(RESEARCH ARTICLE)

Does corporate reputation, management reputation, and financial distress effect on tax avoidance?

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Abstract

This study aims to provide empirical evidence regarding the effect of corporate reputation, management reputation, and financial distress on tax avoidance. The population of this study are companies in the transportation, tourism, hotel and restaurant sectors listed on the Indonesia Stock Exchange for the 2018-2020 period. This research uses a quantitative approach. The sampling technique used was purposive sampling technique and obtained a sample of 60 companies or 300 total observed samples. The data analysis technique in the study used panel data regression using Eviews 13. The results of the analysis provide evidence that corporate reputation has a negative effect on tax avoidance, then management reputation has a negative effect on tax avoidance and financial distress has a positive effect on tax avoidance. Recommendations that can be given to future researchers are that researchers can measure management reputation with more accurate mechanisms or variables.

Keywords: Company Reputation; Management Reputation; Financial Distress; Tax Avoidance

1. Introduction

Mughal & Akram (2012) reveal several reasons why taxpayers tend to avoid taxes, one of which is the absence of tax which means that individual behavior is related to the absence of tax morality. According to Social Judgment Theory put forward by Muzafer Sherif and Carl Hovland in 1961, character and ability are part of a company's reputation. Ability reputation is a collective evaluation of the quality and performance characteristics of a particular company, while character reputation includes a collective assessment of the company's behavioral tendencies (Mishina et al., 2012). The message received by someone will be adjusted to the anchors or "anchors" that person has (Boer & Lesmana, 2018). Research according to Kim (2012) shows that company reputation requires sustainable management and what a company does will affect the company's reputation.

According to Widanaputra et al. (2018) company reputation is something that needs to be considered because it can potentially become a competitive advantage. A company's reputation is obtained by integrating several considerations (blended considerations) between finance, management, advertising and public relations (Maden et al., 2012). Companies that implement tax avoidance practices have a risk of fines or risks equivalent to legal costs and affect the company image that has been built (Sundari & Aprilina, 2017). According to Balakrishnan et al. (2019) tax avoidance can increase the opacity of a company's information environment and endanger the quality and accuracy of accounting information.

In managing a company, the principal as the owner of the company will appoint an agent in an effort to manage the company. Jensen & Meckling (1976) describe an agency relationship in the form of a contract between one or more owners or principals involving other people, in this case managers or agents, in an effort to carry out certain goals in

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the name of the principal to the agent through delegation of authority in the form of decisions taken. According to Jensen & Meckling (1976), if both parties have the same goal, it is believed that the agent will act in a way that is in accordance with the interests of the principal. Agency theory describes the relationship between shareholders as principals and management as agents.

According to Upper Echelon Theory, developed by Hambrick & Mason (1984), the organization is a reflection of top management. This theory states that the results of organizational strategy choices and partly the level of performance are predicted by managerial background characteristics in making decisions and the company's strategic performance. Aini & Sumiyana (2008) in Widanaputra et al. (2018) stated that top management reputation as proxied by educational background has an influence on public assessment.

Previous researchers, Dyreng et al. (2009) regarding tax avoidance proves that tax avoidance is an effective way to increase profits after tax. Dyreng et al. (2009) found that the level of corporate tax avoidance varies significantly among individual managers. Graham et al. (2014) provide initial evidence regarding managers' reputational concerns regarding tax avoidance. In addition to public backlash regarding a lack of corporate citizenship responsibility, previous research suggests tax avoidance can damage managerial reputations by raising the costs of suspicion. If investors suspect that a manager who is aggressive in tax planning is also aggressive in reporting income accounting, then the manager's credibility in financial reporting may be seriously tarnished.

In managing a company, agents are described by Einshardt (1989) through three assumptions that underlie human nature in relation to the relationship between principal and agent. With the existence of an agency relationship, the emergence of agency problems is caused by information asymmetry. In this case, the agent will try to maximize his own utility and interests, while the principal hopes to maximize the welfare of the capital owner and expects a high return on the investment that has been made for the company. Agency Theory explains that managers as agents must be open with all company conditions. The condition of a company's financial decline can reflect indications of bankruptcy or liquidation which can be interpreted as a condition of financial distress (Wulandari, 2018).

