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CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY, POLITICAL CONNECTIONS, AND TAX AVOIDANCE IN A DEVELOPING COUNTRY: A SYSTEMATIC LITERATURE REVIEW OF INDONESIAN EVIDENCE

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Abstract
Tax avoidance is a central corporate-governance and fiscal issue in developing countries, where tax revenues are important but enforcement and governance quality remain heterogeneous. This systematic literature review synthesizes Indonesian corporate evidence on Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), political connections, and tax avoidance. Following the PRISMA 2020 logic, the review documented 14 records identified through Google Scholar and SINTA searches conducted with Publish or Perish, supplemented by Scopus and Web of Science verification. After screening and eligibility assessment, 11 primary empirical studies were retained and three records were excluded as out-of-scope or secondary/contextual literature. The synthesis indicates that political connections are the most consistently reported positive correlate of tax avoidance, although the relationship is not universal. Conventional GCG proxies do not consistently reduce tax avoidance in isolation, while CSR produces ambivalent results that are consistent with both an ethical-constraint mechanism and a legitimacy-shield mechanism. Firmansyah et al. (2022) provides particularly strong evidence: political connections and investment opportunity sets increase tax avoidance, whereas CSR disclosure weakens those positive effects. Measurement heterogeneity, especially differences among ETR, CETR, BTD, and related proxies, contributes to divergent findings. The review concludes with implications for tax-risk profiling, governance evaluation, and future causal research.
Keywords: Corporate governance; Corporate social responsibility; Developing country; Political connections; Tax avoidance

INTRODUCTION

Taxation is a critical fiscal instrument and a major source of public revenue in developing countries. In Indonesia, corporate tax collection is affected not only by statutory rates but also by firms’ reporting choices, governance arrangements, political embeddedness, and enforcement conditions. Tax avoidance refers here to arrangements that reduce tax liabilities by exploiting gaps or ambiguities in applicable rules. Although legally distinct from tax evasion, tax avoidance can reduce the tax base and complicate the effectiveness of fiscal policy.

Corporate tax behavior is shaped by both internal and external mechanisms. Agency theory predicts that managers may pursue tax avoidance to increase after-tax cash flow, while governance mechanisms are expected to constrain opportunism (Jensen & Meckling, 1976). Stakeholder and legitimacy perspectives instead emphasize the social expectations surrounding corporate tax contributions and CSR disclosure. Political connections may provide access to information, public contracts, or protection from regulatory uncertainty, thereby changing the perceived cost of aggressive tax planning. These mechanisms may operate simultaneously rather than independently.

Prior Indonesian studies report inconsistent results. Independent commissioners and audit committees are often statistically insignificant when tested separately, whereas political connections are frequently associated with higher tax avoidance. CSR findings range from negative to insignificant and positive associations. These differences may reflect substantive theoretical variation, sectoral context, endogeneity, or measurement heterogeneity.

A systematic synthesis is therefore needed to distinguish what is supported by the reviewed evidence from what remains a conceptual explanation.

This review addresses six questions: (1) how GCG relates to tax avoidance; (2) how CSR relates to tax avoidance and why results differ; (3) how political connections affect tax avoidance and under what conditions; (4) how measurement choices explain heterogeneity; (5) how the relevant theories can be integrated; and (6) what policy and research agenda follows from the evidence. The contribution is an integrated framework linking internal monitoring, social disclosure, political resources, and tax-enforcement perceptions.

LITERATURE REVIEW

Theoretical synthesis

Agency theory frames tax avoidance as a potential agency outcome because managers possess information that shareholders and regulators do not. GCG can reduce opportunistic behavior only when formal structures translate into effective monitoring. Stakeholder theory treats tax payment as part of corporate accountability to governments and communities. Legitimacy theory allows CSR to have two meanings: substantive responsibility that constrains aggressive behavior, or symbolic disclosure that protects the firm's public image without changing underlying tax conduct.

Resource dependence theory explains political connections as strategic access to external resources. The political-cost hypothesis provides a counter-mechanism: politically visible firms may avoid aggressive tax positions when public scrutiny and reputational costs are high. The Slippery Slope Framework further suggests that perceived power and trust in tax authorities affect voluntary compliance. Together, these theories imply that political connections can either increase or, under high scrutiny, constrain tax avoidance; the direction is an empirical question.

