THE EFFECT OF GOOD CORPORATE GOVERNANCE AND TAX AVOIDANCE TO FIRM VALUE

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ABSTRACT: The purpose of this study is to analyze the effect of Good Corporate Governance which is proxied by Institutional Ownership, Managerial Ownership, Proportion of Independent Commissioner, and Audit committee and tax avoidance which is proxied by Cash Effective Tax Rate to Firm Value which is proxied by Tobin’s Q. This study uses companies listed to Kompas100 Index for July 2016-February 2017 period in 2010-2015. This study uses Quantitative Research Method. This study uses Multiple Regression Analysis with Eviews version 9. Based on hypotheses test results, Cash effective tax rate, Institutional Ownership, Managerial Ownership, Proportion of Independent Commissioner, Audit Committee have effect Firm Value. Partially, Cash effective tax rate have no significant effect on firm value as well as Managerial ownership, Proportion of Independent commisionary, and Audit Committee. In this study only Institutional Ownership has an effect significantly with firm value.

Keywords: Tax Avoidance, Good Corporate Governance, Firm Value

INTRODUCTION

Companies that develop their business activities will have a very high firm value. As reported by Forbes: The Most Valuable Brands of 2016, Apple Inc. became the highest-rated company in the world today with a value of $154.1 billion, more than 87% of the second position of the second highest company in the world, namely Google. Google with a firm value of $82.5 billion which the company increased by about 26%. Followed by Microsoft at number 3 with a firm value of $75.2 billion with an increase of about 9% (Forbes, 2017). The company also has a brand that is quite widely known to the public.

A set of corporate governance mechanisms can be implemented to reduce agency problems. The purpose of corporate governance is to ensure that managers will act in the best interests of shareholders. In addition, it can force managers to disclose important information so that information asymmetry between managers and shareholders can be minimized. (Siagian, Siregar, & Rahadian, 2013).

After the financial crisis of 1997 and 1998, the Government of Indonesia initiated several efforts to improve corporate governance and quality reporting. For example, the government through the capital market authority (BAPEPAM) promotes corporate governance by requiring independent board members and audit committees headed by an independent, director (Siagian and Tresnaningsih, 2011 in Siagian, Siregar, & Rahadian, 2013). In 2002, BAPEPAM issued P3LKE, which is a Guide to Financial Statement Presentation and Disclosures of Issuers, which provides guidance on what should be reported and disclosed in the financial statements for publicly traded companies on the Jakarta Stock Exchange (BAPEPAM, 2002 in Siagian, Siregar, & Rahadian, 2013).

Good Corporate Governance (GCG) is one factor that can affect the value of the company. GCG is said to be able to increase the value of the company caused by the GCG, the company is expected to have a good performance so as to create benefits for the owners of the company or shareholders (Amanti, 2012).

In Suhartanti (2016) states that corporate governance affects the value of the company. Corporate governance mechanisms are proxied by managerial ownership, board of commissioners, and audit committees. Herawaty (2009) proves that corporate governance significantly affects the value of the company.

Siagian, Siregar & Rahadian (2013) research with a sample of 125 companies traded on the Jakarta stock exchange (JSX) stated that corporate governance mechanisms allow for the creation of monitoring and control.

However, as reported by fortune.com reported that a giant company with a large firm value with a brand known to the public participate in tax avoidance. Based on alerts from fortune.com, noted Google has an estimated revenue in Ireland in 2014 of 18 billion euros by paying taxes only 28.6
millions of euros. Google moved about 10.7 billion euros from its base in the Netherlands, to Bermuda, which is registered as an Irish affiliate, named Google Ireland Holdings. The money is received as a royalty payment from an affiliate in Ireland, where most income outside the United States is channeled. This strategy, called "double irish, Dutch sandwich" is reported to help Google's parent company get a tax-free rate of 6% on non-US earnings because the company passed the lower Irish corporate tax rate of 12.5% and Bermuda's zero tax.

Based on the above case, the problems that occur show that the behavior of tax avoidance is done even by high-value companies. This raises the assumption that the motive of the high value company is doing tax avoidance behavior is to raise the value of the company. This is because from the above case we can see the continuity between cases of tax avoidance behavior by high-value companies.

