GOVERNANCE STRUCTURE, TAX AVOIDANCE, AND FIRM VALUE

by Olivia Feren

Submission date: 22-Oct-2020 11:01AM (UTC+0700)
Submission ID: 1422807393
File name: KELOLA,_PENGHINDARAN_PAJAK,_DAN_NILAI_PERUSAHAAN_PROOFREAD.docx (365.62K)
Word count: 5190
Character count: 27804

GOVERNANCE STRUCTURE, TAX AVOIDANCE, AND FIRM VALUE

Yenni Mangoting

yenni@petra.ac.id

Cecilia Gunadi

D12170163@john.petra.ac.id

Feren Priscilia

D12170164@john.petra.ac.id

Olivia Ariyanto

D12170157@john.petra.ac.id

Accounting Major, Faculty of Business and Economics,

Petra Christian University

Jl. Siwalankerto 121-131, Surabaya City, East Java 60236

Abstract. This study aims to find out the effect of good corporate governance with indicators of board size, board diversity, independent commissioners, and audit committee on the firm value. Tax avoidance was also tested as mediation in Good Corporate Governance and firm value relationship. We used 132 publicly listed Indonesian manufacturing firms that are listed in 2014-2018 as samples. This study used multiple regression analysis and path analysis by a Sobel test. The results of the study indicated that the size of independent commissioners played an effective role in supervising and providing consultation that had an impact on increasing the firm value and tax avoidance. Meanwhile, other elements of Good Corporate Governance, including the board size, board diversity, and audit committee had no effect on the firm value. Similarly, the role of tax avoidance as mediation couldn't be proven in this study. This indicated that the regulators need to evaluate the mechanism to implement Good Corporate Governance in public firms and if deemed necessary, provide additional Good Corporate Governance mechanism which principles are able to be applied entirely to prevent an agency conflict.

I. INTRODUCTION

In an agency theory concept, the management holds more and better information than shareholders. Based on this information, the management may act aggressively without involving the shareholders as the owners of the company. [1] stated that such information ownership raises the probability of collusion and takeover of the shareholders' wealth by top management. For public firms, corporate governance reformation is aimed to emphasize the improvement of supervisory function by introducing the presence of independent director and audit committee as part of the firm's board structure [2].

The influence of Corporate Governance which can be proxied by board size, board independence, frequency of board meeting, board diversity, or audit committee is often associated with aggressive corporate behavior in tax avoidance [3] [4]. On one hand, tax avoidance can increase the firm value, but on the other hand, tax avoidance actually increases agency costs and reduces the firm value, because investors react negatively to the firm's actions [5]. In an uncertain environment, the tax avoidance activities will be higher, which is reflected in lower effective tax rate to maintain the firm value [6]. Therefore, involving independent director and audit committee for public firms is an effort to involve external parties to carry out supervisory activities on the management of the firm by management [7]. Previous studies have emphasized the supervisory function and the importance of independent director through the professional expertise that they have [8] [9]. This supervisory function indicates the tendency of opportunistic actions performed by the firm, so that regulators need to anticipate actions that can harm minority shareholders or stakeholders in general by requiring the implementation of Good Corporate Governance elements.

[4] emphasized on board size as a factor that can control the management's aggressive behavior in tax avoidance. A large board size is considered to be able to increase the distribution of the supervisory function of strategic decision making by executive management. Different results were found in the study of [10] who did not find effect of the board size on tax avoidance. [11] research even found that smaller board size was actually more effective, especially when a firm is in a situation of crisis, because large board size will create difficulties in the coordination process.

In the perspective of corporate governance, the board diversity factor, namely the existence of both men and women in the organizational structure, is a benchmark that can strengthen the corporate governance structure. [10] and [12] stated that female directors have succeeded in controlling the firm's aggressive decision and performing an effective supervisory function, therefore creating a balance of the firm's responsible behavior towards stakeholders. Another element of Good Corporate Governance that can affect firm value is the independence of the board of commissioners. [13] explained that the existence of independent commissioners can increase firm value through neutral behavior and professional expertise which can also minimize agency conflict, limit transactions that only benefit certain parties, and provide resources for the firm and management. Although according to [11], a large number of independent commissioners did not have a significant effect on the firm financial performance based on the expertise that they have. Another element which is also a part of corporate governance is the existence of audit committee. Based on Forum for Corporate Governance in Indonesia (FCGI), the audit committee is responsible for providing opinions on accounting issues, financial statement and its explanation, internal control system, and independent auditor. The more audit committees in the firm, the more effective it is in controlling and thus limiting management to avoid aggressive taxes [3] [4]. Implementing the elements of good governance within the firm can increase firm value. According to [2], good corporate governance provides benefits for shareholders, improves the quality and the independence of board, and acts as a tool that helps shareholders to monitor and control the management's aggressive behavior. Based on the description above, the additional value in this study is to examine the effect of the elements of Good Corporate Governance, both directly (influence on firm value) and indirectly (through tax avoidance as mediation).

