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RESEARCH ARTICLE

ANALYSIS OF GOOD CORPORATE GOVERNANCE AND IT'S EFFECT ON AGGRESSIVE TAX AVOIDANCE, PROFITABILITY AND COMPANY VALUE.

Marisa Udurma Hasiana and Dr. Timbul Hamonangan Simanjuntak.

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good corporate governance, aggressive tax avoidance, profitability, company's value.

Abstract

This study aimed to analize the good corporate governance and provide the influence of tax avoidance aggressiveness, profitability to corporate value. The population in this study was mining companies listed on Indonesian Stock Exchange in 2011 until 2016. The sample was chosen by purposive sampling method and obtained 31 companies. Data used was secondary data obtained from capital market library. The analytical method used was SEM PLS.

The results showed that there are aggressiveness tax avoidance has a effect to corporate value, and good corporate governance has a effect to corporate value, the good corporate governance and profitability has not effect to tax avoidance aggressiveness, tax avoidance aggressiveness has not effect to corporate value, profitability has a effect to corporate value and good corporate governance has a effect to profitability.

Introduction:-

A company as one of the taxpayers has an obligation to pay taxes which amount is calculated from the obtained net profit that can be seen from the calculation of the company's corporate income tax. The higher the tax paid by the company, the higher the state revenue. In other words, a tax is a burden, not only for the company but also for stakeholders. On the other hand, from the government point of view, tax is very important because it contributes to social funding. Therefore, there are significant differences between the interest of taxpayers and the interest of the government.

The problem of tax avoidance in a company may happen due to the occurrence of an agency problem between shareholders and stakeholders. The company will be run by managers as the company manager. Managers as agents do not always act in the interest of stakeholders as principal, sometimes managers act in self-interest (e.g. the interest towards high profit). Managers of a company will strive to reduce the tax to be paid to the state by conducting tax avoidance activity.

Two of the main theories that relate to corporate governance are the stewardship theory and agency theory (Chinn, 2000). Stewardship theory is built on philosophical assumptions about human nature that human is essentially trustworthy, capable of acting responsibly and having integrity and honesty with other parties. This is what is implied in the relationship desired by stakeholders. In other words, stewardship theory sees the management as trustworthy to act as well as possible for the interest of the public and stakeholders.

Corresponding Author:-Marisa Udurma Hasiana.
Address:-Magister Accounting Maranatha Christian University, Bandung, Indonesia.

The main reason for the company to implement corporate governance is as a form of corporate compliance through the enforcement of business ethics with improved performance which becomes the company's commitment that has implementation towards company's reputation as stated by The Indonesian Institute for Corporate Governance (IICG) 2002 (Saputra, 2012). It is also mentioned that companies that have a well-structured government corporate mechanism are directly proportional to the compliance in fulfilling their tax liability. The role of good corporate governance as a mechanism of structure and system to encourage the management's compliance towards tax payment is considered as indispensable (Eka dan Dinda, 2013).

Several studies have been conducted to find out the relationship between corporate governance and tax as conducted by Desai and Dharmapala (2009), Hanlon and Heitzman (2010), and Sartori (2013). Research conducted by Sartori (2013) shows a positive relationship between corporate governance with tax compliance in which it will minimize aggressive tax avoidance activity. Desai and Dharmapala (2009) conducted research on two groups (to companies that implement good corporate governance and to companies that don't implement corporate governance properly).

Besides being able to suppress tax avoidance, the implementation of Good Corporate Governance (GCG) is also able to affect the profitability and the value of the company. In running the business, a company has the aim to generate profit. High profitability will create an opportunity for the company to conduct tax planning, which aims to reduce the value of tax liability.

A company with high profitability has the opportunity to place itself in tax planning which reduces the amount of tax liability burden (Chen et al 2014). Company profitability is an indicator of the company's ability in fulfilling the owners' expectations and is an element in creating company value which shows the prospect of the company in the future.