Tax avoidance is defined as one way to avoid taxes legally which do not violate tax laws. This tax avoidance can be said to be a complicated and unique issue because on the one hand it is permissible, but not desirable (Mahardani and Suwardana, 2014). But tax avoidance practice is not always workable, because taxpayers can not always avoid all the elements or facts imposed. Tax Avoidance Issue itself is defined as an effort to reduce the tax burden legally that does not violate tax regulations by the taxpayer by trying to reduce the amount of tax payable by looking for loopholes (Dewi and Jati, 2014). Tax avoidance acts as a reduction in the amount of explicit taxes, in which tax avoidance is a collection of tax planning activities (Hanlon and Heitzman, 2010). These activities are done by reducing the taxes of companies that are still in the tax laws that apply (legal), so that later will be able to increase the company's profit and will be visible against the value of the company. Tax avoidance activities are an effective way to raise firm value. (Karimah & Tautiq, 2016).

Tax avoidance in the company is closely related to corporate governance implemented by the company. Legally, tax avoidance is allowed but still has great side effects. According to Chen, Hu, Wang & Tang (2014), managers' decisions to avoid taxes also have an impact on worse transparency issues and can indirectly reduce value and be associated with higher agency costs. The authors argue that such things as tax avoidance will not happen if the company really does good corporate governance so that it can be downgraded. This relationship between tax avoidance and the value of the associated company will lead to agency problems.

This research aims to analyze the effects of good corporate governance measured by institutional ownership, managerial ownership, proportion of board of independent commissioner, and audit committee and tax avoidance measured by cash effective tax rate (CETR) towards firm's value in companies listed in the Kompas 100 index that listed in Indonesia Stock Exchange period 2010-2015. Firm value in this study is measured by Tobin's Q Model.

LITERATURE REVIEW AND HYPOTHESES

Kusumaningtyas (2016). This study aims to examine the effects of good corporate governance (including: managerial ownership, institutional ownership, independent commissioner composition, and audit quality), on firm value. Price Book Value is used as a proxy of firm value. The number of samples used in this study was ten firms listed in the SRI-KEHATI Index with a period of three years of research. The method of analysis of this study using multiple linear regression. The results of this study indicate that managerial ownership variables, independent commissioner composition and audit quality have no effect on firm value. While the variable of institutional ownership have a positive effect to firm value.

In Bagus Rafi and Rosinta R Panggabean (2017) Good corporate governance (GCG) and tax avoidance off roll influence to firm value except from a few only one measurement component that has no effect to firm value.

Institutional ownership is the amount of wealth in the form of shares owned by the institution and blockholders (Fadhilah, 2014). This individual shareholder is always active in comparison with individual shareholders who own shares under 5%. To oversee the behavior of managers in decision-making requires the role of institutional ownership to be more cautious in their decision-making (Shleifer and Vishny, 1986). With the existence of institutional ownership have the following role in supervision, among others: (1) Have reliability information so that information obtained can be more reliable, (2) Have motivation in every activity for supervision that happened to be more controlled.

Chen, Hu, Wang, and Tang (2014) The purpose of this study is to examine whether corporate tax avoidance behavior increases the value of firms in the context of firms in China. A number of studies do research design that tax avoidance represents the transfer of wealth from the government to the company and therefore, increases the value of the company. The study argues that, in contrast to developed countries, tax avoidance does not necessarily add to the value of Chinese enterprises that are less transparent, relative to transparent firms due to higher agency costs. Using a sample of companies listed on the Shenzen Stock Exchange for the period 2001-2009 and multiple regression analysis. This
study examines the relationship between tax avoidance and firm value. The results of the study mentioned that tax avoidance behavior increases agency costs and decreases firm value. Investors in China react negatively to corporate tax avoidance behavior, but this negative reaction can be reduced by the transparency of information.

Santana & Rezende (2016) conducted a study entitled Corporate tax avoidance and firm value: from Brazil. This study examines the relationship between corporate tax avoidance and firm value in Brazil. Although tax avoidance activities can generate shareholder value, alternative theories suggest this to not always happen; agency costs may exceed the benefits of tax savings, causing the shareholder value to be damaged. The study conducted a panel data analysis to verify what happened including 323 public companies in the stock market 2006-2012, with a total of 1704 companies a year of observation. The study adopted BTD (Book Tax Differences) controlled by total accruals, such as proxies for tax avoidance and Tobin as a proxy for firm value. The results show that tax avoidance and firm value negatively affect. It also evaluates the effects of corporate governance, the limited disclosure that can reduce firm value.

Research Jonathan and Tandeum (2016) states that tax avoidance has a significant positive effect on the value of the company. In signal theory explained that the company by providing clear financial statements will be able to increase investor interest so that the value of the company will increase.

According to Santana and Rezende (2016) the behavior of corporate tax avoidance has long been seen as a practical management that increases in value as far as it can lead to transfer of wealth from the state to shareholders by increasing net income from taxable cuts.