II. LITERATURE REVIEW AND HYPOTHESIS

A. Agency Theory and Signaling Theory

Agency theory investigates the significance of separation between owner and management in managing a firm. This theory finds that there is information asymmetry when the management prioritizes its interests by doing tax avoidance. This can be minimized by implementing good corporate governance elements, such as transparent disclosure of information to provide good value for the firm [14]. Signaling theory explains how the firm reduces information asymmetry by disclosing information in financial statements as a signal to outsiders or users of financial statements [15]. Signaling theory has four aspects, namely signal provider, signal, signal receiver, and feedback from outsiders. The firm, as signal provider that sends signal to recipients, will provide feedbacks through its perception [16]. The management can provide positive signals to the market, one of which is tax avoidance, which is expected to provide an increase in market share price and an increase in firm value [17].

B. Good Corporate Governance

Good Corporate Governance (GCG) is a structure used by company participants (shareholders, commissioners, supervisors, directors) to improve the progress of the firm without leaving the interests of other stakeholders according to legislation and ethical values [18]. Corporate governance allows better supervision and control and thus minimizes opportunistic actions by managers that can reduce firm value, which will increase the protection of shareholders [2]. In this study, the characteristics of corporate governance that we use are the board size, independent commissioners, board diversity, and audit committee.

C. Firm Value

Firm value is the outside party's perception to the firm's success associated with the securities price [19]. The firm aims to increase firm value by increasing the welfare of owners or shareholders [20]. Optimizing firm value can be done through the financial management function, where the decisions that have been taken can have an impact on firm value [21].

D. Tax Avoidance

Tax avoidance is an effort to legally minimize the tax of a taxpayer. It is legal because it does not contradict the tax regulation, but it exploits the loopholes in tax laws and regulations [22]. Tax avoidance indicates management's personal interest and it is done by manipulating the firm's profits, which lead to the information from the financial statements not showing the real situation, and create potential for information asymmetry between the firm and the investors.

III. HYPOTHESES DEVELOPMENT

1) Effect of Governance Structure on Firm Value

The number of directors in a company is an important factor that affects the firm's performance. When the number of board exceeds the ideal number, there will be more problems than benefits with the firm having multiple directors [23]. Board size that gets larger will cause agency problems and will show that the board is just a formality [24]. The large board size makes it more difficult to take strategic and effective decisions to maximize the firm value [25]. Furthermore, [25] stated that a large board size has a negative impact on firm value.

Independent commissioner is recruited to supervise the management on behalf of shareholders. [26] found that the firm with more independent commissioners has superior performance. [27] also found that the higher the representation of outside director (independent commissioner), the higher the independence and the effectiveness of the board performance will be. Therefore, higher representation of outside director (independent commissioner) will increase firm value.

Board diversity in [28]'s view is considered to increase firm value because it brings unique and new skills, talents, and abilities to the firm. Board diversity is also considered to incorporate new perspectives into board structure, therefore increases the opportunities to solve complex problems [29].

The audit committee is responsible for supervising financial statements, external audit, and the firm's internal control system. Higher number of audit committees in the firm will affect the increase in firm value because of the supervision by auditors that affects the firm's profits. This was supported by [30] who found that the audit committee forced the owners and management to work together for the sake of shareholders and to maximize stakeholders' wealth. From the transparency perspective, the audit committee could contribute by providing clear and transparent company information in order to achieve an increase in firm value [31].

H1: Board size has a negative effect on firm value

H2: Independent board of commissioners has a positive effect on firm value

H3: Board diversity has a positive effect on firm value

H4: Audit committee has a positive effect on firm value

2) Effects of Governance Structure on Tax Avoidance

A study by [32] found that large board size could reduce the effectiveness of manager performance. From the risk perspective, [10] found that managers were more risk averse to keep their own interests, and they reflect this by engaging in aggressive tax avoidance that takes advantage of accounting treatments and procedures as well as legal inequity.