Data And Variable Construction

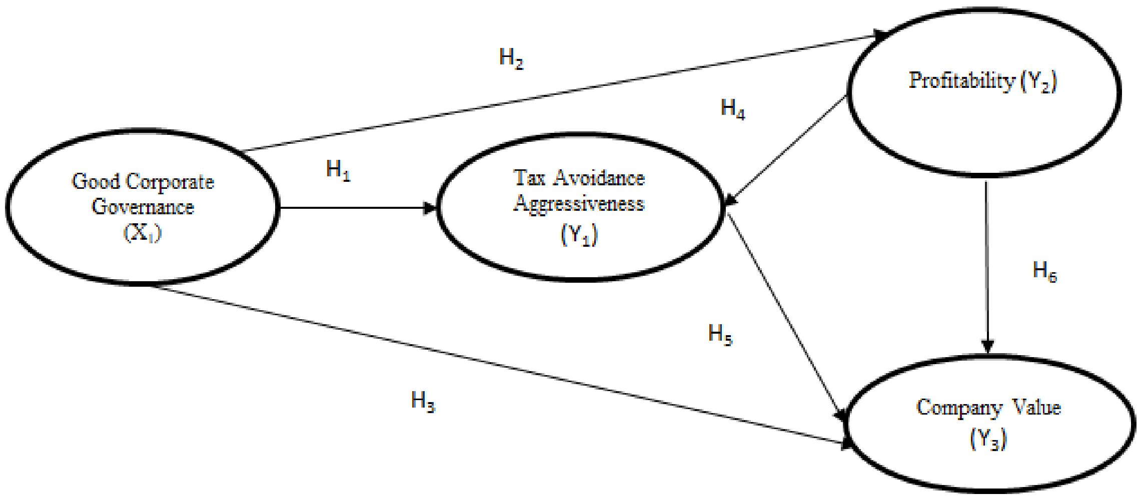
The data in this research is secondary data that are taken in time series from 2011 to 2016. The population in this research are all mining company listed in Indonesia Stock Exchange in the period of 2011-2016. However, companies that do not comply with the criteria set by the researcher will be excluded from the samples, because the samples are selected using a purposive sampling technique (the desired criteria). Based on those criteria, the samples taken are as many as 31 companies. The criteria for this study are as follows:

1. Mining companies that are listed in Indonesia Stock Exchange consecutively from 2011 to 2016.
2. Mining companies that published the annual report and financial report thoroughly that was needed during 2011-2016.

In order to answer the research problem and research hypothesis testing, then the data analysis technique used in this research is the analysis used to test a structured relationship between variables in accordance with the formulation of the problem and hypothesis, which is Partial Least Square (PLS) analysis.

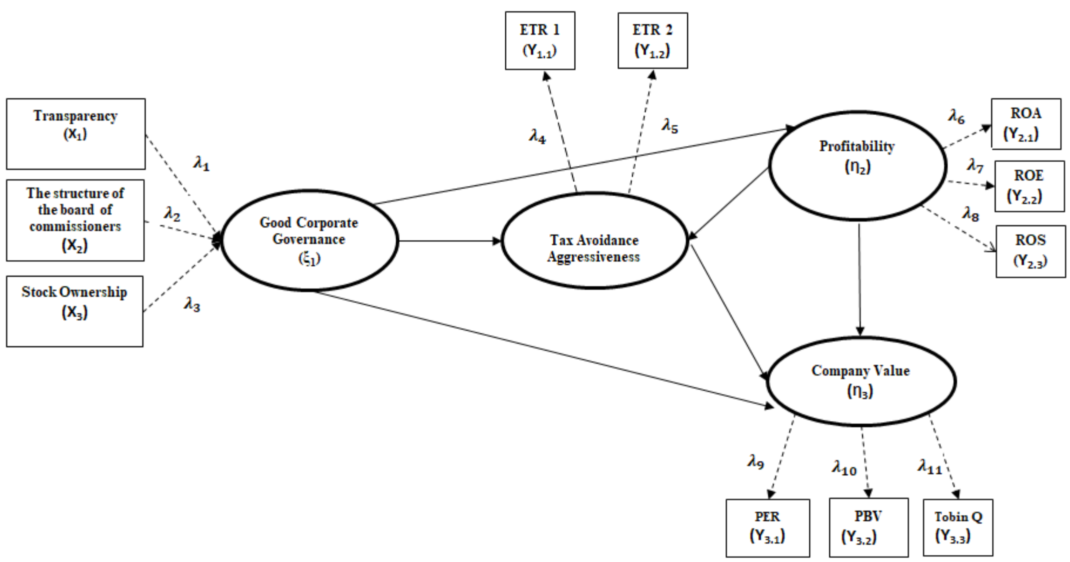
The variables of this research can be categorized as follows:

