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The Effect of Business Strategy and CSR in Influencing Tax Avoidance

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Abstract

This study aims to determine and examine the effect of business strategy and Corporate Social Responsibility on tax avoidance in Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2019 to 2022. Using purposive sampling method and panel data multiple regression, the results of this study indicate that the combined business strategy carried out by the company has no influence on tax avoidance, but separately with the expansion test it is found that the prospector business strategy has a negative effect on tax avoidance, while corporate social responsibility has a positive effect on tax avoidance. These results explain that companies that use prospector business strategies tend to reduce tax avoidance actions, and CSR costs are used by companies to avoid paying taxes.

Keywords

Business Strategy, Corporate Social Responsibility, Taxes, Tax Avoidance

1. Introduction

One of the largest sources of income for the State of Indonesia is taxes, making taxes a matter of great concern to the government. Based on data from the 2019 to 2022 State Budget, it is noted that the most revenue comes from tax revenue which has an influence on economic growth because increasing economic growth will increase state tax revenues. The Republic of Indonesia's state revenue report shows that tax revenue in 2019 reached IDR 1,546.1 trillion in state revenue and decreased in 2020 to IDR 1,285.1 but in 2021 to 2024 it experienced a significant increase, even so Indonesia's tax revenue is still not optimal and needs to be pushed again if you want to seriously increase the tax ratio. Based on the OECD report, Indonesia's tax to GDP ratio in 2021 was at 10.9%. This figure is far below the average of Asian and Pacific countries, which is 19.8% and very far below the average of OECD countries, which is 34.1%.

The industrial sector is very important for economic development because it has the ability to encourage economic growth by contributing to growth by being a productive component. The expansion of the manufacturing industry will spur the development of the agricultural sector which will provide raw materials for the industry. Similarly, the service sector will grow, due to the existence of banking and marketing organisations that can encourage growth in the manufacturing sector. a country can encourage economic growth by encouraging the expansion of the manufacturing sector which is considered capable of driving and driving the economy (Asmara, 2018). Tax avoidance is an important issue in Indonesia, especially in the relationship between the government as the principal and the company as the agent (Amalia, 2019). Tax avoidance is done by companies to minimise tax obligations through loopholes in regulations, although legally considered legitimate, this practice is detrimental to the state (Pitaloka & Merkusiwati, 2019).

Examples of tax avoidance cases in Indonesia involve PT Toyota Motor Manufacturing Indonesia which used transfer pricing to reduce profits, as well as PT Bentoel Internasional Investama Tbk which was reported by the Tax Justice Network for shifting income overseas (Ariefiara et al., 2019). These cases highlight the importance of improving tax regulations by the government to prevent loss of state revenue (Carolina & Purwantini, 2020). The literature found that the company's business strategy has an influence on the level of tax avoidance. Companies with a prospector strategy tend to be more aggressive in tax avoidance than those with a defender or analyser strategy (Faradiza, 2019). In addition, Corporate Social Responsibility (CSR) has also been found to have an effect on tax avoidance in some literature, where companies that are more open in CSR tend to avoid tax avoidance. However, there are different views regarding the effect of CSR on tax avoidance, with some studies showing that CSR does not significantly affect tax avoidance, depending on the company's level of involvement in CSR activities.

2. Literature Review

Agency theory is a theory that arises because there are interests between shareholders and company management in managing resources in the company. The link between agency theory and tax avoidance is that poor management of an entity causes conflicts that can result in losses for various parties (Wardani & Khoiriyah, 2018). Management is the main actor in the context of tax avoidance. This is because management can manipulate company profits. The company's profits will decrease due to the tax burden that will be borne by the company. So, the relationship between agency theory and tax avoidance is useful for directing managers in making corporate tax decisions to suit their own interests (Putri &

Syafruddin, 2021). Contingency theory is the suitability of conditions in the Company's leaders that each Company has its own different characteristics. The contingency theory of management accounting developed by Otley (1980) states that there is no accounting system, management accounting practices or strategic management that is relevant for all organisations in various conditions of location, culture and other characteristics Bruns & Waterhouse (1975), researchers want to know whether the independent variables always have the same effect on each condition or not on the dependent variable, so that there are other situational factors that will interact with each other.