The independent commissioners could perform monitoring function in supporting management in managing the firm and preparing financial statements in a more objective way [24]. [33] stated that members of independent board of commissioners have no collusion with management and still maintain their independence to carry out the duties assigned by shareholders. Therefore, independent commissioners are expected to monitor management performance and decrease the information asymmetry. The study performed by [34] showed that the larger the number of independent commissioners in the firm is, the more effective it is to prevent tax avoidance.

Board diversity was defined as the number of female directors on the firm board. [35] found that there was an influence of board diversity on tax avoidance on the basis that female directors are more avoidant of high risk, providing effective monitoring, and have high ethical and moral values. A larger proportion of female director is an effective supervision tool and is able to control risks significantly to reduce tax avoidance actions [35].

The Capital Market Supervisory Agency regulated the elements in the audit committee as comprised by at least three people consisting of an independent commissioner and two other people from outside the firm [36]. [3] found that the higher the number of audit committees in the firm in managing financial policy is, the lesser the possibility is for them to commit tax avoidance. In line with these findings, [37] found that the high level of supervision performed by the audit committee on management will result in quality information and effective company performance.

H5: Board size has a negative effect on tax avoidance

H6: Independent board of commissioners has a negative effect on tax avoidance

H7: The number of female directors has a negative effect on tax avoidance

H8: Audit committee has a positive effect on tax avoidance

3) Effect of Tax Avoidance on Firm Value

In the agency theory, apart from taking into account the benefits of tax avoidance, it also considers non-financial costs that arose from tax avoidance activities such as the possibility of restating financial statements and litigation risk by the tax authority [38]. Although tax avoidance could increase cash flow and net income, which in turn will increase firm value, it could also reduce firm value due to agency problems that will arise. [39] found that there was a negative relationship between tax avoidance and firm value. Based on this description, the following hypothesis could be formulated.

H9: Tax avoidance has a negative effect on firm value

4) Effect of Governance Structure on Firm Value through Tax Avoidance

The high number of board in the firm will increase supervision of management performance so that it becomes better and more controlled. If the management performance becomes more controlled, it will have an impact in increasing the firm's profits, which in turn will increase share price and firm value [40]. Board will determine the firm's policies and strategies, both short and long term, so that the large number of board in the firm will be able to help predict the possible strategies that must be performed to influence the firm value [41]. One of the strategies adopted by management is tax avoidance by reducing the firm's tax burden through accounting procedures and legal gap for personal interest [10]. According to [39], tax avoidance could increase cash flow and net income, which in turn will increase the firm value, but it can also decrease firm value due to agency problems.

The existence of independent board of commissioners in the firm will help investors to control the firm so that the management will not take opportunistic actions that will harm investors. When investors feel that their rights are guaranteed, they will continue to invest their shares in the firm, which will increase the firm value [42].

Board diversity can provide different perspectives and transparency. In addition, because women tend to avoid risks, there will be less likelihood of actions such as tax avoidance. By reducing tax avoidance, the firm value can increase [42].

The existence of audit committee in the firm will free the financial statements from the possibility of fraud committed by the management, such as tax avoidance. In addition, the audit committee can help monitor what mechanisms can improve the quality of information and the firm's management, which will increase firm value. Based on these descriptions, the following hypotheses can be formulated [42].

H10: Tax avoidance mediates the relationship of board to firm value

H11: Tax avoidance mediates the relationship of independent commissioners to firm value

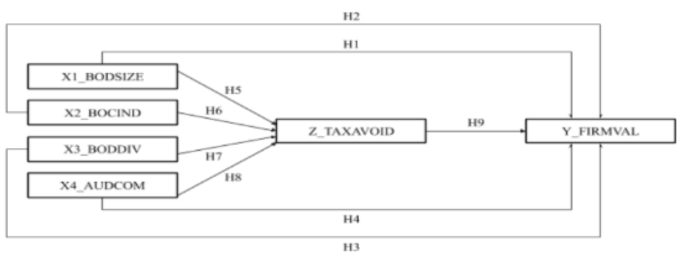
H12: Tax avoidance mediates the relationship of the board of female directors to firm value

