THE INFLUENCES OF SIZE BOARD OF COMMISSIONER, EXECUTIVE CHARACTER, AND FIRM DIVERSIFICATION TOWARD TAX AGRESSIVENESS

SKRIPSI

Presented in partial fulfillment of the requirements for
The Bachelor’s Degree in Accounting

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The influences of size board of commissioner, executive characteristics, and firm diversification toward tax aggressiveness

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THE INFLUENCES OF SIZE BOARD OF COMMISSIONER, EXECUTIVE CHARACTER, AND FIRM DIVERSIFICATION TOWARD TAX AGRESSIVENESS

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Sincerely,

Septria Rizki
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ABSTRACT

The objective of this research is to examine the influences of size board of commissioner (SBOC), executive character which proxied by corporate risk (RISK), and firm diversification (DIV) toward tax aggressiveness.

This research has a total of 201 observation which comes from manufacturing company that listed in Indonesia Stock Exchanges for the period of 2015-2017 and has all the data needed for this research. Simple regression and multiple regression is used to analyzed the hypotheses in this research. This research finds that size board of commissioner has influences toward tax aggressiveness, executive characteristic has influences toward tax aggressiveness, and firm diversification also has influences toward tax aggressiveness.

Keywords: Tax aggressiveness, size board of commissioner, board of directors, executive characteristics, firm diversification, financial distress
INTISARI

Penelitian ini bertujuan untuk mengetahui pengaruh dari total dewan komisaris, karakter eksekutif yang menggunakan proxy resiko perusahaan, dan diversifikasi perusahaan terhadap tax aggressiveness. Financial distress ditambahkan dalam penelitian ini sebagai variable control, untuk melihat apakah mengubah pengaruh variable lainnya.


Keywords: Tax aggressiveness, size board of commissioner, board of directors, executive characteristics, firm diversification, financial distress
CHAPTER I

INTRODUCTION

1.1 Research Background

Tax becomes one of the main source of income for Indonesia (Law Number 17 Year 2003 Regarding State Finances), the payment of taxes will support the government system in economic activities, improve social welfare and providing a decent public facility for society. Based on Law Number 6 Year 1983 as amended last time by Law Number 16 Year 2009 Regarding Taxation General Provisions and Procedures, taxes defined as the compulsory contribution to the state, indebted forcefully by individuals or bodies on the basis of law, without obtaining any direct benefits and used for the state need to maximize people’s welfare.

The company see taxes as an expense that will reduce their income, many companies start to explore tax planning schemes to minimize their tax liabilities. According to Hanlon and Heitzman (2010), even though tax planning could be done in legal ways, it is still an issue for the government. Tax planning will help a company to minimize or even eliminate their tax liability, thus will decrease the state income which come from company tax payment.

From previous research (Richardson et al, 2014), the term of tax aggressiveness often used interchangeably for tax avoidance, tax planning, and tax shelter. Tax aggressiveness defines as the company’s effort to minimize their profit by utilizing the loopholes of existing regulation as their tax planning activities. Tax
aggressiveness action considers as tax planning activity that is legal, illegal, or in the gray area.

1.2 Research Problem

Problem Information

The company will have the intention to take part in tax aggressiveness if the benefits they get are more than the costs incurred from doing that action. The marginal benefits of tax aggressiveness include reducing tax liability and greater tax saving for the corporation, while the marginal costs include the probability for tax fines and penalties to be imposed by tax authority, implementation costs, and reputational costs (Shackelford & Selvin, 2001). According to prior studies (Lanis & Richardson, 2016; Richardson et al, 2014), outside directors has relevance and important role in monitoring board of directors in making business decisions, including tax aggressiveness activity. Those studies finds that outside directors has influences toward tax aggressiveness.

Based on Law Number 40 Year 2007 Regarding Limited Liability Companies, the board of commissioner is a group that has a duty to supervise and keeps track board of directors in making business decisions, while board of directors has responsible to run the company. Since the term of outside directors is same as the board of commissioner, the author intends to modify variable outside directors that used in Lanis & Richardson (2016) into the board of commissioners, so it will be more relevant to Indonesia law system.
Although board commissioner is in charge to monitor and advise business decision in the company, the decision itself still on the board of directors hands (KNKG, 2006). Risk preference is one of executive characteristics that influences his behavior in making decision, including the decision to engage in tax aggressiveness. This risk preferences could classify into risk-taker and risk-averse Alabede et al, (2011).

Firm diversification as the business strategy in a company gives an appealing area to be analyzed for its influences toward tax aggressiveness. A company could be classified as a diversified firm if they report more than one business segment (Zheng, 2017). When a companies structure changes from a single segment to multiple segments, it will influence companys compliance in paying taxes (Erickson & Wang, 2007).

From the explanation above, this research differentiates prior research by modified and adding another variable that could influences tax aggressiveness. The author purpose to modified variable outside directors into size board of commissioner (Lanis & Richardson, 2016) and include variable executives’ characteristic (Mata et al, 2018) and firm diversification (Zheng, 2017) towards tax aggressiveness occur in the company. Manufacturing company is chosen as the sample of this research because manufacturing company is considered as a highly regulated company, expected to reflect the real condition in Indonesia tax law system.

**Research Questions**

Previous research has examined that tax aggressiveness is related to firm characteristics, ownership structure, corporate governance, corporate culture, etc.
Based on Zheng (2017), there are still many factors that influence tax aggressiveness that can be analyzed in future research. There are three main problems in this research, which are:

1. Does size board of commissioner influences tax aggressiveness?
2. Does executives’ characteristic influences tax aggressiveness?
3. Does firm diversification influence tax aggressiveness?

