opción

Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía, Lingüística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, 2019, Especial N° 21

Revista de Ciencias Humanas y Sociales

ISSN 1012-1587/ ISSNe: 2477-9385

Depósito Legal pp 198402ZU45

Universidad del Zulia

Facultad Experimental de Ciencias

Departamento de Ciencias Humanas

Maracaibo - Venezuela

Opcion, Año 35, Especial Nº 21 (2019):*2899-2921*
ISSN 1012-1587/ISSNe: 2477-9385

Corporate Governance, Tax Avoidance and Accrual-Based Earnings Management on Firm Value: an Interactive Effect in Indonesia's Perspective

Agoestina Mappadang, Amir Indrabudiman, Melansinaga

Department of Accounting, Economy, Universitas Budi Luhur, Indonesia; Agustina.mappadang@budiluhur.ac.id

Abstract

Purpose:In this study, we examine the link between corporate governance mechanism and firm value and identify the mediation effect of tax avoidance-and earnings management.This study investigated how tax avoidance measured by avoidance tax rate (ATR) and earnings management measured by discretionary accrual as a basis of management affects the firm value. Design/ Research method: We useda sampleassociated with manufacturing industry listed in Indonesia Stock Exchange from 2013 to 2017. The sample was determined by the purposive sampling method and contains395 objects of unit analysis from 79 companies.This research worked on secondary data withanalysis of causality. The analysis used Partial Least Square method with the assistance of Smart PLS3 software. Finding:The results show that the corporate governance mechanism has a negative and significant impact on tax avoidance and earnings management. Meanwhile, the corporate governance mechanism has a positive and significant impact on the firm value.Thecorporate governance on the firm value with tax avoidance as mediate variable has a negative and significant impact, besides earnings management as mediate variable has a positive and significant impact. Limitation:Measurement of tax avoidance by ATR only be used on a sample of manufacturing industries in this study period. It should test measurements on different industries in extended research period.The corporate governance only used mechanism of corporate governance for future research should focus on analyzing composite governance scores.

Implication:The implications of this study on the concept of agency theory in corporate governance that management is able to provide confidence to investors that the funds are invested safely and get return.Secondly, implications of losses to be borne by various parties in the long term if the company still practices tax avoidance and earnings management.

Keywords:Tax Avoidance, Earnings Management, Firm Value, Mechanism of Corporate Governance

Gobierno Corporativo, Evasión Fiscal Y Gestión De Ingresos Basada En El Devengo Sobre El Valor De La Empresa: Un Efecto Interactivo En La Perspectiva De Indonesia

Resumen
Propósito: en este estudio, examinamos el vínculo entre el mecanismo de gobierno corporativo y el valor de la empresa e identificamos el efecto de mediación de la evasión fiscal y la gestión de ingresos. Una base de gestión afecta el valor de la empresa. Diseño / Método de investigación: Utilizamos una muestra asociada con la industria manufacturera que cotiza en la Bolsa de Indonesia de 2013 a 2017. La muestra se determinó mediante el método de muestreo intencional y contiene 395 objetos de análisis unitario de 79 empresas. Esta investigación trabajó en datos secundarios con un análisis de causalidad. El análisis utilizó el método de Mínimo cuadrado parcial con la ayuda del software Smart PLS3. Hallazgo: Los resultados muestran que el mecanismo de gobierno corporativo tiene un impacto negativo y significativo en la evasión fiscal y la gestión de ganancias. Mientras tanto, el mecanismo de gobierno corporativo tiene un impacto positivo y significativo en el valor de la empresa. El gobierno corporativo en el valor de la empresa con evasión fiscal como variable media tiene un impacto negativo y significativo, además de la gestión de ganancias como variable media tiene un impacto positivo y significativo. Limitación: La medición de la evasión fiscal por ATR solo se utilizará en una muestra de industrias manufactureras en este período de estudio. Debería evaluar las mediciones en diferentes industrias en un período de investigación extendido. El gobierno corporativo solo utilizó un mecanismo de gobierno corporativo para futuras investigaciones debe centrarse en analizar los puntajes compuestos de gobierno. Implicación: las implicaciones de este estudio

sobre el concepto de teoría de agencia en el gobierno corporativo de que la administración puede brindar confianza a los inversionistas de que los fondos se invierten de manera segura y obtienen beneficios. si la empresa aún practica la evasión fiscal y la gestión de ganancias.

Palabras clave: evasión fiscal, gestión de ingresos, valor de la empresa, mecanismo de gobierno corporativo

1. INTRODUCTION

The firm value is very important because it reflects the performanceof a company, and it may affect investors' perceptions towardits stock prices. Company ownerswish to see constant increase in the value of their businessesfor years on end because it illustrates the level of welfare of its owners(Fiordelisi & Molyneux, 2010). The management carries out strict efficiency so as to reduce costs and exploitation of natural resources in order to achieve maximum output. Various kinds of methods are carried out by companies—both agents and principals—with the existing motivation. They did so without knowing whether it will have a good impact on the value of the company carrying out activities or actions to manage earnings or tax avoidance.

