



Effect of Corporate Social Responsibility and Institutional Ownership of Tax Avoidance with Executive Characters as Moderator



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Abstract

This study aims to obtain empirical evidence regarding the moderation of executive characteristics on the influence of corporate social responsibility and institutional ownership on tax avoidance. In the previous research, it was found that there were inconsistencies in the results of the research so that it was suspected that there were other variables that could influence the relationship between variables. In this study executive, characteristic variables are thought to moderate the relationship of corporate social responsibility and ownership structure in tax avoidance. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange for the period of 2013-2017 as many as 150 companies. The sample collection technique uses purposive sampling. The number of samples in this study was 520 observation companies from 2013 to 2017. The data analysis technique used for moderation testing was *Moderated Regression Analysis (MRA)*. The test results show that executive characteristics do not moderate the relationship of corporate social responsibility to tax avoidance and the characteristics of executive risk-takers weaken the relationship of institutional ownership to tax avoidance.

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1 Introduction

Tax is one element of state revenue. Tax is a sector that plays an important role in the economy because taxes have a larger portion of the state's income and expenditure budget compared to other sources of income (non-tax). Problems arise with high tax receivables that indicate problems in the taxation system in Indonesia. The number of tax receivables that accumulated until 2017 must be written off because it has expired, which causes the problem that many companies are having problems with tax reporting.

The company's perspective on taxes is as an expense that reduces company profits without providing direct results to the company. Companies as tax subjects position tax as an expense. The company will try to maximize profits through a variety of load efficiencies, including tax expenses. Although there are sanctions against the risk of tax avoidance actors are not a reason to reduce the company's optimistic behavior to do tax avoidance because the benefits of tax savings can provide an increase in short-term corporate profits (Beyer & Kallunki, 2014). The theory of planned behavior explains that the attitude to be taken by individuals is influenced by three factors, namely the belief in results, belief in expectations, and belief in past experiences. The desire of the owner to minimize the tax burden they bear tends to increase tax avoidance behavior. The implementation of good corporate governance is expected to be able to minimize the problems that occur, Corporate Governance is a series of processes, habits, policies, rules, and institutions that affect the direction, management, and control of a company or corporation. The demand for the implementation of corporate social responsibility as a whole of corporate governance is expected to reduce the intention to carry out tax avoidance.

Company ownership structure arises from a comparison of the percentage of shares owned by shareholders in one company share ownership structure shows the distribution of power and influence of shareholders over the company's operational activities. One characteristic of ownership structure is ownership concentration. Share ownership is said to be concentrated if most of the shares are owned by some groups, so the shareholders have a relatively dominant number of shares compared to others. Several previous studies on corporate social responsibility towards tax avoidance found that the relationship between corporate social responsibility has a positive effect on tax avoidance (Watson, 2010). It was found that the greater the disclosure of corporate social responsibility, the effective value of tax rate (ETR) is higher (Lanis & Richardson, 2015). Effective tax rate (ETR) is a tax avoidance proxy that is widely used, where the higher the ETR number, it is assumed that companies make higher tax payments so it is assumed that companies do not avoid tax. Hoi Research (2013) found that irresponsible corporate social responsibility in companies has a negative effect on tax avoidance actions taken by companies whereas other studies did not find a significant effect between corporate social responsibility on corporate tax avoidance (Rini *et al.*, 2015; Wahyudi, 2015). Other research states that there is a decrease in tax avoidance when there is an increase in disclosure of corporate social responsibility (Nehru, 2016). So based on previous research it is suspected that there are factors that influence the relationship of corporate social responsibility to tax avoidance.

Research related to ownership structure is mostly done and get inconsistent results. Institutional ownership is owned by institutions such as banks, pension funds, insurance, and others outside closed, government, private and public companies that do not need to be recorded. Several researchers examined institutional ownership and obtained results that institutional ownership had a positive and significant effect on corporate tax avoidance (Hasan *et al.*, 2016; Kusumawati & Hardiningsih, 2016; Ngadiman & Puspitasari, 2014; Salehi *et al.*, 2016), where things this means that when there is institutional ownership control is expected in monitoring managers not to take action on tax avoidance and in other studies no significant effect is found by institutional ownership on tax avoidance (Idzni & Purwanto, 2017). While in the research conducted by Khan (2016), concluded that institutional ownership will make the increase in tax avoidance actions in the company described that this is caused by investor pressure on managers to get high profits in the company.

Literature Review and Hypothesis Development

The theory of planned behavior explains that in doing tax avoidance is influenced by intentions and one of the factors namely subjective norms and control beliefs where it explains the recognition of social pressure in showing a specific behavior to conform to existing norms in society and how ease or complexity of behavior to implement. So that with the disclosure of high corporate social responsibility this indicates high pressure and complexity of behavior to do because of high control in the company so that disclosure of high corporate social responsibility will reduce the intention to behave in tax avoidance which will later be reflected in the effective tax rate increased ratio.