1.3 Research Objectives

Based on three main problems stated above, here are the following research objectives:

1. To examine the influence of size board of commissioner towards tax aggressiveness.
2. To examine the influences of executives’ characteristic towards tax aggressiveness.
3. To examine the influence of firm diversification towards tax aggressiveness.

1.4 Research Scope and Limitation

This research examines the decisions made by company in running the business will influences tax aggressiveness or not. This research treated firm diversification as a dummy variable which can not describe the real condition of firm diversification in the company.
1.5 Research Benefits

The result of this research expected to be used for theoretical and practical aspects, as follows:

1. Theoretical Benefits

   ● This research will help the researcher to obtain a clear understanding and knowledge about the board of commissioner, executives’ characteristic, corporate diversification, financial distress, and tax aggressiveness.

   ● This research expected to be a reference for further research relating to the board of commissioner, executives’ characteristic, financial distress, corporate diversification, and tax aggressiveness.

2. Practical Benefits

   ● For tax authority, this study expected to make tax authority more aware of any condition that could affect companies to minimize their tax liability, so that tax authority can prepare a prevent step on these actions.

   ● For investors, this study expected to used as additional information to make the right investing decision.

   ● For the company, this study expected to used for consideration in making a decision regarding tax aggressiveness practices.
CHAPTER II

LITERATURE REVIEW

2.1 Agency Theory

Based on Panda and Leepsa (2017) agency theory discuss the problem arises in the company due to the distinction between owner (the principals) and managers (the agents), where the agent serve to run the business on behalf of principals. But the major issue is when the owner and managers have different interest and goals, so there exists a conflict termed as agency problem. Agency problem also arises when there is assymetric information, where the managers more aware of company’s condition than the owner, so there is a possibilty of the managers performing for themselves (Panda and Leepsa, 2017).

Agency cost can arises from agency problem. Jensen and Meckling (1976) qouted by Panda and Leepsa (2017) classified agency cost into monitoring cost, bonding cost, and residual loss. Monitoring cost is the cost incurred for watching, compensating, and evaluating the agent’s behaviour. Monitoring cost also include the expenses for recruitment and training development expenses that made for the executives. While bonding cost is aimed to the managers, the cost incurred to operate firm according contractual obligations and fulfill owner’s interest. Residual loss is a loss that incurred when the decisions made by the managers are not aligned to maximize owners’ wealth event though the monitoring cost and bonding cost are issued maximally.
Agency problem could arise within the existence of tax aggressiveness activity. When company engage in tax aggressiveness, there is an opportunity for managers to do rent extraction which is an action taken by managers that aims not to fulfill shareholders’ interest, but their personal interest Chen et al, (2009).

2.2 Tax Aggressiveness

Lanis and Richardson (2016) define tax aggressiveness as company’s effort to minimize their taxable income through tax planning schemes. Tax aggressiveness includes tax planning actions that legal, illegal, or in the grey area. Although their tax planning not violating regulations, but the more company engage in tax planning by utilizing gaps from existing regulations, then their tax planning considered increasingly aggressive.

Besides tax aggressiveness, there are other terms that often used by prior literature, such as tax avoidance, tax evasion, and tax sheltering. Zheng (2017) defines tax avoidance as reducing explicit taxes by utilize the tax provisions legally. While, Akhtar et al, (2017) defines tax evasion is reducing a company’s tax liability and increasing pre-tax cash flow by violates tax regulations (e.g., reducing the number of sales, increasing the number of expense). From the past, tax evaders often found guilty because under-reporting of income or over-claiming of deductible expenditure (Tanzi and Shome, 1993) on Akhtar et al, (2017). Based on Graham and Tucker (2006), tax sheltering is a way of company to avoid taxes by making economic gains without any economic losses and risks (e.g., establish conduit company in tax heaven country). The terms of tax avoidance, tax evasion, tax sheltering, and tax aggressiveness are used interchangeably on prior literature.
Although the terms have different definition, it has the same purpose which is to reduce company tax burden.

2.3 Tax Aggressiveness Motive

According to Chen et al, (2009) and Shackelford & Selvin (2001), tax aggressiveness will occur when the benefit that company will get is more than the cost incurred by that action, but company will engage in tax aggressiveness not only considering the cost and benefit. There are several things that influence tax payer in minimizing their taxable income, which are:

1. The complexity of taxes regulation
2. The bigger amount of taxable income
3. Low risk of being detected
4. Moral of each taxpayer

Lanis and Richardson (2016) stated that tax aggressiveness could based on these incentives, which are:

1. Uncertainty of company’ tax position reported
   Uncertainties over current tax assets or liability that need to be reported along with uncertainty in implementing tax regulations provide opportunities for managers to utilize their subjectivity when determining taxes, this subjectivity is used to facilitate company tax avoidance.

2. Tax expertise member in board of directors
   Board members who have tax expertise could contribute to tax aggressiveness by utilizing tax arrangement to significantly reduce company’ tax liability.

3. Tax affiliations of board of directors


Labeled as “tax aggressive” could harm directors’ reputation. If the members of board of directors are affiliated to professional tax authority, then they are more likely to make sure company tax planning are done legally.

4. Remuneration incentives based on performance

When management will get incentives based on company performance that rate based on profitability, company management will take action on tax aggressiveness so they can increase firm profit.

According to Edwards et al, (2013), financial distress faced by company could encourage company to engage in tax aggressiveness that reduces their taxable income. Additional cash that arises can be used to fulfill the company's obligations or fund the company's activities, considering the funding sources of companies that experience financial constraints will be increasingly difficult.

2.4 Tax Aggressiveness Advantages and Disadvantages

According to Chen et al, (2009), there are several marginal benefits arises from tax aggressiveness engage by company. First, company will get a significant tax savings, so that the profits for the firm will be greater. Second, managers get bigger compensation if they can reduce the tax burden. Third, there is an opportunity for managers to do rent extraction, which is an action take by managers that aims not to fulfill shareholders’ interest, but personal interest.

