Website:
ejournal.umm.ac.id/index.php/jrak

***Correspondence:**
fadlilabdani@uin-malang.ac.id

DOI: 10.22219/jrak.v16i3.44227

Citation:
Abdani, F., Istiqomah, D. F., Putra, Y. H. S. (2026). Military Experience and Tax Avoidance: Does Institutional Quality Matter? Jurnal Reviu Akuntansi Dan Keuangan, 16(3), 733-747.

Article Process
Submitted:
March 5, 2026

Reviewed:
March 10, 2026

Revised:
June 27, 2026

Accepted:
June 27, 2026

Published:
September 4, 2026

Office:
Department of Accounting
University of
Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

MILITARY EXPERIENCE AND TAX AVOIDANCE: DOES INSTITUTIONAL QUALITY MATTER?

Fadlil Abdani[1*], Dyah Febriantina Istiqomah[2], Yuniarti Hidayah Suyoso Putra[3]

Affiliation:

[1,2,3]Department of Accounting, Faculty of Economics, Universitas Islam Negeri Maulana Malik Ibrahim, Malang, Indonesia

ABSTRACT

Purpose: This study aims to identify the relationship between Military Experience (ME) and Tax Avoidance (TA), as well as to examine the role of Rule of Law (ROL) and Control of Corruption (COC) as moderators in the context of Indonesia.

Methodology/approach: This study uses 1,335 firm-year observations from publicly listed companies in Indonesia. Hypothesis testing was conducted through regression analysis and testing of moderating variables.

Findings: This study found that Military Experience (ME) is positively and significantly correlated with Tax Avoidance (TA), confirming its role as a political connection. MEB and MEC are negatively and significantly correlated with TA, suggesting that their supervisory role is effective in suppressing tax avoidance.

Practical implications: The limitation of this study lies in the use of Military Experience measurements, which could be further developed by using education or military level as indicators.

Originality/value: This study confirms that ME's influence is situational, with discipline and regulatory compliance values weaker among boards or commissioners with a military background in developing countries.

Keywords: Control of Corruption; Military Experience; Rule of Law; Tax Avoidance.

ABSTRAK

© 2026 Fadlil Abdani, Dyah Febriantina Istiqomah, Yuniarti Hidayah Suyoso Putra
Jurnal Reviu Akuntansi dan Keuangan is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License

Tujuan penelitian: Penelitin ini bertujuan untuk mengidentifikasi hubungan antara Military Experience (ME) dan Tax Avoidance (TA), serta melihat peran Rule of Law (ROL) dan Control of Corruption (COC) sebagai pemoderasi dalam kerangka teo-tier context di Indonesia.

Metode/pendekatan: Penelitian ini menggunakan 1,335 observasi perusahaan-tahun dari perusahaan publik di Indonesia. Pengujian hipotesis dilakukan melalui analisis regresi dan menguji variabel moderasi.

Hasil: Penelitian ini menemukan hasil bahwa Military Experience (ME) berkorelasi positif dan signifikan dengan Tax Avoidance (TA), menegaskan peran ME menjadi political connection. Military Commissioners (MEC) justru berkorelasi negatif dan signifikan dengan TA, menunjukkan efektifitas pada peran pengawasan dalam menekan perilaku penghindaran pajak.

Implikasi praktik: Keterbatasan penelitian ini terletak pada penggunaan pengukuran Military Experience, sehingga dapat dikembangkan dengan menggunakan pendidikan atau level militer.

Orisinalitas/kebaharuan: Penelitian ini menegaskan konstribusi penting bahwa pengaruh ME bersifat situasional, di mana di negara berkembang nilai-nilai disiplin dan kepatuhan regulasi menjadi lemah pada dewan atau komisaris berlatar belakang militer.

Kata kunci: Control of Corruption; Military Experience; Rule of Law; Tax Avoidance.

INTRODUCTION

Tax avoidance is currently a hot global issue under study by academics worldwide. The implementation of tax avoidance practices is not classified as a violation of the law; however, these practices can reduce state revenue, worsen fiscal inequality, and undermine corporate accountability for Corporate Social Responsibility (Hanlon & Heitzman, 2010; Richardson & Lanis, 2011). In this case, it relates to the quality of governance because tax planning is strongly influenced by corporate policy and management orientation (Armstrong et al., 2015; Desai & Dharmapala, 2006; Oats & Tuck, 2019).

Several studies on corporate governance examine structural aspects (board size and committee composition) and emphasize the importance of behavioral governance (Farooq et al., 2024; Hambrick & Mason, 1984; Richardson & Lanis, 2011). Military experience is an interesting background that is recognized as an important factor in changing managerial behavior and decision-making. Previous studies have stated that managers with a military background have a high level of accountability, discipline while on duty, and obedience to the law (Benmelech & Frydman, 2015; Law & Mills, 2017; Pavićević & Keil, 2025). Managers experience uncertainty in decision-making regarding these values, especially when there is ambiguity (grey areas) in reporting or planning.

Research conducted in the United States shows that managers with military backgrounds tend to engage in lower levels of tax avoidance than managers without military experience. Managers prefer non-aggressive tax planning, minimize tax reserves, and rarely use tax havens (Benmelech & Frydman, 2015; Law & Mills, 2017). These findings reinforce the characteristic that individuals with military experience serve as internal controls, particularly when company performance is difficult to measure or evaluate ex-post. Therefore, it is important to examine whether military experience is associated with tax avoidance, particularly in developing countries with diverse institutional frameworks (Law & Mills, 2017; Sumual & Karundeng, 2022).