In Damayanti & Sartanan research (2014). Agency cost is believed to be reduced through increased institutional ownership within the company. The higher the institutional ownership, the more effective the supervision of shareholders in the company to reduce agency cost and increase the value of the company. The greater the proportion of institutional ownership within the firm, the greater the institutional role in monitoring managers. This supervision is expected to encourage managers to improve manager performance. Improved performance of managers is expected to increase firm value (Welim, 2014). Based on the explanation above, the proposed hypothesis is:

H1: Institutional ownership affects firm value

In Kusumaningrum and Rahardjo's research (2013) it is stated that if the proportion of ownership of the company owned by managers increases, then the decision taken by the manager tends to benefit him and overall will harm the company so that the value of the company will likely decrease. Double status allows managers to freely decide everything related to the company. Increased stake ownership by managers can ease the way for managers to achieve personal interests with the manager's double status as manager and owner of the company. This dual status causes managers to oversee themselves, making it easier for managers to achieve personal interests. The ease of managers in making the company's decisions causes the company's value to decline (Welim, 2014).

Sofyaningsih and Hardiningin (2011) show that managerial ownership has a significant effect on firm value. This means that the results of this study support agency cost theory which states that the size of managerial ownership affects firm value. Managerial ownership within a company can reduce agency problems arising from differences in managerial interests with shareholders or company owners. In addition, management will tend to be more active in increasing the value of the company for the welfare of shareholders who incidentally is himself. Managerial ownership is deemed to be able to reduce agency problems arising from interests between managerial and shareholders or company owners, which will certainly have a positive impact on firm value. Based on the explanation above, the proposed hypothesis is:

H2: Managerial ownership affects firm value

An independent board or an independent board of commissioners is the number of independent board of directors within the company. Based on Law no. Law No. 1 of 1995 on Limited Liability Companies (PT), the duties of board of commissioners are: (1) supervising the policies of directors in running the company, and (2) giving advice to the directors. According to the regulations issued by the Jakarta Stock Exchange concerning independent commissioners, the total number of 8 independent commissioners is proportional to the number of shares held by non-Controlling Shareholders with the provisions of the number of independent commissioners at least 30% of the total members of the commission. The higher the board of independent commissioners, the better the independent board of commissioners perform the oversight function and coordination within the company will increase the value of the company. In Sinarmayarani research (2016) which shows that the existence of independent commissioners does not affect the value of the company. This is due to the
fact that the large or small institutional ownership of the company has not been able to control and oversee the opportunistic actions of managers within the company. Based on the explanation above, the proposed hypothesis is:

H3: The proportion of independent commissioners influences the value of the company

The audit committee is a group of persons selected from the board of commissioners of the company responsible for assisting the auditor in maintaining his or her independence from management. In the attachment letter of the board of directors of PT. Jakarta Stock Exchange Kep-315 / BEJ / 06-2000 points 2f, the rules on establishing audit committee stated that "Audit Committee is a committee established by the board of commissioner of the Listed Company whose members are appointed and dismissed by the board of commissioner of the Listed Company to assist the board of commissioners of the Listed Company to conduct inspection or research deemed necessary for the implementation of the functions of directors in the management of the Listed Company. The audit committee in this case must be independent in terms of its membership independence and the independence of the audit function. If the characteristics of the audit committee can be achieved, it is expected that the transparency of corporate management accountability can be trusted, thereby increasing the confidence of capital market players. In addition, the responsibility of the audit committee in protecting the interests of minority shareholders can convince investors to entrust their investment to the company. (Perdana and Raharja, 2014)

Saraswati and Hadiprajitno (2012) stated that there is a positive influence between the audit committee and the company's value. With the audit committee, it is expected to reduce the agency conflict so that reports submitted to interested parties can be trusted so as to help increase the value of the company in the eyes of investors. Based on the explanation above, the proposed hypothesis is:

H4: Audit Committee has an effect on firm value

Theoretically, it is assumed that tax avoidance behavior gives firms profits with more free cash flow, both short and long term, which directly increases firm value and tax avoidance behavior itself will alter cash flow indirectly affect management making. In fact, the complexity and ambiguity of tax avoidance behavior allows managers to drain profits to themselves, which will reduce current and future cash flow. Tax avoidance behavior tends to decrease firm value. (Chen, Hu, Wang, Tang, 2014). Based on the explanation above, the proposed hypothesis is:

H5: Tax avoidance behavior has an effect on firm value.