Chen et al, (2009) and Shackelford & Selvin (2001) also stated there are marginal costs arises from tax aggressiveness action. Firm will have a risk to get a sanction from tax authority if caught violating tax regulations, it also will potentially cause non-tax losses which can harm company’ reputation.
From various marginal benefits and marginal costs from tax aggressiveness, company will engage in tax aggressiveness if the benefits they get are more that the cost incurred from that action. But when a firm are in financial distress condition, benefits of tax aggressiveness will increase while the costs stay the same.

2.5 Size Board of Commissioner

Based on Komite Nasional Kebijakan Governance (KNKG) 2006, board of commissioners in Indonesian company is a group of people that appointed by shareholder to monitoring and supervising the activities of a company that run by the board of directors. To implemented good corporate governance, company required to have board of commissioner (KNKG, 2006)

One of the ways to overcome agency problem in the company is by implementing good corporate govevrnance. According to Pannda and Leepsa (2017), corporate governance defines as the authority and responsibility given by shareholders to the board of directors to directing and controlling the company with strategic goals and involves supervision to laws and regulation.

Braendle and Noll (2004) classified there are two kind of internal supervision structure implemented by various countries, namely one-tier and two-tier board system. One-tier board system is a system where company only have board of directors that consist of executive directors who responsible as the managers and non-executive directors which is an independent directors who work part-time and not involve in running the company, but have the right on management decisions. This one-tier board system applied in Anglo-Saxon countries or also called as common law countries (e.g., USA and UK).
While two-tier board system is a system where there is a separation between management and control. Because of this separation, a company will have two boards which are board of directors and board of commissioner. Board of directors have duty to manage and run the company, while boards of commissioners have duty to control and supervise the board of director. This two-tier board system applied in civil law countries (e.g., Indonesia)

Limited liability companies in Indonesia are required to have three structure, which are General Meeting of Shareholder (GMS), Directors, and Board of Commissioners. The GMS itself have the highest position and has the authority that not possed by either board of directors or board of commissioners. The board of directors is authorized and fully responsible for the management of the company. While the board of commissioners is in charge of supervising and advising the Directors (Law Number 40 Year 2007 Regarding Limited Liabilities Companies).

The work of board commissioner will proxy by the size board of commissioner. According to Richardson et al, (2014), the greater number of comissioners, the easier to control top-level executives, and more effective in monitoring management decisions, this expected to reduce managers intention to engage in tax aggressiveness.

2.6 Executives’ Characteristic

Based on Alabede et al, (2018), executives’ characteristic in this research determined by risk preference which could influences executive behavior in making decision. Strategic and goals of the company depends on how executives act and
making business decisions. Risk preferences of the executive could be classified as a risk-taker and a risk-averse (Alabede et al., 2018).

Alabade et al., (2018) examine executives as the one who run the business. Based on Komite Nasional Kebijakan Governance (KNKG) 2006, board of directors is in charge and responsible for running the business. Each member of the board of directors can implement assignments and make decisions in accordance with the division of tasks and authority. Directors also have responsible for managing the company within form of annual reports that include financial statements, reports company activities, and GCG implementation reports.

A risk-taker executives is brave enough to take high-risk decisions to achieve above average returns, they tends to have higher level investment, more innovative activities, and greater innovation than risk-averse executives (Mata et al., 2018). While risk-averse executives is prefer to run the business on the safe zones, they more likely to chooses the safer investment instead of taking a chance on the probability of failure (Mata et al., 2018).

Based on Paligorova (2010) quoted by Mata et al., (2018), executives characteristic reflected by corporate risk. Company with higher risk considered to have the executives who tend to be a risk-taker, while lower risk indicate that companies have the executives who are more risk-averse.

2.7 Firm Diversification

According to Zheng (2017), firm diversification is company strategic to maintain competitiveness and increase profitability by having multiple segments both in industries (product diversification) and various geographical market (geographic
This diversification strategy can be done by opening a new business line, expanding the marketing area, opening a branch office, arrange merger and acquisition to increase business growth. Beside that, diversification can also cause difficulties regarding coordination, assymetric information, and incentives misalignment between headquarters and divisional managers (Chen and Yu, 2012).

There are several objectives that the company want to achieve by diversifying, which to maximize their firm value and to spread risk (Kang & Lee, 2015), to reduce risk (Markowitz, 1952) on Zheng (2017), to avoid unfavorable uncertainties within a single market (Montgomery, 1985) on Zheng (2017), to implying higher level of financial performances (Elango et al, 2008), etc.

Anthony and Gondrijavan (2008) classified type of diversification into:

1. Related Diversification
   Related diversification done by the company by entering a new different industries but still have connection with current industry. This action aims to build and expand business resources and capabilities to achieve strategic competitiveness. Related Diversification is an effort to increase the company's growth by transferring capabilities and competencies.

2. Unrelated Diversification
   Unrelated diversification done by the company by entering a new industries that has no link at all with the current industry, it is refer to the absence of direct relationships between businesses.
2.2 Hypothesis Development

2.2.1 The Effect of Size Board of Commissioner toward Tax Aggressiveness

The separation between management function and control function are necessary to reduce the residual loss from tax aggressiveness and also to control agency problem (Lanis and Richardson, 2011). The directors are responsible for managing the company, while board of commissioner formed to monitoring and advising the directors in carrying out their responsible. The boards of commissioner also have the authority to prevent, correct, and terminating directors for temporary (KNKG, 2006).