Several previous studies found inconsistencies in the relationship between disclosure of corporate social responsibility to tax avoidance. In some corporate social responsibility studies have a positive effect on tax avoidance, meaning companies that have high CSR have low tax avoidance values (Lanis & Richardson, 2015; Watson, 2010), but in several other studies did not find an influence relationship between corporate social responsibility and activities tax avoidance by companies (Rini *et al.*, 2015; Wahyudi, 2015).

The existence of this inconsistency motivated this research to use the moderation variable of executive characteristics. Dyreng (2009), revealed that company executives have a role in determining and making corporate decisions so that the character of an executive can determine the direction of the company. Dyreng (2009), found that executive characteristics are able to influence the amount of tax avoidance activities carried out by companies. The more risk-taker executive character someone will have a higher intention to embarrass a behavior which in this case is tax avoidance. The risk-taker executive character will have a higher intention to increase company profits in the short term and utilize tax avoidance behavior so that it will have a weakening moderation effect on the relationship between corporate social responsibility and tax avoidance which initially with high disclosure will increase the value effective tax ratio.

H1: Risk-taker executive characteristics weaken the influence of corporate social responsibility disclosure on tax availability.

Institutional ownership is ownership owned by institutions, banks, insurance, and pension funds. High institutional ownership in a company indicates the potential and ability to monitor the company much better. Based on the theory of planned behavior, it is explained that one of the factors in seeing the behavior is perceived behavior control, where it sees how one's perception of how simple or complex it is to carry out an action. Institutional ownership is a reflection of perceived behavioral control. The higher institutional ownership means that monitoring and control of the company will be higher, which means it will result in a decrease in the intention to carry out tax avoidance. This illustrates that high institutional ownership will increase the value of the effective tax ratio which can be interpreted as decreasing tax avoidance behavior.

Based on previous research found that institutional ownership has a positive and significant effect on tax avoidance (Hasan *et al.*, 2016; Kusumawati & Hardiningsih, 2016; Ngadiman & Puspitasari, 2014; Salehi *et al.*, 2016). Other research did not find an institutional ownership relationship to tax avoidance (Idzni, Irsalina Nur, 2017; Saputra & Hanifah, 2017). However, research belonging to (Khan, 2016), found that institutional ownership negatively affects tax avoidance behavior by companies, which means that institutional ownership will increase tax avoidance behavior. Based on the Theory of planned behavior the higher ownership of institutional parties is a reflection of behavioral control factors that will provide a more stringent monitoring effect and monitoring mechanism to managers so that tax avoidance behavior can be avoided. So the higher institutional ownership has a positive effect on tax avoidance behavior.

Managers who have risk-taker characteristics will prefer and utilize business decisions that have high profits and risks to get short-term profits and see the complexity of controls in institutional ownership not as high control in management so that the intention to do tax avoidance will increase. So this will make the relationship of institutional ownership weaken against tax avoidance activities,

H2: The risk-taker executive characteristic weakens the influence of institutional ownership structures on tax availability.

2 Materials and Methods

In this research, there is an independent variable, namely the disclosure of corporate social responsibility and institutional ownership activities, the dependent variable in this research is tax availability, the moderating variable uses executive characteristics. The sampling of this research was carried out using a purposive sampling method that is not random sample selection, but by using certain considerations and criteria determined by researchers, namely manufacturing companies listed on the Stock Exchange in 2013-2017. Determination of the sample using purposive sampling, using a *moderated regression analysis (MRA)* analysis tool.

3 Results and Discussions

The analysis in this study is a linear regression analysis of the Moderated Regression Analysis (MRA) model. This analysis is used to determine the effect of Corporate Social Responsibility (CSR), Institutional Ownership (KI), Executive Characteristics (KE), CSR * KE moderation, KI * KE moderation on Tax Avoidance (TA).

Table 1
MRA test

Variable	Regression Coefficient	Standard Error	t-statistic	Sig.
Constanta	-2.112	0.173	-13.410	0.000
CSR	0.040	0.005	14.043	0.000
KI	0.036	0.004	8.617	0.000
KE	-0.035	-0.005	-7.750	0.000
CSR*KE	-0.001	0.002	-1.193	0.802
KI*KE	-0,031	0.004	9.203	0.000
R ²	: 0.544			
Adj. R ²	: 0.540			
F-statistic	: 122.882, Sig = 0.000.			
N	: 520			

Primary Data, 2019

Mathematically the results of the linear regression analysis of the MRA model can be written as follows:

$$TA = -2.112 + 0.040CSR + 0.036KI - 0.035KE - 0.001CSR * TO - 0.031KI * KE$$

3.1 Executive Characteristics Do Not Moderate the Relationship of Variable Corporate Social Responsibility to Tax Avoidance

Based on the results of the regression analysis obtained Sig = 0.802 which can be interpreted that executive characteristics do not moderate the relationship between corporate social responsibility on tax avoidance. This means that if there is a change in executive characteristics it will not cause a moderating effect on the relationship between corporate social responsibility disclosure and tax avoidance. However, partially, the disclosure of corporate social responsibility has the value of Sig = 0,000. It can be interpreted that partially corporate social responsibility has a significant and significant influence on tax avoidance. This is in line with previous research which found that corporate social responsibility has an effect on tax avoidance (Lanis & Richardson, 2015; Watson, 2010).

