

Corporate Social Responsibility (CSR) Disclosure, Internationalization and Tax Avoidance: Evidence from Indonesia

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ABSTRACT

This research aims to explore the association between corporate social responsibility (CSR) disclosure, internationalization and tax avoidance of manufacturing companies in Indonesia during (2013-2015). The three-year-period was chosen to represent the last three years before the Global Reporting Initiative (GRI) guidelines, which are used to measure the CSR disclosure, transitioned to GRI Standards, which are more structured, flexible and dynamic. Under the GRI guidelines regime, we expected to document the associations among the three main variables before significant impacts of several events on reporting, such as the transition to new standards, the launch of Sustainable Development Goals (SDGs) and the implementation of tax amnesty in Indonesia in 2016. Empirical analyses were conducted on a sample comprising 153 firm-year observations. Relationships between CSR disclosure and tax avoidance, internationalization and tax avoidance and the moderating role of internationalization were examined using multiple regression analyses, whereas t-test analysis was used to find any significant differences in each association. The results indicated that CSR disclosure positively affects tax avoidance. Meanwhile, internationalization has no effect on tax avoidance and has no moderating role in the positive relationship between CSR disclosure and tax avoidance. This study is among the early research studies which provide evidence from Indonesia, as one of the G20 countries, investigating the associations among CSR disclosure, internationalization and tax avoidance, as well as the moderating role of internationalization, which has not been given much attention in the literature.

Keywords: Corporate social responsibility, Tax avoidance, Internationalization, Indonesia.

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الإفصاح عن المسؤولية الاجتماعية للشركات (CSR) والتدويل وتجنب الضرائب: أدلة من إندونيسيا

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ملخص

يهدف هذا البحث إلى استكشاف العلاقة بين الإفصاح عن المسؤولية الاجتماعية للشركات (CSR) والتدويل وتجنب الضرائب لشركات التصنيع في إندونيسيا خلال الفترة (2013-2015). وقد اختيرت فترة السنوات الثلاث لتمثيل السنوات الثلاث الأخيرة قبل أن تنتقل المبادئ التوجيهية لمبادرة الإبلاغ العالمية، التي استخدمت لقياس الكشف عن المسؤولية الاجتماعية للشركات، إلى معايير المبادرة العالمية للإبلاغ التي تنقسم بمزيد من التنظيم والمرونة والدينامية. وفي إطار نظام المبادئ التوجيهية لنظم المعلومات، توقعنا توثيق الارتباطات بين المتغيرات الرئيسية الثلاثة قبل حدوث آثار كبيرة لعدة أحداث على الإبلاغ، مثل الانتقال إلى معايير جديدة، وإطلاق أهداف التنمية المستدامة، وتنفيذ العفو الضريبي في إندونيسيا في عام 2016. وأجريت تحليلات تجريبية على عينة تتألف من 153 ملاحظة على أساس سنة ثابتة. وتم فحص العلاقات بين الكشف عن المسؤولية الاجتماعية للشركات وتجنب الضرائب وبين التدويل وتجنب الضرائب والدور المعدل للتدويل باستخدام تحليلات الانحدار المتعدد، في حين استخدم تحليل اختبار t لإيجاد الفروق في كل ارتباط. وتشير النتائج إلى أن الكشف عن المسؤولية الاجتماعية للشركات يؤثر بشكل إيجابي على التجنب الضريبي، وفي الوقت نفسه، لا يؤثر التدويل على التجنب الضريبي، وليس له دور معدل في العلاقة الإيجابية بين الكشف عن المسؤولية الاجتماعية للشركات وتجنب الضرائب. والجدير بالذكر أن هذه الدراسة هي من بين البحوث الأولى التي تقدم أدلة من إندونيسيا، باعتبارها واحدة من بلدان مجموعة العشرين، والتي تحقق في الارتباطات بين الإفصاح عن المسؤولية الاجتماعية للشركات، والتدويل، وتجنب الضرائب، فضلاً عن الدور المعدل للتدويل الذي لم يول اهتماماً كبيراً في الأدبيات.