An alternative theoretical approach, according to Hanlon & J slemrod, (2009), (Chen & Chu Cyrus CY, 2010), emphasizes inherent relationship between tax avoidance activities and agency problems in publicly owned companies. The agency relationship allows a conflict of interest and the amount of company information owned by the agent (asymmetric information). Conflict of interest and asymmetric information can provide an opportunity for management to choose accounting methods or policies for a particular purpose, one of which is earnings management. Tax avoidance and agency problems in publicly owned companies are evidenced by the increasing differences between accounting profits and tax profits or fiscal profits (book-tax differences) (M. Desai & Dharmapala D, 2007). The increase in this difference can be caused by tax planning, whose purpose will be to reduce taxable income.The company's fiscal profit can also have an impact on reducing accounting profits. A decrease in accounting income from the perspective of financial reporting incentives will pose risks associated with either reporting earnings or low shareholder equity. Managers will have to opt for considering tax incentives that reduce profits

or financial reporting incentives that increase profits. Usually, managers will choose to minimize taxes without reducing company profits. In other words, managers may favor an increase in accounting profits without having to increasefiscal profits (Hanlon & S Heitzman, 2010).

The problem aroused of this research pertained to bad corporate governance, in which case it was identified by the Financial Services Authority in 2015as one of the causes of the global financial crisis 2015. Bad corporate governance is reflected in the lack of reporting on financial performance as well aslack of supervision of management activities. The experience of the global market on the financial crisis in 1998 and 2008 shows that corporate governance is very important.It is a top priority for listed companies and public companies in Indonesia to improvetheirpractices of corporate governance so as to be deemed accountable. Weak governance has impact to earnings management practices, and it has becomeone of the motives of companies to do earnings management due to tax avoidance. Earnings management cannot be categorized as an act of misuse. However, if there is an indication that earnings management is not well controlled through corporate governance mechanism, it can lead to manipulative actions, which in turnwill harm the company. Indonesia is one of the lower-middle-income countries. Countries in this group usually have an average tax ratio of between 10% and26% of the Gross Domestic Product (GDP). The high and low tax ratio is the implication of the strength of the tax system in a country. The big problems faced by Indonesia and many other countries in the world due to lack of tax revenue are caused by low levels of tax compliance and tax revenue leakage due to high tax avoidance practices and tax evasion. Based on the report from Transparency International's network research, the Corruption Perception Index in 2012, Indonesia was ranked 118th out of 176 countries surveyed with a Corruption Perception Index of 32 on a scale of 1 to 100, very far behind other countries in the world and other Asian countries. From thesurvey, it can be seen that there is a correlation that is getting cleaner, more transparent, and accountable for a state government to implement good governance mechanisms and governance principles:higher Corruption Perception Index of a Country will tend to increase the country's tax ratio.

Previous research on the effect of corporate governance, earnings management, and tax avoidance on firm value haddifferent results. There werepositive influences (Blaylock, Shevlin, & R J Wilson, 2012), negative influences (Hanlon & J slemrod, 2009), and no effect (Weber David, 2009). The results showed that the effect of firm value on tax avoidance would

be different due to the influence of earnings management (M. A. Desai & Dharmapala, 2009); (Blaylock et al., 2012) and corporate governance in the company (Eriel & Angueira, 2008). Other researchers showedthat tax proxies wereused as a tool for companies to manage earnings (Rego Sonja OlR & Ryan wilson, 2012). Based on the research gap, in general, it can be concluded that tax avoidance has a positive effect on earnings management conducted by the company.On the other hand, the resultfromother studysuggested that earnings management by a company has a negative effect on firm value.

This research adoptedAvoidance Tax Rate (ATR) or the level of tax avoidance. ATR is a new concept because itshows how much (as a percentage) tax that can be avoided by the company compared to the applicable tax rate. ATR figures can show directly the amount of tax avoidance (in percentages) committed by companies.Strictly speaking, ATR can also be said to measure how much corporate income (in percentages) that is not taxed compared to the applicable tax rate. ATR measurement is a modification ofthe previous tax avoidance measurement, effective tax rate (ETR). ATR aims to improve the previous tax avoidance measurement tool for this study. Provide background of the study in easy words. In this section author should discuss the research problem in very clear words. Also discuss the motivation of the study. Provide intext references in APA style for all the facts that are presented here.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 The Political Cost Hypothesis

The political cost hypothesis is one of the hypotheses in positive accounting theory (PAT) developed by Watts et al., 1978. PAT is a theory that explains and predicts the phenomenon of the choice of accounting methods by management (Deegan, 2007). PAT has three hypotheses developed, namely: the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis.

Taxes from companies are part of the political costs. Large companies have more effective tax rates than smaller companies. The political cost hypothesis examines the role of accounting policy choices in the political process. Political processes incur costs for companies or industries that are believed to benefit from the public or earn very high profits. Managers have incentives in choosing accounting methods and using discretion to reduce political profits and risks. This study adopts the political cost hypothesis as a basis for companies to do tax avoidance.

