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Governance and Tax Strategies: The Role of Firm Size in Affecting Tax Aggressiveness among Sharia-Listed Firms

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Abstract: This study investigates how corporate governance mechanisms influence tax aggressiveness in sharia-compliant firms listed on the Jakarta Islamic Index (JII), while examining the moderating role of firm size. Using a census sampling approach covering all JII-listed companies from 2022 to 2024, the research analyzes 90 firm-year observations. Multiple regression and moderated regression analyses test the direct and interaction effects of institutional ownership, independent commissioners, and audit committees on tax aggressiveness. The findings reveal that while institutional ownership does not significantly affect tax aggressiveness, the presence of independent commissioners and effective audit committees significantly reduces it. Firm size does not moderate these relationships, indicating that robust governance practices remain essential regardless of organizational scale. Importantly, this study integrates Islamic ethical principles such as justice (ʿadl), trustworthiness (amanah), accountability (hisbah), and the pursuit of public welfare (maslahah) to highlight the ethical dimensions of tax compliance in sharia-compliant firms. The results underscore the need for governance frameworks that not only meet regulatory requirements but also align with Islamic moral obligations, promoting transparency, fairness, and responsible corporate behavior.

Introduction

Tax aggressiveness remains an important concern for practitioners, researchers, and regulators due to its broad implications for corporate governance, financial performance, and social welfare (Budiadnyani, 2020; Sinebe, 2024; Boussaidi & Hamed-Sidhom, 2021). Defined as strategies undertaken by companies to minimize tax liabilities within legal boundaries, tax aggressiveness can enhance short-term profitability and cash flow, but it also introduces significant risks, including legal penalties, regulatory scrutiny, and reputational damage (Slemrod & Yitzhaki, 2002; Alm & Wallace, 2011; Devos, 2016). Moreover, such practices can undermine transparency in financial reporting, distort

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investor assessments of firm value, and increase the cost of capital by elevating perceived risk and uncertainty (Alm et al., 1993; Fasita et al., 2022; Vacca et al., 2020).

For companies operating in sharia-compliant markets such as those listed on the Jakarta Islamic Index (JII) in Indonesia, tax aggressiveness presents unique ethical challenges. Islamic business principles emphasize fairness, transparency, accountability, and social responsibility, making aggressive tax minimization strategies potentially incompatible with sharia values. Firms trading Islamic stocks are expected not only to comply with legal standards but also to uphold ethical norms that reflect the principles of Islamic finance and meet the expectations of their investors and broader society (Kateb & Ftouhi, 2024). Despite these expectations, there is limited empirical research examining whether corporate governance mechanisms effectively constrain tax aggressiveness in sharia-based companies. This gap is particularly significant in Indonesia's Islamic capital market, where ethical finance is growing, but concerns about governance and transparency remain.

To explain how governance can limit tax aggressiveness, this study adopts three complementary theoretical perspectives: stakeholder theory**,** signal theory, and tax compliance theory**.** Stakeholder theory emphasizes that companies have responsibilities not only to shareholders but also to a broader group of stakeholders including regulators, investors, employees, and society at large (Pranata et al., 2021). In this view, firms are expected to balance competing interests and adopt tax practices that are both legally compliant and ethically sound. Tax aggressiveness, while potentially legal, may undermine the firm's social license to operate, attract negative public attention, and harm relationships with key stakeholders.

Signal theory suggests that firms use governance practices and tax strategies to communicate credibility and integrity to the market. Transparent governance structures and conservative, compliant tax planning send positive signals to investors, regulators, and other stakeholders, reducing information asymmetry and strengthening reputation (Boussaidi & Hamed-Sidhom, 2021). For companies in sharia-compliant markets, signaling ethical behavior is especially important because investors expect adherence to Islamic principles, including fairness and accountability. By avoiding aggressive tax strategies and maintaining strong governance, firms can enhance investor confidence and secure long-term financing at lower costs (Naufal et al., 2024).

Tax compliance theory frames aggressive tax planning as a tension between legal form and ethical substance. While companies may comply with the letter of the law, aggressive strategies often exploit loopholes in ways that undermine tax authorities' intent and broader societal goals (Kirchler, 2007; Alm & Wallace, 2011). In Islamic contexts, such practices can be viewed as inconsistent with the principles of justice and public welfare. Tax compliance theory highlights the importance of internal governance structures that ensure management not only obeys tax regulations but also aligns corporate behavior with societal expectations for fairness and transparency.

Prior research suggests that specific governance mechanisms can reduce tax aggressiveness. Institutional ownership provides robust monitoring because large investors have resources and expertise to demand transparency and ethical practices (Ratnawati et al., 2019; Khan et al., 2016; Velte, 2023; Furwanti et al., 2024). Institutional investors typically pursue long-term value, discouraging risky, opaque tax strategies that could damage reputation (Feranika et al., 2016; Subekti & Ompusunggu, 2023). Independent commissioners strengthen oversight by challenging management decisions that prioritize short-term tax savings over regulatory compliance and ethical responsibility (Menchaoui & Hssouna, 2022; Dakhli, 2022; Ebire et al., 2024). Their independence enhances board effectiveness in scrutinizing complex tax strategies and ensuring alignment with ethical principles (Eksandy, 2017; Wijayanti & Merkusiwati, 2017). Audit committees play a critical role in monitoring financial reporting, ensuring that tax strategies are legally compliant and ethically justified (Al-Ahdal et al., 2023; Islam & Hashim, 2023; Abbott et al., 2004b). Committees with independent, financially skilled members can detect aggressive tax planning, reinforcing accountability and transparency (Thomya & Ritsri, 2024; Ardillah & Prasetyo, 2021). Despite these insights, research examining governance mechanisms in sharia-compliant firms remains limited. Few studies address how Islamic ethical principles shape governance responses to tax aggressiveness. Additionally, the potential moderating role of firm size is underexplored even though larger firms may face greater regulatory scrutiny but also have more resources for sophisticated tax planning (Watts & Zimmerman, 1983; DeAngelo, 1981).