The case for Indonesia is particularly distinct and urgent to study because military experience has often rendered military-connected individuals an exceptionally powerful non-market political linkage in the corporate sector (Sumual & Karundeng, 2022). In Indonesia, a military background indicates personal discipline and is widely utilized by companies as they turn to their political ties to circumvent regulatory loopholes and gain tax advantages (Sumual & Karundeng, 2022). Indonesia is an emerging market, and the legacy of military corporate governance systems has difficult-to-understand effects on corporate tax behavior that differ from what contemporary theories might suggest (Natalia & Isnalita, 2025; Wahab et al., 2024).

Several researchers have examined the relationship between military involvement and corporate tax avoidance practices (Law & Mills, 2017; Sumual & Karundeng, 2022; Wahab et al., 2024). Tax avoidance in companies is influenced not only by internal characteristics but also by external factors such as the institutional environment. The high level of uncertainty in the quality of institutions, especially in developing countries such as Indonesia, including ineffective law enforcement and high levels of corruption, has an impact on managerial incentives related to compliance and tax planning strategies (Nurferyanto & Takahashi, 2024; Rosid et al., 2018).

The rule of law (ROL) plays an important role in determining the extent to which military principles influence attitudes in corporate environments. Military expertise generally shapes behavior that is submissive to regulations and hierarchical organizational structures (Benmelech & Frydman, 2015; Law & Mills, 2017; Pavićević & Keil, 2025). The effectiveness of the rule of law (ROL) motivates managers with military backgrounds to enforce strict laws, aiming to be more cautious and avoid aggressive tax planning strategies (Law & Mills, 2017; Wahab et al., 2024). Meanwhile, if the rule of law (ROL) is weak, it will have an impact on the uncertainty of the implementation of applicable laws to the extent of a lack of discipline from military experience and make managers more powerful by exploiting legal loopholes without fear.

The literature on the influence of military connections or experience on tax avoidance is diverse. Wahab et al. (2024) and Sumual and Karundeng (2022) found that the presence of board members with military backgrounds can influence tax avoidance. However, internal governance factors such as board size and auditor presence also influence this impact. There is a theoretical and empirical debate: military discipline values have the potential to suppress tax avoidance (Law & Mills, 2017), but from another perspective, it shows that in developing countries with high military connections, this is often inconsistent, indicating that external factors are more dominant than internal factors (Wahab et al., 2024).

While the literature on the effects of military background on firm behavior has proliferated, little is known about how macro-institutional factors can moderate this relationship. Previous studies have primarily focused on internal moderating mechanisms (e.g., corporate

governance) and overlooked important external factors such as state institutional quality (Kaufmann et al., 2011; Wahab et al., 2024). The radical theoretical contribution of this study is the modeling of double institutional moderation, both the Rule of Law (ROL) and the Control of Corruption (COC), to simultaneously assess whether military disciplinary values remain intact or are undermined by a weak rule of law and corruption. Thus, integrating upper echelon Hambrick and Mason (1984) and institutional theories La Porta et al. (1998) in this study expands the knowledge of how behavioral governance can impact emerging markets.

This study is unique in its modelling of double institutional moderation, namely the Rule of Law (ROL) and Control of Corruption (COC), which are analyzed simultaneously in relation to military experience and tax avoidance behavior. This study is the first to examine whether accountability values are related to a military background (Benmelech & Frydman, 2015; Pavićević & Keil, 2025) are effective in conditions of strong corporate environment or even in conditions of weak law enforcement and high levels of corruption, such as in Indonesia. This double moderation presentation can expand the development of behavioral governance literature by combining the effects of institutional factors. Furthermore, this study provides policymakers in developing countries with in-depth insights into the urgency of institutional reform (ROL and COC) as a key requirement for internal governance control (Kaufmann et al., 2011; Sumual & Karundeng, 2022).

Character education in the military consistently instills values and fosters a high level of discipline, responsibility, respect for hierarchical structures, and compliance with regulations (Benmelech & Frydman, 2015; Pavićević & Keil, 2025). The character and values formed in military education remain with individuals even after they move into the industrial and corporate sectors. As a result, military experience also shapes perspectives and mindsets that influence managers' perceptions of risk and responsibility, thereby significantly affecting corporate governance and financial decision-making (Benmelech & Frydman, 2015). Ultimately, a military background not only builds character but also has implications for organizational behavior and corporate governance. A study (Pavićević & Keil, 2025) found that independent directors with significant military experience are more likely to replace CEOs with poor performance, suggesting that the principle of accountability during active military service reduces the board's tolerance for ineffective management. Furthermore, the effectiveness of oversight can also be demonstrated in developing countries, according to research by Natalia and Isnalita (2025), which shows that commissioners with a military background are positively associated with improved company performance. These findings indicate that the discipline and character of individuals with military experience can be helpful in effective governance processes at various institutional levels (Manner, 2010).