الكلمات الدالة: المسؤولية الاجتماعية للشركات، تجنب الضرائب، التدويل، إندونيسيا.

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1. INTRODUCTION

Tax state revenue is the main source of revenue in each country, including Indonesia. This revenue will continue to increase to boost economic growth and development. Many methods have been adopted by the Indonesian government to boost its tax revenue; for example, the reduction of the corporate income tax rate in 2009, the enactment of tax amnesty and the reduction of the final income tax rate on asset revaluation in 2016. However, the government's objectives are often contrary to companies' objectives. Companies continue to avoid tax payments (Sikka, 2010) with the purpose to increase shareholder value (Hanlon & Heitzman, 2010) and management welfare (Armstrong et al., 2015). With increasingly accessible tax havens, communication innovations and capital mobility, previous studies have proven that all those things provide opportunities for companies to further avoid taxes (Rego, 2003; Christensen & Murphy, 2004; Wilson, 2009). With the utilization of tax havens, companies can obtain benefits from legal, financial and tax treatment aspects (ATO, 2004; OECD, 2006). Globalization can also increase the level of foreign exposure of companies and it is proven that companies with high foreign exposure tend to have lower effective tax rates (ETRs) (Rego, 2003; Mills & Newberry, 2004). From the above description, companies can utilize it to execute tax-avoidance strategies by benefiting from different tax rates among taxation jurisdictions.

The literature on tax avoidance has been much developed. Growing issues in recent years are the link between CSR and tax avoidance with mixed and inconsistent results. Lanis and Richardson (2012, 2015) found a negative relationship between CSR and tax avoidance. This was supported by Hoi et al. (2013), who showed that firms with excessive irresponsible CSR activities are more likely to avoid taxes. However, this result contrasts findings by Davis et al. (2013) and Garcia (2014), showing that CSR has a negative relationship with ETRs and has a positive relationship with tax lobbying. This issue will continue to be

relevant for discussion, because income taxes are used to fund not only the development of society and its stakeholders, but also numerous services demanded by organizations, such as legal systems and oversight (Avi-Yonah, 2008).

These inconsistent and mixed results are also found in Indonesia. Pradipta and Supriyadi (2015) found that CSR positively affects tax avoidance. Meanwhile, Widhaningrum (2013) found that CSR negatively affects tax avoidance and concluded that companies continue to engage in CSR activities despite experiencing fiscal losses.

This study investigates the relationship between CSR and tax avoidance. It also examines whether internationalization moderates this relationship. Previous studies have shown that more internationalized firms engage in more CSR, but research has also found that globalization and tax avoidance are positively related. Strater (2016) found that internationalization positively moderates or strengthens the positive relationship between CSR and tax avoidance. The contradictive role of internationalization; that is, not only increasing CSR, but also tax avoidance, poses the question of what ethical roles are perceived by companies to be implemented in society. Increased CSR in companies might represent the need to legitimize their business and compensate for their "unethical" tax avoidance. This seemingly spurious relationship motivated us to investigate the issue in an emerging-country context, Indonesia, where extensive globalization has occurred and brought increased demand for CSR and transparency of activities in company reports (Martínez-Ferrero & Frías-Aceituno, 2015). Large and multinational companies in the country are increasingly reporting CSR activities based on international reporting standards. The results of this study are expected to provide empirical evidence on the role of internationalization in the dissemination of

environmental and social responsibility of companies (positive side) and in enhancing tax-avoidance practices (negative side).

This study is divided into several sections. Section 1 discusses the motivations, questions and objectives of the study. Section 2 provides an overview of the theories used, studies supporting this research and the development of hypotheses. Section 3 discusses in more detail the research methodology, including methods, data sources, research models and data-analysis techniques. Section 4 analyzes the results. The final section discusses the conclusions that describe the objectives and overall results, as well as limitations and suggestions for future research.