2.2 Firm value

The main purpose of the company, according to the firm theory, is to maximize the wealth or value of the company (Salvatore, 2005). One alternative used in assessing company value is to use Tobins'q. This ratio is considered to provide the best information because, in Tobin's q, all elements of debt and capital stock include not only ordinary shares and not only the company's equity included but all of the company's assets. So the greater the value of Tobin's Q indicates that the company has good growth prospects. It can occur because the greater the market value of the company's assets compared to the book value of the company's assets, the greater the investor's willingness to spend more sacrifice to own the company.

2.3. Corporate Governance Mechanism

The agency theory perspective is the basis used to understand corporate governance and earnings management issues. Jensen and Meckling, (1976); Watts and Zimmerman (1986) state that financial statements made with accounting numbers are expected to minimize conflicts between interested parties. Agency problems will indicate that the value of the company will increase if the owner of the company can control the behavior of management so as not to waste company resources, both in the form of improper investments or in the form of shirking.

Corporate governance mechanism is a control mechanism to regulate and manage companies to increase the company's prosperity and accountability, the ultimate goal of which is to realize shareholder value (Monks and Minow, 2011). The mechanism of corporate governance is a concept based on agency theory that expected all the function as a tool to give investors positive signal confidence that they will receive a return on the funds they invest.

2.3.1 Board of Commissioner

According to the Financial Services Authority Circular Letter no. 32 / SEOJK.04 / 2015 on guidelines for corporate governance is open then the function of the ideal commissioners should reflect the implementation of the general supervisory functions and the provision of advice to the board of directors in a professional, effective and independent includes important strategies and plans of the company, the integrity of financial reporting, internal control systems and risk management, reporting and disclosure, compliance and corporate governance.

2.3.2 Independent Commissioner

The independent commissioner isthe best position to carry out the oversight function to create good corporate governance. The Governance Policy Committee (KNKG, 2004) states that an independent commissioner is a member of the board of commissioners in a company who are not affiliated with management, other members of the board of commissioners and controlling shareholders, and is free from business or other relationships that can affect his ability to act independently or act solely for the benefit of the company. Klein (2002)has concluded that companies that have a proportion of board members who come from outside the company can influence earnings management actions because they act as an independent party in conducting oversight.

2.3.3 Institutional Ownership

About the monitoring function, institutional investors are believed to have the ability to monitor management actions better than individual investors according to Lee et al., (1992) in Rachmawati and trihatmoko, (2007) mentions two opinions regarding institutional investors, namely institutional investors as temporary owners and as an experienced investor. It is assumed that institutional investors are experienced investors whocan do better analysis so that they are not easily deceived by management manipulation.

2.4 Earnings Management

According to Dyreng, Hanlon, & Maydew, (2010) that earnings management is an act of managers who choose accounting policies to achieve some specific objectives, and the intended accounting policy is the use of accruals in preparing financial statements.

The researchers concluded that earnings management is related to the way management presents financial statements for decision making, meaning that management has the authority to present financial reports both legally and illegally. It is legal earnings management criteria if it does not deviate from Financial Accounting Standards. Criteria for illegal earnings management are those that have deviated from Financial Accounting Standards. Factors that influence earnings management according to Watt and Zimmerman (1978) are 1. thebonus program hypothesis (the bonus plan hypothesis), 2. thedebt covenant hypothesis arises because the agreement between the manager and the owner of the company is based on manage-

rial compensation and a debt covenant, 3. thepolitical cost hypothesis is a motivation that arises because management utilizes accounting weaknesses in dealing with various government regulations. Companies that are proven to violate anti-trust and antitrust regulations, their managers manipulate earnings by using accruals to reduce reported earnings.

2.5 Tax Avoidance

Hanlon & S Heitzman, (2010) interpret tax avoidance as an explicit tax reduction. According to Xynas L, (2011), tax avoidance isan effort to reduce tax debt that is legal (lawful), while tax evasion isan effort to reduce tax debt that is not legal (unlawful). The definition of tax avoidance, according by the researcher in this study, is an act of tax avoidance by utilizing loopholes caused by inconsistencies, unclear conditions in tax regulations. According to Darussalam D, (2013) provisions in the Law aim at preventing the practice of tax avoidance in Indonesia in its application have not been fully able to prevent tax avoidance by taxpayers because there are still loopholes. Found several weaknesses in the anti-tax avoidance taxation rules, including:

a. Prevention of thin capitalization has not been effective because the provisions have not been followed up with the determination of Debt to Equity Ratio (DER);

b. Prevention of Controlled Foreign Corporation contains gaps, namely:

- Only regulates income in the form of dividends, not other income
- The ownership requirements that are regulated legally (formally) are not the substance that is still possible to be circumvented so as not to be affected by this regulation.

c. Prevention of Transfer Pricing practices has not fully followed developments in its handling arrangements, among others, the coverage of domestic transactions in the form of the cross border has not yet been confirmed.

d. The provisions are the Specific Anti Avoidance Rule (SAAR).

With the existing weaknesses, tax avoidance carried out by taxpayers, has not been well anticipated by the Directorate General of Taxes. This weakness can lead to differences between taxpayers and tax officials and can become tax disputes that have the potential to cause harm to state revenues.

