previous studies, which attracts the interest of researchers to use executive gender as a moderating variable in this study.

The corporate executives' role has an impact on tax avoidance. Men and women have different thinking styles. The upper echelon theory, as stated by Hambrick & Mason (1984), explains that the leader's characteristics influence the performance produced by an entity. One of the characteristics that influence leadership is gender. Gender characteristics are one of the aspects that influence

individuals in making a decision (Horak, 2016). The gender of the executive will influence the executive's decision to take risks, such as tax avoidance. Male executives tend to be more willing to take risks than female executives (Charness & Gneezy, 2012; Ertac & Gurdal, 2012). Tax avoidance is one of the risky things that the executive can take. Chang et al. (2019) validated that male executives do less tax evasion than female executives. Then, Novita (2016) found that male executives did more tax avoidance than female executives. This study uses gender as the moderating variable. The executive characteristic influenced by gender will weaken or strengthen the relationship between tax avoidance factors and tax avoidance. Therefore, the novelty of this study is to use executive gender as a moderator, which has not been widely used in the study of tax avoidance.

This study is critical because it is conducted on companies worldwide in developing countries through a World Bank Open Data survey. This research is expected to provide benefits for the Directorate General of Taxation to formulate policies to reduce the risk of tax avoidance and identify the characteristics of companies that tend to have the potential to avoid tax by providing stricter supervision to those companies that have these characteristics. This study also enriches the literature on aspects that affect tax avoidance.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Upper Echelon Theory

Companies with political connections or foreign ownership that decide to avoid taxes are the result of decisions made by the company's executives. The decisions taken by the executive are influenced by their gender. Upper Echelon Theory explains that the organization reflects top management (Hambrick & Mason, 1984). This theory suggests that top management decisions influence the strategy or decisions made by the company. Therefore, the leadership in a company plays an essential role in deciding the strategy and will affect the company's performance.

The characteristics of the leader will influence the decision-making. According to Wei & Ling (2015) and Wang et al. (2016), the leader characteristics will influence the decision-making, reflecting the company's performance as stated in the Upper Echelon Theory. Gender is the characteristic that influences making a decision, and Horak (2016) stated that gender affects individuals in making decisions. One of the decisions is the choice of conducting tax avoidance.

Tax Avoidance

Tax avoidance is an activity carried out by a company to minimize the company's tax debt. According to Huang et al. (2017), tax avoidance is an explicit tax deduction per dollar of pretax accounting income. Tax avoidance is used as a medium to transfer wealth from the government to company owners (Yee et al., 2018). Companies use tax avoidance activities to achieve the company's goal, enriching company owners. Although this activity aims to enrich the company's owners, tax avoidance still becomes controversial. Previous researchers stated that avoidance could be considered legal action, but some others think it is illegal (Lee et al., 2015). Tax avoidance activities are considered illegal because the state revenue might not be optimal and inflicted loss for the state. Tax avoidance is one of the company's strategies that grab management's attention because in determining this strategy, it is necessary to involve managerial decisions (Arif & Hashim, 2013). Management's decision to avoid tax will reflect the company's performance, which suits the Upper Echelon Theory.

Political Connection

In the first place, political connection theory is a theory that explains that politicians or government figures build relationships with companies to support these politicians or governments (North, 1990). Political connections are social relationships, including conspiracies to gain power (Utamaningsi, 2019). Companies' political connections aim to avoid the external environment's uncertainty. The political connection theory states that companies with political connections usually provide government officials with important positions in the company's management (Li et al., 2021; Muttakin et al., 2018; Wong & Hooy, 2018).

Companies with political connections are companies whose internal stakeholders or shareholders are government officials or individuals associated with political parties. According to Faccio (2006), a company that has a political connection is a company that has a major shareholder (at least 10% of the voting rights) or one of the executives (CEO, president, vice president, chairman, or secretary) is a member of parliament, or have a relationship with a politician or political party.