This study addresses these gaps by examining the influence of institutional ownership, independent commissioners, and audit committees on tax aggressiveness in companies listed on the Jakarta Islamic Index. It also explores whether firm size moderates these relationships. By integrating stakeholder theory, signal theory, and tax compliance theory, this research offers new insights into how corporate governance can promote ethical tax behavior in Indonesia's Islamic capital market.

This study adds novelty by focusing on companies trading sharia-compliant stocks in Indonesia, a market governed by Islamic capital market regulations. Unlike prior studies on general tax aggressiveness, this research examines how Islamic ethics and regulatory standards shape governance practices, offering insights into compliance and ethical considerations unique to Islamic financial markets.

Literature Review and Hypothesis Development

Stakeholder theory emphasizes that companies have responsibilities not only to shareholders but also to a wider range of stakeholdersincluding employees, regulators, investors, customers, and society at large (Freeman, 1984; Donaldson & Preston, 1995). Signal theory explains how companies communicate private information about their quality, integrity, and intentions to external stakeholders through observable actions and structures (Spence, 1973; Connelly et al., 2011) while tax compliance theory examines how firms decide whether to comply with tax regulations fully, including their willingness to exploit legal loopholes or aggressive strategies that undermine the intent of tax laws (Kirchler, 2007; Alm & Wallace, 2011). These theoretical perspectives provide a conceptual basis for understanding how governance mechanisms can shape corporate tax behavior. By emphasizing ethical responsibilities, signaling credibility, and ensuring regulatory compliance, they highlight the importance of internal monitoring structures such as institutional ownership, independent commissioners, and audit committees in mitigating aggressive tax strategies.

This section integrates Islamic ethical perspectives on tax avoidance, drawing on literature that debates its permissibility within sharia principles. While some argue tax minimization aligns with efficiency, others highlight moral obligations to support public welfare. Such ethical tensions underscore the relevance of governance mechanisms in promoting transparent, socially responsible tax behavior in Islamic markets.

Empirical studies show mixed findings regarding the impact of corporate governance on tax aggressiveness. Research suggests that firms with higher institutional ownership and a larger proportion of independent commissioners are less likely to engage in aggressive tax practices (Christopher S. Armstrong et al., 2015; Pratiwi et al., 2019). Institutional investors, particularly larger ones, tend to focus on long-term value and discourage aggressive tax planning that could attract regulatory scrutiny (Khurana & Moser, 2009). Similarly, independent commissioners help curb tax aggressiveness by opposing risky management decisions and advocating for compliance (Nugroho et al., 2020; Anggraini & Dura, 2021). The audit committee also plays a crucial role, as independent and financially literate members enhance financial reporting quality and ensure tax compliance (Dang & Nguyen, 2022). However, some studies indicate that the effectiveness of audit committees in reducing tax aggressiveness requires further investigation (Thomya & Ritsri, 2024). Research shows that companies with strong audit committees are less likely to engage in aggressive tax planning, because the committee provides an additional layer of oversight and accountability. Furthermore, firm size moderates governance effectiveness, as large companies, due to their complexity and heightened scrutiny, may experience stronger oversight from institutional owners, boards, and audit committees (Jaffar et al., 2021; Pranata et al., 2021). This study explores the interaction between institutional ownership, the board of commissioners, and audit committees in influencing tax aggressiveness, with firm size as a moderating factor (Desai & Dharmapala, 2009; Kartana & Wulandari, 2018).

Institutional investors typically advocate transparency and long-term value creation, thereby discouraging management from aggressive tax practices that could harm a firm's reputation and sustainability. Their role in reducing tax aggressiveness stems from their ability to monitor management closely, ensuring that tax strategies align with legal standards, shareholder interests, and broader ethical expectations (Diantari & Ulupui, 2016; Ying, 2011). Institutional investors, such as mutual funds, pension funds, and insurance companies, have significant financial stakes and possess the resources and expertise to scrutinize management decisions, promoting sound governance and discouraging risky tax planning (Ervaniti et al., 2020; Abdul Wahab & Holland, 2012; Kodriyah & Putri, 2019). This monitoring role is particularly relevant in sharia-compliant firms, where Islamic ethical principles emphasize fairness (*'adl*), trustworthiness (*amanah*), and social responsibility. Tax strategies that exploit legal loopholes to minimize liabilities can undermine public welfare and conflict with the moral obligation to contribute fairly to society a core expectation in Islamic business ethics (Lewis, 2001). By advocating transparent and responsible tax behavior, institutional investors help ensure that firms comply not only with formal regulations but also with these ethical values, reducing reputational and legal risks. However, empirical studies show mixed results; while many find institutional ownership reduces tax aggressiveness, others suggest this effect may depend on investor characteristics and incentives (Dakhli, 2022).These mixed findings highlight the importance of the specific characteristics and motivations of institutional investors in determining their influence on corporate tax strategies. Given the general tendency of institutional investors to mitigate aggressive tax practices through their rigorous oversight and emphasis on long-term sustainability, it is hypothesized that:

H1: The institutional ownership affects tax aggressiveness.