2.6 Hypotheses Development

Several studies conducted abroad have shown that the impact of effective corporate governance mechanisms is negative for tax avoidance. The relationship between tax and corporate governance has been extensively

studied, such as M. A. Desai & Dharmapala, (2006), Hanlon & J slemrod,(2009) and Sartori N, (2010) Research conducted by Desai and Dharmapala (2006) revealed the relationship between incentive compensation and tax evasion was negative. This negative relationship mainly occurs in companies with a low level of governance, which is assumed to be opportunism as a dominant factor in managerial. Hanlon and Slemrod (2009) examine how the market responds to news of tax fraud acts by companies; this study shows that the market responds negatively to the news. The reverse research found several variations, where the reaction will be more positive for companies with better corporate governance. Sartori (2009), in his research, revealed that the mechanism of corporate governance has a positive influence on the level of corporate tax compliance so that it will minimize tax aggressiveness and ultimately affect the value of the company.

The issue of earnings management is often associated with the financial scandals of several large companies in the world, so the regulators regulate the existence of good corporate governance where corporate governance mechanisms such as the existence of independent commissioners, audit committees, and board of commissioners are required in corporate governance. This is to mitigate opportunistic management actions, including earnings management (Carcello, Neal, Palmrose, & Scholz, 2011).

The quality of the mechanism is broadly related to better company performance (Hiroyuki Arman & Pascal Nguyen, 2008). The corporate governance mechanism used is expected to equalize the differences in interests between shareholders and managers so that it can negatively affect earnings management by the company.

Based on the empirical research model, the hypotheses developed for this study are as follows:

1. The effect of corporate governance mechanisms on tax avoidance
2. The effect of corporate governance mechanisms on earnings management
3. The effect of corporate governance mechanisms on firm value
4. The effect of corporate governance mechanisms on firm value with tax avoidance as a mediating variable
5. The effect of corporate governance mechanisms on firm value with earnings management as a mediating variable

3. RESEARCH METHODS

Determination of the sample using purposive sampling based on two criteria. The first criteria are set to select a sample of companies with initial ob-

servations. Criteria taken from the population are all manufacturing companies in the period 2013-2017 whose shares are listed on the Indonesia Stock Exchange. The total objects are 435 from 87 companies. The second criterion is the financial reporting period ending December 31, reports in rupiah, complete financial documents and never delisted during the observation period and have a profit. This study uses Partial Least Square (PLS) with Smart PLS 3 as a tool and path analysis to test hypotheses. PLS was chosen because it can overcome the data problems that arise in Ordinary Least Square used in panel data regression analysis besides to test the path of indirect effects.

3.1 Measurement of Firm Value

In this study, using the measurement of company value refers to Kiu et al. (2012) as follows:

$$\text{Tobins'q} = \frac{MVE + DEBT}{TA}$$

Tobins'q = firm value

MVE = the year-end value of common stock

DEBT = the book value of the firm's long term and short term debts

TA = the book value of the firm's on total asset

3.2 Measurement of Corporate Governance Mechanism

The exogenous variable (X) used in this study is a corporate governance mechanism. Proxies used to measure the mechanism of corporate governance are the board of commissioners, independent commissioners, and institutional ownership; measurements for each proxy are as follows:

- The Board of Commissioners uses the size of the board of commissioners (Yermack, 1996).
- Independent Commissioners use the proportion of independent boards of commissioners measured using the percentage of members of the board of commissioners from company outside compared to the total number of members of the company's board of commissioners. (Peasnell, Pope, & Young, 2000) and (Klein, 2002).
- Institutional Ownership uses an indicator of the percentage of

shares owned by the institution from all of the company's outstanding share capital. (Jiang & Anandarajan, 2009a).

3.3 Measurement of Earnings Management

Earnings management (DACC) can be measured through discretionary accruals that are calculated by reducing total accruals (TACC) with non-discretionary accruals (NDACC). Discretionary accruals (DACC) is an abnormal accrual level that comes from management policies to engineer profits by what they want. The measurement of accrual earnings management in this study is based on the modified Jones model (modified Jones) by (Jiang & Anandarajan, 2009b); (Baxter & Cotter, 2009). This model is used because it is considered as the best model in detecting earnings management. In modified jones, the calculation is done by calculating total accrual earnings, then separating non-discretionary accruals (reasonable accrual earnings levels) and discretionary accruals (abnormal accrual rate of earnings).
Total accruals are calculated using the formula:

$$\mathbf{TAcc_{it} = NI_{it} - CFO_{it}}$$

$TACC_{it}$	= Total Accruals of the company i in year t
NI_{it}	= Net *Income* of company i in year t
CFO_{it}	= Cash Flow Operation of the company i in year t

From the above equation, the normal accrual equation is made as follows :

$$\frac{TAcc_{it}}{A_{it-1}} = a_0 + a_1\left(\frac{1}{A_{it-1}}\right) + a_2\left(\frac{\Delta REV_{it}}{A_{it-1}} - \frac{\Delta REC_{it}}{A_{it-1}}\right) + a_3\left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon_{it}$$

Note :

$TAcc_{it}$	= Total accrual of the company i in year t
A_{it}	= Total asset of the company i in year t-l
ΔREV_{it}	= The income change of company i in year t
ΔREC_{it}	= The receivable change of company i in year t
PPE_{it}	= *Properti, Plan and Equipment* in year t
al,a2,a3	= Research variable parameters
ε_{it}	= Error term of the company i in year t

Discretionary accrual value is the residual value (error term) in the total regression accrual above.