Political connections are a valuable asset for companies because companies can minimize external risks (Wong & Hooy, 2018). External risks that can be minimized by having political connections are the risk of changing regulations or policies. When the government makes a new policy

or regulation that affects the business, management that has links to the government will be able to provide information quickly before implementing the new regulation or policy. Companies that have political connections can prepare themselves and can analyze risks that may occur so that they can reduce potential risks that will come. Decisions taken by government officials who have positions in the company management will be reflected in the company's strategies and its performance. Companies with political connections find it easier and quicker to adapt their corporate strategy to various regulatory changes (Barros & Sarmento, 2020). The company's goals will be easily achieved by having a better strategy. In optimizing the company's value, top management must consider what strategies must be carried out to achieve these goals. Companies with political connections are also considered more government protection, so they are encouraged to avoid taxes (Anggraini & Widarjo, 2020). According to Harymawan & Nowland (2016), companies in developing countries have a strong relationship with politically connected companies because they assume that political connection adds value to the company.

The Effect of Political Connections on Tax Avoidance

Companies with political connections will place government officials or political party administrators in the company's management or become one of the company's owners. From the perspective of resource theory, political connections provide benefits for companies to minimize external risks that may occur (Wong & Hooy, 2018). In addition, companies with political connections will receive more protection from the government (Anggraini & Widarjo, 2020). This protection occurs because the company has a relationship with government officials as the state policyholder.

There will be a sense of security for management from the government's protection when having a political connection, and it will make the management of politically connected firms take higher risks. One of the risks that can be taken by management is tax avoidance. Tax authorities are also less likely to prosecute politically connected companies for tax evasion. Amalia & Ferdiansyah (2019), Ajili & Khelif (2020), and Susanti et al. (2020) found that political connections have a positive influence on tax avoidance. This study's results indicate that companies with political connections tend to do more tax avoidance. Based on the above arguments, the first hypothesis is as follows:

H₁ : Political connection has a positive effect on tax avoidance.

The Effect of Foreign Ownership on Tax Avoidance

Foreign ownership is the proportion of ownership owned by foreign parties in a company. Foreign ownership is one resource that makes the company valuable (Putantri et al., 2018). Foreign ownership positively impacts corporate governance (Hamdan, 2018). One of the consequences of foreign ownership is the presence of a member of the international board of directors or board of commissioners. It positively impacts the company by gaining new insights and experiences in managing multinational companies (Polovina & Peasnell, 2015).

Foreign ownership also encourages company management to maintain a good image and performance (Al-Gamrh et al., 2020; Barros & Sarmiento, 2020; Carney et al., 2019). Because of their expertise and experience, foreign owners are believed to be able to monitor the company better to reduce management deviant behavior (Chen et al., 2022; Han et al., 2022). Alzoubi (2016) and Lee (2022) asserted that foreign ownership could reduce earnings management. Therefore, in the context of tax avoidance, foreign ownership can reduce tax avoidance (Suranta et al., 2020; Wen et al., 2020).

Foreign ownership, however, may promote tax avoidance. Foreign investors force the company's management to generate significant profits; otherwise, they can leave the company. One strategy that can be done is to reduce taxes paid to the government (Alkurdi & Mardini, 2020). Saputra et al. (2017), Yulistia et al. (2020), and Shi et al. (2020) confirmed that foreign ownership has a positive effect on tax avoidance. These results indicate that management will maintain good corporate performance by avoiding tax to satisfy the owner's interest, including foreign investors. Based on the above arguments, the second hypothesis is as follows:

H₂ : Foreign ownership has a positive effect on tax avoidance.

The Moderating of Executive Gender on the Impact of Political Connections on Tax Avoidance

Gender is an aspect that forms an individual's character that affects human beings' feelings, desires, and ways of making decisions. Gender is a product of the social environment that motivates individuals to show masculine or feminine characters (Prasetyo et al., 2020). This gender will influence the executive decision-making. According

to Kastlunger et al. (2010) and Horak (2016), gender is one aspect that influences decision-making. Men with a masculine character usually tend to be brave in taking risks, while women with a feminist character tend to be reluctant to take risks (Ilie & Cardoza, 2018). Thus, male executives tend to take risks more than women.

One of the risky decisions that can be taken is to avoid tax. Male executives are more likely to avoid tax than female executives because men are more willing to take risks (Novita, 2016). This study use gender as a moderating variable. The executive gender will strengthen the relationship between political connections and tax avoidance, and politically connected firms led by the male executive will do more tax avoidance.

Amalia & Ferdiansyah (2019), Ajili & Khlif (2020), and Susanti et al. (2020) proved that political connections have a positive influence on tax avoidance. Furthermore, Novita (2016) and Hoseini & Gerayli (2018) stated that male executives tended to avoid tax. Therefore, the presence of male executives in management might strengthen the relationship between political connections and tax avoidance. Based on the above arguments, the third hypothesis is as follows:

H₃ : Male executives will strengthen the influence of political connections on tax avoidance.