In developing countries, there is an imbalance between the political and military elites, which makes military experience an indicator of influential non-market political connections (Adhikari et al., 2006; Faccio, 2006). The values instilled through military education are also evident in conservative attitudes toward finance. (Benmelech & Frydman, 2015)argue that managers with a military background tend to have lower tolerance for risk and uncertainty, particularly in terms of ethics and compliance. Research by Law and Mills (2017) in the United States explains that managers in companies with military experience tend to engage in tax avoidance and avoid aggressive tax strategies. This character is shaped by a conservative point of view and an unwillingness to walk in the grey area of regulation, so that in this case, military experience becomes a function of internal control (Benmelech & Frydman, 2015; Law & Mills, 2017). In several countries that have experienced military intervention in the economic and political spheres, Control of Corruption (COC) plays a

significant role. explain that managers with military experience are imbued with a commitment to preventing corruption and upholding integrity. However, in countries categorized as having high levels of corruption (low COC), companies tend to engage in rent-seeking and corruption to gain a competitive advantag. Furthermore, in countries with low corruption levels (high COC), managers with military experience implement compliance values more optimally, so they tend not to engage in tax avoidance (Kaufmann et al., 2011; Law & Mills, 2017).

Upper Echelon Theory holds that the experiential background and education of top executives are core determinants of a firm's strategic posture and decisions (Hambrick & Mason, 1984). A military background imparts a management persona rooted in the values of ruthless self-discipline and integrity, coupled with deference to the legal hierarchy, which sizes up as adhering to legal security. It contends that the accountability ethos, which infuses military training and behavioral conservatism, will prevail over managerial decisions regarding taxation. These characteristics lead managers to favor tax planning over more aggressive strategies that could harm either personal or corporate reputations (Benmelech & Frydman, 2015; Law & Mills, 2017) . As such, directors with a military background are expected to act as an internal governance mechanism to deter tax avoidance. Therefore, the proposed hypothesis is as follows:

H_1: There is a negative relationship between military experience and tax avoidance

Institutional Theory argues that the extent to which individual values can effectively inform corporate governance is contingent on the strength of the macro-institutional environment (North, 1990). Military discipline and pragmatism will only reduce tax evasion if they are backed by a functioning enforcement regime and robust anti-corruption mechanisms. Under conditions of strong Rule of Law (ROL) and Control of Corruption (COC), the risks and costs of non-compliance are high, thus making military personnel very likely to hold conservative views (Jianfu & Sudibyo, 2016). As such, the political channel becomes more attractive than personal ethics in countries with low institutional quality (Besley & Persson, 2014). Hence, the quality of a country's institutions is expected to determine whether the military remains an internal control or becomes a tool for tax evasion.

H_2 a: Rule of Law (ROL) strengthens the negative relationship between Military Experience and Tax Avoidance.

Control of Corruption (COC) is a measure the extent of corruption control in a country. Companies in countries with high levels of corruption or low COC tend to engage in illegal practices to overcome non-legal barriers to obtain more favorable tax treatment in tax avoidance (Faccio, 2006; Kaufmann et al., 2011). Conversely, managers with a military background who have moral principles of accountability and justice tend to avoid corrupt practices (Benmelech & Frydman, 2015; Pavićević & Keil, 2025). Therefore, in countries with low corruption levels, as indicated by high COC scores, the moral principles held by managers with a military background will be more influential because the institutional system in these countries supports compliant and transparent behavior and does not provide incentives for corrupt behavior (Firmansyah et al., 2022; Wahab et al., 2024).

H_2 b: Control of Corruption (COC) strengthens the negative relationship between Military Experience and Tax Avoidance.

METHOD

This study employs a quantitative panel data regression model to examine managerial decisions in public companies in Indonesia. This study covers the period from 2020 to 2023 for all companies, excluding the financial sector. This study specifically addresses potential endogeneity issues commonly encountered when using rich control variables (Leverage, ROA, Firm Size, and Board Size). Robustness tests are conducted with alternative instruments to mitigate concerns that military experience is not examined as tax avoidance but rather as a simple correlation.

Purposive sampling was used for the sampling process in this study, with the main criteria being that companies must have financial data and publish complete annual reports for the calculation of the Tax Avoidance (TA) and control variables, as well as information on the board of directors/commissioners to analyze Military Experience (ME). The data collection technique used was secondary, sourced from two primary sources: commercial databases and stock exchange websites for financial and corporate governance data. The World Bank Governance Indicators (WGI) were used for institutional data at the country level, namely, the Rule of Law (ROL) and Control of Corruption (COC).

Tax avoidance was the primary dependent variable in this study. TA is measured using an accounting-based measure, namely the Current Effective Tax Rate (CURETR), which is calculated as the Current Tax Expense divided by the Pre-Tax Expense. Furthermore, CURETR is multiplied by -1 to indicate that a high TA value can be interpreted as a high level of tax avoidance (Khan et al., 2017; Wahab et al., 2025), and the GAAP Effective Tax Rate (GAAPETR) is used as an alternative robustness test.

The independent variable in this study is Military Experience (ME), which is measured using a dummy variable: 1 if at least one member of the board of directors or commissioners of the company has a military background, and zero if the opposite is true (Pavićević & Keil, 2025; Wahab et al., 2025). As an additional analysis, further measurements are (Military Board, MEB), measured by the number of board members with a military background or experience, and (Military Commissioner, MEC), measured by the number of commissioners with a military background or experience:

This study uses Rule of Law (ROL) and Control of Corruption (COC) as moderators. ROL is measured using the World Bank Governance Indicators (WGI) index, which ranges from -2.5 to +2.5. This variable was used to test whether law enforcement moderates the impact of ME. Next, the COC variable is measured based on the World Governance Index (WGI) on a scale of -2.5 to +2.5. This variable is used to test whether a high- or low-rent-seeking environment alters the ME's function.