When a company experiences financial distress, managers will try to protect the company's cash flow and try to prevent bankruptcy. Managers no longer focus on maximizing profits, but on saving the company (Suhaidar et al., 2021). Financial distress will trigger companies to take protective action by taking an aggressive stance in an effort to minimize tax payments considering that one of the most significant costs incurred is tax (Richardson et al., 2015). According to Nugroho & Afifi (2022) and Indradi & Sumantri (2020), a downturn in financial conditions can be used by management as the main reason for avoiding corporate taxes as an effort to stabilize critical financial conditions.

2. Literature review and hypothesis

According to Social Judgment Theory put forward by Muzafer Sherif and Carl Hovland in 1961, company reputation includes reputation for ability and character. Ability reputation is a collective evaluation of the quality and performance characteristics of a particular company, while character reputation includes a collective assessment of the company's behavioral tendencies (Mishina et al., 2012). Based on Tax Compliance Theory by Allingham & Sandmo (1972) tax compliance is influenced by the amount of income earned, tax rates, amount of sanctions, audit probability, and is based on the assumption that individuals will decide to pay taxes based on calculations of benefits and costs.

The scope of a company's reputation is very broad. Thus, reputation is a collectively held judgment where the processes individuals use to make judgments have significant relevance in explaining how reputations are formed and changed. The message received by someone will be adjusted to the anchors or "anchors" that person has (Boer & Lesmana, 2018). Based on the explanation above, the hypothesis proposed in this research is as follows:

H1: Company reputation has a negative effect on Tax Avoidance

Previous research Dyreng et al. (2009) regarding tax avoidance proves that tax avoidance is an effective way to increase after-tax profits and increase company value. Some companies do not take full advantage of tax avoidance opportunities exploited by other parties (Hanlon et al., 2010). Dyreng et al. (2009) found that the level of corporate tax avoidance varies significantly among individual managers. Similarly, in a survey of tax executives, Graham et al. (2014) provide initial evidence regarding managers' reputational concerns regarding tax avoidance. In addition to public backlash regarding a company's lack of civic responsibility, previous research has shown tax avoidance can damage managerial reputations by incurring "costs of suspicion."

This is in line with Upper Echelon Theory developed by Hambrick & Mason (1984) which states that organizations reflect top management. This theory states that the results of organizational strategy choices and partly the level of performance are predicted by managerial background characteristics in making decisions and the company's strategic performance. This research is supported by the Tax Compliance Theory by Allingham & Sandmo (1972) which states that tax compliance is influenced by the amount of income earned, the tax rate, the amount of sanctions, the probability of an audit, and individuals will decide based on calculating benefits and costs. Based on the explanation above, the hypothesis proposed in this research is as follows:

H2: Management reputation has a negative effect on Tax Avoidance

A company's inability to fulfill its obligations is an indication that there is a possibility that the company will experience liquidation or bankruptcy. According to Wulandari (2018), financial distress is defined as a decline in financial conditions before bankruptcy or liquidation occurs. One of the causes of financial distress is due to poor company performance which has an impact on the company's financial condition, with this the company will act quickly in an effort to deal with this condition in a sustainable manner and have a negative impact (Indradi & Sumantri, 2020). Agency Theory explains that managers as agents must be open with all conditions of the company, if the company is experiencing financial distress, managers will try to protect the company's cash flow and try to prevent bankruptcy, and managers will no longer focus on maximizing profits (Suhaidar et al., 2021).

Tax Compliance Theory by Allingham & Sandmo (1972) developed a theoretical model based on the assumption that individuals will decide whether to pay taxes or not based on a calculation of benefits and costs. Financial distress triggers companies to act aggressively in an effort to minimize payment of tax obligations because tax is one of the most significant costs (Richardson et al., 2015). This statement was also expressed by Nugroho & Afifi (2022) where the aim of carrying out aggressive actions is to defend the company, where corporate taxes are the main burden on cash outflows, so companies tend to ignore the possibility of reputational decline due to aggressive actions. This statement is supported by the results of previous research from Meilia & Adnan (2017), Muttaqin & Husen (2020), Siburian & Siagian (2021) which found that financial distress has an effect on tax avoidance.