Stakeholder theory aims to maintain balance and manage relationships from different interests that have expectations of groups with different and inconsistent results. Stakeholder theory can be presented in three types of approaches, namely descriptive, instrumental, and normative (Devi, 2017). Tax avoidance is an act of tax fraud that does not involve a violation of tax laws, but can have a direct impact on the possibility of reducing tax revenues (Sari et al., 2021). Previous research found that tax avoidance is significantly influenced by leverage and firm size, but not by audit quality when considered individually. However, if these factors are considered simultaneously, tax avoidance is significantly influenced by leverage, firm size, and audit quality (Daito, 2023). Business Strategy is a policy in the Company to obtain a decision that can affect all Company activities, both in business processes and operational activities. Research conducted by Prayitno et al. (2023) shows that the role of organizational structure and ownership is very influential in making policy decisions to run company operations, especially in minimizing the tax burden. Business strategy deals with how to compete in the product / service market that has been decided to enter (Klepper & Simons, 2000). According to Langfield-Smith (1997); Bourgeois (1980) define business strategy as the company's competitive weapon, namely the strategy of each unit in the organisation that focuses on how they are positioned among competitors.

In Miles and Snow's business strategy typology, there are four types of business strategies, namely prospector, defender, and analyzer, but the fourth type of reactor is a failed strategy because of inconsistencies with strategy, technology, structure, and processes. CSR is a business approach by contributing and benefiting the economy, social and environment around the Company in order to create a good name for the Company through donations (money, products, and social services) by implementing ethical work practices treating employees fairly or through volunteering without expecting anything in return. In interactions with stakeholders based on the principles of volunteerism and partnership. Corporate Social Responsibility is also defined as a form of corporate commitment to stakeholders either directly or indirectly by improving the quality of the environment and also the welfare of the community by considering the negative impacts of the company's activities (Rusmana, 2019). The company allocates funds for CSR activities to reduce its profits so that the taxable profit paid is reduced and the tax paid by the company is lower (Hidayat & Novita, 2023).

Business strategy is a company's effort in making policies and decisions to achieve business goals and make it competitive in the industry. Business strategy deals with how to compete in the product/service market that has been decided to enter. Business strategy is one of the decisions made by managers before carrying out the company's business processes. all company activities will be determined by the business strategy, all operational processes and company transactions carried out by the company must be adjusted to the previously set strategy (Faradiza, 2019). The prospector strategy is carried out by expanding the market, innovating, adapting, and continuing to develop new things. Companies with the implementation of the prospector strategy generally have greater income due to their broad market, innovative products and not many competitors, so companies

with this strategy consider tax avoidance actions to be beneficial to reduce the tax burden and increase and maintain company profits. For prospectors, tax avoidance is beneficial in terms of saving tax costs/expenses and maximising after-tax income.

The defender strategy focuses on stable, safe markets, not innovating, minimising risk and maintaining company stability. The action of tax avoidance can benefit companies with this strategy because it reduces costs. However, because the characteristics of this strategy are risk aversion, the actions of tax avoidance will be limited or more careful. Using confirmatory factor analysis model, the literature found that overall, business strategy has an influence on tax avoidance (Arieftiara et al., 2019).

H1: Business strategy has significant effect on tax avoidance.

According to Tjondro (2018), companies with good CSR quality will conduct sustainable CSR activities and pay reasonable taxes, while companies with poor CSR quality will allocate between spending on CSR activities and tax payments. CSR activities require costs to implement, and these costs are taken from the company's profits. When company profits are low, CSR activities will be ignored because they add to the burden on the company, so companies tend to try to avoid taxes (Puspawati et al., 2018).