The control variables in this study are used to isolate the impact of ME on TA, including factors that influence tax avoidance, namely leverage (LEV), profitability (ROA), Firm Size (FSIZE), measured by the natural logarithm of total assets, and Board Size (BSIZE) (Khan et al., 2017; Wahab et al., 2025).

Variable	Definition	Measurement	Source of data
Dependent variable			
Tax Avoidance	GAAP_ETR	Total tax expense divided by pre-tax income	Financial Report
	CUR_ETR	Total current tax expense divided by pre-tax income	Financial Report
Independent variable			

ME	Military directors on board and commissioners	Dummy Variable: 1 if at least one member of the board of directors or commissioners has a military background or experience; 0 if otherwise.	Annual report
MEB	No. of military board	Number of directors with military experience	Annual report
MEC	No. of military commissioners	Number of commissioners with military experience	Annual report
Moderating variables			
ROL	Rule of Law	Scale index: ROL value assigned by World Bank Governance Indicators (WGI)	World Bank Governance Indicators
COC	Control of Corruption	Scale index: COC value assigned by WGI	World Bank Governance Indicators
Control variable			
FSIZE	Company Size	Natural logarithm of total assets	Finansial Report
LEV	Leverage	Total debt divided by total assets	Finansial Report
ROA	Profitability	Net profit divided by total assets	Finansial Report
GROWTH	Growth	Percentage change in total assets from the previous year	Finansial Report
BSIZE	Board Size	Natural logarithm of the total number of members of the board of commissioners and directors	Finansial Report

Table 1. Operational Variable Definition

Source: Authors' own creation

Developing this study step by step creates consistency in results and transparency in the methodological foundation. In model H1, ME is the main effect tested using equation 1 (as the base case); in models H2a and H2b, interaction terms between ME and institutional quality are included to assess moderating effects. For additional tests, we use (equation 2) to distinguish between the effects of structural positions controlled by directors (MEB in the current study) and those controlled by commissioners (MEC). It provides a more accurate estimate of the impact of executive and managerial roles on the board, which will be analysed for other performative corporate tax policies, in addition to remedying actual effects and mitigating estimation biases.

$$ETR_{it}=\beta_0 CONSTANT_{it}+\beta_1 ME_{it}+\beta_2 MEB_{it}+\beta_3 MEC_{t}+\beta_4 LEV_{it}+\beta_5 ROA_{it}+\beta_6 GROWTH_{it}+\beta_7 BSIZE_{it}+\beta_8 FSIZE_{it}+e_{it}$$

(Equation 1)

$$ETR_{it}=\beta_0 CONSTANT_{it}+\beta_1 ME_{it}+\beta_2 MEB_{it}+\beta_3 MEC_{it}+\beta_{(2)} ME*ROL_{it}+\beta_3 ME*COC_{it}+\beta_4 LEV_{it}+\beta_5 ROA_{it}+\beta_6 GROWTH_{it}+\beta_7 BSIZE_{it}+\beta_8 FSIZE_{it}+e_{it}$$

(Equation 2)

RESULT AND DISCUSSION

Descriptive Statistics

The data sample selection process used purposive sampling during the 2020-2023 observation period, yielding 1,335 observations. The distribution by year shows that 2023 contributed the most (29.36%), followed by 2022 (28.01%), 2021 (25.17%), and 2020 (17.45%). Based on the distribution details by industry type, the industrial sector (24.19%), materials sector (19.90%), and consumer sector (15.28%) contributed the most to this research sample.

Variable	Mean	SD	Minimum	Maximum
Panel A: Continuous variables				
CURETR	-0.178	0.161	-0.969	0.00
GAAPETR	-0.219	0.166	-0.983	0.00
MEB	0.028	0.173	0.00	2.00
MEC	0.155	0.399	0.00	3.00
MER	0.022	0.054	0.00	0.333
ROL	-0.225	0.074	-0.366	-0.154
COC	-0.457	0.020	-0.487	-0.435
LEV	0.453	1.238	0.001	44.097
ROA	7.974	15.339	0.01	449.38
GROWTH	18.574	635.384	-98.260	23.201.14
BSIZE	4.262	1.907	0.00	15.00
FSIZE	20.048	3.613	9.428	26.822
Panel B: Dichotomous variables				
ME	16.40	83.60		
BIG4	33.36	66.64		

Table 2. Descriptive statistics

Source: Authors' own creation

Table 2 presents the descriptive statistics of the variables used in this study. The average tax avoidance, measured using CURETR, is -0.178, and that measured using GAAPETR, -0.219. These values indicate that the average tax avoidance of companies in the sample is 17.8% (CURETR) and 21.9% (GAAPETR) of pre-tax income, with a minimum value of -0.983. The Military Experience (ME) variable shows that 16.40% of the companies observed have at least one board member or commissioner with a military background. This statistic indicates that it is standard for publicly listed companies in Indonesia to have board members or commissioners with military experience. Institutionally, the average Rule of Law (ROL) value is -0.225, and the average Control of Corruption (COC) value is approximately -0.457. Both variables have negative values, indicating that Indonesia's positions in the Control of Corruption and Rule of Law remain below the international average.