The role of independent commissioners within a company's board of commissioners is crucial in promoting transparency, accountability, and ethical governance practices. Their primary function is to enhance the board's effectiveness in monitoring management and ensuring that tax strategies comply with legal and ethical standards. Unlike executive directors, independent commissioners are free from management influence, enabling them to provide impartial oversight and challenge decisions that might involve aggressive tax planning (Eksandy, 2017; Arifani & Kusuma, 2021). Independent commissioners thus help ensure that corporate tax strategies comply with legal obligations and reflect Islamic ethical values centered on justice, trust, and public welfare. Aggressive tax strategies that exploit legal loopholes may undermine public welfare and conflict with the broader Islamic values of social responsibility and fairness. Independent commissioners are therefore expected to advocate for transparent, equitable, and socially responsible tax practices that align not only with regulations but also with Islamic ethical expectations (Haniffa & Hudaib, 2007; Chapra, 1992). Empirical studies support the role of independent commissioners in reducing tax aggressiveness. Lanis & Richardson, (2011) found that a higher proportion of independent commissioners is associated with lower levels of tax aggressiveness. C.S Armstrong et al., (2015) concluded that independent board oversight is a significant factor in curbing aggressive tax strategies. Similarly, research by Seno Pitoyo et al., (2019) confirms that boards with greater independent representation can help mitigate risky tax avoidance practices. Given these considerations, it is hypothesized that:

H2: The independent commissioners affect tax aggressiveness

The audit committee plays a vital role in overseeing a firm's financial reporting and ensuring that tax strategies align with legal and ethical standards. Its effectiveness in mitigating tax aggressiveness depends on its independence and the financial literacy of its members. Independent members of the audit committee bring an unbiased perspective, which is essential for thorough and objective oversight. Their financial expertise allows them to identify and question aggressive tax strategies that may be designed to minimize tax liabilities in ways that are legally questionable or ethically dubious (Nguyen, 2020; Tjondro & Olivia, 2018). Through their diligent oversight, the audit committee ensures that the company's tax strategies are not only compliant with legal standards but also reflective of the firm's commitment to ethical conduct. The committee fosters a culture of compliance and integrity, preventing practices that could pose legal and reputational risks (Hatten, 2012; Lisic et al., 2019). In Islamic corporate governance, audit committees are entrusted with upholding values such as accountability (*hisbah*), integrity, and the fair distribution of obligations to society, ensuring that tax practices support the public good in accordance with sharia principles (Haniffa & Hudaib, 2007; Lewis, 2001; Chapra, 1992). Empirical research supports the audit committee's influence in reducing tax aggressiveness. Studies by Madah Marzuki & Syukur, (2021), Dang & Nguyen, (2022) and Ratnawati et al., (2019) demonstrate a negative relationship between audit committee effectiveness and tax aggressiveness.

H3: The audit committee affects tax aggressiveness.

Institutional ownership plays a crucial role in corporate governance by providing robust oversight and ensuring that companies adhere to ethical and legal standards, including those related to tax practices. This oversight becomes particularly significant in larger companies, which often have more complex operational structures and face higher levels of scrutiny from regulators and stakeholders. The moderating effect of firm size on the relationship between institutional ownership and tax aggressiveness can be understood through the varying governance dynamics across firms of different sizes. In large companies, the complexity of operations and the need for extensive compliance measures necessitate more effective oversight by institutional investors (Shan, 2019). Institutional investors possess the resources and influence to monitor management decisions, ensuring tax practices remain transparent and compliant. The heightened scrutiny from both regulators and the public also means that any aggressive tax practices in large companies are more likely to be detected and sanctioned, further discouraging such behavior (Jaffar et al., 2021; Seno Pitoyo et al., 2019). Empirical studies support this perspective. Within sharia-compliant governance, larger firms face heightened moral expectations to avoid exploitative tax practices and uphold principles of trust (*amanah*) and collective welfare (*maslahah*), which institutional investors are positioned to reinforce through rigorous oversight (Chapra, 1992; Dusuki & Abdullah, 2007). This suggests that firm size indeed moderates the relationship between institutional ownership and tax aggressiveness, with larger firms benefiting more from the governance and oversight provided by institutional investors.

H4: Firm size moderates the effect of institutional ownership on tax aggressiveness

Large companies, with their complex structures and high public visibility, benefit significantly from the increased oversight provided by independent commissioners. The role of boards of commissioners, particularly those with a substantial proportion of independent members, is crucial in controlling tax aggressiveness. In large companies, the effectiveness of independent commissioners is amplified due to the greater need for strict supervision and heightened accountability. Independent commissioners bring an unbiased perspective and a commitment to ethical governance, which is particularly valuable in large companies that face intense public and regulatory scrutiny (Green & Homroy, 2018); Trisakti, 2017). The complexity of operations in large companies demands more rigorous oversight to prevent aggressive tax planning, making the role of independent commissioners even more critical. Research supports the notion that the presence of independent commissioners is more effective in larger firms. Ratnawati et al., (2019) and Ebire et al., (2024) highlight that the greater public and regulatory scrutiny faced by large companies necessitates a higher level of oversight. This environment makes the contributions of independent commissioners more impactful in ensuring compliance with tax laws and mitigating tax aggressiveness. In Islamic business ethics, the role of independent commissioners in large firms carries added weight, demanding that tax decisions reflect not only regulatory compliance but also social responsibility, fairness (*'adl*), and stewardship (*amanah*) over public resources (Haniffa & Hudaib, 2007; Lewis, 2001). In summary, firm size moderates the relationship between the audit committee and tax aggressiveness. Larger companies, due to their complex operations and higher levels of scrutiny, benefit more from the presence of an effective audit committee, which plays a pivotal role in ensuring compliance with tax regulations and reducing aggressive tax policies.

H5: Firm size moderates the effect of the board of commissioners on tax aggressiveness

Large companies, with their complex structures and extensive operations, require robust audit committees to ensure compliance with tax regulations. The effectiveness of the audit committee in reducing tax aggressiveness becomes even more critical as firm size increases, due to greater financial complexity and stricter regulatory oversight (Beasley & Salterio, 2001). Independent and financially literate members bring unbiased perspectives essential for rigorous monitoring of management's tax planning decisions, helping to prevent aggressive strategies that could lead to legal risks and reputational damage (Hoffman, 1961). Empirical studies support this view, showing that strong, independent audit committees are particularly effective in large firms where thorough oversight is essential to mitigate tax aggressiveness (Seno Pitoyo et al., 2019; Lanis & Richardson, 2011). In summary, firm size moderates the relationship between the audit committee and tax aggressiveness, with larger firms benefiting more from effective audit committee oversight. For sharia-compliant firms, the audit committee's responsibilities in large organizations include ensuring that complex tax strategies align with principles of ethical accountability (*hisbah*), social justice (*'adl*), and the protection of community welfare (*maslahah*) (Chapra, 1992; Dusuki & Abdullah, 2007). In summary, firm size moderates the relationship between the audit committee and tax aggressiveness. Larger companies, due to their complex operations and higher levels of scrutiny, benefit more from the presence of an effective audit committee, which plays a pivotal role in ensuring compliance with tax regulations and reducing aggressive tax policies