H13: Tax avoidance mediates the relationship of audit committee to firm value

IV. METHODOLOGY

A. Research Model

Based on the explanation above, we mapped our research model as follows:



B. Sample Selection

The objects of our study are 174 firms in all manufacturing industries (Industrial & Chemical Sector, Miscellaneous Industry Sector, and Consumer Goods Industry Sector) that are listed on the Indonesia Stock Exchange (IDX) in the period of 2014-2018. The selection of manufacturing firms as a sample was based on the consideration that manufacturing firms had a major contribution to state revenue, particularly in terms of taxes. This study uses purposive sampling technique to filter sample from total population. Table 1 provided the criteria used to filter the sample. With predetermined criteria, the number of final samples used in the study was 132 firms with the observation period of 5 years. Thus, there were 660 observations used for empirical analysis.

TABLE I. RESULTS OF SAMPLE SELECTION

Criteria	Total
Manufacturing companies listed on Indonesian Stock Exchange for 2014-2018 periods	174
Sampling Criteria	
Delisted manufacturing companies for 2014-2018 periods	(9)
Manufacturing companies that inconsistently publish their annual report during 2014-2018 periods	(33)
Total Research Sample	132

C. Variable Measurement

1) Dependent Variable

Firm value was measured by Tobin's Q Ratio. The firm that has more than 1 Tobin's Q indicated good investment opportunity in the firm.

$$Q = \frac{(EMV + D)}{(EBV + D)}$$

where:

Q is firm value. EMB is equity market value, obtained from the multiplication of the year-end closing share price with the number of shares outstanding at the end of the year. EBV is equity book value, obtained from the difference between total assets and total liabilities of the firm. D is debt book value.

2) Independent Variable

The independent variable in the form of governance structure was measured using several indicators, namely board size (BODSIZE), the number of independent board of commissioners (BOCIND), board diversity (BODDIV), and the size of the audit committee (AUDCOM). The board was measured by the number of board in the firm. The independent board of commissioners was measured by the number of independent commissioners in the firm. The board diversity was measured by the number of the female directors in board of the firm. The audit committee was measured by the number of audit committees in the firm.

3) Mediation Variable

This study uses tax avoidance as mediation variable. Tax avoidance was measured by the Effective Tax Rate (ETR) to capture the less aggressive and more common forms of tax avoidance [43]. The lower the ETR value is, the more it indicates an increased possibility of tax avoidance.

$$ETR = \frac{total\ tax\ expense}{income\ before\ tax}$$

D. Regression Model

The analytical method used in this study was multiple regression analysis to examine hypotheses one to nine. To examine hypotheses ten to thirteen, path analysis regression was used. The test was performed using the IBM SPSS Statistics 26 application.

Model

1) $FIRMVAL = \alpha + \beta_1 BODSIZE + \beta_2 BOCIND + \beta_3 BODDIV + \beta_4 AUDCOM + \varepsilon$
2) $TAXAVOID = \alpha + \beta_1 BODSIZE + \beta_2 BOCIND + \beta_3 BODDIV + \beta_4 AUDCOM + \varepsilon$
3) $FIRMVAL = \alpha + \beta\ TAXAVOID + \varepsilon$

Description:

BODSIZE : *board size*
BOCIND : *board independence*
BODDIV : *board diversity*
AUDCOM : *audit committee*
FIRMVAL : *firm value*
TAXAVOID : *tax avoidance*
α : *constant*
ε : *residual error*

Path Analysis Test

To find out whether or not the TAXAVOID variable was able to significantly mediate the relationship of each independent variable (BODSIZE, BOCIND, BODDIV, and AUDCOM) to FIRMVAL, then the Sobel Test was performed in the path analysis. The Sobel Test was performed by testing how strong the indirect effect of the independent variable on the dependent variable through intervening/ mediating variables. To test the significance of the indirect effect, it can be calculated using the following formula:

$$t = \frac{a \times b}{\sqrt{b^2 S_a^2 + a^2 S_b^2 + S_a^2 S_b^2}}$$

Description:

a: regression coefficient of variable X on variable Z
b: regression coefficient of variable Z on variable Y
S_a: standard error of estimation of the effect of variable X on variable Z
S_b: standard error of estimation of the effect of variable Z on variable Y

The t count value obtained will be compared with the t table value. If t count ≥ t table (1.96), there is a mediation effect.