Company will take part in tax aggressiveness if the marginal benefits are greater than the marginal costs. Marginal benefits include greater tax saving for the company, while marginal costs include potential to get sanction imposed by tax authority, implementation costs, reputational costs, and political costs (Chen et al, 2010; Shackelford & Selvin, 2001). Thus function of the board of commissioners is needed, which to ensure that directors and the employee do tax planning in accordance with the laws and / or company regulations to avoid gaining marginal costs incurred by tax aggressiveness action (KNKG, 2016).

Lanis & Richardson (2016) find a negative effect between board size and tax aggressiveness, the greater number of board of commissioner expected to discourage management decisions to engage in tax aggressiveness under more effective monitoring and supervising done by commissioners. In contrast, Minnick and Noga (2010) suggest that the smaller number of board of commissioners can make
company be far from tax aggressiveness action. While larger boards will be ineffective because of the difficulties to come up with decision regarding tax aggressiveness.

\textit{H1: Size board of commissioner influences tax aggressiveness}

2.2.2 The Effect of Executive Characteristic toward Tax Aggressiveness

Personal characteristic of top executives (board of directors) play an important role in corporate policy setting and strategic decisions. Alabade \textit{et al}, (2018) determine executive characteristics by their risk preferences, and classified executive characteristics into risk-taker and risk-averse. A risk-taker executives is brave enough to take high-risk decisions to achieve above average returns, they tends to have higher level investment, more innovative activities, and greater innovation than risk-averse executives (Hsieh, 2018; Mata \textit{et al}, 2018). While risk-averse executives is prefer to run the business on the safe zones, they more likely to chooses the safer investment instead of taking a chance on the probability of failure. (Mata \textit{et al}, 2018).

A risk-taker executive is overconfident to take high-risk decisions in order to achieve their goals and usually investing in risky project (Hsieh, 2018). Since risk-taker executive have high level investment, they will need additional funds and tax saving is one of the way for the executive to acquire additional funds. A risk-taker executive will ignore the risk of getting audited and getting sanction by the tax authority.

Both risk-taker and risk-averse executives should be more careful in making decisions regarding their decisions to choose tax aggressiveness as their plan to reduce financial distress. The executives must consider the marginal cost of doing tax
aggressiveness, whether it will worsen the company condition or not. Based on explanation above, hypothesis in this research is as follows:

*H2: Executive characteristic influences tax aggressiveness*

### 2.2.3 The Effect of Firm Diversification toward Tax Aggressiveness

Based on Zheng (2017), diversified firm define as company that report more than one business segment from one year to the next, while stand-alone company are company that report only one segment and usually operate a single industry. If each business segment has its own R&D expense, company will use R&D spending to minimize their tax liabilities. Company will increase their R&D expense to use it as the tax credit which will decrease firm tax liabilities (Brown and Krull, 2008).

For financial short-term target, company will do acquisition and/or merger and it will affect company’ ownership structure. Erickson and Wang (2007) find that when a company structure changes, it will positively influence company compliance in paying taxes. Whether company do related or unrelated diversification, it will also bring the opportunities for company to transfer price among business segments and regions. Company might move their headquarters to different countries or to haven countries that implied lower tax rate so they can avoid paying higher tax.

Based on explanation above, hypothesis in this research is as follows:

*H3: Diversification influence tax aggressiveness*

### 2.3 Research Framework

Based on hypothesis development explained above, the framework in this research could be presented in the form of figures, as follows:
CHAPTER III

METHODOLOGY

3.1 Research Design

Quantitative research and secondary data is used for this research. Financial information obtained from Indonesia Stock Exchange as the sources for this research. Manufacturing company listed in Indonesia Stock Exchanges from 2014-2017 is chosen as the research population.

3.2 Operational Definition and Variable Measurement

3.2.1 Dependent Variable

Dependent variable used in this research is tax aggressiveness (TAG). Based on Lanis and Richardson (2016), tax aggressiveness can be measure by the tendency
of company to engage in tax sheltering (SHELTER) which indicates aggressive forms of tax avoidances (Hoi et al, 2013; Schmidt et al, 2013; Wilson, 2009). As per Wilson (2009) on Lanis and Richardson (2016), a higher value of SHELTER indicates a higher probability of company engaging in tax sheltering. Tax sheltering can be calculated by formula below:

\[
\text{SHELTER} : -4.30 + 6.63\times \text{BTD} - 1.72\times \text{LEV} + 0.66\times \text{SIZE} + 2.26\times \text{ROA} \\
+1.62\times \text{FOREIGN\_INCOME} + 1.56\times \text{RD}
\]

\textit{Source: Lanis and Richardson (2016)}

Where:

- **BTD**: Book-tax differences; book income less taxable income scaled by total assets
- **LEV**: long-term debt scaled by total assets
- **SIZE**: log of total assets
- **ROA**: net-income scaled by total assets
- **FOREIGN\_INCOME**: a dummy variable, coded 1 for company with foreign income, otherwise 0
- **RD**: research and development (R&D) expenses scaled by total assets.
3.2.2 Independent Variable

The independent variable used in this research have a potential to influence the dependent variable. There are three independent variable used for this research, which is size board of commissioner, executives characteristic, and diversification.

The work of board of commissioner proxied by size board of commissioner (SBOC), SBOC referring to a total number of board of commissioner including independent commissioner. Therefore, SBOC could determined by:

\[ SBOC = \text{Number of Board of Commissioner} \]

*Source: Lanis and Richardson (2016)*

Executives characteristic in this research is proxied by corporate risk, the corporate risk itself reflects the deviation or standard deviation from earnings, either the deviation is less than planned or more than planned. The higher value of deviation indicates the higher risk in the company, and the executives consider as risk-taker. Corporate risk could be calculated by:

\[ \text{RISK} = \sqrt{\frac{\sum_{t=1}^{T} (E - \frac{1}{T} \sum_{t=1}^{T} E)^2}{T-1}} \]

*Source: Paligorova (2010)*

Where,

\[ E = \frac{\text{EBITDA}}{\text{Total Asset}} \]

\[ T = \text{Total Sample} \]

While, diversification in this research measured by dummy variable, where diversification (DIV) coded one when a firm is a diversified firm, in which the firm
has greater than one segment at least one year during the sample period, and zero when a firm keeps only one segment over the sample period (Zheng, 2017).