The theory of planned behavior explains that basic human assumptions before deciding behavior are based on information that is systematically available. Most individuals think of the implications that will occur when deciding to take or not to perform certain behaviors. The concept of corporate social responsibility is considered as an example of a systematic structured mechanism or action that can control the behavior that may be carried out by company managers. Corporate social responsibility is also one way for companies to get a positive image in the eyes of the public (Hoi *et al.*, 2013). The basic assumptions of the company's thinking are the desire to get a positive image label in the eyes of the community and justification that the company has understood and fulfilled the agreed rules and norms by not violating tax obligations.

Some previous studies point to the same thing, research conducted by Watson (2010) and Lanis & Richardson (2015), which states that the higher the level of corporate social responsibility disclosure of a company, the lower the level of tax avoidance. Research conducted by Yoehana & Harto (2013) and Dewi & Dewi (2017), that links corporate social responsibility with tax avoidance gets similar results. The executive characteristic variable is not able to moderate the relationship of corporate social responsibility to tax avoidance. Even though the company has a manager with risk-taker behavior will not weaken or strengthen the influence caused by the disclosure of corporate social responsibility. The legitimacy theory explains that the existence of a social contract to demand increased corporate social responsibility so that the manager's understanding of choosing decisions in accordance with applicable norms and agreed upon by stakeholders will reduce the manager's behavioral intentions to carry out tax avoidance actions. The considerable influence caused by the disclosure of corporate social responsibility for the practice of tax avoidance is the reason the executive's characteristic is not able to moderate the influence.

3.2 Executive Characteristics Moderate the Relationship of Institutional Ownership to Tax Avoidance

Based on the results of the regression analysis obtained $\text{Sig} = 0,000$ which can be interpreted that executive characteristics moderate the relationship between institutional ownership in tax avoidance. This means that when executive characteristics increase, it weakens the relationship between institutional ownership and tax avoidance. In the partial analysis of institutional ownership, the value of $\text{Sig} = 0,000$ which means that institutional ownership has a positive and significant effect on tax avoidance means that high institutional ownership will reduce tax avoidance. In the moderation model, based on data analysis the regression coefficient value becomes -0.031 which means that the moderation results have a debilitating effect on institutional ownership of tax avoidance meaning that if executive risk-taker characteristics will weaken the relationship between institutional ownership of tax avoidance.

The theory of planned behavior explains a person's intention to do something, so the higher the person's intention, the higher the behavior will be carried out by that person. One of the factors that influence the theory of planned behavior is the perceived behavior control (control behavior) this factor explains that the perception of ease or difficulty in performing a behavior. In this case, the theory of planned behavior explains the influence of managers' intentions with executive characteristics that are risk-takers in carrying out tax avoidance with oversight arising from institutional ownership. Although institutional ownership can reduce tax avoidance behavior or increase the effective tax ratio, the presence of executive characteristics that risk-takers will weaken the relationship.

Previous research has found that institutional ownership influences tax avoidance (Hasan *et al.*, 2016; Salehi *et al.*, 2016; Nuryani *et al.*, 2018). Institutional ownership is ownership owned by institutions, banks, insurance, and pension funds. High institutional ownership in a company indicates the potential and ability to monitor the company much better. Institutional ownership also has demands on managers and executives of the company to generate high profits while still using high controls and mechanisms.

Based on the results of the study, it was found that the effect of institutional ownership on the tax avoidance relationship was able to be moderated by the characteristics of executive risk-takers. This means that characteristics that are risk-takers will weaken the relationship that arises institutional ownership of tax avoidance. Although institutional ownership in the company is able to provide high additional control over the company and management behavior, with the characteristics of executives who risk-takers will cause the intention to behave in tax avoidance continues to occur. So that the more risk-takers a manager will not see high control from the institutional as an inhibiting factor in his intention to do tax avoidance.

4 Conclusion

The executive characteristic (risk taker) is unable to moderate the relationship of CSR to tax avoidance. Even though the company has a manager with risk-taker behavior it will not moderate the effect caused by CSR disclosure on tax avoidance. Executive characteristics (risk takers) are able to moderate the relationship between institutional ownership in tax avoidance. This can be interpreted that the more risk-taker executive characteristics will provide weakening moderation in the relationship of institutional ownership with tax avoidance.

This study only examines the object of manufacturing companies for further researchers are advised to examine from different industries so that it can have implications for tax avoidance. This research only examines using effective tax ratios to be a proxy in seeing how companies behave in tax avoidance, for subsequent research it is recommended use other proxies such as book-tax different that can make a difference in seeing tax avoidance behavior because book-tax differences are measured using different numbers from fiscal and financial statements.

Conflict of interest statement

The authors declared that they have no competing interests.

Statement of authorship

The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

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