H3: Financial Distress has a positive effect on Tax Avoidance

3. Methods

This research was conducted at BEI (www.idx.co.id). The subjects of this research are public companies, listed on the IDX, in 2018-2022. Transportation, tourism, hotel and restaurant sub-sector companies listed on the IDX are the population in this study. The Covid-19 pandemic has significantly impacted people's lives. This pandemic occurred in Indonesia for the first time on March 2, 2020. In handling the pandemic, the government has protected public health, one of which is by limiting mobility. With the restrictions on mobility, many sectors have suffered due to this condition, one of which is the transportation, tourism, hotel, and restaurant sub-sectors. The sample in this research is companies listing the transportation, tourism, hotel, and restaurant sub-sectors listed on the IDX for the 2018-2022 period.

The data analysis technique in this research begins with analysis, descriptive statistics, factor analysis tests, panel data regression tests, panel data regression model estimation tests, selection of panel data regression estimates, then continues with classical assumption tests and in the final stage, namely hypothesis testing. Panel data regression measures the relationship between the dependent variable and the independent variable on combined cross-section and time-series information. In carrying out factor analysis tests, this research used the Statistical Package for the Social Science (SPSS) version 25 program, while in carrying out panel data regression techniques, this research used the E-views 13 application program.

4. Result and discussion

4.1. Selection of Panel Data Regression Estimates

There are three panel data regression estimation models. We will choose which model best suits the research objectives. There are three tests that can be used as tools in selecting a panel data regression model, namely the Chow test, Hausman test, and Lagrange multiplayer test. To test the regression equation to be estimated, the following test can be used.

4.2. Chow Test

Chow model testing is used to choose a better model between the common effect model and the fixed effect model. The results of the chow test are presented in Table 1.

Table 1 Test Chow

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.087009	(59.237)	0.0000
Cross-section Chi-square	330.902942	59	0.0000

Secondary Data, 2023

Based on the results of the Chow test in Table 5.29, it shows that the chi-square probability value is smaller than the significance value, namely 0.0000 < 0.05. So Ha is accepted and Ho is rejected, so the appropriate temporary regression model to be used in this research is the fixed effect model.

4.3. Hausman test

Hausman model testing is used to choose a better model between the random effect model and the fixed effect model. The results of the chow test are presented in Table 5.30.

Table 2 Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.494744	3	0.1390

Secondary Data, 2023

Based on the results of the Hausman test in Table 2, it shows that the chi-square probability value is greater than the significance value, namely 0.1390 < 0.05. So Ho is accepted and Ha is rejected, so the appropriate temporary regression model to be used in this research is the random effect model.

4.4. Lagrange Multipler Test

The Lagrange multipler test was used to select the best regression model used in this research, namely between the common effect model and the random effect model. The results of the Lagrange multiplayer test are presented in Table 3.

Table 3 Lagrange Multipler Test

F-statistic	63.76900	Prob. F(2.294)	0.0000
Obs*R-squared	90.76620	Prob. Chi-Square(2)	0.0000

Secondary Data, 2023

Based on the results of the Lagrange multipler test in Table 3, it shows that the probability value is less than the significance value, namely 0.0000 < 0.05. So Ha is accepted and Ho is rejected, so the appropriate regression model to be used in this research is the random effect model.

4.5. Panel Data Regression Analysis Test Results

Panel data regression is data from several of the same individuals observed over a certain period of time. Based on the model selection estimation test that has been carried out, the results show that the model that should be used is the random effect model (REM). The results of the panel data regression test with the random effect model (REM) are presented in Table 4 is 0.8689.