H2: Corporate social responsibility has significant effect on tax avoidance

3. Methods

The population of this study was conducted at manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022 with quantitative research and using purposive sampling with this method the selected sample was 42 companies for 4 years with a total panel-data of 164 samples and the process of analysing research data using STATA software. Tax avoidance in this study measured from statutory tax rate minus effective tax rate, meanwhile effective tax rate measured by divided tax expense from pretax income (Jamei, 2017; Tarmidi et al., 2022). Business strategy measured by ratio from $\bar{XSBt} = RDS_t - EMPSt + CSGR_t - EMPt + SGAS_t - Cit$ (Arieftiara et al., 2019). \bar{XSBt} is Average business strategy in year t, RDS_t is R&D strategy (prospector) in year t measured by divided research & development expense from sales, $EMPSt$ is Employee to Sales Strategy (defender) in year t measured by divided total employees from total sales, $CSGR_t$ is Company Sales Growth Strategy (prospector) in year t which is measured by dividing the increase or decrease in sales by the previous year's sales, $EMPt$ is Employee Turn Over Strategy (defender) in year t which is measured by dividing total employee resignations by the increase or decrease in employees in the same year, $SGAS_t$ is Marketing to Sales Strategy (prospector) in year t which is measured by dividing total selling and general administrative expenses by total sales, and Cit is Capital Intensity Strategy (defender) in year t which is measured by dividing fixed assets by total assets. In the expansion test, this strategy formula will be grouped into 2, namely the prospector strategy and the defender strategy, with the following equation formula: $\bar{XSBProt} = RDS_t + CSGR_t + SGAS_t$ and $\bar{XSBDeft} = - EMPSt - EMPt - Cit$. Sedangkan corporate social responsibility ratio measured by Ln CSR (Law 40/2007).

4. Results and Discussion

The Chow test aims to determine the choice of model that is better used between common effect and fixed effect. The p-value is $0.5844 > \alpha = 0.05$, so H1 is accepted, which means the CEM model is better to use. In model 2, the p value is $0.1694 > \alpha = 0.05$, so H1 is accepted, which means the CEM model is better to use. Furthermore, in model 3, the p value is $0.5849 > \alpha = 0.05$, so H1 is accepted, which means the CEM model is better to use. The Hausman test is used to determine the choice of a better model between fixed effect and random effect. Model 1 shows a p value of $0.7945 > \alpha = 0.05$, which means H0 is accepted, so the REM model is better to use. While model 2 shows a p value of $0.0126 < \alpha = 0.05$, which means H1 is accepted, so the FEM model is better to use. Furthermore, model 3 shows a p-value of $0.9084 > \alpha = 0.05$ which means H0 is accepted so that the REM model is better to use. Then the LM test is used to determine the choice of a better model between common effect and random effect. Model 1 shows a p-value of $1.000 > \alpha = 0.05$ which means H1 is accepted, so the CEM model is better to use. While model 2 shows a p-value of $0.3702 > \alpha = 0.05$ which means H1 is accepted, so the CEM model is better to use. Furthermore, model 3 shows a p-value of $1.000 > \alpha = 0.05$ which means H1 is accepted, so the CEM model is better to use. Based on the three model tests that have been carried out, the best model to use in models 1, 2 and 3 of this study is the common effect model.

Table 1. Chow, Hausman & LM test

Test	Model	P value	Result
Chow test	1	0.5844	CEM better used
	2	0.1694	CEM better used
	3	0.5849	CEM better used
Hausman test	1	0.7945	REM better used
	2	0.0126	FEM better used
	3	0.9084	REM better used
Lagrange Multiplier (LM)	1	1.0000	CEM better used
	2	0.3702	CEM better used
	3	1.0000	CEM better used

After selecting CEM as the best model, the classical assumption test was conducted. In the normality test using the Shapiro-Wilk W test, it shows that the data used is normally distributed as seen from the probability value exceeding the alpha value of 0.05. Then in the multicollinearity test it was found that the VIF value was less than 10.0 so it could be concluded that the variables in this study did not have multicollinearity symptoms. The heteroscedasticity test found a value of 0.4898 or above > 0.05 so it can be concluded that the model passes the heteroscedasticity test. The last is the autocorrelation test which finds a probability value of 1,000 which exceeds 0.05, so it can be concluded that in this study there is no autocorrelation and the panel data regression model is feasible to use.