The Moderating of Executive Gender on the Impact of Foreign Ownership on Tax Avoidance

Foreign ownership positively impacts the company because it is considered more valuable. However, the decision of foreign owners to invest in a company is influenced by ownership structure (Saputra et al., 2017; Suranta et al., 2020). According to Fitri et al. (2019), foreign ownership provides positive signals to potential investors that the company is well managed to perform well. In other words, the presence of foreign owners increases the company's good image.

One of the actions that need to be taken care of by the company's management to maintain the company's image is not to take actions considered to be against the law or commit unethical behavior, such as tax avoidance. However, the decision to avoid tax is based on executive risk-taking characteristics. These risk-taking characteristics are influenced by the gender of the executive (Ertac & Gurdal, 2012). Men with masculine characters usually take risks, while women with feminist characters tend to be reluctant to take risks (Kastlunger et al., 2010). Accordingly, male executives are more willing to take risks than female

executives. One of the risky decisions that can be taken is tax avoidance, and male executives are more likely to do tax avoidance than female executives (Novita, 2016). Therefore, the relationship between foreign ownership and tax avoidance might be strengthened by the executive gender.

Saputra et al. (2017), Yulistia et al. (2020), and Shi et al. (2020) proved that foreign ownership has a positive effect on tax avoidance. Furthermore, Novita (2016) asserted that male executives tended to avoid tax, which is in line with Hoseini & Gerayli (2018), proving that female executives tend to reduce

tax avoidance. Therefore, male executives in top management might strengthen the relationship between foreign ownership and tax avoidance in a company. Based on the above arguments, the fourth hypothesis is as follows:

H₄: Male executives will strengthen the influence of foreign ownership on tax avoidance.

Figure 1 presents the research model of this study.

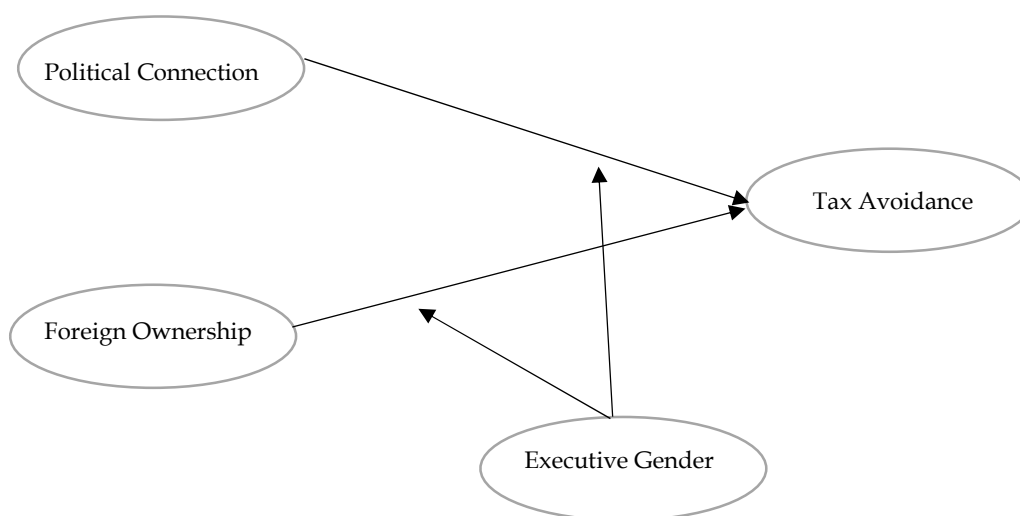


Figure 1. Research model.

3. RESEARCH METHOD

This study used a quantitative approach to test the hypothesis. The data used in this study was secondary data obtained from the World Bank Open Data from 2006-2018. This research focused on companies in developing countries. Since the dependent variable used categorical analysis, the analytical technique used in this study was Multinomial Logistic Regression.

Population and Sample

The data was taken from the World Bank Survey in 2006-2018 with 136,889 private companies from 130 developing countries. The survey covered various data, including regulations and taxes. The survey used face-to-face interviews with respondents as company owners, top managers, accountants, and human resource managers. The population of the World Bank survey was all private companies from various industries of manufacturing sectors; construction; service; transportation, storage and communication; and others. This study used 50,454 companies.