METHODOLOGY

Objects in this study are companies listed in the Kompas 100 period July 2016 – February 2017. The data used in this study are secondary data, namely financial statements and annual reports of all companies listed in the list of Kompas 100 period July 2016 – February 2017 and has published its financial statements and annual reports for the period ended December 31, 2010 to December 31, 2015.

The statistical test equipment used to process the existing data sample is using descriptive statistical test, the classical assumption test (normality test, autocorrelation test, heteroscedasticity test, multicollinearity test) and hypothesis test (coefficient of determination test, f test, t test). Tests conducted using EVIEWS ver.9 by using the research model as follows:

\[ NPERUS = a + b_1KINST + b_2KMAN + b_3KOMIND + b_4KAUD + b_5CETR + e \]

Where:
- \( NPERUS \) = Firm value
- \( A \) = Constants
- \( b \) = Coefficient Regression
- \( KMAN \) = Managerial Ownership
- \( KINST \) = Institutional Ownership
- \( KOMIND \) = Independent commissioner proportion in Board of Commissioner
- \( KAUD \) = Audit Committee
- \( CETR \) = Cash Effective Tax Rate
- \( E \) = Error

Managerial ownership is the amount of share ownership by the management of all share capital of the managed company. Managerial ownership is measured by the percentage of total shares held by the management of all outstanding share capital of the company (Juniarti and Sentosa, 2009). Independent commissioners as measured by percentage of total independent commissioners to total board of commissioners (Juniarti and Sentosa, 2009).
The dependent variable in this study is firm value measured using Tobin's Q formula. In Herawaty (2009), the measurement of firm value using Tobin's Q formula is as follows:

\[
Q = \frac{MVE + D}{TA}
\]

Where:
- \(Q\) = Firm value
- \(MVE\) = The market value of equity. The result of the multiplication of the closing stock price by the number of shares outstanding.
- \(D\) = Book value of Debt
- \(TA\) = Asset book value

In this study tax avoidance was measured using Cash Effective Tax Rate (CETR) in accordance with research conducted by Hanlon and Heitzman (2010), Dyreng et al. (2010), Kim, Li and Zhang (2011) Ilmiani and Sutrisno (2015) Karimah and Taufiq (2016), and Tarihoran (2017) with the following formula:

\[
\text{Cash Effective Tax Rate (CETR)} = \frac{\text{Cash Tax Paid}}{\text{Pre-tax Income}}
\]

Institutional ownership is the ownership of shares of companies owned by institutional investors, such as investment companies, banks, insurance companies, foreign institutions, trust funds and other institutions. The term institutional investors refers to investors equipped with professional management who invest on behalf of other parties, either a group of individuals or a group of organizations (Brancato, 1997 in Juniarti, 2009). In accordance with the above definition, institutional ownership is measured by the percentage of institutional ownership in the company's stock structure.

RESULTS AND DISCUSSION

The sample selection process based on predetermined criteria is shown in Table 1 as follows:

<table>
<thead>
<tr>
<th>Table 1 Sample Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information</td>
</tr>
<tr>
<td>Companies listed in the KOMPAS100 period July 2016-February 2017</td>
</tr>
<tr>
<td>Companies that do not publish complete financial statements in the period 2010-2015</td>
</tr>
<tr>
<td>Companies that have negative earnings before taxes</td>
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<tr>
<td>Companies that do not report the required data in full during 2010-2015</td>
</tr>
<tr>
<td>The number of companies sampled</td>
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<tr>
<td>The number of period</td>
</tr>
<tr>
<td>Total number of samples (59 x 6)</td>
</tr>
</tbody>
</table>

Source: Data processed by authors

The companies listed in Kompas 100 period July 2016 - February 2017 are sampled in this research as many as 59 companies. While the total number of observations taken as research sample is 354 financial statements.

<table>
<thead>
<tr>
<th>Table 2 T Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>KINST</td>
</tr>
<tr>
<td>KMAN</td>
</tr>
<tr>
<td>KOMIND</td>
</tr>
<tr>
<td>KAUD</td>
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<tr>
<td>CETR</td>
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<td>C</td>
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</tbody>
</table>

Source: Eviews 9 data processing results

Based on the results of pooled data analysis in Table 2, then the multiple linear regression equation obtained is:

\[
\text{Tobin's Q} = 8.675077 - 9.688931\text{KINST} + 4.470601\text{KMAN} - 0.166856\text{KOMIND} + 0.168958\text{KAUD} - 0.435822\text{CETR} + e
\]