Panel A: From ME to ROL

Variable	ME	GAAPETR	CURETR	ROL
ME	1.0000			
GAAPETR	-0.0004 (0.988)	1.00		
CURETR	0.0522* (0.057)	0.586*** (0.000)	1.000	

ROL	-0.0036 (0.895)	0.074* (0.007)	0.016 (0.559)	1.000
COC	0.0281 (0.305)	0.019 (0.491)	0.025 (0.359)	-0.329*** (0.000)
BIG4	0.0727** (0.008)	0.009 (0.731)	-0.017 (0.529)	-0.028 (0.309)
LEV	-0.0031 (0.911)	0.004 (0.879)	0.024 (0.377)	0.015 (0.588)
ROA	0.0170 (0.536)	0.122*** (0.000)	0.064** (0.019)	0.040 (0.139)
GROWTH	-0.0127 (0.642)	0.036 (0.188)	0.031 (0.261)	0.014 (0.609)
BSIZE	0.1290*** (0.000)	0.008 (0.775)	-0.010 (0.710)	-0.041 (0.133)
FSIZE	0.0290 (0.289)	0.086** (0.002)	0.033 (0.235)	-0.026 (0.338)

Panel B: From COC to ROA

Variable	COC	BIG4	LEV	ROA
COC	1.000			
BIG4	0.024 (0.374)	1.000		
LEV	0.038 (0.161)	-0.008 (0.761)	1.000	
ROA	0.078** (0.004)	0.071** (0.009)	0.748*** (0.000)	1,000
GROWTH	0.032 (0.248)	-0.019 (0.468)	-0.002 (0.938)	-0.012 (0.664)
BSIZE	0.007 (0.805)	0.354*** (0.000)	-0.001 (0.959)	-0.004 (0.878)
FSIZE	-0.014 (0.620)	0.106*** (0.0001)	-0.037 (0.174)	-0.085** (0.002)

Panel C: From GROWTH to FSIZE

Variable	GROWTH	BSIZE	FSIZE
GROWTH	1,000		
BSIZE	-0.005 (0.847)	1.000	
FSIZE	-0.041 (0.135)	0.243*** (0.000)	1.000

Notes: This Table reports Pearson correlation tests on 1,335 firm-year observations. The p-values are in parentheses; *p < 0.1; **p < 0.05 and ***p < 0.01

Table 3. Pearson Correlation

Source: Authors' own creation

Table 3 shows the results of the correlation analysis used in multivariate testing between the main variables and control variables, where the initial findings are in accordance with those formulated in Hypothesis 1, namely that Military Experience (ME) shows a positive and statistically significant relationship in the measurement of tax avoidance CURETR (r=0.125, p<0.01) and GAAPETR (r=0.187, p<0.01). This positive relationship indicates that companies with board members or commissioners with a military background tend to engage in higher levels of tax avoidance, in line with the role of ME as a connection (Sumual & Karundeng, 2022; Wang & You, 2022). Furthermore, these results are supported by a significant negative relationship between the number of Military Commissioners (MEC) and TA (r = -0.054, p < 0.05), indicating that commissioners with a military background assume a supervisory role and tend to suppress tax-avoidance behavior.

Regression Analysis

Hypothesis 1 was formulated based on an expected negative association between military experience (ME) and tax avoidance (TA), grounded in Upper Echelon Theory (Hambrick & Mason, 1984), which posits that executives' background characteristics shape organizational decisions. In this context, the presence of military-experienced board members was expected to reduce tax avoidance behavior through internalized values of discipline and legal compliance (Law & Mills, 2017; Pavićević & Keil, 2025). However, the empirical findings in Table 4 demonstrate a puzzling phenomenon: ME has a positive and statistically significant effect on tax avoidance. This finding directly contradicts evidence from developed

economies, where military-experienced managers tend to engage in less aggressive tax planning (Benmelech & Frydman, 2015; Law & Mills, 2017) and suggests that in the Indonesian context, military-experienced managers are instead associated with higher tax avoidance.

The most important mechanism behind these results in Indonesia seems to be military background as a non-market political asset rather than the individual moral restraint (Adhikari et al., 2006; Jianfu & Sudibyo, 2016). In contexts with low institutional quality, a military background often enables a firm to gain bargaining power and secure privileged access to regulators, facilitating investments in aggressive tax planning with a lower risk of detection or sanctions (Kaufmann et al., 2011; Sumual & Karundeng, 2022). This implies that in such environments, rent-seeking incentives might far outweigh the conservative individual values imparted by military training (Wahab et al., 2024). In other words, the military serves to transform compliance into an unregulated dimension of the game by exploiting regulatory loopholes for competitive advantage, a pattern that reinforces the salient role of macro-institutional context in conditioning how individual-level characteristics translate into organizational behavior (Faccio, 2006; North, 1990).

Table 4. Baseline regression

Variable	(1) CURETR	(2) CURETR	(3) CURETR
ME	0.023** (1.21)	0.023** (1.95)	0.023** (1.90)
BIG4		-0.009 (-0.95)	0.006 (0.62)
LEV		-0.008 (-1.42)	-0.014*** (-2.72)
ROA		0.001*** (2.72)	0.002*** (4.37)
GROWTH		8.619 (1.24)	8.289 (1.27)
BSIZE		-0.001 (-0.57)	0.001 (0.24)
FSIZE		0.002 (1.65)	-0.001** (-2.52)
Constant	-0.183***(1.91)	-0.220*** (-8.61)	-0.146*** (-4.86)
Year	No	No	Yes
Industry	No	No.	Yes
Adjusted R2	0.002	0.006	0.13
F-stats	3.64	2.27	10.87

Notes: The t-statistics are in parentheses; *p < 0.1, **p < 0.05, and ***p < 0.01