Table 1. Theoretical mapping

Theory	Core mechanism	Expected implication	Main limitation
Agency theory	Information asymmetry and managerial opportunism	Weak monitoring may increase tax avoidance	Does not fully explain institutional heterogeneity
Stakeholder theory	Accountability to affected stakeholders	Substantive CSR should reduce aggressive tax behavior	Difficult to distinguish substantive from symbolic CSR
Legitimacy theory	Alignment with social norms	CSR may reduce or mask tax avoidance	Decoupling is difficult to measure directly
Resource dependence. theory	Access to external resources and protection	Political connections may facilitate tax avoidance	May understate scrutiny and political-cost effects
Political-cost hypothesis	Reduction of public and regulatory attention	Visibility may constrain aggressive tax planning	Prediction can reverse across contexts
Slippery Slope Framework	Perceived power and trust in tax authority	Higher enforcement power and trust should improve compliance	Corporate-level Indonesian evidence remains limited

Source: data proceed

Measurement considerations

Tax avoidance is multidimensional. ETR measures tax expense relative to pre-tax income; CETR uses cash taxes paid; BTD captures the difference between accounting and taxable income; and long-run ETR reduces some short-term volatility. These measures are not interchangeable. CSR indices generally measure disclosure coverage rather than substantive social outcomes. Political connection is commonly coded as a binary indicator, which may obscure the intensity, type, and institutional value of the connection.

METHODS

Review design and search protocol

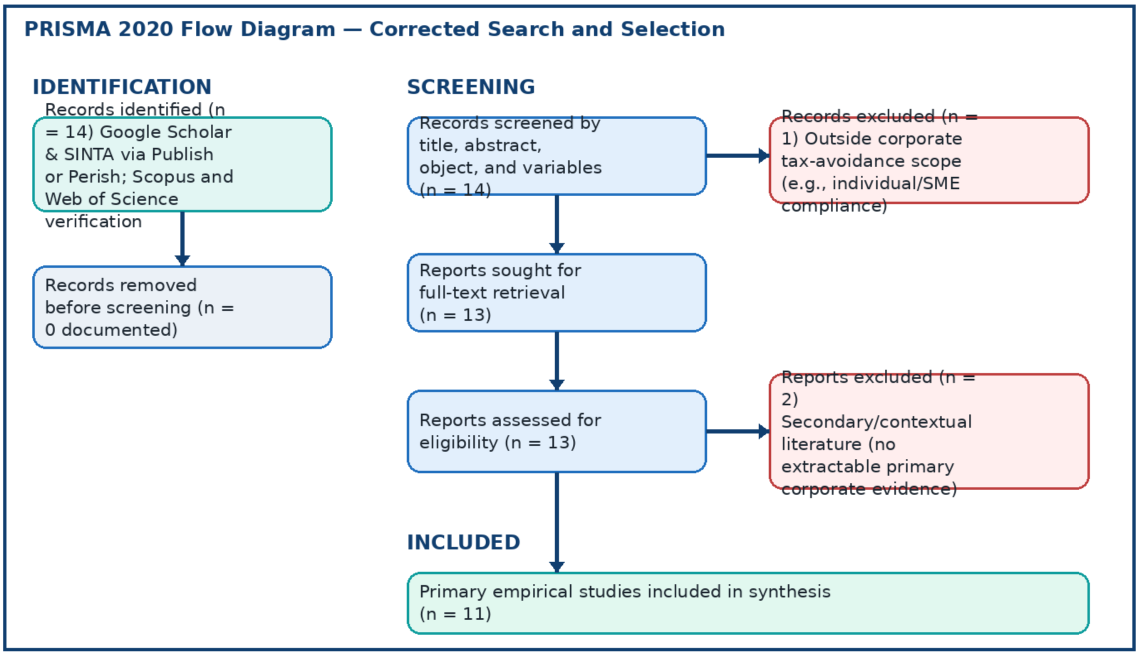
This study used a systematic literature review informed by PRISMA 2020 reporting logic (Page et al., 2021). The search protocol was corrected to distinguish databases from the search interface. Google Scholar and SINTA were searched through Publish or Perish. Scopus and Web of Science were used for supplementary bibliographic verification and citation tracing. The search and screening record documented 14 records. Because the original search log was incomplete, the flow diagram reports only counts that can be reconciled with the available corpus and explicitly labels the verification role of Scopus and Web of Science.