Table 2 above shows the t test results between independent variables to the dependent variable. The result of KINST p-value 0.0000, then H1 is accepted. So it can be concluded that the Institutional Ownership partially have a significant influence on the firm value. The result of KMAN p-value of 0.0577 means that H2 is rejected. So it can be concluded that Managerial Ownership has no significant
influence on the Firm value. KOMIND p-value is 0.8215 where p-value (0.8215)> α (= 0.05) means that H3 is rejected. So it can be concluded that Proportion of Independent Commissioners does not have a significant influence on the Firm value. The result of KAUD p-value value 0.3012 where when p-value (0.3012)> α (= 0.05) gives the meaning that H4 is rejected. The result of CETR p-value is 0.0548 where p-value> α (= 0.05) means that H5 is rejected. So it can be concluded that Cash Effective Tax Rate does not have a significant influence on the value of the firm.

The Institutional Ownership Variable (KINST) in table 2 shows p-value 0.000 which gives the meaning that the Institutional Ownership has a significant influence on the dependent variable, Firm value. This finding is in line with research Kusumaningtyas (2016). This is because institutional ownership is believed to have a higher and tighter monitoring function so that the company's risks will be lower because basically institutional investors are believed to have the ability to monitor management actions better than individual investors, where institutional investors will not easily deceived by manipulation actions undertaken by management.

Managerial Ownership Variables (KMAN) in table 2 shows p-value 0.0577 which gives the meaning that Managerial Ownership has no significant influence on the dependent variable, firm value. This finding is in line with Kusumaningtyas (2016) who found that managerial ownership does not affect the firm's value in the firms listed on the Sri Kehati Index.

This is because the average stock ownership given by the company to management is still considered quite low. Ownership of shares of companies that is still quite low by management resulted in the management has not felt the impact of the company's performance because not all the results of the company's performance can be enjoyed by management. Thus, the management is only motivated to maximize its utility, therefore harming shareholders.

Ownership by directors and commissioners may be considered to aggravate the condition of the company because if the board of directors becomes the owner of the company there will be a possibility of expropriation. Expropriation is the use of controls to maximize their own well-being with the distribution of wealth from other parties. (Kusumaningtyas, 2016).

Variable Proportion of Independent Commissioners (KOMIND) in table 2 shows p-value 0.8215 which gives the meaning that Proportion of independent commissioners has no significant influence on the dependent variable, Firm value. This finding is in line with Kusumaningtyas (2016). This is because independent commissioners have not performed monitoring or monitoring functions effectively against corporate managers. Moreover, investors have not put trust in the performance of commissioners in the company. Oversight of the board of directors by independent commissioners is not sufficiently objective, thus impacting the performance of the board of directors that has not been effective and efficient that impact on the value of the company. It is possible that the existence of an independent commissioner is only to meet the implementation of the Indonesia Stock Exchange regulation, so that the independent commissioner does not perform its function and independence to monitor the policies of the board of directors.

Audit Committee Variables (KAUD) has no significant influence on the dependent variable, Firm value. This is because the formation of an audit committee within a sample company is only based on compliance with obligations under applicable regulations and only to comply with regulations and avoid sanctions, but is not intended to enforce good corporate governance within the company.

Cash effective tax rate (CETR) variable in table 2 shows p-value 0.0548 which gives the meaning that Cash effective tax rate has no significant influence to dependent variable, firm value. This finding is not in line with Chen, Hu, Wang and Tang (2014) but in line with Tarihorin (2017), Desai and Dharmapala (2009), and Karimah and Taufiq (2016) studies. This is because not all investors or shareholders know the tax avoidance of a company. In fact, investors will see the bottom line of companies such as EPS and Book Value as a basic reference in making the investment decision of the company.

CONCLUSION

Based on the data that has been collected and the test that has been passed to the sample company by using multiple regression model, it can be concluded that:
1. Good corporate governance (GCG) measured by Institutional Ownership influence the company’s value.
2. Good corporate governance (GCG) measured by Managerial Ownership has no influence on the company’s value.
3. Good corporate governance (GCG) measured by the Proportion of independent commissioners has no influence company’s value.
4. Good corporate governance (GCG) measured by the Audit Committee has no influence on the company’s value.
5. Tax Avoidance measured by Cash effective tax rate (CETR) has no influence on company’s value.
Suggestions that can be given related to this research are:

1. Sample research that can still be developed. Subsequent research is suggested to use more variety of research samples, or take focus to other corporate sectors.
2. Taking tax avoidance proxies other than the Cash Effective Tax Rate will result in more diverse results.

REFERENCE


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