3.4 Measurement of Tax Avoidance with Avoidance Tax Rate (ATR)

Tax avoidance measurement should be able to describe the amount of tax avoidance by companies. BTD (Book tax Differences) and ETR (Effective Tax Rate) are two tax avoidance measures that are widely used in accounting research. BTD is the difference between accounting profit and fiscal profit. ETR is the ratio between tax costs and corporate pre-tax profit. ETR describes what percentage of the tax paid by the company from the company's profit. The smaller the ETR number indicates, the smaller the tax paid by the company.

This study does not use BTD as an avoidance proxy because BTD only shows the amount of tax avoidance by the parent company and not as a whole. This study also did not use ETR as a proxy for tax avoidance. First, the ETR value does not indicate directly whether the company is doing avoidance or not because it cannot describe how much tax the company is avoiding. The ETR value can also cause bias in a comparative research with several countries. This is because tax rates from one country to another can vary. ETR, in the sense of financial reporting, is used to measure the total tax paid as a percentage of the company's accounting profit, not as a percentage of taxable income (GAAP, IFRS).

In this study, ATR figures can show directly whether the company is suspected of doing tax avoidance or not. A company that has a positive ATR number means the tax rate paid by the company is smaller than the applicable rate so it can be said that the company is suspected of doing tax avoidance while a negative ATR number can be interpreted that the tax rate paid by the company is greater than the applicable tax rate, so the company is suspected of not doing tax avoidance.

Companies that do tax avoidance are if the effective tax rate is smaller than the applicable tax rate (Hanlon et al., 2010). Calculation of the effective tax rate (ETR) uses the following formula:

$$\text{Effectivetax rate}_{it} = \left(\frac{\text{Total tax expenses it}}{\text{Earnings before tax it}}\right)$$

$$\text{ATR}_{it} = \text{Applicable tax rate} - \text{Effective tax rate}_{it}$$

4. RESULTS AND DISCUSSIONS

Table 1 shows data on an average of a company's general description of the mechanisms of corporate governance, tax avoidance, earnings management, and firm value.

Table 1. Description Statistic variable

	Mean	Standard Deviation	Minimum	Maximum
atr	3.646	9.376	0.000	78.635
dac	0.054	0.102	-0.691	0.488
inden	0.318	0.027	0.250	0.350
ins	63.275	29.529	0.000	90.000
kom	4	1.626	3	7
tobins	3.271	2.052	0.040	15.829

Source: Data Processing Results

Independent commissioners shows that the manufacturing companies listed on the Indonesia Stock Exchange in the 2013-2017 period had an independent commissioner of 31.8% and had complied with one of the conditions for listing shares, namely having to have an independent commissioner of at least 30% of the board of commissioners. Institutional ownership has an average value of 63,275. The results showed the board of commissioners had an average value of 4 people. Avoidance Tax Rate has an average value of 3,646%. It means that manufacturing companies do tax avoidance at a rate of 3.6% less than the normal tax rate in force in Indonesia. Discretionary accrual has an average value of 0.054. It shows that listed manufacturing companies carry out earnings management with a discretionary accrual of 5.4%. The average value of tobins'q of 3,271 indicates the average amount of Tobin's q is greater than one, which is 3,271 times, which means the market value is greater than the value of the company's assets recorded in the financial statements. It indicates that the stock is overvalued. If Tobins'q is less than 1, it means the market value is smaller than the value of the listed assets, so the greater Tobins'q value indicates that the company has good growth prospects.

The results of the path analysis for testing direct effect in this research data

are as follows:

Table 2. Data Results for Direct Effect

	Coefficient	t Statistics (|O/STERR|)	p Values
mechanismCG -> EM	-0.826	32.371	0.000
mechanismCG ->taxavoid	-0.648	28.097	0.000
mechanismCG -> value of the firm	0.267	5.988	0.000

Source: Data Processing Results

4.1 The mechanism of corporate governance has a negative effect on tax avoidance

In table 2, the path analysis shows that corporate governance mechanisms have a negative effect on tax avoidance. The results showed a negative coefficient of -0,648 with t-stat 28,097 (> 1.96) or significant at a p-value less than 0.05 so that the first hypothesis was accepted. The determinant coefficient R2 is 0.420, meaning that tax avoidance can be explained by a corporate governance mechanism of 42.0%, and the rest is explained by outside another factor the research model. Thus the corporate governance mechanism in the manufacturing industry, on average, is quite effective in carrying out its function as a control tool in overseeing management behavior so that it acts proportionally, especially in carrying out tax avoidance actions.

According to Minnick & noga, (2010), tax avoidance actions open opportunities for managers to be opportunistic for short-term goals, not for long-term benefits as expected by the principal. According to the political cost hypothesis, tax is the transfer of wealth from the company to the government, so that the owner of the company will tend to encourage manage-

ment to more aggressively reduce corporate taxes. Opportunistic managers arrange complex companies to facilitate transactions that reduce corporate taxes and divert company resources for personal use. Strong tax authorities and the quality of corporate governance can provide additional monitoring to managers to reduce the transfer of resources.