H6: Firm size moderates the effect of the audit committee on tax aggressiveness

The research aims to address two main questions: firstly, to determine if institutional ownership, the board of commissioners, and the audit committee influence tax aggressiveness; and secondly, to explore how firm size moderates the impact of institutional ownership, the board of commissioners, and the audit committee on tax aggressiveness. Table 1 summarizes selected prior studies, their focus areas, and the identified gaps that this paper addresses by examining corporate governance mechanisms and tax aggressiveness in sharia-compliant firms in Indonesia through the lens of stakeholder theory, signal theory, and tax compliance theory.

Table 1. Literature Gap Summary

No.	Authors	Focus of Study	Identified Gap	The Study's Contribution
1	Armstrong et al. (2015); Lanis & Richardson (2011)	Corporate governance and tax aggressiveness (developed markets)	Focus on conventional firms in developed markets; no integration of Islamic ethics or sharia context	Examines governance mechanisms in sharia-compliant Indonesian firms, integrating Islamic ethics
2	Haniffa & Hudaib (2007); Lewis (2001)	Islamic corporate governance principles	Conceptual/theoretical focus; limited empirical testing in tax aggressiveness context	Provides empirical evidence on governance and tax aggressiveness in sharia stock companies
3	Jaffar et al. (2021); Seno Pitoyo et al. (2019)	Firm size moderation in governance–tax aggressiveness link	Tested in Malaysia and Indonesia but without explicit Islamic ethics or sharia market framework	Tests firm size moderation in sharia-compliant firms with Islamic ethical considerations
4	Ratnawati et al. (2019)	Governance mechanisms and tax aggressiveness with firm size as moderator	No integration of Islamic ethical theories; general Indonesian context	Integrates stakeholder theory, signal theory, and tax compliance theory from an Islamic perspective
5	Subekti & Ompusunggu (2023); Pratiwi et al. (2019)	Institutional ownership, audit quality, governance and tax avoidance	Focus on corporate governance broadly; lacks specific sharia stock market context	Focuses on institutional ownership, board, audit committee in sharia-compliant companies
6	Dang & Nguyen (2022); Madah Marzuki & Syukur (2021)	Audit committee characteristics and tax avoidance (emerging markets)	Examines audit committee generally without Islamic ethics dimension	Highlights audit committee role under Islamic ethics expectations in Indonesia's sharia capital market
7	Khan et al. (2016); Khurana & Moser (2009)	Institutional ownership and tax avoidance (international context)	Studies in Western contexts without local Indonesian / sharia nuance	Tests institutional ownership influence in sharia-compliant Indonesian firms under Islamic ethics

8	Alm & Wallace (2011); Kirchler (2007)	Tax compliance theory	Focus on taxpayer psychology in general, not firm-level governance in sharia setting	Applies tax compliance theory to firm-level governance and tax aggressiveness in sharia stocks

Method

The study adopted a census sampling technique, encompassing all companies listed on the Jakarta Islamic Index (JII) over the observation period from 2022 to 2024. The population consists of 90 companies, resulting in a total of 90 company-year observations for analysis in this three-year window. This study intentionally focuses on the most recent three-year period to capture the specific regulatory and economic environment that emerged in the aftermath of the COVID-19 pandemic. Using this shorter, focused period ensures that the data reflect current conditions without contamination from pre-pandemic structural breaks or policy changes that could introduce bias or reduce comparability. In Indonesia, corporate governance guidelines, tax regulations, and disclosure requirements have evolved rapidly in response to post-pandemic recovery efforts, prompting firms to adapt their governance and tax strategies significantly in just the last few years. By concentrating on 2022–2024, the study aims to capture this contemporary context, where policy measures, investor expectations, and ethical norms especially for sharia-compliant firms are all undergoing transition. Companies operating before and after the pandemic may have faced very different pressures in tax planning, with older data no longer representing current practices. A focused three-year period also aligns with practices in similar governance studies that prioritize temporal consistency and relevance over longer but less comparable time spans. Thus, this approach prioritizes analytical precision and relevance to present-day governance and tax behavior among JII firms.

The data used in this study comes from annual reports. Data analysis is conducted using multiple regression analysis to examine the direct relationship between independent and dependent variables, while moderated regression analysis is used to test the moderating role of firm size in these relationships. Firm size is a widely used structural indicator of company resources, complexity, and bargaining power (Jensen & Meckling, 1976;Chen et al., 2010). This study retains firm size measured by the natural logarithm of total assets as the moderating variable instead of net income before tax. Unlike net income before tax, which may be volatile and influenced by short-term operational shocks or accounting policies, total assets offer a stable proxy for organizational scale. Relying solely on net income before tax during and after such a period, as was the case with the Covid-19 pandemic, could introduce substantial bias or misrepresent the firm's underlying operational scale and strategic intent. This choice aligns with prior corporate governance literature examining tax aggressiveness (Lanis & Richardson, 2011; Minnick & Noga, 2010) and ensures comparability with related studies.

The first, second, and third hypotheses are tested using multiple regression analysis, while the fourth, fifth, and sixth hypotheses are tested using Moderated Regression Analysis (MRA). The variables and definition of the variables are available on table 1. In addition, to strengthen the validity of the moderation analysis, a robustness test was conducted by replacing the firm size measure. While the main model uses the natural logarithm of total assets (LogAssets) to represent firm size, this can be sensitive to capital-intensive firms. Therefore, the robustness test employs an alternative proxy, namely the natural logarithm of total sales (LogSales). This approach follows prior studies (Desai & Dharmapala, 2008; Bregham & Houston, 2006) suggesting sales can better capture operational scale for certain industries. The moderated regression analysis was rerun using LogSales to test whether the moderation results are consistent. This test aims to ensure the findings are robust to different operationalizations of firm size.