Variables and The Operational Definition

The dependent variable is tax avoidance, the independent variables are political connection and foreign ownership, and the moderating variable is executive gender. This study considered three control variables: tax administration constraint, tax rate, and gratuity. If the tax administration is considered a constraint by the company, it indicates that it has difficulty making tax payments. Difficulties in paying taxes will trigger tax avoidance activities. Companies doing gratification to tax officials and holding meetings with them indicate that they expect benefits from the tax sector. Such protection will trigger the companies to do tax avoidance. If the tax rate is considered a constraint by the company, the company will have difficulty making tax payments; difficulties in paying taxes will trigger the emergence of tax avoidance activities. Table 1 presents all the research variables, questions, and measurements.

Table 1. Variables and the measurements

Variables	Questions	Measurements
Tax Avoidance	During the past year, was the company required to meet or be audited by a tax officer?	The answers are categorized into 3 categories, namely: No tax avoidance = 1, partial tax avoidance = 2, and full tax avoidance = 3 (Damayanti & Supramono, 2019)
Political Connection	Over the past year, has this company obtained or attempted to secure a contract with the government?	The answers are yes or no. If the answer is yes, the value is 1, otherwise 0
Foreign Ownership	Is there foreign ownership in the company?	If there is foreign ownership, the value is 1, otherwise 0
Executive Gender	Is there a woman on the board of directors?	The answers are yes or no. If the answer is yes, the value is 1, otherwise 0.
Tax Administration Constraint	Does the company identify that tax administration is a major constraint?	The answer choices given are a score range of 0-4. 0 = Not a Constraint 1 = Light Constraint 2 = Moderate Constraint 3 = Heavy Constraint 4 = Very Heavy Constraint
Gratuity	During one of these inspections or meetings, are gifts or informal payments expected or requested?	The answers are yes or no. If the answer is yes, the value is 1, otherwise 0
Tax Rate	Does the company identify that the tax rate is a major constraint?	The answer choices given are a score range of 0-4. 0 = Not a Constraint 1 = Light Constraint 2 = Moderate Constraint 3 = Heavy Constraint 4 = Very Heavy Constraint

Data Analysis Method

This study employed the Multiple Logistic Regression technique to test the hypothesis. This study's regression analysis equation is shown in

models 1 and 2. Model 1 examined the effect of political connection and foreign ownership, while model 2 tested the moderating impact of executive gender.

Model 1:

$$TA = \alpha + \beta_1 PC + \beta_2 FO + \beta_3 TAC + \beta_4 TR + \beta_5 GR + \epsilon \quad (1)$$

Model 2:

$$TA = \alpha + \beta_1 PC + \beta_2 FO + \beta_3 EG + \beta_4 PC * EG + \beta_5 FO * EG + \beta_6 TAC + \beta_7 TR + \beta_8 GR + \epsilon \quad (2)$$

Notes:

TA = Tax Avoidance

PC = Political Connection

FO = Foreign Ownership

EG = Executive Gender

TAC = Tax Administration Constraint

TR = Tax Rate

GR = Gratuity

4. DATA ANALYSIS AND DISCUSSION

The data amount of population in this study was 50,454 private companies located in developing

countries. It was taken from a World Bank Open Data survey from 2006 to 2018. Table 2 shows the distribution of the data.

Table 2. Data distribution

Company Location (Continent)	No. of Firms
Africa	13,680
South America	5,444
North America	3,268
Asia	18,112
Australia	109
Europe	9,841
Total	50,454

This study used the results of a World Bank Open Data survey, and it was used to conduct testing this study. This study used descriptive variable frequency, multicollinearity, and multinomial logistic regression tests.

Descriptive Statistics

Table 3 presents the descriptive statistics of the research variables. This table shows that almost all companies avoided tax (99.4 percent). About 80

percent of the companies had no political connection, and 93.5 percent had no foreign ownership. Most companies did not see that tax administration becomes a serious obstacle (76.6 percent) and did not give bribes to tax officials (86.6 percent). There were 12,967 (25.7%) companies see the tax rate as a moderate constraint and 12,967 (25.7%) and 11,559 (22.9%) companies viewed the high tax rate as a severe constraint is 11,559 (22.9%).