V. RESEARCH RESULTS AND ANALYSIS

A. Descriptive Statistics

Descriptive statistics provided description of the variables in the study as follows:

TABLE II. DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	St. Deviation
BODSIZE	245	2	13	5.16	2.265
BOCIND	245	1	4	1.63	0.818
BODDIV	245	0	4	0.61	0.864
AUDCOM	245	1	3	1.96	0.371
FIRMVAL	245	0.2112	1.6453	0.732	0.300
TAXAVOID	245	-0.0706	0.6068	0.243	0.109

The final sample used in this study was consisted of 49 firms with the observation period of 5 years, resulting in 245 observations. The decrease in the number of observations from 660 observations to 245 observations was caused by the outlier data.

Based on the results of table II, the corporate governance structure was calculated using the indicators of BODSIZE, BOCIND, BODDIV, and AUDCOM. BODSIZE had the largest average value, namely 5.16, which indicated the number of board in firms in the sample. BOCIND had an average of 1.63, which exceeded the requirement for the number of independent commissioners of 30%. BODDIV with an average of 0.61 showed that the percentage of the number of female directors in the board was few in a number of firms. Meanwhile, the average AUDCOM in the corporate governance structure studied was 1.96. The FIRMVAL variable had a minimum and maximum value of 0.2112 and 1.6453 with a 0.732 average firm value studied. TAXAVOID as mediation variable with ETR proxy showed the minimum and maximum values of -0.0706 and 0.6068 respectively. The average company taking tax avoidance action was 0.243.

B. Classic Assumption Test

The normality test could be seen through the normal P-P Plot graph which has a line to the top right approaching the normally distributed line in each relationship between variables. Thus, it could be said that the regression model residual was classified as normal when the points created were not scattered away from the straight line to the top right.

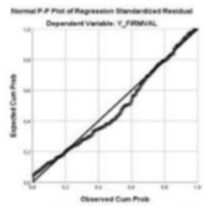


Fig. 1 Normal P-P Plot Model Regression 1

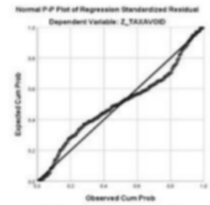


Fig. 2 Normal P-P Plot Model Regression 2

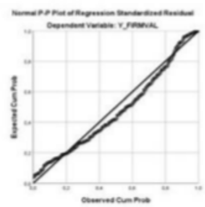


Fig. 3 Normal P-P Plot Model Regression 3

From Figure 1-3, the points on the normal P-P plot have approached a straight line, so it can be concluded that the regression model residual 1-3 had been normally distributed.

TABLE III. HETEROSCEDASTICITY, MULTICOLLINEARITY, AUTOCORRELATION ANALYSIS RESULT

Test	Model 1	Model 2	Model 3	Requirements
Heteroskedasticity (White Test)	$CS_{test} = 22.785$ $CS_{table} = 23.684$	$CS_{test} = 18.865$ $CS_{table} = 23.684$	$CS_{test} = 3.43$ $CS_{table} = 5.991$	Chi-Square test < Chi-Square table
Multicollinearity	Tol. > 0.1 & VIF <10	Tol. > 0.1 & VIF <10	-	Tol. > 0.1 & VIF <10
Autocorrelation (DW Test)	0.86	1.393	0.787	-2 <DW< 2

Based on table III, it could be seen that model 1, 2, and 3 have met multicollinearity, heteroscedasticity, and autocorrelation tests. Overall, it could be concluded that the three models did not have multicollinearity, heteroscedasticity, and autocorrelation problems. With the fulfillment of the four classical assumption tests, it could be said that these three models were suitable to be used in the study.

C. Model Feasibility Test (F Test)

The results of the F test for each regression model could be seen in table IV.

TABLE IV. STATISTICAL RESULT OF ANOVA TEST

Model	Model 1		Model 2	
	F	Sig.	F	Sig.
Regression	12.844	0.000	4.835	0.001
Residual				
Total				

Based on table IV, model 1 showed a significance level of 0.000 which was smaller than 0.05, which means that board size, independent commissioners, board diversity, and audit committee jointly have a significant effect on firm value. Model 2 shows a significance level of 0.001 which is smaller than 0.05, which means that the board size, independent commissioners, board diversity, and audit committee jointly have a significant effect on tax avoidance.

D. Determination Coefficient Test (R^2)

The determination coefficient value ranged from 0 to 1. The results of the determination coefficient test for each regression model can be seen in table V.