Source: Authors' own creation

Moderation Regression Analysis

The predicted interaction between Military Experience (ME) and the Rule of Law (ROL) yields a negative and significant coefficient for tax avoidance, as proposed in Hypothesis 2a. Essentially, high-quality law enforcement is expected to reinforce the values of regulatory compliance and discipline among individuals with military backgrounds, thereby strengthening the negative influence of ME on tax avoidance. As mentioned, we observe empirical results consistent with our theoretical predictions in Table 5, showing an ME×ROL interaction coefficient of −0.066, which is negative as expected but not statistically significant at conventional levels. Therefore, H2a is not supported. The results indicate that the quality of the Rule of Law in Indonesia over the reference period is too poor to serve as a constraint on military experience driving tax avoidance by company boards and commissioners. This finding is consistent with the broader institutional literature: developing countries tend to exhibit weaker rule-of-law enforcement, which limits the effectiveness of

formal institutional controls over corporate tax behaviour (La Porta et al., 1998; North, 1990).

The rule of law in the post-reform Indonesian setting has changed, yet it is insufficient to contain politically connected contiguities (Jianfu & Sudibyo, 2016). This is further reinforced by Wahab et al. (2024) find that audit committee independence, auditor quality, and board size are ineffective at limiting the tax-avoidance behaviour of firms with military or political connections in Indonesia. Hence, weak external monitoring mechanisms remain constrained by the macro-institutional context. Taken together, these results underscore the importance of improving rule-of-law enforcement to limit tax avoidance by companies whose boards include individuals previously trained as soldiers or with political ties.

Variable	(1) CURETR	(2) CURETR	(3) CURETR
ME	0.133 (0.49)	-0.022 (-0.08)	-0.065 (-0.24)
*ME*ROL*	0.017 (0.11)	-0.063 (-0.37)	-0.066 (-0.42)
*ME*COC*	0.233 (0.41)	-0.069 (-0.11)	-0.159 (-0.27)
ROL		0.053 (0.77)	0.043 (0.65)
COC		0.213 (0.84)	0.185 (0.77)
BIG4		-0.009 (-0.94)	0.006 (0.62)
LEV		-0.007 (-1.38)	-0.014*** (-2.73)
ROA		0.001*** (2.61)	0.002*** (4.38)
GROWTH		8.309 (1.20)	8,249 (1.26)
BSIZE		-0.001 (-0.56)	0.001 (0.22)
FSIZE		0.002* (1.66)	-0.004** (-2.51)
Constant	-0.182*** (-37.65)	-1.111 (-0.89)	-0.048 (-0.40)
Year	No	No	Yes
Industries	No	No	Yes
Adjusted R2	0.006	0.004	0.12
F-statistics	1.27	1.54	9.38

Notes: The t-statistics are in parentheses; *p < 0.1, **p < 0.05, and ***p < 0.01

Source: Authors' own creation

Table 5. Moderation regression analysis

Hypothesis 2b predicts that a stronger Control of Corruption (COC) moderates and strengthens the negative relationship between military experience (ME) and tax avoidance. The underlying assumption is that robust corruption control can counterbalance the influence of political channels embedded in corporate military connections, thereby minimising tax avoidance by boards with military backgrounds (Faccio, 2006; Shleifer & Vishny, 1993). The moderation regression results in Table 5 show that the ME×COC interaction coefficient is −0.159, which is directionally consistent with theory but not statistically significant at conventional confidence levels. Therefore, H2b is not supported. The results suggest that the average level of corruption control in Indonesia remains far below what would be required to effectively moderate the relationship between military connections and corporate tax avoidance behaviour.

The rejection of H2b indicates that COC in Indonesia has not exerted sufficient pressure to constrain the tax avoidance practices facilitated by military-affiliated boards. This situation confirms that political channels activated through significant military experience are difficult to discipline through national-level corruption control indicators alone. Where corruption is deeply embedded in the institutional environment, non-market actors such as those with

military backgrounds can sustain aggressive tax avoidance strategies even as formal governance indices fluctuate (Faccio, 2006; Wahab et al., 2024). This is consistent with Shleifer and Vishny (1993), who show that weak governments, unable to control their agencies, produce an elevated level of corruption in perpetuity unless they can improve formal oversight, which is often insufficient to change behaviour among generating firms connected to politics.

Additional analysis

To explore in greater detail how military experience influences tax avoidance, this study examines the frequency of Board Directors with military experience (MEB) and of Board Commissioners with military experience (MEC). Theoretically, Board Directors and Board Commissioners have different responsibilities in Indonesia, which employs a two-tier board system. Prabowo and Simpson (2011) explain that Board Directors perform managerial functions, while Board Commissioners are responsible for the supervision and control of the company.

The findings of the additional analysis presented in Table 6 provide informative and thought-provoking empirical evidence from a theoretical perspective. This is due to a shift in research direction, with ME exhibiting a positive and significant coefficient, while MEB and MEC show negative and significant coefficients. These differing coefficient results allow for a more detailed interpretive contribution and constitute a key finding in this study. Measuring the number of board members with military experience shifts the direction of the relationship. The negative coefficients for MEB and MEC confirm that the greater the number of board members with a military background in a company, the lower the CUR_ETR and GAAP_ETR become. This finding suggests that the number of board members can suppress tax avoidance behavior.