A high tax rate system but poor with law enforcement and weak control mechanisms, the tax can be utilized to increase managerial transfers from the tax authorities as well as from outside shareholders. Shareholders benefit when tax law enforcement increases because it increases the likelihood that diversion will be detected. Corporate governance mechanisms affect the company's response to changes in corporate tax rates. The role of corporate governance is expected to be able to control agency problems with tax avoidance actions taken by companies.

The results of this study agree with Richardson R & Lanis, (2011), Armstrong, Blouin, Jagolinzer, & Larcker, (2015), Rego Sonja OlR & Ryan wilson, (2012), that corporate governance mechanisms negatively affect tax avoidance.

4.2 The mechanism of corporate governance has a negative effect on earnings management

The second hypothesis in table 3 path analysis shows the mechanism of corporate governance has a negative effect on earnings management. The results show a negative coefficient of -0,826 with t-stat of 32,731 (> 1.96) or significant at p values less than 0.05 so that the second hypothesis was accepted. The determinant coefficient R2 is0.485, which shows that the corporate governance mechanism can explain earnings management and the remaining 48.5% explained by other variables outside the research model. The results of this study mean that corporate governance mechanisms can reduce earnings management by companies. The better--and more effective--corporate governanceis, the less profit management actions will be.

Based on signaling theory, accounting information is expected to be a signal that can reduce information asymmetry between management and investors, as reflected in stock prices. The investor will manage all information sent by the company for its investment decisions. The efficiency perspective approach in positive accounting theory makes companies adopt certain accounting methods because the method will provide the best performance economically. Meanwhile, in an opportunistic perspective, PAT tries to explain and predict opportunistic management behavior

related to various contractual rules agreed with the principal. Shareholders expect managers' actions on their behalf to focus on profit maximization, which include pursuing opportunities to reduce tax obligations as long as the additional benefits outweigh the costs incurred.

An effective monitoring and control system will prevent managers from making policies according to personal needs and ignoring the public interest. For this reason, the principles of good corporate governance emphasize the importance of corporate governance mechanisms.

This study,in line with research by Klein (2002), and Cornett, McNutt, & Tehranian, (2009) found the influence of corporate governance mechanisms on decreasing discretionary accruals as a measure of earnings management.

4.3 The mechanism of corporate governance has a positive effect on firm value

The third hypothesis in table 3 path analysis shows that the mechanism of corporate governance has a positive effect on firm value. The results show a positive coefficient of 0.267 with t-stat of 5.988 (> 1.96) or significant at p values less than 0.05, so the 3rd hypothesis isaccepted. The determinant coefficient R2 shows 0.961; this shows that earnings management can be explained by corporate governance mechanism by 96.1% and the remaining is explained by other variables outside the research model. Companies that have good corporate governance mechanisms will have more effective monitoring mechanisms that will make company operations more efficient so that it will increase the value of the company. The higher the corporate governance mechanism, the higher the value of the company, which means investors react positively to good corporate governance.

A survey conducted by McKinsey & co, (2002) shows that corporate governance mechanisms have become the main consideration of investors, especially in emerging markets such as Indonesia. Investors tend to avoid companies that implement bad corporate governance.

This study is in line with Paolo Saona & Martin, (2016) and (Teresa M Pergola, Joseph, & Ali Jenzarli, 2006) that the corporate governance mechanism has a significant positive effect on firm value.

4.4 The mechanism of corporate governance has a negative effect on firm value with tax avoidance as a mediation variable

Table 3.Data Results for Mediation Effects

	Original Sample (O)	t Statistics (|O/STDEV|)	p Values
mechanismGCG ->taxavoid -> value of the firm	-0.329	4.509	0.000
mechanismGCG -> EM ->value of the firm	0.780	8.261	0.000
mechanismGCG -> value of the firm	0.267	5.988	0.000

Source: Data Processing Results

The results of data processing in table 3 for total effect that the indirect effect shows -0.329 and t-stat of 4.509 more than 1.96 or significant at p-value less than 0.05. It means that there is an indirect effect of the corporate governance mechanism on firm value through tax avoidance as mediation with negative influences. Mediation that occurs is partial mediation.

Good corporate governance will affect the relationship between tax avoidance and corporate value. According to Xudong Chen, Hu, Wang, & Xiaofei Tang, (2013) the negative influence between tax avoidance and company value can be reduced by corporate transparency. Table 1shows that the composition of ownership of manufacturing companies is 63%. Institutional ownership will encourage more optimal oversight of management performance and have a positive impact on investors' reaction to stock prices. Institutional investors will oversee management performance in running the company, and management will be more careful in running the company's operations.

If the greater ownership financial institutions, then the greater the sound

power and encouragement of financial institutions to supervise management in tax evasion actions so that management will be more compliant in carrying out tax regulations. If the number of independent commissioners on the board of commissioners increases, then the independent commissioners can fulfill their role as a monitoring function so that tax avoidance actions are lowered and have an impact on the company's value. The results of this study supported a research conducted by Hanlon & S Heitzman, (2010).