2. Literature Review

2.1. Theoretical Perspective

Motivations to provide CSR disclosure can be explained by the agency theory, legitimacy theory and signaling theory. From the agency theory point of view (Jensen & Meckling, 1976), the conflict of interests relevant to the topic of this study was between management and taxation authorities as a representation of the government. This conflict occurs, because management tries to avoid paying taxes, while the government wants to maximize tax revenues from corporations. CSR can be done as a means of tax avoidance by obscuring socially irresponsible activities and increasing socially responsible ones either in the social or the environmental aspects.

Legitimacy theory states that in carrying out social responsibilities, companies need to provide information about CSR as part of a dialogue with the community (Gray et al., 1995). Despite the fact that companies have carried out their social responsibilities as expected by communities, their legitimacy may be threatened if they do not make convincing disclosures (Newson & Deegan, 2002). Therefore, managers, as corporate representatives, need to create good and correct CSR disclosure and meet several aspects, such as environmental, social and ethical ones (Lanis & Richardson, 2013).

Signaling theory views CSR reporting as an effort to reduce information asymmetry between stakeholders. Management can reduce information asymmetry by providing signals to stakeholders, such as reliable information that will reduce uncertainty about the prospects of the company. One form of such information is through the disclosure made by the company. This information will influence the decision-making process of the stakeholder. If the announcement contains positive value, it is expected that the market will react immediately. One positive information is the disclosure of CSR activities. This information is additional and voluntary in nature as a signal to attract existing and/or potential investors, as well as to improve company reputation and value. In addition, CSR disclosure is also a signal to other investors and stakeholders that the company actively participates in CSR practices and shows that the market value of the company is in a good position.

Business Ethics Theory

Apart from the “positive theory” used to explain the association between CSR and tax avoidance as presented in the previous section, the “normative” theory on ethics suggests that attitudes toward the perceived importance of corporate ethics and social responsibility will have an important influence on ethical decision-making processes, including tax-avoidance issues. Shafer and Simmons (2008) used Machiavellianism to measure a person’s general tendency to adopt manipulative or deceitful tactics that play an important role in the rationalization of aggressive tax-avoidance schemes. The results show that Machiavellianism affects tax advisors’ perceptions of the importance of corporate ethics and social responsibility, which then affect their professional judgments toward aggressive tax minimization. This indicated that high Machiavellians are more likely to support the traditional “stockholder

view” of corporate responsibility rather than the “stakeholder view” (i.e., corporations are perceived to have little responsibility beyond maximizing their profits and are not perceived to have responsibilities to a broader range of potential stakeholders). Since CSR practices focus more on stakeholders, suggestions from Marens (2007) are worth considering, including returning to the Rawlsian approach by using the social-contract concept to define ethical business responsibilities and understand the ethics of management decision-making. In this view, CSR is perceived as a social contract that has to be implemented by companies to their stakeholders.

Corporate Social Responsibility (CSR)

The definition of CSR according to the World Business Council for Sustainable Development (WBCSD) is a business commitment to providing contributions for sustainable economic development through the interaction of employees or company representatives with local communities to create a better-quality life. Zaidi (2013), in Ambadar (2008), mentioned that in its development, the CSR paradigm has shifted from corporate charity to corporate philanthropy and now to corporate citizenship. Corporate charity is the implementation of CSR based on religious encouragement for charity, corporate philanthropy is the implementation of CSR based on humanitarian encouragement derived from norms and ethics and corporate citizenship is the implementation of CSR based on the encouragement to be involved in realizing social justice. There are at least four benefits for a company when conducting CSR activities: (1) improving the company’s positive image, (2) creating an ethical framework that will assist the company in dealing with employment demand from the community, (3) gaining respect and recognition from communities and (4) smoothing the company operations safely and avoiding the disturbance that comes from the surrounding environment. CSR activities are described in annual reports or corporate sustainability reports which cover three aspects of CSR—economic,

environmental and social—known as triple-bottom-line reporting (Darwin, 2006). Previous research has identified several determinants of CSR reporting, such as family and foreign ownership (Al Nashef & Saaydah, 2021) as well as board characteristics (Alia & Mardawi, 2021).