3.2.3 Sampling

To select the sample, this research used purposive sampling with applying some criteria as follows:

1. Manufacturing companies listed in Indonesia Stock Exchange for the period of 2015 – 2017 respectively

2. Manufacturing Company that used dollar as their currency in Financial Statement for the period of 2015 – 2017 respectively

3. Manufacturing Company that not have net loss for the period 2015-2017 respectively

4. Manufacturing companies that have all the data required for this research.

3.3 Research Model

To test hypotheses in this research, regression models used as follows:

a) Model 1

\[ \text{TAG : } \alpha_1 + \beta_1 \text{SBOC } + e_1 \]

b) Model 2

\[ \text{TAG : } \alpha_2 + \beta_2 \text{RISK } + e_2 \]
c) **Model 3**

\[
\text{TAG} = \alpha_3 + \beta_7 \text{DIV} + e_3
\]

Where:

TAG = Tax Aggressiveness, measure by SHELTER

SBOC = Size Board of Commissioner

RISK = Corporate Risk

DIV = Diversification

\( \alpha \) = Constanta Regression

\( e \) = Error

### 3.4 Data Analysis

Data analysis in this research will be test by using simple linear regression and multiple regression techniques. Simple linear regression is used to test the influences of one independent variable towards one dependent variable. While multiple linear regression is used to test the influences of two or more independent variable towards one dependent variable.

#### 3.4.1 Descriptive Statistic Analysis

Descriptive statistic analysis are used to present quantitative descriptions in a manageable form and reduces lots of data into a simpler summary. This analysis provide descriptions and an overview of a variable viewed from the mean, standard deviation, maximum value, and minimum value.
3.4.2 Classic Assumption Test

Before regression analysis step, there are four classic assumptions test required. Classic assumption test consist of:

1. Normality Test

Normality test is used to check whether the variable is normal distributed or not. Kolmogorov-Smirnov test is used for normality test, the data could be indicate as normally distributed if the level of significant is > 0.05

2. Multicollinearity Test

Multicollinearity appears when two or more independent variables in a multiple regression model are highly correlated. Multicollinearity could be measured by VIF (Variance Inflation Factor), if the value of VIF is <10, it’s indicate that the variable has no multicollinearity.

3. Autocorrelation Test

The autocorrelation test aims to indicate whether the regression model have a correlation between interruption error in period t with interruption errors in period t-1. Good regression model should have no autocorrelation. Autocorrelation could be indicated by using Durbin-Watson testing method.

4. Heteroscedasticity Test

This test basically aims to indicate whether in the regression model have the residual variance that is not constant that occur in one observation to another
observation. Good regression model should be free from heteroscedasticity. Heteroscedasticity test could be used Glejser test as the testing method.

3.4.3 Hypothesis Testing

1. Coefficient Determinant ($R^2$)

   The value of coefficient determinant predict how independent variable could determined the dependent variable. The range of the coefficient determinant is 0 to 1. The smaller value of $R^2$ indicates the weak capability of independent variables to determine dependent variable.

2. T-test

   T-test also called as partial test, it aims to describe the influences of each independent variable toward dependent variable. When the probabilities amounted <0.05, the independent variable considered to influences the dependent variable significantly.
CHAPTER IV
DATA ANALYSIS AND RESULT

4.1 Descriptive Analysis

4.1.1 Sample Characteristic

Manufacturing company that listed in Indonesia Stock Exchange for period 2015-2017 are chosen as the population in this research. To select a sample from the population, this research applied purposive sampling which used some criteria. The criteria stated as follow:

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria of Sample</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing Company listed in IDX</td>
<td>153</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing Company that not listed for the period 2015-2017 respectively</td>
<td>(13)</td>
</tr>
<tr>
<td>3</td>
<td>Manufacturing Company that have net loss for the period 2015-2017 respectively</td>
<td>(40)</td>
</tr>
<tr>
<td>4</td>
<td>Manufacturing Company that used dollar as their currency in Financial Statemen</td>
<td>(24)</td>
</tr>
<tr>
<td>5</td>
<td>Manufacturing Company that does not have the data required for this research</td>
<td>(9)</td>
</tr>
<tr>
<td></td>
<td>Total year of observation</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Total Sample</td>
<td><strong>201</strong></td>
</tr>
</tbody>
</table>

*Table 4.1 Sample Selection*
### 4.1.2 Descriptive Statistic

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHELTER</td>
<td>201</td>
<td>1.737</td>
<td>11.261</td>
<td>7.60117</td>
<td>2.179225</td>
</tr>
</tbody>
</table>

*Table 4.2 Descriptive Statistic Tax Aggressiveness (SHELTER)*

Source: SPSS 25, Data Processed 2018

Tax aggressiveness in this research proxied by tax sheltering (SHELTER), which indicate the activity of the company to engage in tax aggressiveness. The calculation of SHELTER in this research is based on logit model from Wilson (2009) on Richardson *et al.*, (2014). According to Richardson *et al.*, (2014), a higher value of SHELTER indicate high probability of company to engage in tax aggressiveness. On table 4.2 shows that SHELTER has mean amounted 7.60117, from 201 sample, there is 120 observation that has SHELTER value more than the average number. It’s indicate that more than 50% from total observation which consist of manufacturing company in Indonesia has probability to engage in tax aggressiveness. Minimum value of SHELTER is owned by Akasha Wira International Tbk amounted 1.737, while the maximum value is owned by Mayora Indah Tbk amounted 11.261. This amount can indicate that Mayora Indah Tbk have higher probability to engage in tax aggressiveness, and vice versa. The higher value of SHELTER can happen because there is foreign income and R&D expense occurred in the company.
The descriptive statistic shows mean for SBOC is amounted 4.27363. From 67 companies that been observed, there are 27 company that has total number of commissioner above average. Lanis & Richardson (2016) suggest that greater number of board of commissioner will maximize the monitoring effect on company decisions regarding tax aggressiveness.