Table 2. Main Hypotheses

Regression	Complete (CEM)		Prospector (CEM)		Defender (CEM)	
	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
BS -> TA	0.10599	0.165	-0.34547	0.029**	-0.00170	0.788
CSR -> TA	0.33294	0.000***	0.00329	0.245	0.00439	0.126
N	164		164		164	
Prob. F	0.000	***	0.029	**	0.3075	
R-Square	0.1432		0.0430		0.0146	

BS = Business Strategy, CSR = Corporate Social Responsibility, TA = Tax Avoidance
 * Significant 90%, ** Significant 95%, *** Significant 100%

The R² value is 0.1432 (14.3%) so it can be concluded that the tax avoidance variable can be explained by the business strategy and CSR variables by 0.1432 (14.3%), while the rest is influenced by other variables outside the model. Based on table 4, it is also obtained that the Prob>F value is 0.000<0.05 so it can be concluded that there is a significant effect simultaneously between the variables of business strategy and CSR on tax avoidance. Testing the effect between business strategies on tax avoidance obtained a significance value of 0.165 or >0.05, it is concluded that there is no influence between business strategies on tax avoidance, and Hypothesis 1 is rejected. Even so, in a different test it was found that the prospector business strategy had a significant negative effect on tax avoidance. While corporate social responsibility on tax avoidance obtained a significance value of 0.000 or <0.05, it is concluded that there is an influence between CSR on tax avoidance, and Hypothesis 2 is accepted.

The results showed that business strategy has no significant effect on tax avoidance in Indonesian companies. This is due to the provision in article 6 of the Income Tax Law that considers costs related to business strategies, such as product development, marketing, and investment, as legitimate expenses and deductible from gross income. As such, these business strategies do not affect the level of tax avoidance as they are all related to legitimate business activities (Pertiwi & Masripah, 2023). Business strategies implemented by companies, including prospector and defender strategies, do not illegally affect the tax burden. Expenditures related to such strategies are considered legitimate and legal within the framework of applicable tax regulations Pertiwi & Masripah (2023), who also found that business strategy does not affect the level of tax avoidance because companies in Indonesia do not have a consistent strategy pattern from year to year. However, when business strategies were evaluated separately, prospector strategies were found to have a negative impact on tax avoidance, while defender strategies showed no significant impact.

The prospector strategy, which involves costs such as research and development, legally reduces fiscal profit and thus reduces the tax burden without the need for tax avoidance. In contrast, the defender strategy, which focuses on operational stability, has no significant impact on tax avoidance as it does not involve large expenditures that affect profits (Aryotama & Firmansyah, 2020). The results showed that Corporate Social Responsibility has a significant positive effect on tax avoidance, meaning that companies that spend high CSR costs are also suspected of taking tax avoidance actions. Although based on Law No. 40 of 2007 concerning Limited Liability Companies article 1 paragraph 3 social and environmental responsibility is the Company's commitment to participate in sustainable economic development in order to improve the quality of life and the environment that is beneficial, both for the Company itself, the local community, and society in general (Dewi, 2023). However, in tax provisions, CSR costs are analogous to donation costs, which according to Article 9 paragraph 1 of the Income Tax Law cannot be deducted in calculating taxable income. According to the Income Tax Law in Indonesia, Article 6 of the Income Tax Law regulates expenses that can be deducted from taxable income. CSR expenditures can fall under this category if they fulfil certain criteria, such as activities that benefit the general public.

Therefore, companies that incur high costs for CSR utilise this provision to reduce taxable income, thereby reducing the amount of tax that must be paid. The use of this strategy could be considered a form of tax avoidance if the company undertakes aggressive planning to utilise this incentive in a way that goes beyond its social objectives (Salhi et al., 2020). While CSR spending can help reduce tax liabilities, it must be done in accordance with applicable tax regulations to avoid

unethical or illegal tax avoidance practices. Tax laws are designed to ensure that tax-deductible expenses must have a legitimate purpose and be in accordance with the provisions. The results of this study contradict previous research, which reveals that the higher the CSR disclosure, the lower the tax avoidance by the company because both are a form of social responsibility to society and the state (Sari & Adiwibowo, 2017).

5. Conclusion

The results of this study indicate several findings. First, the Prospector business strategy has a significant impact on tax avoidance. Companies that consistently implement this strategy show that its use directly influences their tax avoidance behavior. Second, the Defender business strategy does not have a significant effect on tax avoidance. This suggests that companies employing a defensive operational approach do not experience changes in tax avoidance as a result of this strategy. Finally, corporate social responsibility (CSR) is shown to significantly influence tax avoidance. This occurs because CSR costs, although deductible under specific conditions as stipulated by the Income Tax Law, may be exploited for tax avoidance if companies do not fully comply with the regulations.

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