TABLE V. R SQUARED RESULTS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.42	0.176	0.163	0.2747
2	0.273	0.075	0.059	0.1058
3	0.139	0.019	0.015	0.298

The Adjusted R^2 value in table 5 showed 0.163, which means that board size, independent commissioners, board diversity, and audit committee jointly were able to explain the variation in the firm value variable by 16.3%, and the remaining was 83.7% explained by other variables or factors not examined. Model 2 has adjusted R^2 value of 0.059, which explains that board size, independent commissioners, board diversity, and audit committee jointly were able to explain the variation of tax avoidance by 5.9%, and the remaining is 94.1% explained by other variables not examined. Model 3 has adjusted R square value of 0.015, which means that the tax avoidance variable is able to influence tax avoidance by 1.5%, and the remaining is 98.5% explained by other variables not examined.

E. Hypothesis Test

The results of the t test for each variable in each regression model were shown in Figure VI below.

TABLE VI. STATISTICAL RESULTS OF T-TEST

Variable Relationships	B	Std. Error	t	Sig.
		Model 1		
BODSIZE → FIRMVAL	0.010	0.010	1.077	0.282
BOCIND → FIRMVAL	0.134	0.026	5.094	0.000
BODDIV → FIRMVAL	-0.005	0.021	-0.233	0.816
AUDCOM → FIRMVAL	0.089	0.048	1.855	0.065
		Model 2		
BODSIZE → TAXAVOID	0.011	0.004	2.901	0.004
BOCIND → TAXAVOID	-0.036	0.010	-3.549	0.000
BODDIV → TAXAVOID	0.018	0.008	2.202	0.029
AUDCOM → TAXAVOID	0.009	0.018	0.464	0.643
		Model 3		
TAXAVOID → FIRMVAL	-0.381	0.175	-2.181	0.030

The H1 hypothesis couldn't be supported by the test results in this study, because this study showed that board size has no effect on firm value with a significance level of 0.282> 0.05. The board size did not affect the firm's performance. [25] stated that the increasing size of board will create agency problems and will indicate that the board was merely a formality. The H2 hypothesis in this study was acceptable, because the significance value was 0.000<0.05. It means that higher number of independent commissioners of the firm has a significant positive effect on firm value. These results supported the study of [13] who stated that the existence of independent commissioners can increase firm value through neutral behavior and professional expertise. Board diversity has no effect on firm value with a significance value of 0.816>0.05, so the H3 hypothesis was rejected as shown in table 4. These results supported the study of [44] who stated that there were only a few women on board. This can be seen in the results of descriptive statistics, where there are research sample firms that do not place women on board. The H4 hypothesis, which examined the positive effect of the audit committee on firm value, is rejected with a significance value of 0.065>0.05. The size of the number of audit committees in the firm had no impact on firm value. This study results contradicted the study of [30] who stated that the audit committee that carries out the supervisory function can reduce information asymmetry between owners and management in order to maximize stakeholders' wealth. According to [45], there was a tendency for audit committee to not become a guarantee that the firm's performance will be better, so the market response considers that the existence of the audit committee was not a factor that affects market value.

The results of testing the H5 hypothesis, namely that board size had a positive effect on tax avoidance, could be supported in this study. This study proved that board size has a positive effect on the ETR value with coefficient value of 0.011 and significance level of 0.004<0.05, so that the larger the board size is, the higher the ETR value will be, which indicated that the level of corporate tax avoidance was getting smaller. These results contradicted [32] which stated that the higher the board size is, the less effective the manager's performance on the implemented programs and strategies will be. The results of testing the H6 hypothesis showed that independent commissioners had a negative effect on tax avoidance with coefficient value of -0.036 and significance level of 0.000<0.05. These results explained that the larger the size of the independent commissioners is, the lower the ETR value will be, which meant that the level of corporate tax avoidance was large. The results of hypothesis testing in the study related to the diversity of the board explained that board diversity had a positive effect on tax avoidance with positive coefficient value of 0.018 and significance value of 0.029<0.05. The more diverse the gender composition on board is, the higher the ETR value will be, which means that the tax avoidance was getting lower. These results supported the study of [10] and [12] who stated that the existence of female directors in the board was considered to be able to control the firm's aggressive decision and carry out an effective supervisory function so as to balance the firm's responsible behavior towards stakeholders. The study of [36] also stated that female directors were more risk averse, more effective in exercising supervision, and had good ethics and morals. The results of the test of audit committee in this study, which was tested through the H8 hypothesis, explained that there was no influence between the audit committee and tax avoidance with coefficient value of 0.009 and significance level of 0.643>0.05. These results differed from supporting the study of [3] and [4] who stated that higher number of audit committees in the firm will result in more effective controlling that will therefore limit management to engage in aggressive tax avoidance.