4.5 The mechanism of corporate governance has a positive effect on firm value with earnings management as a mediation variable

The results of the study presented in table 3 the total effect of the corporate governance mechanism path to the value of the company through earnings management showed a coefficient of 0.780 with t-stat of 8.261 more than 1.96 or significant at p-value less than 0.05. It means that corporate governance mechanism has a positive indirect effect on firm value mediated by earnings management. Also from the results of the research on the 5th hypothesis there is a direct effect corporate governance mechanism on firm value of 0.267 with t-stat 5.988 greater than 1.96 and significant at p-value <0.05 so that the hypothesis for the corporate governance mechanism path to the company's value is accepted and is a partial mediation.

Mediated by earnings management, the mechanism of corporate governance that goes down gives a negative signal for investors to take action so that the company's value goes down, and vice versa. The corporate governance mechanism consists of the board of commissioners, independent commissioners, and institutional ownership to eliminate the negative influence of earnings management by the company. Oversight by the board of commissioners and shareholders is a very important factor in aligning the interests of shareholders and management so that the company's performance is better and has an impact on the company's higher value. This research is in line with research conducted by Desai M A & D Dharmapala, (2009).

5. CONCLUSION

This study on the concept of agency theory in corporate governance suggests that management is able to provide confidence to investors that the funds are invested safely and get returnandrelated to how investors can control managers.

There are implications of losses that must be borne by various parties due to earnings management. Firstly, the company will one day lose the ability to continue this financial engineering, which results in the company experiencing cash flow difficulties even if it is done in the long term.The company then experiences bankruptcy, so the purpose of going concern is not achieved. Secondly, stakeholders who use financial statements as a basis for making decisions get the information that is not appropriate. As a result,strategic and economic decisions are wrong.

The difference betweenthis study andthe previous ones lies in measuring Tax Avoidance by using Avoidance Tax Rate (ATR). Previous studies only measured the effective tax avoidance rates conducted by many companies, especially companies in Indonesia. So far, tax avoidance measurement only determines and identifies whether companies avoid tax or not. By knowing the measurement of this ATR, it will be easier to find out and identify how much tax avoidance is done by the company or tax savings made by the company and how much value or amount of funds should be deposited into the state treasury if the company does not do tax avoidance. The second difference of this study with previous studies is the indirect effect of corporate governance mechanism variables on firm value by mediating tax avoidance and earnings management.

6. LIMITATION AND STUDY FORWARD

Limitation of this research: first measurement of tax avoidance by ATR is only used on a sample of manufacturing industries in this study period. For any study going forward, it should test measurements on different industries and extended the research period. Secondly, the corporate governance which only appliesmechanism of corporate governance in any coming study should focus on analyzing composite governance scores. Thirdly, concerning the limitation of variables used, for any future study, to develop a research model that influences firm value, it is suggested that other variables such as capital structure, behavioral of capital market, and behavioral of tax payer in Indonesia are also considered.

ACKNOWLEDGEMENTS

With the completion of this research, we would like to thank all those who have contributed to this research so that this research can be completed well and smoothly.

REFERENCES

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

Baxter, P., & Cotter, J. (2009). Audit committees and earnings quality. Accounting and Finance. https://doi.org/10.1111/j.1467-629X.2008.00290.x

Blaylock, B., Shevlin, & R J Wilson. (2012). Tax avoidance, Large Positive Temporary Book-Tax Differences, and Earnings Persistence. The Accounting Review, 87(1), 91–120. https://doi.org/10.2308/accr-10158

Carcello, J. V., Neal, T. L., Palmrose, Z. V., & Scholz, S. (2011). CEO involvement in selecting board members, audit committee effectiveness, and restatements. Contemporary Accounting Research. https://doi.org/10.1111/j.1911-3846.2010.01052.x

Chen, K., & Chu Cyrus CY. (2010). Internal Control vs External Manipulation: A Model of Corporate Income Tax Evasion. The RAND Journal of Economics, 36(1), 151–164. https://doi.org/10.2139/ssrn.353860

Cornett, M. M., McNutt, J. J., & Tehranian, H. (2009). Corporate governance and earnings management at large U.S. bank holding companies. Journal of Corporate Finance. https://doi.org/10.1016/j.jcorpfin.2009.04.003

Darussalam D. (2013). Transfer pricing: Ide, Strategi, dan Panduan dalam Perspektif Pajak International (XiV). Indonesia: Dany Darussalam Tax Center.

Deegan. (2007). Financial Accounting theory. Mc Graww Hill 2nd. Australia Pty Limited.

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

Desai, M. A., & Dharmapala, D. (2009). Earnings management, corporate tax shelters, and book-tax alignment. National Tax Journal. https://doi.org/10.17310/ntj.2009.1.08

Desai, M., & Dharmapala D. (2007). Taxation and Corporate Governance: An Economic Approach. Harvard Business School - Finance Unit; National Bureau of Economic Research (NBER), 24.