### Table 4.3 Descriptive Statistic Size Board of Commissioners (SBOC)

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBOC</td>
<td>201</td>
<td>2.000</td>
<td>12.000</td>
<td>4.27363</td>
<td>1.951858</td>
</tr>
</tbody>
</table>

*Source: SPSS 25, Data Processed 2018*

Executive characteristics proxied by corporate risk, table 4.4 shows that minimum and maximum value of variable RISK is 0.001 and 0.200 respectively. Based on Mata et al, (2016), company with higher risk considered to have the executives who tend to be a risk-taker, while lower risk indicate that companies have the executives who are more risk-averse. The minimum value owned by Astra Otoparts Tbk and maximum value owned by Japfa Comfeed Indonesia Tbk. From total of 67 companies, there are 22 companies that has RISK value greater than average, it’s shows that 22 companies has a risk-taker executives, while the remaining 45 companies has a risk-averse executives.

### Table 4.4 Descriptive Statistic Executive Characteristics (RISK)

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>RISK</td>
<td>201</td>
<td>0.001</td>
<td>0.200</td>
<td>0.03365</td>
<td>0.037334</td>
</tr>
</tbody>
</table>

*Source: SPSS 25, Data Processed 2018*
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIV</td>
<td>201</td>
<td>0.000</td>
<td>1.000</td>
<td>0.77612</td>
<td>0.417884</td>
</tr>
</tbody>
</table>

Table 4.5 Descriptive Statistic Diversification (DIV)

Source: SPSS 25, Data Processed 2018

DIV is a dummy variable that indicate if the company have more than one segment will coded 1, and coded 0 if the company have only one segment.

4.2 Classic Assumption Test

4.2.1 Normality Test

In Kolmogrov-Smirnov test, data is consider as normal distributed if the significant value is greater then 0.05. The result of normality test for each model is as follows:

1. Model 1

Table 4.6 Kolmogrov-Smirnov Test Model 1

Source: SPSS 25, Data Processed 2018
Regression model 1 is used to examine the influences of size board of commissioner (SBOC) toward tax aggressiveness. Table 4.7 shows the significant value of regression model 1 is amounted 0.200 which is greater than 0.05, it’s concluded that regression model 1 is normal distributed.

2. Model 2

<table>
<thead>
<tr>
<th>One-Sample Kolmogorov-Smirnov Test</th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>201</td>
</tr>
<tr>
<td>Normal Parameters a,b</td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.0000000</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>0.56319909</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td>Absolute</td>
</tr>
<tr>
<td></td>
<td>0.062</td>
</tr>
<tr>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td>0.062</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
</tr>
<tr>
<td></td>
<td>-0.031</td>
</tr>
<tr>
<td>Test Statistic</td>
<td>0.062</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.061 c</td>
</tr>
</tbody>
</table>

Table 4.7 Kolmogorov-Smirnov Test Model 2

Source: SPSS 25, Data Processed 2018

Regression model 3 is used to determine the influences of executive characteristics (RISK) toward tax aggressiveness. Table 4.9 shows the value of significant for regression model 3 is 0.061 which greater than 0.05. It concluded that regression model 3 is passed the normality test.

3. Model 3

<table>
<thead>
<tr>
<th>One-Sample Kolmogorov-Smirnov Test</th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>201</td>
</tr>
</tbody>
</table>
4.2.2 Multicollinearity Test

A good regression model should be free from multicollinearity. This test conducted for each model using variance inflation factor (VIF) method. The regression model is consider free from multicollinearity if the value of VIF is < 10. Multicollinearity for each model is as follow:

1. **Model 1**

<table>
<thead>
<tr>
<th>Coefficients²</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>VIF</td>
</tr>
<tr>
<td>SBOC</td>
<td>0.330</td>
<td>0.088</td>
<td>0.257</td>
</tr>
</tbody>
</table>

**Table 4.9 Multicollinearity Test Model 1**

Source: SPSS 25, Data Processed 2018

VIF value for regression model 1 is presented above, indicate the amount is 1.000 which is less then 10, it can concluded that regression model 1 is free from multicollinearity.

2. **Model 2**
Table 4.10 Multicollinearity Test Model 2

Source: SPSS 25, Data Processed 2018

Table 4.15 shows the result from multicollinearity test for regression model 3, the VIF value is amounted 1.000 which less then 10. It concluded that regression model 3 is free from multicollinearity.

3. Model 3

Table 4.11 Multicollinearity Test Model 3

Source: SPSS 25, Data Processed 2018

4.2.3 Heteroscedasticity Test

Heteroscedasticity problem could cause inaccuracy in the result of regression analysis. That’s why heteroscedasticity should be done before continue to regression analysis step. Heteroscedasticity tested by Glejser test, heteroscedasticity test for each model is as follows:

1. Model 1

Table 4.12 Glejser Test Model 1

Source: SPSS 25, Data Processed 2018
Regression will indicate free from heteroscedistacity if the significant value is greater than 0.05. The table above shows the significant value amounted 0.053, it concluded that regression model 1 is passed the heteroscedistacity test.

