2021 luk jafeb

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WORD COUNT 5507 TIME SUBMITTED 17-MAR-2021 07:17PM
PAPER ID 70062923

Print ISSN: 2288-4637 / Online ISSN 2288-4645
doi:10.13106/jafeb.2021.vol8.no3.0209

The Impact of Corporate Social Responsibility on Firm Value: The Role of Tax Aggressiveness in Indonesia

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Received: November 20, 2020 Revised: January 25, 2021 Accepted: February 03, 2021

Abstract

This study aim is to examine 1) the impact of corporate social responsibility disclosure and tax aggressiveness on firm value, 2) the impact of tax aggressiveness on firm value, and 3) the impact of corporate social responsibility on firm value. The sample of this study is 29 manufacturing companies listed on the Indonesia Stock Exchange. The period of research spans three years, from 2017 to 2019. The data is gathered from the annual report of the companies or website of companies and also the website from Indonesia Stock Exchange (IDX). This study uses Structural Equation Model with Partial Least Square. The research findings show that corporate social responsibility and tax aggressiveness have a negative and significant impact on firm value. The tax aggressiveness and firm value have a negative and significant impact. Corporate social responsibility has a positive and significant impact on firm value. This study uses the manufacturing sector, so that the findings of this study cannot be generalized to other sectors. Future research should explore other sectors such as mining, banking, etc. This study uses Effective Tax Rate (ETR) to measure tax aggressiveness. Further research should use another measurement, for instance, Current Effective Tax Rate (CETR).

Keywords: Corporate Social Responsibility, Tax Aggressiveness, Firm Value, Manufacturing Sector, Indonesian Stock Exchange

JEL Classification Code: G32, H26, L25, M14, M41

1. Introduction

Lanis and Richardson (2013) explain that managerial actions designed to minimize corporate taxes through tax aggressive activities are becoming an increasingly common strategy for companies around the world. However, corporate tax aggressiveness can generate significant costs and benefits. On the one hand, the company can minimize its tax burden, but on the other hand, this action can get the public's attention, which can lead to negative perceptions and affect the good name of the company and can even affect the sustainability of companies in the future. Furthermore, companies have obligations regarding corporate social responsibility, which will have a negative impact if they are not carried out according to community expectations.

Tax aggressiveness is one of the actions taken by firms to reduce their tax obligations (Dyreng et al., 2010). Generally, companies as corporate taxpayers take advantage of the weaknesses in tax regulations and other regulations. This gray area is used as a loophole or looseness from regulations that lie between the permitted and prohibited tax planning or calculation practices (Hardeck & Hertl, 2013). Tax aggressiveness is the result of tax planning, whether legal or tax avoidance, illegal (tax evasion) or included in a gray area (Issam & Jamal, 2015).

Tax aggressiveness is a common effort made by corporate taxpayers to minimize their tax obligations. In a way is to reduce income and incur expenses not to violate the tax provisions of the company with the risk of paying fines or losing reputation if the tax authorities can reveal the fraud. There are several loopholes in tax regulation that can be exploited by taxpayers to avoid paying taxes and also minimize liquidity problems (Wang, 2015). The companies consider that tax is a burden so that as an organization based on profit, the company tends

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to carry out aggressive tax policies (Chen, Chen, Cheng, & Shevlin, 2010). Frank, Lynch, & Rego, (2009) revealed that corporate tax aggressiveness is an act of manipulating taxable income by companies through tax planning, either using methods that are classified as legal or illegal. The more loopholes a company uses to avoid taxes, the more aggressive the company will be.

From a social perspective, the tax aggressiveness applied by a company will be very detrimental to the country, and especially to society. This is because the tax is one of the components of state income that is useful for the welfare of the people. The higher the tax aggressiveness of a state, the lower the state revenue. Tax aggressiveness can be considered as socially irresponsible and unethical action (Lanis & Richardson, 2012).

Based on the Law of the Republic of Indonesia No. 40 in 2007, the companies that carry out business activities in fields related to or impacting natural resources are required to carry out and disclose social and environmental responsibilities. This law is the basis for implementing corporate social responsibility reporting in Indonesia. Harjito, Sari, and Yulianto (2017) concluded that the disclosure of corporate social responsibility measurement items is still voluntary. Wirawan et al. (2020) stated the reporting for corporate social responsibility is still voluntary. However, Michelon, Pilonato, and Ricceri (2015) revealed that companies could be motivated to participate in corporate social responsibility disclosure to meet the information needs of the shareholders.