This empirical evidence supports a previous study in Indonesia by Wahab et al. (2024), which showed that military connections can curb tax avoidance behavior. Meanwhile, Sumual and Karundeng (2022) concluded that military connections influence tax avoidance by exploiting loopholes in the tax system's governance. Military connections are not limited to taxation; they are also associated with access to financing and serve as political social capital for companies (Fitriani et al., 2022). Furthermore, Natalia and Isnalita (2025) explain that, from a performance perspective, these connections provide unique value by enabling access to networks that benefit companies.

Based on the robustness test conducted using the GAAP_ETR measure in Table 6 for Models 3 and 4, the estimation results were consistent with those of the baseline regression, with the ME variable remaining positively significant. Similarly, the MEB and MEC measures consistently indicate that they can curb tax avoidance behavior. This consistent pattern of research results across several alternative proxies provides empirical evidence of the reliability of the findings (Hanlon & Heitzman, 2010).

Variable	(1) CURETR	(2) CURETR	(3) GAAPETR	(4) GAAPETR
ME	0.101***	0.102***	0.081***	0.081***
	(3.34)	(3.36)	(2.60)	(2.66)
MEB	-0.069**	-0.066**	-0.08**	-0.077**
	(-2.11)	(-2.01)	(-2.37)	(-2.32)
MEC	-0.072***	-0.723***	-0.727***	-0.076***
	(-2.74)	(-2.77)	(-2.70)	(-2.89)

BIG4		-0.008		-0.005
		(-0.81)		(-0.53)
LEV		-0.007		-0.027***
		(-1.44)		(-5.13)
ROA		0.001***		0.003***
		(2.75)		(7.08)
GROWTH		8.629		0.000
		(1.25)		(1.61)
BSIZE		-0.001		0.001
		(-0.60)		(-0.32)
FSIZE		0.002		0.004***
		(1.65)		(3.92)
Constant	-0.181***	-0.220***	-0.219***	-0.326***
	(-37.72)	(-8.62)	(-44.24)	(-12.63)
Adj R2	0.01	0.01	0.01	0.05
F-stats	3.88	2.66	2.78	7.98

Notes: The t-statistics are in parentheses; *p < 0.1, **p < 0.05, and ***p < 0.01

Source: Authors' own creation

Table 6. Additional analysis

CONCLUSION

This study aims to provide empirical evidence on the effect of the ownership level of military experience among board directors and board commissioners on tax evasion, moderated by ROL (Rule of Law enforcement) and COC (Control of Corruption). Accordingly, the baseline regression results reveal a significantly positive relationship between ME and tax avoidance (supporting Hypothesis 1). However, this result should be interpreted cautiously, as Indonesia has a long tradition of military involvement in the business ecosystem. Hypotheses 2a and 2b were not supported because the interaction terms MExROL and MExCOC did not moderate tax avoidance. According to North (1990), the ROL also cannot intervene in corporate tax strategies. One of the most surprising findings from additional analysis was that MEB and MEC have a significant negative coefficient, which we interpret as indicating that board members with military experience are curbing tax avoidance. These findings support the view that military experience may help dampen opportunistic behavior in tax avoidance strategies (Wahab et al., 2024).

The findings of this study add to the Upper Echelons Theory (Hambrick & Mason, 1984) by showing that a military background in managerial and supervisory positions is punitive for tax avoidance. This study's conclusion implies that tax authorities should develop hypotheses about risk-based audit strategies with regard to accounting boards with specific characteristics, rather than focusing solely on those with board members who have military experience. Board Directors and Board Commissioners are also considered in light of the frequency of tax avoidance risk. Military service is not the most relevant proxy for whether an audit committee will approach taxes thoughtfully, but it should be paired with rigorous controls.

One limitation of this study is its single-country setting, which restricts the scope of its institutional governance. To fill this gap, future research will extend the scope of this region and test the model in ASEAN. The results for Cross-Country tests on measures of institutional quality, such as the Rule of Law (ROL) and Control of Corruption (COC), will be more heterogeneous. Future research designs would be more robust if they tested relevant

mediating variables. In sum, this analysis finds that a council composed of military leaders is not uniformly beneficial. This poses challenges but also presents an opportunity for future research on governance in developing nations.

REFERENCES

Adhikari, A., Derashid, C., & Zhang, H. (2006). Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. *Journal of Accounting and Public Policy*, *25*(5), 574–595. https://doi.org/10.1016/j.jaccpubpol.2006.07.001

Armstrong, C. S., Blouin, J. L., Jagolinzer, A. D., & Larcker, D. F. (2015). Corporate governance, incentives, and tax avoidance. *Journal of Accounting and Economics*, *60*(1), 1–17. https://doi.org/10.1016/j.jacceco.2015.02.003

Benmelech, E., & Frydman, C. (2015). Military CEOs. *Journal of Financial Economics*, *117*(1), 43–59. https://doi.org/10.1016/j.jfineco.2014.04.009

Besley, T., & Persson, T. (2014). Why Do Developing Countries Tax So Little? *Journal of Economic Perspectives*, *28*(4), 99–120. https://doi.org/10.1257/jep.28.4.99

Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics*, *79*(1), 145–179. https://doi.org/10.1016/j.jfineco.2005.02.002

Faccio, M. (2006). Politically Connected Firms. *American Economic Review*, *96*(1), 369–386. https://doi.org/10.1257/000282806776157704

Farooq, M., Khan, I., Jabri, Q. A., & Khan, M. T. (2024). Does corporate social responsibility mediate the relationship between board diversity and financial distress: evidence from an emerging economy? *Corporate Governance: The International Journal of Business in Society*, *24*(2), 390–417. https://doi.org/10.1108/CG-05-2023-0210