2. Model 2

<table>
<thead>
<tr>
<th>Coefficients</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
<td>Sig.</td>
</tr>
<tr>
<td>RISK</td>
<td>0.305</td>
<td>0.374</td>
<td>0.061</td>
<td>0.8</td>
<td>0.416</td>
</tr>
</tbody>
</table>

*Table 4.13 Glejser Test Model 2*

*Source: SPSS 25, Data Processed 2018*

Within significant value amounted 0.416 from glejser test (Table 4.21), it shows that regression model 3 is passed the heteroscedistacity test because the value is greater then 0.05.

3. Model 3

<table>
<thead>
<tr>
<th>Coefficients</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
<td>t</td>
<td>Sig.</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>DIV</td>
<td>0.158</td>
<td>0.101</td>
<td>0.299</td>
<td>1.743</td>
</tr>
</tbody>
</table>

*Table 4.14 Glejser Test Model 3*

*Source: SPSS 25, Data Processed 2018*

Glejser test is done for regression model 5, the significant value is greater then 0.05. The value amounted 0.118 can concluded that regression model 5 is free from heteroscedistacity problem.
4.2.4 Autocorrelation Test

Durbin-Watson test is measured to test the autocorrelation among each model. Durbin-Watson test is indicate have no autocorrelation problem if \( dU < DW < 4 - dU \). Durbin-Watson test for each model is as follow:

1. **Model 1**

<table>
<thead>
<tr>
<th>dU</th>
<th>DW</th>
<th>4-dU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.7785</td>
<td>2.005</td>
<td>2.2215</td>
</tr>
</tbody>
</table>

*Table 4.15 Durbin-Watson Test Model 1*

*Source: SPSS 25, Data Processed 2018*

2. **Model 2**

<table>
<thead>
<tr>
<th>dU</th>
<th>DW</th>
<th>4-dU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.7785</td>
<td>2.001</td>
<td>2.2215</td>
</tr>
</tbody>
</table>

*Table 4.16 Durbin-Watson Test Model 2*

*Source: SPSS 25, Data Processed 2018*

3. **Model 3**

<table>
<thead>
<tr>
<th>dU</th>
<th>DW</th>
<th>4-dU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.7785</td>
<td>1.975</td>
<td>2.2215</td>
</tr>
</tbody>
</table>

*Table 4.17 Durbin-Watson Test Model 5*

*Source: SPSS 25, Data Processed 2018*

4.3 Hypothesis Result

4.3.1 Coefficient Determinant \((R^2)\)

The range of the coefficient determinant is 0 to 1. The smaller value of \( R^2 \) indicates the weak capability of independent variables to determine dependent variable, while the value resulted close to 1 means that the independent variable
have the strong capability to determined dependent variable. The result for $R^2$ for each model is as follows:

1. **Model 1**

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>.257$^a$</td>
<td>0.066</td>
<td>0.061</td>
</tr>
</tbody>
</table>

*Table 4.18 Coefficient Determinant Model 1*

*Source: SPSS 25, Data Processed 2018*

Regression model 1 used to examine the influences of size board of commissioner (SBOC) toward tax aggressiveness. Variable SBOC as the dependent variable has adjusted R square amounted 0.061, it means that SBOC has ability 6.1% to determine tax aggressiveness, while other 93.9% determined by other variable than size board of commissioner.

2. **Model 2**

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>.202$^a$</td>
<td>0.041</td>
<td>0.036</td>
</tr>
</tbody>
</table>

*Table 4.19 Coefficient Determinant Model 2*

*Source: SPSS 25, Data Processed 2018*

To test the influence of executive characteristic which proxied by corporate risk (RISK), regression model 3 is used. From the table above, it shows that regression 3 has adjusted r square amounted 0.036 which mean RISK has ability 3.6% to determined tax aggressiveness. While the rest 96.4% determined by other variables.

3. **Model 3**

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>.137$^a$</td>
<td>0.019</td>
<td>0.014</td>
</tr>
</tbody>
</table>
Regression model used to examine the influences of diversification (DIV) toward tax aggressiveness. The adjusted R square for model 5 is amounted 0.014. It means that diversification (DIV) variable able to determine tax aggressiveness as much 1.4%, while other 98.6% determine by other variable.

4.3.2 T-test

T-test or partial test is done to see the influence of each independent variable toward dependent variable. If the significant value is <0.05, the independent variable can be considered have significant influence toward dependent variable. Partial test is done for each model, as follows:

1. Model 1

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>SBOC</td>
<td>0.330</td>
<td>0.088</td>
</tr>
</tbody>
</table>

T-test or partial test is done for regressi model 1 (table 4.37). From the table above, it show the significant value amounted 0.000 which is less then 0.05. Thus mean, H1a: Size Board of Commissioner influences tax aggressiveness is supported.

2. Model 2

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>RISK</td>
<td>0.991</td>
<td>0.341</td>
</tr>
</tbody>
</table>
Table 4.22 t-Test Model 2

Source: SPSS 25, Data Processed 2018

The result from t-test or partial test for regression model 3 shown on the table above. It shows the significant value is amounted 0.004, this amount is less than 0.05. Based on this value, it can concluded that \( H2a: \) Executive Characteristics influences tax aggressiveness is supported.

3. Model 3

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIV</td>
<td>-0.189</td>
<td>-0.137</td>
</tr>
<tr>
<td>Std. Error</td>
<td>0.097</td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>-1.951</td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>0.050</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.23 t-Test Model 3

Source: SPSS 25, Data Processed 2018

Diversification (DIV) is a dummy variable in this regression which coded 1 if company has more than one business segment and coded 0 if company has only one business segment. Table 4.41 shows the significant value amounted 0.050 Thus mean, \( H3: \) Diversification influences tax aggressiveness is supported.