This study uses the manufacturing sector companies listed on the Indonesia Stock Exchange over the period 2017–2019. This study uses GRI G4 for measuring the corporate social responsibility disclosure.

This paper is structured as follows. Section 2 reviews the literature and formulates hypotheses. Section 3 describes the methodology. Section 4 presents the results and discussion. Section 5 closes with conclusions.

2. Literature Review

2.1. Agency Theory

Agency theory illustrates the relationship between principals and agents (Jensen & Meckling, 1976) that can lead to agency conflicts. The behavior of the agents only benefits them by violating the interests of other parties. This happens because the manager has complete information about the company, while the owner of the company is not privy to the information, so that asymmetric information arises. Asymmetric information and self-serving behavior by agents enable them to make decisions and policies that are less favorable to the company. This results in unhealthy corporate governance due to the lack of transparency from management to disclose the results of their performance to the principal as the owner of the company. Eisenhardt (1988) argued that agency theory is a theory offers a perspective that understands the conflicts of interest between principals and agents that cause agency problems that can be reduced through governance mechanisms.

2.2. Legitimacy Theory

Legitimacy Theory is a theory that reveals that legitimacy is a company management system that is oriented toward taking sides with individuals, community groups, and the government (Gray, Kouhy, & Lavers, 1995). Deegan et al. (2002) argue that legitimacy theory is a theory that is very suitable for corporate social responsibility disclosure. Legitimacy is considered as a motivation that is expected to be able to encourage decision-making related to the disclosure of corporate social responsibility (Deegan et al., 2002).

2.3. Stakeholder Theory

Freeman and Reed (1983) revealed that stakeholders are all groups or individuals who can be identified as influencing the achievement of organizational goals. Based on this theory, company management is expected to carry out all activities deemed important by stakeholders and also report on these activities. This shows that the company's success is highly dependent on its ability to meet various expectations and information needs. Gray, Kouhy, & Lavers, (1995) stated that information can be used to manage or respond to various stakeholders (for instance, legislators, consumers, investors, suppliers, and non-governmental organizations) to get their support and approval. Stakeholder theory posits that successful companies depend on their ability to meet stakeholder expectations and meet diverse information needs. Based on this perspective, information on corporate social responsibility is the main element that can be used by companies to manage a variety of stakeholders, including consumers, investors, legislators, suppliers, non-governmental organizations, and so on. Thus, they obtain support from stakeholders (Gray, Kouhy, & Lavers, 1995).

2.4. Hypotheses

Deegan, Rankin, and Tobin (2002) say that the legitimacy theory is the theory that best fits the disclosure of corporate social responsibility. Lanis and Richardson (2012) use a sample of about 408 listed in Australia for 2008 to 2009. The result of the research showed that the impact of corporate social responsibility has a negative on tax aggressiveness (Lanis & Richardson, 2012). It means that the higher corporate social responsibility activities, the lower tax aggressiveness. Zeng (2016) uses a sample of about 60Canadian companies listed that showed a negative influence on tax aggressiveness. Mgbame et al. (2017) used a sample of

50 companies listed on the Nigerian Stock Exchange period from 2007 to 2013 showing the same result. This is the same result as the previous study. Firmansyah and Estutik (2020) that uses a sample of 34 non-financial firms listed on the Indonesia Stock Exchange 2014 to 2018. Sari and Tjen (2016) use a sample of non-financial companies listed on the Indonesia Stock Exchange during the 2009–2012 period.

Lanis and Richardson (2013) sampled 40 companies listed on the Australian Stock Exchange (ASX) from 2001 to 2006; they showed that the impact of corporate social responsibility and tax aggressiveness have a positive and significant impact. Davis, Guenther, Krull, and Williams (2016) showed that corporate social responsibility has a positive impact on tax aggressiveness. Mao's (2018) sample from Chinese A-share listed companies over the period 2009 to 2016 showed the same result. Chen (2018) has a sample from Shanghai A-share and Shenzhen stock exchanges in China from 2008 to 2014 that showed a positive influence between corporate social responsibility and tax aggressiveness.