CSR practice in Indonesia has been regulated in Law Number 40 of 2007, which enforces companies to carry out social and environmental responsibility activities. In addition, the law stipulates that a limited-liability company is required to report the implementation of social and environmental responsibilities in the annual report.

Tax Avoidance

There is no uniform definition of tax avoidance (Hanlon & Heitzman, 2010; Dumbar et al., 2010; Lietz, 2014). Tax avoidance is any activity performed by the company to reduce the explicit tax imposed on the company (Lietz, 2014). Richardson et al. (2016) defined tax avoidance as the downward management of taxable income through tax planning, including both legal and illegal activities (Frank et al., 2009; Chen et al., 2010). This is different from Sikka’s (2010) definition, which states that tax avoidance is legal, while tax evasion is illegal. It is important to note that corporate involvement in tax avoidance does not necessarily imply that the company is doing something unlawful, as there are some provisions in the tax rules that allow or encourage companies to lower their taxes.

2.2 Hypotheses Development

2.2.1 The Effect of CSR Disclosure on Tax Evasion

CSR activities can be divided into three categories, which are economic, environmental and social. Economic activity ensures that the organization can create sustainable growth and create a high return on investment by efficiently allocating its resources. Social and environmental aspects are closely related to

the company's reputation (Babiak & Trendafilova, 2011) as important attributes in encouraging company success (Vonwil & Wreschniok, 2009). Social and environmental aspects are more exposed to scrutiny because of their large visibilities and the effects of these activities that can be directly observed. For example, social activities ensure that the organization obtains and maintains the trust and loyalty of workers, consumers and the public by focusing on human rights, the quality of working environments and training. Environmental activities include waste reduction, greenhouse gas emissions and water use (Thomas Reuters, 2016). In Indonesia, there are institutions and regulations that protect the abovementioned stakeholders, such as the Labor Law and Consumer Protection Law. For the environment, there is the Law on Life Economic Management and Protection. Starter (2016) mentioned that to maintain its reputation, a company will be incentivized for CSR activities, especially social and environmental. Furthermore, CSR is a method of enhancing a company's reputation as a good corporate citizen, which will mitigate publicity and the negative reactions of stakeholders either by reducing the number of irresponsible activities or increasing responsible CSR activities (Minor & Morgan, 2011; Godfrey, 2005). In the context of this research, which also refers to Starter (2016), companies will increase CSR activities that are responsible (socially and environmentally) to hide or mask socially irresponsible activities, such as tax avoidance. Starter (2016) found that social activities had a positive effect on tax avoidance, but found no positive association for environmental activities.

In Indonesia, the costs incurred from CSR activities can act as deductible expenses. Davis et al. (2013) found that CSR has a negative relationship with the ETR for five years, while Garcia (2014) found that CSR has a positive relationship with tax lobbying effectiveness as measured by lower ETR. From the above description, the authors suspect that social and environmental CSR disclosure positively affects tax avoidance.

Based on the above discussion, the first hypothesis is as follows:

H1: CSR disclosure positively affects tax avoidance.

2.2.2 The Effect of Internationalization on Tax Avoidance

Globalization, innovation in communication and capital mobility have played their roles in enabling companies to engage more in tax avoidance (Rego, 2003; Christensen and Murphy, 2004; Wilson, 2009). Companies that operate in domestic and foreign markets have greater opportunities to utilize differences in tax rates among taxation jurisdictions to maximize corporate profits (Miller & Modigliani, 1963). The more extensive the foreign activities by companies, the more likely they are to avoid taxes (Dyrenge et al., 2008; Rego, 2003), because companies operating in foreign markets have opportunities especially related to tax avoidance that are not open to those operating only in the domestic market.

Based on this description, the second hypothesis is as follows:

H2: Internationalization positively affects tax avoidance.