4.4 Interpretation Analysis

4.4.1 The effect of size board of commissioner toward tax aggressiveness

Regression model 1 used to test hypothesis 1 which stated size board of commissioner influences tax aggressiveness. From partial test (table 4.37) explain the regression model 1 which used to examine the influences of SBOC as the toward tax aggressiveness, has significant value amounted 0.000 which is less then 0.05. From this value, it can be concluded that hypothesis 1 is supported. This result is in line
with previous research (Richardson et al, 2014) which also found the significant influences of size board of commissioner toward tax aggressiveness. Another supporting result is coming from Zemzem and Fhoui (2013), which finds the board size affect the activity of tax aggressiveness.

Research from Richardson et al, (2014) finds tax aggressiveness decision made by managers so they can enjoy private benefits of controlling expense. From agency point of view, the marginal benefits of tax aggressiveness include greater tax saving for the corporation, while the marginal costs include the probability for tax fines and penalties to be imposed by tax authority, implementation costs, and reputational costs (Lanis & Richardson, 2016)

To overcome the agency problem, company need to implement good corporate governance (GCG). The implementation of GCG is needed to encourage company to be efficient, transparent, and consistently comply with laws and regulations (KNKG, 2006). Limited liability companies in Indonesia are required to have three structure, which are General Meeting of Shareholder (GMS), Directors, and Board of Commissioners (Law Number 40 Year 2007 Regarding Limited Liabilities Companies).

The Board of Commissioners as a corporate organ has a duty and responsibility to supervise and provide advice to the board of directors, and ensure the BOD running the business complied with laws and regulations. Results of significant value of SBOC toward tax aggressiveness can concluded that under the
supervision of board of commissioner, it will influences company decisions to choose whether engage in tax aggressiveness or not (Richardson et al, 2014).

4.4.2 The effect of executives characteristic toward tax aggressiveness.

From table 4.39, it shows executive characteristics that proxied by corporate risk (RISK) has significant value amounted 0.004 which is less then 0.05. This significant value determined that hypothesis 2a which stated executives characteristic influences tax aggressiveness is supported. This finding is in line with Mata et al., (2018) who finds the executive characteristics will influences business strategy in the company.

Tax aggressiveness defines as company’s strategy to minimize their taxable income through tax planning schemes. If company engage in tax aggressiveness, the executive must aware of the the probability for tax fines and penalties to be imposed by tax authority, implementation costs, and reputational costs (Lanis & Richardson, 2016)

Executive classified as a risk-taker if the company has higher value of corporate risk. And the significant value of variable RISK toward tax aggressiveness can conclude that company choose to engage in tax aggressiveness based on executive decisions. A risk-taker executives are more courageous in taking responsibility for all corporate tax planning decisions. Although tax aggressiveness has a high risk, the decision is still taken by risk-taker executives as long as it still brings great benefits to the company (Mata et al, 2018).
4.4.3 The effect of diversification toward tax aggressiveness

This research used firm diversification (DIV) as dummy variable which coded 1 if company has more than one business segment and coded 0 if company has only one business segment. From the significant value in regression result (table 4.41), DIV has significant value amounted 0.050, it means the result support hypothesis 3a which state that diversification has influences toward tax aggressiveness.

This finding supported by Erickson and Wang (2007) whose find that when a companys structure changes from a single segment to multiple segments, it will influence companys compliance in paying taxes. Based on Law Number 26 year 2008 about Income Tax, Indonesia law system has some regulation that could benefit a diversified firms to minimize their taxable income, such as: (i) parent company could used tax loss carry forward from subsidiaries for five consecutive year to minimize their taxable income (ii) each business segment of diversified firm can used their research and development expense as deductible expense to minimize their taxable income. Company also might move their headquarters to different countries or to haven countries that implied lower tax rate so they can avoid paying higher tax.
CHAPTER V

CONCLUSION, LIMITATION AND SUGGESTION

5.1 Conclusions

This research finds that size board of commissioner influences tax aggressiveness, lower number of commissioner means minim supervision towards directors. Under minim supervision, company tend to engage in tax aggressiveness. Executive characteristic has influences toward tax aggressiveness. The executive in this research referred to board of director, a risk-taker executives tend to be more brave to engage in tax aggressiveness rather than risk-averse executive. Turns out that firm diversification also has influences toward tax aggressiveness. It indicates company could used the loopholes in tax law system to minimize taxable income.

5.2 Limitation and Suggestions

Limitation in this research is as follows:

1. Independent variables in this research has small value of adjusted $R^2$ square, which mean the independent variable only have a low ability to determined the dependent variable.
2. Firm diversification in this research is treated as dummy variable, so it would not described the real situation of the company.

Furthermore, the suggestion for future research are:

1. Future research is expected to extend the observation period.
2. Since the independent variable in this research has small value of adjusted R square, future research should examine the influences of other variable which not included in this research (e.g., CSR, ownership structure, international operations, etc)
3. Future research should use another measurement for the variable. Herfindahl-Hirschman Index could be used to measure firm diversification instead of treated as dummy variable.

The suggestion for practicioner are:

1. Either board of commissioner or board of director should not engage in tax aggressiveness, considering the marginal cost could be greater than the marginal benefits.
2. Tax authority must aware that company has many strategy to avoid paying taxes and make its strategy look legal.
REFERENCES


APPENDIX

APPENDIX 1

SAMPLE LIST OF MANUFACTURING COMPANY LISTED IN INDONESIA

STOCK EXCHANGES FOR THE PERIOD OF 2015-2017

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<td>Semen Indonesia (Persero) Tbk</td>
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