However, Harjito et al. (2017) showed that corporate social responsibility has an insignificant impact on tax aggressiveness. The results are the same as other studies (Nugrohudi et al., 2019; Arifin & Rahmiati, 2020; Wijaya & Mulya, 2020). Harjito et al. (2017) sampled 41 manufacturing companies, over the period from 2011 to 2015 from Indonesia Stock Exchange. They used 30 companies from the manufacturing sector as a sample over the period from 2016 to 2018 from the Indonesia Stock Exchange. Arifin and Rahmiati (2020) used non-financial companies over the period from 2915 to 2017 from the Indonesia Stock Exchange. Wijaya and Mulya (2020) sample 45 mining companies listed on the Indonesia Stock Exchange over period 2012–2017. Based on the above, we formulate the following hypothesis:

***H1:** The impact of corporate social responsibility has a negative impact on tax aggressiveness.*

Desai and Dharmapala (2009) reveal that tax planning can be useful in increasing firm value based on an agency perspective. Usman et al. (2020) have sampled 71 firms on the Nigerian Stock Exchange over the period 2008 to 2015 showing a positive impact of tax planning on firm value. Chen et al. (2014) use a sample from Chinese listed companies during 2001 to 2009 that showed a negative impact of tax avoidance on firm value. This has a similar result with Assidi et al. (2016) that use a sample of Tunisian listed companies over the period 2000 to 2010. However, Yee et al. (2018) showed that tax avoidance has no significant impact on firm value. Yee et al. (2018) uses a sample of the top 100 companies in Malaysia ASEAN Corporate Governance Report (MACGR) 2014. Thus, the hypothesis can be stated as follow:

***H2:** Tax aggressiveness has a negative impact on firm value.*

Stakeholder theory Freeman (1984) and several experts reveal that corporate social responsibility is positively related to the company's financial performance because it can support companies in managing relationships with stakeholders and reduce conflicts of interest among various stakeholders (Beurden & Gossling, 2008). Corporate social responsibility has a positive impact on firm value (Cahan, Villiers, Jeter, Naiker, & Van, 2015; Ding, Ferreira, & Wongchoti, 2016; Bardos, Ertugrul, & Gao, 2020; Wirawan et al., 2020; Xu, Chen, Li, & Xia, 2020; Ogachi, 2020). Cahan, Villiers, Jeter, Naiker, & Van (2015) use a sample of 2170 companies from 22 different countries from the KPMG over the period of 2008. Wirawan et al. (2020) used the research samples of about 130 manufacturing companies from 2014 to 2016 from the Indonesian Stock Exchange. Ogachi (2020) used the panel data from Nairobi Securities exchange from 2010 to 2019.

Corporate social responsibility has a negative impact on firm value (Nekhili, Nagati, Chtioui, & Rebolledo, 2017; D'Amato & Falivena, 2019; Guo & Hou, 2020). Nekhili, Nagati, Chtioui, and Rebolledo (2017) use a sample of 91 listed French firms over the period 2001 to 2010. D'Amato and Falivena (2019) have a sample of 252 companies listed in Western European countries from the period 2008 to 2018. Guo and Hou (2020) used the archival data of 2,311 Chinese firms that excluded financial services companies and companies that issued H-shares and B-shares.

Corporate social responsibility has no impact on firm value (Abner & Ferrer, 2019; Chen & Lee, 2016; Dagiliene, 2013; Servaes & Tamayo, 2013). Dagiliene (2013) has a sample of 13 firms listed on the Vilnius stock market exchange for 2012 Lithuania listed companies. Abner and Ferrer (2019) sampled 90 publicly-listed companies in the Philippines over the period 2012 to 2016. Therefore, the research hypothesis developed is as follow:

***H3:** Corporate social responsibility has a positive impact on firm value.*

3. Methodology

3.1. Sample

This study uses manufacturing companies listed on Indonesia Stock Exchange. The technique sample used purposive sampling. There are several criteria for purposive sampling. The first criterion is delisting. The second criterion is companies that do not have an annual report. The third criterion is use of foreign currency. The fourth criterion is financial loss during the observation period. The last criterion

is the unfulfilled value of Effective Tax Rate (ETR). Table 1 summarizes the information. The period of observation spans from 2017 to 2019. The data used in this study is secondary data obtained from the website of each firm or website of IDX (Indonesia Stock Exchange). The data is from the annual report and financial statements of the firms.