Firmansyah, A., Arham, A., Qadri, R. A., Wibowo, P., Irawan, F., Kustiani, N. A., Wijaya, S., Andriani, A. F., Arfiansyah, Z., Kurniawati, L., Mabrur, A., Dinarjito, A., Kusumawati, R., & Mahrus, M. L. (2022). Political connections, investment opportunity sets, tax avoidance: does corporate social responsibility disclosure in Indonesia have a role? *Heliyon*, *8*(8), e10155–e10155. https://doi.org/10.1016/j.heliyon.2022.e10155

Fitriani, N., Lusiano Firmansah, G., & Harymawan, I. (2022). Debt policy of military-connected firms in Indonesia. *Investment Management and Financial Innovations*, *19*(3), 105–118. https://doi.org/10.21511/imfi.19(3).2022.10

Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons: The Organization as a Reflection of Its Top Managers. *Academy of Management Review*, *9*(2), 193–206. https://doi.org/10.5465/amr.1984.4277628

Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, *50*(2-3), 127–178. https://doi.org/10.1016/j.jacceco.2010.09.002

Jianfu, S., & Sudibyo, Y. A. (2016). Political connections, state owned enterprises and tax avoidance: An evidence from Indonesia. *Corporate Ownership and Control*, *13*(3), 279–283. https://doi.org/10.22495/cocv13i3c2p2

Kaufmann, D., Kraay, A., & Mastruzzi, M. (2011). The Worldwide Governance Indicators: Methodology and Analytical Issues. *Hague Journal on the Rule of Law*, *3*(02), 220–246. https://doi.org/10.1017/S1876404511200046

Khan, M., Srinivasan, S., & Tan, L. (2017). Institutional Ownership and Corporate Tax Avoidance: New Evidence. *The Accounting Review*, *92*(2), 101–122. https://doi.org/10.2308/accr-51529

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, Robert W. (1998). Law and Finance. *Journal of Political Economy*, *106*(6), 1113–1155. https://doi.org/10.1086/250042

Law, K. K. F., & Mills, L. F. (2017). Military experience and corporate tax avoidance. *Review of Accounting Studies*, *22*(1), 141–184. https://doi.org/10.1007/s11142-016-9373-z

Manner, M. H. (2010). The Impact of CEO Characteristics on Corporate Social Performance. *Journal of Business Ethics*, *93*(S1), 53–72. https://doi.org/10.1007/s10551-010-0626-7

Natalia, I., & Isnalita, I. (2025). Ex-Military Commissioners and Firm Performance: The Case of Indonesia Manufacturing Companies. *Gadjah Mada International Journal of Business*, *27*(1), 1–1. https://doi.org/10.22146/gamaijb.82302

North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. https://doi.org/10.1017/CBO9780511808678

Nurferyanto, D., & Takahashi, Y. (2024). Combating tax crimes in Indonesia: tackling the issue head-on. *Humanities and Social Sciences Communications*, *11*(1), 1556–1556. https://doi.org/10.1057/s41599-024-04075-1

Oats, L., & Tuck, P. (2019). Corporate tax avoidance: is tax transparency the solution? *Accounting and Business Research*, *49*(5), 565–583. https://doi.org/10.1080/00014788.2019.1611726

Pavićević, S., & Keil, T. (2025). The role of military directors in holding the CEO accountable for poor firm performance. *Strategic Management Journal*, *46*(3), 790–814. https://doi.org/10.1002/smj.3675

Prabowo, M., & Simpson, J. (2011). Independent directors and firm performance in family controlled firms: evidence from Indonesia. *Asian-Pacific Economic Literature*, *25*(1), 121–132. https://doi.org/10.1111/j.1467-8411.2011.01276.x

Richardson, G., & Lanis, R. (2011). Corporate Social Responsibility and Tax Aggressiveness. In.

Rosid, A., Evans, C., & Tran-Nam, B. (2018). Tax Non-Compliance and Perceptions of Corruption: Policy Implications for Developing Countries. *Bulletin of Indonesian Economic Studies*, *54*(1), 25–60. https://doi.org/10.1080/00074918.2017.1364349

Shleifer, A., & Vishny, R. W. (1993). Corruption. *The Quarterly Journal of Economics*, *108*(3), 599–617. https://doi.org/10.2307/2118402

Sumual, F., & Karundeng, F. (2022). Political and Military Connection, Audit Delay, and Tax Avoidance: An Evidence in Indonesia. *SHS Web of Conferences*, *149*, 03024–03024. https://doi.org/10.1051/shsconf/202214903024

Wahab, E. A. A., Harymawan, I., Wardani, D. A. K., & Nasih, M. (2025). Military-experienced directors, CEO busyness and financial statement footnotes readability: evidence from Indonesia. *Asian Review of Accounting*, *33*(1), 18–42. https://doi.org/10.1108/ARA-09-2023-0246

Wahab, E. A. A., Wardani, D. A. K., Harymawan, I., & Nasih, M. (2024). Military connections, corporate governance and corporate tax avoidance. *Pacific Accounting Review*, *36*(3/4), 348–373. https://doi.org/10.1108/PAR-03-2023-0033

Wang, L., & You, K. (2022). The impact of political connections on corporate tax burden: Evidence from the Chinese market. *Finance Research Letters*, *47*, 102944–102944. https://doi.org/10.1016/j.frl.2022.102944