Table 2. Variables and Definition

Label	Variables	Definition	Measurement
InstOwn	Institutional Ownership	The proportion or percentage of a company's shares that are owned by institutional investors, such as mutual funds, pension funds, and insurance companies. Institutional ownership is typically measured by the number of shares held by these entities at the end of a reporting period. The institutional ownership can limit tax aggressiveness (Koh, 2003)	Percentage owned by institutional investors in the company's share of capital
BoardCom	Board of Commissioners	A group of individuals elected by shareholders to oversee corporate governance and provide strategic guidance to the management team. They are responsible for monitoring and ensuring that the company operates in the best interest of its shareholders. Thus, in large companies, the role of the board of commissioners will reduce tax aggressiveness (Firth et al., 2006)	The board of commissioners is measured by the number of board members in the company
AuditCom	Audit Committee	A subcommittee of the board of directors responsible for overseeing financial reporting and auditing processes within a company. The audit committee helps ensure the accuracy and transparency of financial statements and compliance with regulatory requirements. An audit committee that meets the specified requirements and carries out its roles and obligations well can reduce tax aggressiveness. (Abbott et al., 2004)	The audit committee is measured by the number of members of the audit committee found in the company
SIZE	Firm Size	The scale or magnitude of a company's operations, often measured by total assets, revenue, or market capitalization. In research, firm size is frequently represented using the natural logarithm of total assets to account for the nonlinear relationship between size and other variables. The larger a company is the tendency to tax aggressively is greater than that of small companies (Bregham & Houston, 2006)	The size of the company as measured by the number of assets owned by the company.

CETR	Tax Aggressiveness	The degree to which a company engages in aggressive tax planning strategies to minimize its tax burden, often measured by metrics such as the Cash Effective Tax Rate (CETR) (Hanlon & Heitzman, 2010)	Cash Effective Tax Rate (CETR) is formulated by comparing cash spent to pay taxes with income before tax

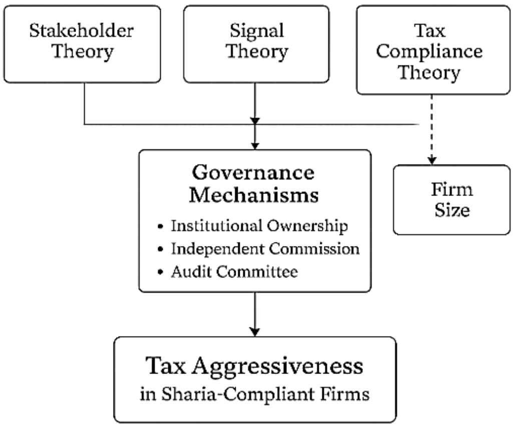

Figure 1. The conceptual framework

Figure 1 presents the conceptual framework which integrates Stakeholder Theory, Signal Theory, and Tax Compliance Theory to explain the relationship between governance mechanisms and tax aggressiveness in sharia-compliant firms. At the top, the three theories converge into the central concept of Governance Mechanisms, which includes Institutional Ownership, Independent Commissioners, and Audit Committee as key components. Firm Size is positioned as a moderating variable, connected with a dashed line to the governance box, indicating its potential influence on the strength of these relationships. The framework concludes with an arrow pointing to Tax Aggressiveness, emphasizing that the entire model operates within the context of firms adhering to Islamic principles. Subtle Islamic design elements in the background reinforce the sharia-compliant nature of the study.

Result and Discussion

Table 3 describes the results of descriptive statistical data processing. The following is a description and explanation of the table of minimum, maximum, mean and standard deviation values. Of the 90-sample data that meet the research criteria, it shows that the samples used are representative enough for further analysis. The data characteristics show a homogeneous distribution, which can be seen from the lower standard deviation compared to the average. Institutional Ownership: Institutional ownership in this research sample has a fairly high average, indicating that most of the companies in the sample have significant institutional ownership. This is important because institutional ownership can influence company policies, including tax aggressiveness. Independent Commissioners: The average number of independent commissioners in the sample is also quite high. Independent commissioners play an important role in company supervision and control, which can have an impact on the company's tax aggressiveness policy. Audit Committee: The audit committee in this research sample shows quite significant presence. The audit committee is tasked with ensuring that the company's financial reports are accurate and in accordance with applicable regulations, which can influence the level of tax aggressiveness. Firm Size: The size of the companies in the sample varies, but the average shows that most of the companies in the sample are large companies. Firm size can moderate the influence of institutional ownership, board of commissioners and audit committee on tax aggressiveness, in accordance with the hypothesis proposed in this research.

Table 3. The Results of Statistical Descriptive Test

Variable	N	Min	Max	Mean	Std.Dev
CETR	90	.057	.244	.17333	.054390
InstOwn	90	.225	.980	.68260	.196769
BoardCom	90	.200	.500	.36203	.085716
AuditCom	90	3.000	4.000	3.13333	.345746
Size	90	25.798	32.151	28.85373	2.017129

Source: Processed Data

Table 4. Results from the Classical Assumption Test and ANOVA

Assumptions	Standard	Results	Conclusion
Normality	KS, Sign > 0.05	0.900	Accepted
Autocorrelation	dU<DW<4-dU	1.6498<1.972<2.3502	Accepted
Multicollinearity	VIF <10; Tol >0.01	InstOwn Tol 0.987 VIF 1.014 BoardCom Tol 0.832 VIF 1.202 AuditCom Tol 0.833 VIF 1.200	Accepted
Heteroscedasticity	Sign > 0.05	InstOwn 0.242 BoardCom 0.097 AuditCom 0.268	Accepted
Anova	Sign < 0.05	0.02 Adjusted R Square 35.8%	Accepted