2.2.3 The Moderating Role of Internationalization in the Positive Effect of CSR Disclosure on Tax Avoidance

Starter (2016) found that internationalization has a positive moderating role in the positive relationship between CSR and tax avoidance. This is not in line with Kercher (2007), who said that internationalized companies face pressures to comply with various standards, principles and guidelines issued by international regulatory bodies, such as the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD). Allowing opportunities to avoid taxes is offset by visibility and the possibility of audit by the government; in other

words, internationalization will weaken the positive effect of CSR on tax avoidance. Starter (2016) argued that the international governing agency does not place much emphasis on CSR policies, thus weakening the offsetting effect and increasing opportunities to avoid taxes. This is relevant to conditions in Indonesia, where there are no standards or rules that place more emphasis on internationalized companies to engage more in CSR activities. Thus, internationalized companies are found to have lower ETRs, which means the more internationalized the firms, the more tax avoidance committed by them. From this description, the third hypothesis is as follows:

H3: Internationalization moderates the positive effect of CSR disclosure on tax avoidance.

3 Research Method

This study follows a quantitative approach. The units of analysis are manufacturing companies listed in the Indonesia Stock Exchange from 2013 to 2015. The three-year research period was chosen to exclude the bias that may occur from several significant events. First, in 2016, the GRI guidelines, which were used to measure CSR disclosure, transitioned to GRI standards, which are more structured, flexible and dynamic. Second, in mid-2015, the SDGs were launched and

may have a significant impact on corporate reporting when a company reports its involvement with SDGs through CSR activities. Lastly, in 2016, the first volume of tax amnesty was implemented in Indonesia, which can affect tax avoidance. The sources of data were financial statements and annual reports obtained from www.idx.co.id. Content analysis was conducted to obtain the value of CSR disclosure with NVivo 11, followed by regression with other variables using Stata 12.

The population was composed of manufacturing companies listed in the Indonesia Stock Exchange for the period (2013-2015). Sampling technique is purposive sampling with the following criteria: (1) companies with December 31 fiscal-year end, (2) companies that did not experience fiscal or accounting loss so that ETR was not distorted (Richardson & Lanis, 2007; Zimmerman, 2003), (3) companies with ETR values less than 1 to prevent problems in model estimation (Gupta & Newberry, 1997), (4) companies that have foreign sales data and (5) companies that have data needed in this research. From these criteria, a sample of 153 firm-year observations was obtained, as shown in Table 1.

Table (1)
Sample-selection results

Criteria	2013	2014	2015
Manufacturing companies listed in the Indonesia Stock Exchange	135	140	137
Companies with fiscal or accounting losses	32	27	40
Companies with ETR > 1	9	11	6
Companies that do not export	41	45	42
Companies with incomplete data	0	3	3
Final Sample	53	54	46
Total			153

The model used in this research was a multiple-regression model with a quasi-moderator of internationalization. A quasi-moderating variable affects the

relationship between two variables (CSR and tax avoidance) and, at the same time, is independently associated with the dependent variable (tax avoidance).

This is different from a pure moderator type that only affects the relationship between the dependent and independent variables, but is not independently associated with the

dependent variable. The quasi-moderating model is as follows:

$$ETR_{it} = \alpha_0 + \alpha_1 CSR_{it} + \alpha_2 INTER_{it} + \alpha_3 INTER * CSR_{it} + \alpha_4 SIZE_{it} + \alpha_5 LEV_{it} + \alpha_6 ROA_{it} + \alpha_7 CAPINT_{it} + \alpha_8 INVINT_{it} + \varepsilon_{it}$$

where:

ETR_{it} : tax avoidance of firm i in year t

CSR_{it} : CSR disclosure of firm i in year t

$INTER_{it}$: internationalization of firm i in year t

$SIZE_{it}$: company's size of firm i in year t

LEV_{it} : company's debt ratio of firm i in year t

ROA_{it} : company profitability of firm i in year t

$CAPINT_{it}$: company capital intensity of firm i in year t

$INVINT_{it}$: company inventory intensity of firm i in year t

The dependent variable in the study was tax avoidance measured by the ETR, which is the most commonly used proxy in tax-avoidance research (Hanlon & Heitzman, 2010). ETR is calculated by dividing the total tax expense by pretax income.