Table 4 Panel Data Regression Analysis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.016427	0.099417	0.165229	0.8689
X1	-0.081348	0.015513	-5.243842	0.0000
X2	-0.787572	0.022196	-35.48330	0.0000
X3	0.017765	0.032816	0.541356	0.5887

Secondary Data, 2023

Based on the results of panel data regression analysis in Table 4, the following regression equation can be obtained.

Yit = 0.016 - 0.081X1 - 0.787 X2 + 0.017 X3

The constant value (α) is 0.016, meaning that if the variable values for company reputation, management reputation and financial distress have no contribution (constant) to the dependent variable, then the dependent variable tax avoidance has a value of 0.016.

β1 = 0.081 if the company's reputation increases by 1 unit assuming other variables are constant, then tax avoidance will decrease by 0.081.

β2 = 0.787 if the management reputation variable as measured by experience increases by 1 unit assuming the other variables are constant, then tax avoidance will also decrease by 0.787.

β3 = 0.017 if the financial distress variable increases by 1 unit assuming other variables are constant, then tax avoidance will increased by 0.017.

4.6. Hypothesis testing

4.6.1. Model Feasibility Test

The model feasibility test is used to determine whether the independent variables together influence the dependent variable in a study (Ghozali, 2018). The R2 value in this research is presented in Table 5.

Table 5 Model Feasibility Test Results (F Test)

Prob(F-statistic)	0.000000

Secondary Data, 2023

Based on Table 5, the significance value or F is 0.00 < 0.05, so this research model can be said to be suitable for use.

4.6.2. Coefficient of Determination (R2)

The focus of the objective in testing the coefficient of determination (R2) is to measure how far the model's ability is to explain a dependent variable (Ghozali, 2018). The coefficient of determination in this research is seen through the value of the adjusted R2. Adjusted R2 is used when the independent variables in this research add up to more than one. The R2 value in this research is presented in Table 6 below.

Table 6 Coefficient of Determination Test Results (R2)

Adjusted R-squared	0.853917

Secondary Data, 2023

Based on Table 6, the Adj R2 value is 0.854, which means that 85.4% of the variation in changes in tax avoidance can be explained by the variables company reputation, management reputation and financial distress. So the remaining 14.6% is influenced by other variables outside the model.

4.7. Hypothesis Test (t Test)

Hypothesis testing (t test) is used to show how far the influence of an independent variable is in explaining the dependent variable (Ghozali, 2018). The real level used is 5%, so that if the hypothesis test results have a sig value $\leq$ 0.05, this means that the independent variable significantly influences the dependent variable. However, if the sig value is > 0.05 then the relationship between the independent variables does not significantly affect the dependent variable. The t test in this research is presented in Table 7 below.

Table 7 T-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.016427	0.099417	0.165229	0.8689
X1	-0.081348	0.015513	-5.243842	0.0000
X2	-0.787572	0.022196	-35.48330	0.0000
X3	0.017765	0.032816	0.541356	0.5887

Secondary Data, 2023

Based on the results of the hypothesis test in Table 7, the probability value for the company reputation variable shows a value of 0.000, which is smaller than the significant value of 0.05. Based on this, the first hypothesis which states that company reputation has a negative effect on tax avoidance can be accepted.

Based on the results of the hypothesis test in Table 7, the probability value of the management reputation variable when measured using the experience factor variable shows a value of 0.000, which is smaller than the significant value of 0.05. Based on this, the second hypothesis which states that management reputation has a negative effect on tax avoidance can be accepted.

Based on the results of the hypothesis test in Table 7, the probability value of the financial distress variable shows a value of 0.5887, which is greater than the significant value of 0.05. Based on this, the third hypothesis which states that financial distress has a positive effect on tax avoidance cannot be accepted or rejected because it has not been tested significantly.

5. Conclusion

The results of this research found that tax avoidance is seen as a practice that requires consideration regarding the benefits and costs obtained as a result of tax avoidance behavior for the company. This can be proven from the direction of the relationship formed between company reputation, management reputation and financial distress. This model can be used as additional consideration for investors when making investments. The results of this research can be a consideration for investors if they want to invest their capital in a company. With this research, it is hoped that investors can pay attention to the information provided by the company in making decisions when investing.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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