Table 3. Descriptive statistics of research variables

	Frequency	Percentage
Tax Avoidance (TA)		
No tax avoidance	3	0.0
Partial tax avoidance	50,132	99.4
Full tax avoidance	319	0.6
Total	50,454	100.0
Political Connection (PC)		
Has no political connection	40,194	79.7
Has political connection	10,260	20.3
Total	50,454	100.0
Foreign Ownership (FO)		
Has no foreign ownership	47,165	93.5
Has foreign ownership	3,289	6.5
Total	50,454	100.0
Executive Gender (EG)		
Male	43,200	85.6
Female	7,254	14.4
Total	50,454	100.0
Tax Administration Constraint (TAC)		
Not a Constraint	15,106	29.9
Light Constraint	11,160	22.1
Moderate Constraint	12,401	24.6
Heavy Constraint	8,129	16.1
Very Heavy Constraint	3,658	7.3
Total	50,454	100.0
Gratuity		
Not Giving Gifts to Tax Officials	43,675	86.6
Giving Gifts to Tax Officials	6,779	13.4
Total	50,454	100.0

	Frequency	Percentage
Tax Rate		
Not a Constraint	10,560	20.9
Light Constraint	9,366	18.6
Moderate Constraint	12,967	25.7
Heavy Constraint	11,559	22.9
Very Heavy Constraint	6,002	11.9
Total	50,454	100.0

Multicollinearity Test

Before testing the hypothesis, this study tested for multicollinearity to find out whether there is a correlation between the independent variables in the regression model. Based on the multicollinearity test

presented in Table 4, all variables used in this study had a tolerance value greater than 0.20 and a VIF value of less than 5.00, indicating no multicollinearity symptom in the regression model used in this study (Hair et al., 2021).

Table 4. Multicollinearity test

Variables	Collinearity Tolerances	Statistics VIF
PC	0.872	1.147
FO	0.874	1.144
EG	0.791	1.264
PC*EG	0.754	1.329
FA*EG	0.832	1.202
TAC	0.589	1.697
GR	0.977	1.024
TR	0.597	1.674

Multinomial Logistic Regression Test

As presented in Table 4, we tested hypotheses 1 and 2 using the multinomial logistic regression. Model 1 shows that the significance value of political connections was < 0.05 with a positive coefficient, which means that political connections positively

impacted tax avoidance. However, foreign ownership had no significant impact on tax avoidance ($\alpha = 0.107$). In addition, the control variables of tax administration constraints and tax rates significantly influenced tax avoidance, while gratuity did not significantly affect tax avoidance.

Table 5. Hypothesis testing

Panel A. Hypothesis Testing				
Variables	Model 1		Model 2	
	Chi-Square	Sig.	Chi-Square	Sig.
PC	6.723	0.035**	5.881	0.053*
FO	4.462	0.107	6.232	0.044**
EG			5.218	0.074*
PC*EG			0.028	0.986
FA*EG			5.332	0.652
TAC	42.010	0.000***	41.337	0.000
GR	5.174	0.739	39.092	0.000
TR	39.091	0.000***	5.188	0.737
Panel B. Pseudo R-Square				
Test Types	Model 1 Value		Model 2 Value	
Cox and Snell	0.003		0.003	
Nagelkerke	0.036		0.040	
McFadden	0.035		0.039	

Notes: ** significant at 5%, * significant at 10%

The multinomial logistic regression test results in Table 5 for model 2 show that political connection marginally affected tax avoidance. In contrast to

model 1, model 2 shows that foreign ownership significantly affected tax avoidance in a positive direction. Executive gender also significantly affected

tax avoidance, and the interaction between executive gender with political connections and foreign ownership did not significantly affect tax avoidance. In addition, the control variables of tax administration constraints and gratuities significantly influenced tax avoidance, while the tax rate had no significant effect.

Table 5 also shows Pseudo R-Square containing information about the Cox, Snell, Nagelkerke, and McFadden tests. In model 1, the Cox and Snell test value was 0.003; Nagelkerke was 0.036; and McFadden was 0.035. Based on the Nagelkerke test, it can be concluded that in model 1, the independent variables affected the dependent variable by 3.6%. As highlighted in model 2, the Cox and Snell test value was 0.003; Nagelkerke was 0.040; and McFadden was 0.039. Based on the results of the Nagelkerke test, we can conclude that in model 2, the independent variable used in this study could affect the dependent variable by 4%.