The main independent variables were CSR disclosure, internationalization and the interaction between CSR disclosure and internationalization. CSR disclosure was measured using the coverage ratio of certain keywords in annual reports. The keywords used, referred to Verbeeten et al. (2016), are derived from the 2010 version of the GRI

(Table 2). The GRI covered all aspects of CSR, including economic, environmental and social ones. Table 2 shows 32 related environmental and social keywords

The internationalization variable was measured by the foreign sales ratio in terms of total sales. This proxy has been widely used in measuring internationalization (Strater, 2016) and foreign exposure (Christiana & Martani, 2016).

There were six control variables used in this study. These were chosen, because they were often used in tax-avoidance research (Newberry & Gupta, 1997; Taylor & Richardson, 2012, 2014; Huseynov & Klamm, 2012). Company size was measured by the natural logarithm of total assets. Leverage was measured by the ratio of total debt to total assets. Company profitability was measured by the ratio of pretax income to total assets. Capital intensity was measured by the ratio of net property, plants and equipment (PPE) to total assets. Inventory intensity was measured by the ratio of total inventories to total assets.

Table (2)
List of keywords of CSR disclosure

Environmental	Social
<i>Recycled</i> (daur ulang)	<i>Employment</i> (pekerjaan)
<i>Energy consumption</i> (konsumsi energy)	<i>Employee turnover</i> (pergantian karyawan)
<i>Biodiversity</i> (keanekaragaman hayati)	<i>Collective bargaining</i> (perundingan esehat)
<i>Emissions</i> (emisi)	<i>Collective agreements</i> (persetujuan esehat)
<i>Effluents</i> (limbah)	<i>Occupational health</i> (keselamatan kerja)
<i>Waste</i> (sampah)	<i>Occupational safety</i> (keamanan kerja)
<i>Spills</i> (tumpahan)	<i>Training</i> (pelatihan)

<i>Environmental impacts</i> (dampak lingkungan)	<i>Diversity</i> (keanekaragaman/perbedaan) <i>Equal opportunities</i> (kesempatan sama) <i>Human rights</i> (hak asasi manusia) <i>Discrimination</i> (diskriminasi) <i>Freedom of association</i> (kebebasan berserikat) <i>Child labor</i> (pekerja anak-anak/ di bawah umur) <i>Forced labor</i> (kerja paksa) <i>Compulsory labor</i> (kerja wajib) <i>Community</i> (komunitas) <i>Corruption</i> (korupsi) <i>Public policy</i> (kebijakan eseha) <i>Compliance</i> (kepatuhan) <i>Fines</i> (denda) <i>Sanctions</i> (sanksi) <i>Product responsibility</i> (tanggung jawab produk) <i>Customer health</i> (esehatan pelanggan) <i>Customer safety</i> (keamanan pelanggan)
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Source: Verbeeten et al. (2016).

4 Results

4.1 Descriptive Statistics

Table 3 presents the descriptive statistics results. The average ETR for the three years is 32.7%, which is 7.7% higher than the corporate tax rate in Indonesia. However, the median is 26.4%, which means that there are some companies with extremely high ETRs over those for the three years, which caused the average ETR to move to the right. The maximum ETRs is reported by PT Star Petrochem Tbk in 2014, which reported tax expenses of 94.7% of pretax income. The lowest ETR is owned by PT Indah Kiat Pulp & Paper Tbk in 2014, which reported tax expenses of only 0.1% of the pretax income.

The average coverage ratio of CSR disclosure is 0.3%. This means that, for example, out of 1,000 words in the annual report, there are only three keywords from the total list of keywords in the report. This ratio is quite low considering the list of keywords made based on the 2010 GRI framework. The maximum coverage ratio is obtained

by PT Unilever Indonesia Tbk in 2014 with a value of 1%, while the minimum coverage ratio (0.02%) is obtained by Pyridam Farma Tbk in 2014. The high coverage ratio for PT Unilever Indonesia is consistent with its numerous awards, including ranking third in the Sustainability Reporting Award organized by the National Center for Sustainability Reporting (NCSR).