3.2. The Measurement of Variables

3.2.1. The Dependent Variable

Firm value is also known as a stock market value (Nekhili et al., 2017). The measurement of firm value is stock market capitalization plus book value of liabilities as a ratio of total assets. Nekhili et al. (2017) used Tobin's Q with the following formula:

$$\text{Tobin's Q} = \frac{\text{MV of Equities} + \text{BV}}{\text{Total Asset}}$$

3.2.2. The Independent Variable

Corporate social responsibility uses the reporting guidelines and disclosure for corporate social responsibility standard using GRI (Global Reporting Initiative) G4. The standards with 91 disclosure items consisting of the categories Environment (EN), Human Rights (HR), Labor Practices (LP), Product Responsibility (PR), and Society (SO) (www.globalreporting.org). Measurements are made by matching items on the checklist, totaling 91 items, with items expected to be disclosed in the company's annual report. If item y is disclosed, it will be given a value of 1, while not disclosed will be given a value of 0 on the checklist. The formula of corporate social responsibility (Lanis & Richardson, 2013) is:

$$CSR_{ij} = \frac{\sum X_{yi}}{n_i}$$

Table 1: The Technique of Sample

No	Criteria	Total
1	Manufacturing listed on Indonesia Stock Exchange	154
2	Delisting	3
3	Does not have the annual report	24
4	Use foreign currency	26
5	Financial Loss during a period of observation	27
6	The value of ETR not fulfill	45
The Sample		29

Where: CSRi: CSR disclosure index; Σxyi: item amount that was disclosed by the firm; n: item amount that should be disclosed based on GRI

3.2.3. The Mediating Variable

Tax aggressiveness uses the Effective Tax Rate (Issam & Jamal, 2015). The formula is as follows:

$$ETR = \frac{\text{Income Taxes Expense}}{\text{Income before Tax}}$$

3.2.4. Control Variable

This study uses several control variables, which are firm size and leverage. Size is used as firm size. This study controls company size by using the total natural logarithm of assets (LnAssets). This formula, LnAssets, was used by Nekhili et al. (2017). The formula about size is as follows:

$$\text{Size} = \text{Ln (total asset)}$$

The leverage calculates long-term debt divided by total assets. This measurement was used by Lanis and Richardson (2012). Leverage is calculated using the following equation:

$$\text{Leverage} = \frac{\text{Long Term Debt}}{\text{Total assets}}$$

The Regression Model of this study is as follows:

$$ETR = \alpha + \beta_1 CSR + \beta_2 Size + \beta_3 Lev + \varepsilon$$
$$FV = \alpha + \beta_1 ETR + \beta_2 CSR + \varepsilon$$

Where: ETR = Tax Aggressiveness; CSR = Corporate Social Responsibility; Size = Size; Lev = Leverage; FV = Firm Value; ε = Error; β = Coefficient.

This study uses a structural equation model with Partial Least Square. The previous studies used Partial Least Square in analyzing the data (Patma, Wardana, Wibowo, & Narmaditya, 2020; Saleh, Hayat, Sumartono, & Pratiwi, 2020; Srikalimah et al., 2020; Fuadah et al., 2020).

4. Results

4.1. Descriptive Statistics

Table 2 shows the descriptive statistics for all variables in this study. It can be seen that min value, max value, mean value are the lowest on firm value, the biggest value is size. However, the standard deviation value is the lowest for corporate social responsibility, and the biggest for the size.

Table 2: Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Deviation
CSRIi	86	0.220	0.495	0.30621	0.060388
Size	86	25.799	32.201	28.61808	1.680564
Leverage	86	0.003	0.396	0.10710	0.089287
ETR	86	0.012	0.577	0.26648	0.083868
Firm_Val	86	0.001	0.300	0.07898	0.065998

Table 3: The Validity and Reliability

Variable	Loading Factor	Composite Reliability	Cronbach's Alpha
CSR	1	1	1
ETR	1	1	1
FV	1	1	1

4.2. The Analysis of Outer Model

Table 3 shows the analysis of the outer model. The analysis of the outer model is the analysis of validity and reliability. Table 3 shows that all variables for the loading factor are above 0.5. This indicates that all the variables are valid. Composite reliability and Cronbach's alpha are above 0.70. This indicates that all the variables are reliable.