Source: Processed Data

Table 5. Findings from Hypothesis Testing

Variable	Coefficient	Std.Error	Sig	Result
InstOwn	-0,021	0,052	0,689	Rejected
BoardCom	-0,243	0,111	0,037	Accepted
AuditCom	-0,097	0,023	0,000	Accepted

Source: Processed Data

Table 6. Findings from Moderation Hypothesis Testing

Hypothesis	t	Sig	Result
Size moderates between InstOwn and CETR	-0.106	0.000000047	Rejected
Size moderates between BoardCom and CETR	-0.064	0.000000034	Rejected
Size moderates between AuditCom and CETR	0.216	0.830	Rejected

Source: Processed Data

Table 7. Robustness Test Results Using Log Sales as Moderator

Hypothesis	t	Sig	Result
LogSales moderates between InstOwn and CETR	-0.114	0.908	Rejected
LogSales moderates between BoardCom and CETR	-0.078	0.937	Rejected
LogSales moderates between AuditCom and CETR	0.203	0.841	Rejected

Source: Processed Data

Table 4 presents the results of the classical assumption tests, which affirm the reliability of the regression model employed in this study. The data fulfills the normality assumption, indicating that the distribution of residuals follows a normal pattern, a prerequisite for robust regression analysis. Furthermore, the absence of autocorrelation and heteroscedasticity confirms that the residuals are independent and exhibit constant variance across observations. Multicollinearity is also not a concern, as the variance inflation factors (VIF) and tolerance levels remain within acceptable thresholds, demonstrating that the independent variables do not interfere with each other. The ANOVA results further strengthen the validity of the model, showing that the governance variables jointly explain a substantial portion of the variation in tax aggressiveness. With an adjusted R^2 of 35.8%, the model accounts for more than a third of the variability in the dependent variable, suggesting that institutional ownership, the board of commissioners, and the audit committee collectively play a meaningful role in shaping corporate tax behavior.

As a robustness test result in table 7, we replaced the moderating variable of firm size measured by log total assets with log total sales. The results remain consistent in sign and significance, suggesting that the findings are robust to alternative operationalizations of firm size.

Table 5 shows the hypothesis result. First hypothesis: The influence of institutional ownership on tax aggressiveness is statistically insignificant, as indicated by a high p-value of 0.689. While this suggests that institutional ownership does not significantly deter aggressive tax strategies in the observed sample, this finding warrants deeper interpretation beyond the numerical outcome. From a theoretical perspective, institutional investors are often viewed as agents of good governance who are expected to promote transparency and long-term value creation (C.S Armstrong et al., 2015; Diantari & Ulupui, 2016; Khurana & Moser, 2009). However, the diversity among institutional investorsranging from active monitors to passive shareholders may explain the lack of consistent influence observed in this study (Dakhli, 2022). In the context of Islamic business ethics, this finding raises critical reflections. Sharia principles emphasize accountability (*hisbah*), justice (*'adl*), and the obligation to avoid harm (*darar*) through responsible economic behavior. Tax strategies that aim to exploit legal loopholes at the expense of societal contribution are not only discouraged but may also violate the moral imperative of *maslahah* (public benefit) (Lewis, 2001; Chapra, 1992). This finding that institutional ownership does not significantly influence tax aggressiveness differs from previous research. Compared to studies such Ervaniti et al., (2020); Abdul Wahab & Holland, (2012) and Kodriyah & Putri, (2019), which demonstrate that strong institutional ownership reduces aggressive tax planning through enhanced monitoring, this result suggests that in Indonesia's sharia-compliant market, institutional investors may vary widely in their commitment to ethical oversight (Haniffa & Hudaib, 2007; Subekti & Ompusunggu, 2023 and Velte, 2023), who highlight that institutional influence is effective only when investors are committed to long-term, ethical governance. Thus, the rejection of the first hypothesis does not invalidate the relevance of institutional ownership but rather signals the need for greater integration between governance practices and the ethical values espoused in Islamic finance. Further research could explore whether different types of institutional investors such as sharia-compliant funds versus conventional investors exert distinct influences on tax behavior in companies listed in Islamic markets.

Second hypothesis: The second hypothesis is supported by the results in Table 5, which indicate a significant influence of independent commissioners on tax aggressiveness, as shown by a p-value of 0.037. This suggests that the presence of independent commissioners meaningfully contributes to curbing aggressive tax behavior in sharia-compliant firms. Independent commissioners serve a critical governance function by offering impartial oversight and ensuring that management's decisions align with both shareholder interests and broader stakeholder concerns (Eksandy, 2017; Arifani & Kusuma, 2021). The significant effect of independent commissioners in reducing tax aggressiveness aligns with and is consistent with prior research. Compared to C.S Armstrong et al., (2015), Lanis & Richardson, (2011) and Seno Pitoyo et al., (2019), this study similarly finds that independent board members enhance transparency and accountability. Viewed through the lens of Islamic business ethics, independent commissioners have a duty to uphold accountability *(hisbah),* justice *(*'adl), and trust *(amanah)* in corporate decision-making, including tax strategy. Their role is to ensure that tax practices do not simply exploit regulatory gaps but reflect fairness, transparency, and responsibility toward society. Aggressive tax behavior, even if legal, can undermine public trust and violate the principle of *maslahah* (public benefit), emphasizing the need for ethical governance that aligns with sharia values (Chapra, 1992; Dusuki & Abdullah, 2007; Haniffa & Hudaib, 2007; Lewis, 2001). The role of independent commissioners as ethical guardians aligns with these values, as their oversight helps ensure that tax strategies are not only legally compliant but also socially just and ethically grounded. Their involvement enhances the credibility of corporate reporting and reinforces the organization's commitment to responsible governance. This result affirms the importance of robust board composition in promoting ethical and prudent financial decision-making. Empirical support for this finding is well documented. Arifani & Kusuma, (2021) confirm that firms with a higher proportion of independent commissioners are more likely to adopt conservative tax strategies, reflecting the influence of ethical oversight in shaping corporate behavior. Thus, this study strengthens the argument that independent commissioners play a pivotal role in aligning corporate tax practices with both regulatory frameworks and Islamic ethical standards.