Eligibility criteria and corpus reconciliation

Records were eligible when they (a) examined tax avoidance, tax aggressiveness, or corporate tax behavior as an outcome; (b) included at least one GCG, CSR, or political-connection variable; (c) analyzed corporations, preferably listed Indonesian firms; (d) reported an empirical method and interpretable findings; and (e) were published between 2019 and 2026. Reviews, meta-analyses, individual or SME tax-compliance studies without a corporate tax-avoidance outcome, duplicates, and records with insufficient methodological information were excluded.

The reviewer's concern about "only 14 articles" is addressed by making the unit of analysis explicit. Fourteen is the documented number of records retrieved, not the final number of studies synthesized. One record was outside the corporate tax-avoidance scope and two were secondary or contextual works. Accordingly, the final synthesis contains 11 primary empirical studies. Firmansyah et al. (2022) is included among these 11 because it directly examines political connections, CSR disclosure, and tax avoidance in Indonesian manufacturing firms and is published in Heliyon.

Figure 1. PRISMA-based identification, screening, eligibility, and inclusion flow. Search sources and verification roles are separated to avoid conflating Publish or Perish with bibliographic databases.



Source: data proceed

RESULTS AND DISCUSSION
Characteristics of primary studies

Table 2. Study Characteristics

No.	Study	Object/context	Main variables	Tax proxy	Method	Main finding
1	Lestari et al. (2019)	Listed manufacturing/ mining	Political connections; capital intensity	Tax aggressiveness	Panel regression	Joint model significant; political connection not significant alone
2	Fajri & Rusydi (2020)	Manufacturing, 2016–2018	Political connections; ROA; leverage; size	Tax avoidance	Panel regression	Political connection positive and significant
3	Maidina & Wati (2020)	Corporate firms	Political connections; GCG; performance	Tax avoidance	Regression	Political connection and performance positive; GCG insignificant
4	Suwandi (2021)	Corporate firms	GCG; political connection interaction	Tax avoidance	Moderated regression	GCG alone insignificant; interaction positive and significant
5	Juliana & Stiawan (2022)	Corporate firms	CSR; transfer pricing; political connections	Tax avoidance	Regression	Transfer pricing and political connections significant; CSR insignificant
6	Firmansyah et al. (2022)	42 listed manufacturing firms, 2014–2019; 252 observations	Political connections; investment opportunity set; CSR moderator	Tax avoidance	Two panel-regression models	Political connections and IOS positive; CSR disclosure weakens both positive effects
7	Sari et al. (2022)	Corporate firms	Capital intensity; profitability; political connections; CFC moderator	Tax avoidance	Moderated regression	Capital intensity and political connections positive; profitability negative; CFC moderates
8	Sholihah & Rahmiati (2024)	Manufacturing firms, 2017–2022	Leverage; sales growth; fiscal-loss compensation; political connections	Tax avoidance	Panel regression	Leverage positive; other focal variables insignificant
9	Batubara & Lastanti (2024)	Corporate firms	Political connection; earnings management; CSR; GCG moderator	Tax avoidance	Moderated regression	Political connection and CSR positive; earnings management

						negative; GCG non-moderating
10	Jamilah & Agustini (2024)	Corporate firms	GCG; capital intensity; political connections	Tax avoidance	Panel regression	GCG insignificant; capital intensity and political connections positive
11	Layli & Latif (2026)	Corporate firms	Firm size; political connections; institutional ownership	Tax aggressiveness	Panel regression	Political connection positive; institutional ownership negative; size insignificant

Note. NR = not reported in the available project record. The review does not infer a proxy when the source record does not state it.

Political connections and tax avoidance

Political connections show the clearest positive pattern in the corpus. Fajri and Rusydi (2020), Firmansyah et al. (2022), Sari et al. (2022), Batubara and Lastanti (2024), Jamilah and Agustini (2024), and Layli and Latif (2026) report positive associations or effects. Firmansyah et al. (2022) is especially important because it uses 42 Indonesian manufacturing companies and 252 firm-year observations and directly models CSR as a moderator. Its results indicate that political connections increase tax avoidance, while CSR disclosure weakens that positive relationship. This finding integrates the political-resource and legitimacy mechanisms rather than treating CSR and political connections as unrelated predictors.