1. Exogenous Variable – Independent : Good Corporate Governance (X1)
2. Endogenous Variable – Intervening : Tax Avoidance Aggressiveness (Y1) and Profitability (Y2)
3. Dependent Variable : Company Value (Y3)Visually, the structural model of the relationship between latent variables are as follows:



Outer model in this research, by referring to the definition of an operational variable, are found to be reflective and some are formative.

The result of the inner model and outer model plan, hereinafter, will be stated in the form of path diagrams so it will be more comprehensible. Path diagrams that show the inner model and outer model are presented on the following pictures:



Summary Statistics

From the table above it can be seen that:

1. The total impact of Good Corporate Governance (GCG) on Tax Avoidance Aggressiveness is 0.097
2. The total impact of Profitability on Tax Avoidance Aggressiveness is 0.001
3. The total impact of Tax Avoidance Aggressiveness on Company Value is 0.008
4. The total impact of GCG on Company Value is 0.263
5. The total impact of Profitability on Company Value is 0.544
6. The total impact of GCG on Profitability is 0.163

The result of hypothesis testing based on the analysis can be seen in the picture and table below:

Relation	**Coefficient path**	**Direct**	**Inderect By**		**Effect**
			Tax Avoidance Aggressiveness	**Profitability**	

GCG → Tax Avoidance Aggressiveness	-0,306	0,094	-	0,003	0,097
Profitability → Tax Avoidance Aggressiveness	-0,024	0,001	-	-	0,001
Tax Avoidance Aggressiveness → Company Value	0,090	0,008	-	-	0,008
GCG → Company Value	0,294	0,086	0,009	0,168	0,263
Profitability → Company Value	0,739	0,545	-0,002	-	0,544
GCG → Profitability	0,404	0,163	-	-	0,163

Based on the above picture, the result of the coefficient path diagram shows that the impact of CGC and Profitability shows a negative relationship, whereas the impact on other relationships shows positive relations. More detail, the relationship of path coefficient and hypothesis testing can be seen on the table below:

Variabels Corelation	**Path Coefficient**	**T Statistics**	**Result**
GCG → Tax Avoidance Aggressiveness	-0,306	1,148	Not Significant
Profitability → Tax Avoidance Aggressiveness	-0,024	0,163	Not Significant
Tax Avoidance Aggressiveness → Company Value	0,090	1,335	Not Significant
GCG → Company Value	0,294	2,637	Significant
Profitability → Company Value	0,739	8,678	Significant
GCG → Profitability	0,404	3,335	Significant

Based on the table above, the results of testing the hypothesis are as follows:

1. GCG has no significant impact on tax avoidance aggressiveness. The result of PLS analysis has obtained a path coefficient of -0.306 and t statistic of 1.148, therefore there is no significant impact on the negative path between GCG towards tax avoidance aggressiveness. If GCG increases then the tax avoidance aggressiveness decreases, and vice versa.
2. Profitability has no significant impact on tax avoidance aggressiveness. The result of PLS analysis has obtained a path coefficient of -0.024 and t statistic of 0.163, therefore there is no significant impact on the negative path between profitability towards the tax avoidance aggressiveness. If profitability increases then the tax avoidance aggressiveness decreases, and vice versa.
3. The tax avoidance aggressiveness has no significant impact on Company Value. The result of PLS analysis has obtained a path coefficient of 0.090 and t statistic of 1.335, therefore there is no significant impact on the positive path between the tax avoidance aggressiveness towards company value. If the tax avoidance aggressiveness increases, then the company value increases, and vice versa.
4. GCG has a significant impact on company value. The result of PLS analysis has obtained a path coefficient of 0.294 and t statistic of 2.637, therefore there is a significant impact on the positive impact between GCG towards company value. If GCG increases then the company value increases, and vice versa.
5. Profitability has a significant impact on company value. The result of PLS analysis has obtained a path coefficient of 0.739 and t statistic of 8.678, therefore there is a significant impact on the positive path between profitability towards company value. If the profitability increases, then the company value increases, and vice versa.
6. GCG has a significant impact on profitability. The result of PLS analysis has obtained a path coefficient of 0,404 and t statistic of 3.335, therefore there is a significant impact on the positive path between GCG towards profitability. If GCG increases then profitability increases, and vice versa.