This study results were based on the results of testing the H9 hypothesis, which states that tax avoidance had a negative effect on firm value. This meant that the higher the ETR firm value is, the smaller the firm value will be. So, the H9 hypothesis in this study was rejected because the coefficient value was -0.381 and the significance value was 0.030<0.05. This study results contradicted the study of [40] who found that there was a negative relationship between tax avoidance and firm value. Although tax avoidance may increase cash flow and net income, which in turn will increase firm value, it may also reduce firm value due to agency problems that will arise.

F. Mediation Test

The mediation test was performed through path analysis to examine the indirect effect of tax avoidance on the governance structure indicator on firm value. The path analysis test was performed to determine whether or not tax avoidance variable is able to mediate the relationship between the board, board diversity, independent board of commissioners, and audit committee on firm value as shown in table 7.

TABLE VII. SOBEL (AROIAN) TEST RESULTS

Independent Variables	a	b	S_a	S_b	t	Std. Error	p-value
BODSIZE	0.011	-0.316	0.004	0.167	-1.4932	0.0023	0.135
BOCIND	-0.036	-0.316	0.010	0.167	1.6264	0.0070	0.104
BODDIV	0.018	-0.316	0.008	0.167	-1.3710	0.0041	0.107
AUDCOM	0.009	-0.316	0.018	0.167	-0.4304	0.0066	0.667

Table 7 informs that tax avoidance couldn't mediate the effect of the board, board diversity, independent commissioners, and audit committee on firm value. The p-value for all tested variables showed a value greater than 0.05 so that all mediation hypotheses are rejected. This study results indicates that only independent commissioners is able to influence firm value directly. Meanwhile, factors of the board, board diversity, and audit committee couldn't affect firm value. This study adds tax avoidance factor with the idea that through business strategies and anticipating the uncertainty of business environment, the firm can perform tax avoidance and thus increase the firm value which was reflected in lower effective tax rate [6]. However, the mediation test results using path analysis through the Sobel test couldn't prove that tax avoidance can be an intermediary to increase the firm value.

VI. CONCLUSION

In the concept of agency theory, management had more control and better information than shareholders. Based on this information, management may act aggressively without involving shareholders as owners of the firm. The implementation of Good Corporate Governance in the firm is an effort to reduce agency conflict between management and stakeholders. In this study, the firm that implements Good Corporate Governance practice hopes to be able to control opportunistic potentials in the form of tax avoidance performed by management with the aim of increasing firm value. The findings generated in this study which examine the elements of Good Corporate Governance, namely the board, board of diversity, and audit committee, have no effect on firm value, except for independent commissioners. The independent commissioner in this study was a very effective element in increasing firm value while preventing aggressive tax avoidance practices performed by the firm compared to board size, board diversity, and the size of the audit committee.

The mediation test results using path analysis through the Sobel test did not prove that tax avoidance may become an intermediary that had an impact on firm value for firms that apply the principles of corporate governance. Public firms were cautious in anticipating the benefits of increasing cash through tax avoidance. Saving cash might be beneficial in the short term, but the firm was more likely to anticipate the long-term impact of tax avoidance measures that can damage the firm's image for stakeholders. Therefore, the firm chose not to take advantage of tax avoidance as an intermediary to increase firm value. This study results in the context of policy that requests the regulators to evaluate the effectiveness of the implementation of good corporate governance so that each element involved in it can act according to the established procedures.

The limitation of this study was that the indicator of corporate governance structure was measured based on the number of members only. This study was expected to be an additional literature reference for future researchers, especially in seeing how corporate governance structure may affect firm value, although the data and scope of this study were limited. The suggestion for the future study is to use other proxies that are more representative in describing the corporate governance structure, such as using board proportion.