The pattern is not universal. Lestari et al. (2019), Sholihah and Rahmiati (2024), and some specifications in Maidina and Wati (2020) report insignificant partial effects. Political visibility, sectoral scrutiny, model controls, and the operational definition of a political connection may explain these differences. The defensible conclusion is therefore that political connections are a strong and recurrent correlate, not a deterministic cause in every specification.

GCG: formal structure versus effective monitoring

Conventional GCG proxies, including independent commissioners and audit committees, are generally insignificant when tested in isolation. This pattern is consistent with a gap between formal compliance and substantive monitoring, but tokenism is an interpretation rather than a mechanism directly tested by most studies. Suwandi (2021) adds an important contingency: the interaction between political connections and GCG is positive and significant. Governance should therefore be evaluated within the firm’s political and institutional environment, not solely by counting formal governance bodies.

CSR: ethical constraint versus legitimacy shield

CSR results are the most heterogeneous. Juliana and Stiawan (2022) report no significant CSR effect, whereas Batubara and Lastanti (2024) report a positive association with tax avoidance. Firmansyah et al. (2022) provides the most nuanced evidence: CSR disclosure weakens the positive effects of political connections and investment opportunity sets on tax avoidance. The combined evidence supports a conditional dual-mechanism interpretation. Substantive CSR can constrain aggressive tax behavior, while symbolic disclosure may operate as a legitimacy shield. Disclosure indices alone cannot reliably distinguish these mechanisms.

Measurement heterogeneity and methodological limitations

Differences among ETR, CETR, BTD, and long-run measures can change the apparent direction and significance of tax-avoidance results. Accrual-based measures may be sensitive to accounting choices, while cash-based measures may be distorted by temporary timing differences and capital intensity. Because the available records do not report the tax proxy consistently, measurement heterogeneity is a plausible explanation but cannot be tested exhaustively in this review.

The evidence base also faces potential endogeneity, reverse causality, omitted-variable bias, inconsistent control sets, and sector concentration. Political connection is often measured with a binary dummy that does not capture relationship intensity. Few records explicitly report stronger causal or robustness strategies such as instrumental variables, propensity-score matching, difference-in-differences, or dynamic-panel GMM. These limitations restrict causal interpretation.

Research gaps and agenda

Table 3. Research Gaps and Future Research Agenda

Gap	Evidence	Recommended agenda	Suggested method
Geographic scope	All primary studies focus on Indonesia	Compare ASEAN and other developing countries	Cross-country panel studies
Political-connection measurement	Mostly binary indicators	Measure type, intensity, and institutional channel	Validated multidimensional index
CSR quality	Mostly disclosure indices	Separate substantive outcomes from symbolic disclosure	Content analysis plus external performance data
Tax-avoidance proxy	Inconsistent and often unreported	Use multiple proxies simultaneously	Sensitivity and measurement models
Endogeneity	Rarely tested explicitly	Identify causal variation	IV, DID, dynamic panel/GMM
Governance effectiveness	Formal structures dominate	Measure monitoring activity and quality	Archival data plus survey/interview evidence
Three-way interaction	GCG × CSR × political connection largely untested	Test contingent institutional mechanisms	Hierarchical moderated regression

Source: data proceed

Conclusion and Implications

This review reconciles a documented corpus of 14 records into 11 eligible primary empirical studies and three excluded records. Political connections are the most consistently positive correlate of tax avoidance in Indonesian evidence, but the effect varies across sectors and specifications. GCG structures do not consistently reduce tax avoidance when measured formally and independently. CSR is ambivalent: it may constrain tax avoidance when substantive, but it may also provide legitimacy without changing underlying behavior. Firmansyah et al. (2022) is a central study, not an ancillary reference, because it directly links political connections, CSR disclosure, and tax avoidance and demonstrates the moderating role of CSR.

For tax authorities, the evidence supports risk profiling that combines tax ratios, political exposure, ownership structure, related-party transactions, and CSR disclosure, while avoiding the assumption that any single indicator proves avoidance. For capital-market regulators, governance evaluation should emphasize monitoring effectiveness rather than the mere existence of committees and independent commissioners. Future research should preregister search protocols, report complete bibliographic and measurement information, use multiple tax-avoidance proxies, and address endogeneity with stronger causal designs.

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