Desai M A, & D Dharmapala. (2009). Corporate Tax Avoidance and Firm

Value. The Review of Economic and Statistic, 91(3), 537–546. https://doi.org/10.1162/rest.91.3.537
Dyreng, S. D., Hanlon, M., & Maydew, E. L. (2010). The effects of executives on corporate tax avoidance. Accounting Review. https://doi.org/10.2308/accr.2010.85.4.1163
Eriel, J. C., & Angueira. (2008). Tax anggressiveness, tax environment changes and corporate governance. University of Florida.
Fiordelisi, & Molyneux. (2010). The determinants of shareholder value in European banking. Journal of Banking & Finance, Elsevier, 34((6)), 1189–1200. https://doi.org/10.1016/j.jbankfin.2009.11.018
Hanlon, M., & J slemrod. (2009). What does tax aggressiveness signal? Evidence from stock price reactions to news about tax shelter involvement. Journal of Public Economics, 93(1–2), 126–141. https://doi.org/10.1016/j.jpubeco.2008.09.004
Hanlon, M., & S Heitzman. (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
Hiroyuki Arman, & Pascal Nguyen. (2008). Do stock prices reflect the corporate governance quality of Japanese firm. Journal of the Japanese and International Economics,22(4), 647–662. https://doi.org/10.1016/j.jjie.2008.05.001
Jensen and Meckling. (1976). Theory of the Firm, managerial behavior, agency cost and ownership structure. Financial Economic, 3(4), 305–360.
Jiang, W., & Anandarajan, A. (2009a). Shareholder rights, corporate governance and earnings quality: The influence of institutional investors. Managerial Auditing Journal. https://doi.org/10.1108/02686900910986402
Jiang, W., & Anandarajan, A. (2009b). Shareholder rights, corporate governance and earnings quality. Managerial Auditing Journal. https://doi.org/10.1108/02686900910986402
Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. Journal of Accounting and Economics. https://doi.org/10.1016/S0165-4101(02)00059-9
McKinsey & co. (2002). A premium for good governance. Retrieved from http://www.globalclearinghouse.org/wefhongkong/Docs/Premium for good governance.pdf
Minnick, & noga. (2010). Do corporate governance characteristics influence tax management? Journal of Corporate Finance, 16(5), 703–718. https://doi.org/10.1016/j.jcorpfin.2010.08.005
Monks and Minow. (2011). Corporate Governance, Oxford, UK, Blacweel

Busniness.
Paolo Saona, & Martin, P. (2016). Country Level Governance Variables and Ownership Concentration as Determinants of Firm Value in Latin America. International Review of Law and Economics, 47(1), 84–95. https://doi.org/10.1016/j.irle.2016.06.004
Peasnell, K. V., Pope, P. F., & Young, S. (2000). Accrual management to meet earnings targets: UK evidence pre- and post-Cadbury. British Accounting Review. https://doi.org/10.1006/bare.2000.0134
Rachmawati and trihatmoko. (2007). Analysis of factors affecting earnings quality and firm value. National Accounting Symposium.
Rego Sonja OlR, & Ryan wilson. (2012). Equity Risk Incentives and Corporate Tax Aggressiveness. Journal of Accounting, 50(3), 775–810. https://doi.org/10.1111/j.1475-679X.2012.00438.x
Richardson R, & Lanis. (2011). The effect of board of director composition on corporate tax aggressiveness. Journal of Accounting and Public Policy, 30(1), 50–70. https://doi.org/10.1016/j.jaccpubpol.2010.09.003
Salvatore, dominick. (2005). Ekonomi manajerial danlam Perekonomian global.
Sartori N. (2010). Corporate Governance Dynamics and Tax Compliance. Heinonline, (13 Int'l Trade & Bus. L. Rev. 264).
Teresa M Pergola, Joseph, G. W., & Ali Jenzarli. (2006). Effects of Corporate Governance and Board Equity Ownership on Earnings Quality. University of Tampa, 56.
Watts, R. L., Zimmerman, J. L., & Ross Watts, S. L. (1978). Towards a Positive Theory of the Determination of Accounting Standards Towards a Positive Theory of the Determination of Accounting. The Accounting Review, 53(1), 112–134.
Weber David. (2009). Do analist and investor full appreciate the implications of book tax difference for future earnings? Contemporary Accounting Research Journal, 26(4), 1175–1206. https://doi.org/10.1506/car.26.4.7
Xudong Chen, Hu, N., Wang, X., & Xiaofei Tang. (2013). Tax avoidance and firm value. Nankai Business Review International, 5(1), 25–42. https://doi.org/10.1108/NBRI-10-2013-0037
Xynas L. (2011). Tax Planning, Avoidance and Evasion in Australia 1970-2010: The regulatory Responses and Taxpayer Compliance. Revenue Law Journal, 20(1). Retrieved from http://epublications.bond.edu.au/rlj/vol20/iss1/2
Yermack, D. (1996). Higher market valuation of companies with a small board of directors. Journal of Financial Economics. https://doi.

UNIVERSIDAD
DEL ZULIA

opción

Revista de Ciencias Humanas y Sociales

Año 35, Especial N° 21, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.
Maracaibo - Venezuela

www.luz.edu.ve

www.serbi.luz.edu.ve

produccioncientifica.luz.edu.ve