Discussion

The results of the multinomial regression analysis, as presented in model 1, support hypothesis 1, which states that political connections positively affect tax avoidance. The result confirms that hypothesis 1 is accepted. Companies with political connections will get more protection from the government (Anggraini & Widarjo, 2020). Excessive protection will make the company feel safer carrying out risky activities. Tax avoidance activity is a risky activity for the company, and the management's goal is to avoid tax to boost the firm financial performance. With the protection, the company will assume that the possibility of the company being audited for tax-related matters is relatively little. Also, the potential punishment imposed by tax authorities resulting from tax audits is often complicated or not enforced due to political connections (Annuar et al., 2014). Corporate political connections, reflected by political ties and corporate ownership, perpetuate existing collusion and help companies defend their profits under pressure from external parties, such as tax authorities (Tsai et al., 2021). The results of this study also support research from Amalia & Ferdiansyah (2019); Ajili & Khlif (2020); and Susanti et al. (2020), who found that political connections have a positive influence on tax avoidance.

The results of the multinomial regression in model 1 show that foreign ownership does not affect tax avoidance. The finding indicates that foreign owners do not influence the company's management to avoid tax, which may imply that foreign ownership is not a company's valuable resource that improves

corporate governance (Hamdan, 2018). Wen et al. (2020) stated that foreign ownership would reduce tax avoidance only if this ownership is represented on the board of directors and the directors come from countries with high investor protection. This finding may indicate that foreign ownership cannot significantly place its representative on the board of directors.

The coefficient of foreign ownership is positive in model 1, but it is not significant, meaning that foreign ownership does not significantly encourage executive to maintain a good company performance. In model 2, however, foreign ownership significantly encourages firms to conduct tax avoidance, and it may suggest that foreign investors force the company to generate large profits. One eligible strategy is reducing taxes paid to the government (Alkurdi & Mardini, 2020). This finding is in line with Saputra et al. (2017), Yulistia et al. (2020), and Shi et al. (2020), proving that foreign ownership has a positive effect on tax avoidance.

Table 5, especially model 2, shows that the executive gender variable positively impacts tax avoidance, meaning that female executives are less likely to conduct tax avoidance. It may imply that female executive with a feminist character tends to be reluctant to take risks (Ilie & Cardoza, 2018). This finding is in line with Novita (2016) validating that female executives are less likely to do tax avoidance than male executives because women are less willing to take risks.

The findings show that the interaction between executive gender, political connection, and foreign ownership do not significantly affect tax avoidance. The findings suggest that the executive does not moderate the impact of political connection on tax avoidance and the influence of foreign ownership on tax avoidance. Politically connected companies tend to get more protection from the government so that the executives can avoid tax. However, the presence of male executives does not significantly weaken the decision to avoid tax made by politically connected firms. Likewise, foreign investors encourage company management to increase profits by avoiding taxation. However, the presence of female executives cannot reduce the pressure of foreign owners on company management to reduce tax avoidance. Hoseini et al. (2018) stated that female executives on the board of directors would reduce tax avoidance only for large firms. This study uses firms of various sizes, from small to large firms. The variety of company sizes can cause the moderating effect of executive gender which is not significant.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The results of this study indicate that political connections and foreign ownership have a positive effect on tax avoidance, but foreign ownership has no effect on tax avoidance. Male executive reduces tax avoidance. However, an executive gender does not moderate the relationship between political connections and foreign ownership with tax avoidance. The findings support the Upper Echelon Theory stating that companies with political connections or foreign ownership that decide to avoid taxes are the result of decisions made by the company's executives.

There are two main limitations of this study. First, it ignores the tax policy of each country which allows each country to have different taxation mechanisms from one another and also different tax regulations. Second, it does not consider firm size, which may influence the executive's gender moderating role in the relationship between political connections and foreign ownership with tax avoidance. Therefore, future research needs to group companies by country based on tax policy adopted and the firm sizes.

The findings of this study suggest that the Directorate General of Taxes should provide supervision to companies with political connections and foreign ownership that are likely to do tax avoidance. In addition, the results of this study provide an indication to potential investors about the characteristics of companies that tend to avoid tax. Investors need to be careful of companies with political connections and foreign ownership generally having poor corporate governance and tend to take less commendable actions to increase profits.

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