Third hypothesis: The third hypothesis is supported by the results in Table 5, which show a highly significant influence of the audit committee on reducing tax aggressiveness, as reflected by a p-value of 0.000. This confirms that firms with effective audit committees are better positioned to curb aggressive tax strategies, underscoring the critical governance role played by such committees in overseeing financial integrity and regulatory compliance. Audit committees function as a key line of defense against unethical financial practices by monitoring internal controls, reviewing financial disclosures, and scrutinizing tax planning decisions (Nguyen, 2020; Tjondro & Olivia, 2018). Their independence and financial expertise equip them to identify and challenge aggressive tax schemes that might seek to exploit loopholes or obscure liabilities. This oversight ensures that management adheres to both regulatory requirements and the ethical expectations of stakeholders, protecting the firm from legal penalties and reputational harm (Hatten, 2012; Lisic et al., 2019). In sharia-compliant firms, this role is further amplified by Islamic ethical principles that stress accountability (*hisbah*), fairness (*'adl*), trust (*amanah*), and the pursuit of public benefit (*maslahah*). Aggressive tax avoidance, even when technically legal, may conflict with the moral imperative to contribute fairly to society's collective needs. The audit committee, in this context, acts as an ethical gatekeeper ensuring that tax strategies align with both legal obligations and sharia-based values of social justice and responsibility (Haniffa & Hudaib, 2007; Lewis, 2001; Chapra, 1992). This finding emphasizes that a well-functioning audit committee is not merely a regulatory requirement but a vital component of ethical corporate governance. By fostering transparency and robust oversight, the audit committee helps create a culture that prioritizes compliance, integrity, and sustainable value creation. The finding that effective audit committees significantly reduce tax aggressiveness is consistent with prior studies. Compared to (Madah Marzuki & Syukur, 2021; Dang & Nguyen, 2022; Ratnawati et al., 2019). Thus, the evidence supports the argument that effective audit committees play a pivotal role in aligning corporate tax practices with both regulatory expectations and the ethical principles central to Islamic finance.

From the results of the moderation test with Moderated Regresion Analysis (MRA) in this study, it can be explained as follows:

Fourth hypothesis: The fourth hypothesis investigates whether firm size moderates the relationship between institutional ownership and tax aggressiveness. The results in Table 6 indicate that this moderating effect is not significant, suggesting that institutional ownership's influence on tax aggressiveness does not vary meaningfully with firm size. This finding implies that institutional investors maintain relatively consistent expectations and oversight practices across companies of different scales, whether large or small. Institutional investors are often regarded as key agents of corporate governance, promoting transparency and long-term value regardless of firm size (C.S Armstrong et al., 2015; Diantari & Ulupui, 2016; Khurana & Moser, 2009). Their monitoring role typically focuses on reducing information asymmetry and discouraging risky management behavior, including aggressive tax strategies. The absence of a moderating effect here suggests that such governance pressures are applied uniformly across firms, reflecting a general commitment to responsible corporate conduct. However, this result also raises important reflections within the framework of Islamic business ethics. Chapra, (1992); Dusuki & Abdullah, (2007); Haniffa & Hudaib, (2007); Lewis, (2001) state that sharia-based governance frameworks promote principles of justice *('adl),* trust *(amanah)*, and accountability (*hisbah*) as core obligations in all business activities. These ethical foundations call for uniform standards of conduct regardless of a firm's scale or influence. The absence of a moderating effect by firm size may indicate that institutional investors in sharia-compliant companies see their role as upholding these universal moral commitments to fairness and collective welfare *(maslahah)* throughout the market. While prior research such as Jaffar et al., (2021) and Seno Pitoyo et al., (2019) found that institutional ownership effects could vary with firm size, this study's findings indicate a more uniform influence. This could reflect a market context where governance standards particularly those inspired by Islamic ethical frameworks are expected to be consistently applied to promote transparency and discourage exploitative practices regardless of scale. Ultimately, these results reinforce the importance of institutional ownership as a governance mechanism, while also highlighting the need for investors to consciously integrate Islamic ethical values into their monitoring roles to ensure equitable and responsible tax behavior throughout the corporate sector. Studies by Hsu et al., (2018) also emphasize that ethical investment standards should apply consistently, regardless of firm scale.

Fifth hypothesis: The fifth hypothesis examines whether firm size moderates the relationship between the board of commissioners and tax aggressiveness. The results in Table 6 indicate that this moderating effect is not statistically significant, suggesting that the influence of the board of commissioners on reducing tax aggressiveness does not meaningfully differ between large and small firms. This finding implies that effective board oversight operates as a universally relevant governance mechanism, maintaining its importance regardless of organizational scale. The role of independent commissioners in enhancing transparency, accountability, and ethical governance is well established (Eksandy, 2017; Arifani & Kusuma, 2021). Their capacity to provide unbiased oversight and challenge management decisions that may encourage aggressive tax strategies is crucial for safeguarding stakeholder interests. The absence of a significant moderating effect by firm size indicates that these governance benefits are consistently applicable across firms, reinforcing the need for strong and independent boards at all levels. Haniffa & Hudaib, (2007); Lewis, (2001) and Chapra, (1992) argue that from an Islamic ethical perspective, this result aligns with sharia principles that emphasize universal values of fairness (*'adl*), trustworthiness (*amanah*), and accountability (*hisbah*). These values are not conditional on the size or prominence of the firm but are expected of all corporate actors in ensuring just and responsible economic behavior. Aggressive tax practices that exploit legal loopholes can undermine societal welfare (*maslahah*), making consistent ethical oversight vital across the corporate sector. While prior studies such as Ratnawati et al., (2019) and Ebire et al., (2024) suggest that firm size can influence the effectiveness of board oversight, the present findings highlight a context where ethical governance practices appear robust and universally applicable. This consistency underscores the critical role of independent commissioners in promoting responsible tax strategies and aligning corporate behavior with both regulatory standards and the moral imperatives of Islamic business ethics. Compared to those findings, this study implies that sharia-compliant companies maintain consistent governance practices across sizes, in line with ethical expectations and Islamic principles of fairness and accountability (Butar-Butar et al., 2024).