4.3. The Analysis of Inner Model

Table 4 shows the analysis of the inner model. The inner model analysis includes the model fit, the path coefficient, and R^2. The analysis of model fit aims to examine if the model fits with the data.

4.4. Testing of Hypotheses

Table 5 shows the result of the testing of hypotheses. Table 5 shows that the path of corporate social responsibility and tax aggressiveness has a p-value of 0.01 (significant 0.01). It indicates that the first hypothesis (H1) is accepted. Corporate social responsibility has a negative and significant impact on tax aggressiveness. The path of tax aggressiveness impact on firm value has a p-value of 0.04 (significant in 0.05). It indicates that the second hypothesis (H2) is accepted. The tax aggressiveness has a negative and significant impact on firm value. The path of corporate social responsibility impact on firm value has a p-value of 0.06 (significant in 0.10). It indicates that the third hypothesis (H3) is accepted. Corporate social responsibility has a positive and significant impact on firm value.

Table 4: The Model of Fitness Analysis

Model fit indices	
No	**Criteria**
1	Average path coefficient (APC) = 0.186, P = 0.003
2	Average R Square (ARS) = 0.111, P = 0.327
3	Average block VIF (AFIF) =1.159, Good if < 5

Table 5: The Hypothesis Testing

Hypothesis	The Path	Beta	P- Value	R^2
H1	CSR → ETR	–0,30	0,01***	
H2	ETR → FV	–0,26	0,04**	0,10
H3	CSR → FV	0,23	0,06*	0,12

Note: ***,** and * indicates significant at $p < 1\%$, $p < 5\%$ and $p < 10\%$ level of significance based on t-statistics.

4.5. Discussion

The first Hypothesis states that the impact of corporate social responsibility has a negative impact on tax aggressiveness. The first hypothesis (H1) is accepted. The result of this study shows that corporate social responsibility has a negative and significant effect on tax aggressiveness. This is supported by previous research (Lanis & Richardson, 2012; Sari & Tjen, 2016; Zeng, 2016; Mgbame et al., 2017; Firmansyah & Estutik, 2020). Research by Mgbame et al. (2017) also supports the legitimacy theory.

The second hypothesis asserts that the impact of tax aggressiveness has a negative impact on firm value. The second hypothesis (H2) is accepted. The result of this study shows that tax aggressiveness has a negative and significant effect on firm value. This result is consistent with previous research (Assidi et al., 2016; Chen et al., 2014). The result confirms the agency theory – the lower the level of tax aggressiveness, the higher the firm value. It shows that the agency perspectives use in tax aggressiveness increase the firm value.

The last hypothesis states that corporate social responsibility has a positive impact on firm value. The third hypothesis (H3) is accepted. Based on data analysis, corporate social responsibility has a positive and significant effect on firm value. The result of the study supports several studies (Cahan, Villiers, Jeter, Naiker, & Van, 2015; Ding, Ferreira, & Wongchoti, 2016; Bardos, Ertugrul, & Gao, 2020; Wirawan et al., 2020; Xu, Chen, Li, & Xia, 2020; Ogachi, 2020). This study supports the stakeholder theory. The companies release information needed by stakeholders, one of which is about corporate social responsibility that supports the increase in company value.

5. Conclusion

This study aimed to examine 1) the effect of corporate social responsibility disclosure and tax aggressiveness on firm value, 2) the effect of tax aggressiveness on firm value, and 3) the effect of corporate social responsibility on firm value. Data analysis shows that corporate social responsibility has a negative and significant effect on tax aggressiveness. The lower the level of corporate social responsibility, the higher the tax aggressiveness. The tax aggressiveness has a negative and significant impact on firm value. The higher tax aggressiveness, the lower level of firm value. Corporate social responsibility has a positive impact on firm value. The higher the corporate social responsibility level, the higher the firm value.

This study uses manufacturing companies on the Indonesia Stock exchange so that the result of the study cannot be generalized to other sectors. Future research should examine other sectors. This study uses the Effective Tax Rate (ETR) to measure tax aggressiveness. Further research should use another measurement for tax aggressiveness, for instance, Current Effective Tax Rate (CETR).

The Directorate General of Taxes in Indonesia should pay more attention to company concerns about social and environmental issues and examine the possibility of corporate tax aggressiveness. The Directorate General of Taxes can establish cooperation with any other parties who are responsible for disclosing corporate social responsibility.

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