GOVERNANCE STRUCTURE, TAX AVOIDANCE, AND FIRM VALUE

ORIGINALITY REPORT

12%	5%	9%	6%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	ince.md Internet Source	1%
2	Raef Gouiaa, Daniel Zéghal. "An analysis of the effect of board characteristics and governance indices on the quality of accounting information", Journal of Governance and Regulation, 2014 Publication	1%
3	Farzana Akbari, Mahdi Salehi, Mohammad Ali Bagherpour Vlashani. "The relationship between tax avoidance and firm value with income smoothing", International Journal of Organizational Analysis, 2019 Publication	1%
4	Submitted to Trisakti University Student Paper	1%
5	Submitted to Universitas Jenderal Soedirman Student Paper	1%
6	Joonho Park, Chang Youl Ko, Hoon Jung, Yong-Seok Lee. "Managerial ability and tax	1%

avoidance: evidence from Korea", Asia-Pacific Journal of Accounting & Economics, 2015
Publication

7	Submitted to Universitas 17 Agustus 1945 Surabaya Student Paper	1%
8	"Complex, Intelligent and Software Intensive Systems", Springer Science and Business Media LLC, 2021 Publication	1%
9	ideas.repec.org Internet Source	<1%
10	Submitted to University of South Australia Student Paper	<1%
11	Bella Nadya, Dyah Purnamasari. "The Effect of Sales Growth and Leverage on Tax Avoidance Empirical Study of Coal Sub-Sector Mining Companies Listed on the Indonesia Stock Exchange in 2014-2018", Jurnal AKSI (Akuntansi dan Sistem Informasi), 2020 Publication	<1%
12	Tariq Tawfeeq Yousif Alabdullah, Sofri Yahya, Mohamed Ibrahim Nor, Firas Qassim Majeed. "AN INVESTIGATION OF CORPORATE GOVERNANCE FROM A NEW PERSPECTIVE: EXAMINING THE FINANCIAL PERFORMANCE	<1%

OF COMPANIES AND THE IMPACT OF EXECUTIVE TURNOVER", Corporate Board:role, duties and composition, 2016
Publication

13	Mohd Shukor Harun, Khaled Hussainey, Khairul Ayuni Mohd Kharuddin, Omar Al Farooque. "CSR Disclosure, Corporate Governance and Firm Value: a study on GCC Islamic Banks", International Journal of Accounting & Information Management, 2020 Publication	<1%
14	Joy Elly Tulung, Dendi Ramdani. "Independence, size and performance of the board: An emerging market research", Corporate Ownership and Control, 2018 Publication	<1%
15	scholar.sun.ac.za Internet Source	<1%
16	Submitted to School of Business and Management ITB Student Paper	<1%
17	Dorota Najgebauer-Lejko. "Effect of green tea supplementation on the microbiological, antioxidant, and sensory properties of probiotic milks", Dairy Science & Technology, 2014 Publication	<1%

Submitted to Macquarie University

18	Student Paper	<1%
19	eprints.umm.ac.id Internet Source	<1%
20	repository.petra.ac.id Internet Source	<1%
21	Submitted to Universitas Negeri Semarang Student Paper	<1%
22	www.scribd.com Internet Source	<1%
23	Submitted to South Bank University Student Paper	<1%
24	Submitted to University of Nottingham Student Paper	<1%
25	Submitted to Universitas Islam Indonesia Student Paper	<1%
26	hdl.handle.net Internet Source	<1%
27	Johnny Jermias. "The Effects of Corporate Governance on the Relationship between Innovative Efforts and Performance1", European Accounting Review, 2007 Publication	<1%
28	JungHwa Suh, Ho-Young Lee, Hansol Lee. "The	

	association between foreign directors and opportunistic financial reporting", Investment Management and Financial Innovations, 2018 Publication	<1 %
29	eprints.upnyk.ac.id Internet Source	<1 %
30	lihaimatematika.blogspot.com Internet Source	<1 %
31	eprints.ums.ac.id Internet Source	<1 %
32	Jennifer O'Sullivan, Abdullah Mamun, M. Kabir Hassan. "The relationship between board characteristics and performance of bank holding companies: before and during the financial crisis", Journal of Economics and Finance, 2015 Publication	<1 %
33	Pınar Mandacı, Guluzar Gumus. "Ownership Concentration, Managerial Ownership and Firm Performance: Evidence from Turkey", South East European Journal of Economics and Business, 2010 Publication	<1 %
34	lup.lub.lu.se Internet Source	<1 %