The average foreign sales ratio is 21.1% with a maximum of 98.27% by PT Sat Nusapersada Tbk in 2013 and a minimum of 0.04% by PT Delta Djakarta Tbk in 2014. The average and median are much different, which means that there are some companies with extremely high foreign sales, causing the average to move to the right. A small median value indicates that manufacturing firms in Indonesia are still focused on domestic operations, with the proportion of export sales to total sales at only 9.5%.

Table (3)
Descriptive statistics

Variable	Mean	Median	Standard Deviation	Maximum	Minimum
ETR	0.327	0.264	0.164	0.947	0.001
CSR	0.003	0.003	0.001	0.010	0.0002
INTER	0.211	0.095	0.241	0.9827	0.0004
SIZE (in billion rupiah)	9.593.1	2.270.9	18.131.4	103.162	104
LEV	0.467	0.443	0.206	1.310	0.098
ROA	0.108	0.060	0.133	0.884	0.0001
CAPINT	0.371	0.343	0.183	0.843	0.0002
INVINT	0.216	0.188	0.124	0.646	0.031
ETR: Tax avoidance; CSR: CSR disclosure; INTER: Internationalization; SIZE: Company size; LEV: Debt-to-asset ratio; ROA: Profitability; CAPINT: Capital intensity; INVINT: Inventory intensity.					

Table 4 presents the regression results. Prior to running the fixed-effect panel regression, we checked the classical assumptions to meet the best linear unbiased estimator (BLUE) requirements and found no problems of multicollinearity and heteroscedasticity. We also conducted the Chow test and Hausman test and determined that the fixed-effect model is the most appropriate one. According to Table 4, CSR disclosure positively affects tax avoidance as

shown by negative ETR; internationalization has no effect on tax avoidance and no moderating effect on the positive association between CSR disclosure and tax avoidance. The control variable that affects tax avoidance is only profitability with a positive effect. These results will be discussed in the next section.

Table (4)
Regression results

Research Model: $ETR_{it} = \alpha_0 + \alpha_1 CSR_{it} + \alpha_2 INTER_{it} + \alpha_3 INTER * CSR_{it} + \alpha_4 SIZE_{it} + \alpha_5 LEV_{it} + \alpha_6 ROA_{it} + \alpha_7 CAPINT_{it} + \alpha_8 INVINT_{it} + \varepsilon_{it}$			
Variabel	Prediksi	Koefisien	Probabilitas
C		0.399686	0.000***
CSR	- (H1)	-10.05702	0.082*
INTER	- (H2)	0.1495789	0.117
INTER*CSR	- (H3)	-29.40159	0.124
SIZE	-	0.0037697	0.286
LEV	-	0.0111412	0.446
ROA	-	-0.2792659	0.015**
CAPINT	-	0.0753282	0.182
INVINT	-	-0.1443249	0.178

N	153
Adj. R ²	19.43%
Prob. F-stat	0.02**
ETR: Tax avoidance; CSR: CSR disclosure; INTER: Internationalization; SIZE: Company size; LEV: Debt-to-asset ratio; ROA: Profitability; CAPINT: Capital intensity; INVINT: Inventory intensity. ***significant at $\alpha = 1\%$. **significant at $\alpha = 5\%$. *significant at $\alpha = 10\%$.	

5 Discussion

5.1 The Effect of CSR Disclosure on Tax Avoidance

Regression results are shown in Table 4, suggesting that CSR disclosure positively affects tax avoidance indicated by low (negative) ETR values; hence, H1 is supported. The higher the CSR disclosure, the lower the ETR. This result confirms previous findings by Starter (2016), Davis et al. (2013) and Garcia (2014). Disclosure of social and environmental CSR activities becomes an effort to increase the socially responsible activities of a company, which will raise its reputation. Increasing socially responsible activities is then expected to obscure socially irresponsible activities, such as tax avoidance (Starter, 2016).