Discussion:-

The variable of good corporate governance has an insignificant negative impact on Tax Avoidance Aggressivity, which means the higher the GCG then the tax avoidance aggressivity will decrease, and the variable of GCG has a significant positive impact on profitability, which means the higher the GCG then the company profitability will increase.

The important role of the board of commissioners in supervising the company's management is able to increase through the presence of the independent board of commissioners, considering that the independent board of commissioners is not part of the board of directors, the board of commissioners or shareholders (KNKG,2016).

The results of this research are in line with the previous studies, such as Peasnell, Pope and Young (1998) concluded that the performance of a company can be affected by the proportion of the board of commissioners outsider member, this is due to the independent board of commissioners are able to improve the supervisory action. Fama and Jensen (1983) stated that manager supervision activities will be more effective if dominated by independent commissioners. The board of commissioners is not independent when the founder of the company and the majority of shareholders hold a strong control.

Research by Fazlzadeh et al. (2011) found that share ownership owned by institutions has a positive impact on company value. Share ownership by institutions is considered to be an effective monitoring mechanism in every manager's decision. The high institutional ownership will have an influence on the process of financial reporting so that it can provide a positive reaction to prospective investors in assessing the company. The institutional investor can also become an effective owner because they have the resources and abilities to monitor management decisions (Fazlzadeh et al, 2011).

The profitability variable has an insignificant negative impact on the aggressiveness of tax avoidance which means that the higher the profitability, then the tax avoidance aggressiveness will decrease. This research is in accordance with the political power theory, which explains that large-sized companies have a high effective tax rate because large companies become a public spotlight and a target of government regulations that cause companies to pay taxes higher than they supposed to pay (Belz et al, 2016).

The aggressiveness variable of tax avoidance has an insignificant positive impact on company value, which means that the higher the aggressiveness of tax avoidance, then the company value will increase. The impact of tax planning on the company value has two perspectives, those are positive perspective and negative perspective. Tax planning will positively influence the value of the company if it is viewed from a traditional perspective whereby reducing the tax burden paid to the state will increase the value of the company. The second perspective, tax planning has an impact on company value if it is viewed from the perspective of an Agency theory, where tax planning provides opportunities for managerial to take opportunistic actions (prioritizing personal interests over the shareholders' interest, so it can reduce the company value (Desai and Dharmapala, 2006).

This positive coefficient sign indicates that aggressive tax avoidance activities that are conducted by management in order to increase company value, is in line with traditional theory. In the traditional perspective, tax planning activities (tax avoidance) to transfer welfare from the state to shareholders (Desai and Dharmapala, 2006). The tax avoidance aggressiveness is conducted so that the tax burden becomes as low as possible by utilizing existing regulations to increase profit after tax which will have an impact on increasing the company value, assuming the benefits obtained are higher than the costs incurred from the tax avoidance activities.

Profitability has a significant positive impact on company value, which means that the higher the profitability, the company value will also increase.

Company profitability is one of the methods to appropriately assess to what extent is the rate of return that will be obtained from its investment activities. Profitability can reflect the profit from financial investment, which means profitability has an impact on the company value because the internal resources are getting bigger, the better the growth of company probability means the prospect of the company in the future is considered to be better, meaning that the company value will also be considered better in the eyes of investors. If the company's ability to generate profits increases, then the share price will also increase (Husnan, 2005). The increase in stock prices reflects a good company value for investors. Suharli (2006) states that shareholder value will increase if the company value increases which is marked by a high return on investment to shareholders.

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