Sixth hypothesis: The sixth hypothesis investigates whether firm size moderates the relationship between the audit committee and tax aggressiveness. The results in Table 6 reveal no significant moderating effect, suggesting that the audit committee's influence in mitigating aggressive tax practices remains consistent regardless of firm size. This finding indicates that effective audit committee oversight is universally valuable, whether applied in large corporations with complex structures or in smaller firms with simpler operations. The audit committee plays a central role in maintaining the integrity of financial reporting and ensuring compliance with tax regulations (Nguyen, 2020; Tjondro & Olivia, 2018). Independent and financially literate members can effectively scrutinize tax planning, deter aggressive strategies, and uphold high standards of governance. The absence of a significant moderating effect by firm size underscores that these governance functions are consistently important across the corporate spectrum. Chapra, (1992); Dusuki & Abdullah, (2007); Haniffa & Hudaib, (2007) and Lewis, (2001) state that islamic ethics frame corporate responsibilities through principles such as justice (*'*adl), accountability (*hisbah*), and trust (*amanah*), which must be upheld consistently regardless of firm size. In the area of tax compliance, these values demand uniform ethical conduct to safeguard societal interests (*maslahah*). In this light, the audit committee is not merely a procedural necessity but also a moral steward, ensuring that tax strategies conform not only to legal standards but also to the ethical imperatives of sharia. Although previous research such as Seno Pitoyo et al., (2019) and Lanis & Richardson, (2011) suggested that firm size might influence the audit committee's effectiveness, this study's results highlight a context where consistent, rigorous oversight remains vital regardless of scale. This reinforces the importance of establishing strong, independent, and knowledgeable audit committees in all firms to ensure responsible and ethical tax strategies aligned with both regulatory standards and the principles of Islamic business ethics (Maharani & Baroroh, 2020).

The reasons for the insignificance of the moderating variable: Although the moderating effect of firm size on the relationship between governance mechanisms and tax aggressiveness was not statistically significant, several contextual factors may explain this result. First, the relatively uniform regulatory environment for sharia-compliant firms in Indonesia may reduce variation in governance effectiveness across different firm sizes. The Financial Services Authority of Indonesia (OJK) imposes consistent disclosure and governance requirements on all listed sharia-compliant companies, which could standardize practices regardless of scale. Second, the Indonesian Islamic capital market is still maturing, with limited differentiation in investor pressure or market scrutiny between large and small sharia-compliant firms. Institutional investors and regulators may prioritize compliance with sharia principles broadly rather than applying stricter oversight selectively to larger firms. Third, the post-pandemic period (2022–2024) may have intensified efforts to harmonize governance practices across the market to rebuild investor trust, further narrowing differences in how firm size influences governance effectiveness. As a result, governance mechanisms such as independent commissioners and audit committees may exert similar influence on tax aggressiveness regardless of firm size, reflecting a convergence in ethical expectations and regulatory enforcement within the sharia-compliant sector.

Concusion

In conclusion, this study provides important empirical evidence on the role of corporate governance mechanisms in shaping tax aggressiveness among companies trading sharia-compliant stocks in Indonesia. The findings show that institutional ownership does not have a significant effect on reducing tax aggressiveness, whereas independent commissioners and effective audit committees significantly mitigate aggressive tax strategies. Moreover, firm size does not moderate these relationships, indicating that strong governance practices are critical regardless of a company's scale or complexity. These results carry several implications.

For theory**,** the study extends existing governance and tax avoidance literature by integrating Islamic ethical perspectiveshighlighting how sharia principles of fairness (*'adl*), accountability (*hisbah*), trust (*amanah*), and public benefit (*maslahah*) can inform models of tax compliance. The absence of a significant moderating effect of firm size suggests that ethical governance standards inspired by Islamic principles are universally applicable and should not vary with firm scale, providing new theoretical insight into the ethics of tax planning in Islamic markets. Future theoretical work might further develop models that explicitly account for religious ethical frameworks as moderators or mediators in tax governance relationships.

For practice**,** the findings underscore the importance of strengthening the independence, expertise, and ethical orientation of corporate boards and audit committees to deter aggressive tax behavior. Companies listed on Islamic indexes should prioritize governance training that integrates both technical and sharia-based ethical considerations. The Financial Services Authority of Indonesia (OJK) could also develop more tailored guidelines and corporate governance codes for sharia-compliant firms that emphasize not only formal compliance but also ethical substance, supporting broader goals of accountability and transparency in Indonesia's growing Islamic capital market. For society, reducing tax aggressiveness has direct implications for fairness and public welfare. Aggressive tax avoidance strategies, while sometimes legal, can undermine state revenue needed for social development, and contradict the ethical values expected in Islamic markets. Encouraging strong governance mechanisms that limit such practices can help build public trust, ensure equitable tax contribution, and strengthen the legitimacy of sharia-compliant finance as an ethical alternative in the broader economy.

Future Research

For future research**,** there is an opportunity to expand this study by examining additional variables that may influence tax aggressiveness in sharia-compliant firms. Variables such as managerial ownership, executive compensation incentives, board gender diversity, audit quality, or the role of sharia supervisory boards could offer deeper insight. Moreover, comparative studies between sharia-compliant and conventional firms, or across different Islamic financial markets, could reveal how context shapes governance effectiveness in managing tax aggressiveness. Longitudinal designs might also capture how evolving regulations and ethical norms impact corporate behavior over time. In sum, this study contributes to bridging the gap between corporate governance, Islamic ethics, and tax behavior, emphasizing the need for holistic, ethically informed governance frameworks to promote responsible, transparent, and socially beneficial tax practices in sharia-compliant markets.

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