These results also confirm the agency and legitimacy theories, indicating that companies with high CSR level intend to cover irresponsible activities by management; in other words, CSR is conducted by the company with the aim to cover up unethical behaviors that exist in the company.

5.2 The Effect of Internationalization on Tax Avoidance

According to Table 4, internationalization has no effect on tax avoidance; thus, H2 is not supported. This may be because Indonesian companies are still focused on their domestic operations, as the average proportion of their foreign sales is still quite low at only 9.5% of total sales. Christiana and Martani (2016) mentioned that export sales by Indonesian companies are mostly still in the form of third-party transactions and are not in a transfer form to lower the tax burden in the group. This is consistent with Indonesia's export growth, which continues to decline every year

(Hanna, 2016). This low export value is influenced by external factors, such as government policy and social, cultural and political conditions, as well as internal factors, such as corporate characteristics and strategy (Anas et al., 2005).

5.3 The Moderating Role of Internationalization in the Positive Effect of CSR Disclosure on Tax Avoidance

Internationalization does not moderate the positive influence of CSR on tax avoidance; therefore, H3 is not supported. This is closely related to the previous H2 result that internationalization has no effect on tax avoidance. The conditions of manufacturing companies in Indonesia that are still focused on domestic markets and the weak pressures from stakeholders and international standard setters can be contributing factors to this result. Starter (2016) also found that internationalization does not moderate the CSR–environment relationship with tax avoidance. According to Starter (2016), the low pressure of stakeholders and the ease of transferring CSR environment policies across borders lead to no differences in the CSR scores of national and multinational corporations.

6 Conclusion

This study aimed to empirically test the effect of CSR disclosure on tax avoidance with internationalization as a moderating variable. An

analysis of 153 firm-year observations among manufacturing companies listed in the Indonesia Stock Exchange from 2013 to 2015 found that CSR disclosure has a positive effect on tax avoidance. However, internationalization has no effect on tax avoidance and no moderating role in the positive association between CSR disclosure and tax avoidance.

The results have theoretical as well as practical implications. Among the theoretical implications of this research is that it extends the literature on CSR, internationalization and tax avoidance in an emerging-country context, where the impact of internationalization should be significant. The results that show no impact of internationalization on tax avoidance and on the association between CSR disclosure and tax avoidance add insights to studies that found that companies make separate decisions on tax avoidance and CSR disclosure regardless of their relations with other companies in other countries.

This research has several practical implications for various parties. For the government as a regulator, these results can be used as inputs to formulate policies and rules to limit the opportunistic behaviors of firms to avoid taxes; for example, by requiring them to disclose their tax-planning and tax-management strategies. With more disclosures, investors can find out whether CSR activities conducted by the company are indeed the embodiment of corporate citizenship or simply a tool to avoid taxes. For shareholders and other stakeholders, these findings can illustrate that companies which undertake and disclose CSR do not always aim to signal, gain legitimacy or satisfy stakeholders, but there is the possibility that companies are conducting CSR

to have lower tax payments. The implication for investors is to enhance this awareness so that they can make wise decisions on investing their funds in ethical companies that support sustainability in the form of CSR and compliance with tax regulations.

This research has some limitations that can be further investigated. First, the measurement of tax avoidance only used one proxy, which is ETR. Future research may use other tax-avoidance measures, such as book tax difference (BTD). Second, the sample was limited to manufacturing companies in Indonesia from 2013 to 2015 that did foreign sales; thus, the sample size was quite small at only 153 firm-year observations. Subsequent research can add companies from other industries that have foreign sales with more years so that the sample size becomes wider and generalizability can be achieved. Third, the measurement of internationalization only used the foreign sales ratio. Future research can explore foreign segment disclosure in the notes to financial statements. Fourth, CSR disclosure measurement is referred to Verbateen (2016) by screening certain words or phrases and calculating their coverage ratio in annual reports. Future studies can use other measures, such as content analysis referring to GRI guidelines. Fifth, since this is the first and initial study in Indonesia, future research can use this topic to validate the consistency of the results and further investigate the mechanisms employed by companies to avoid their tax obligations.

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