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Does corporate social responsibility moderate the effect of earnings performance and institutional ownership on corporate tax avoidance?

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Abstract

Research aims: This study examines the role of corporate social responsibility in moderating the effect of earnings performance and institutional ownership on corporate tax avoidance of companies in the Investors 33 index between the 2018-2022 period.

Design/Methodology/Approach: This study developed and estimated two regression models with panel data of 165 observations. These models were estimated by the random effect estimator.

Research findings: This study found that corporate social responsibility strengthens the negative effect of earning performance on corporate tax avoidance. Companies with high earnings performance and those more socially responsible are likely more compliant in paying taxes. It confirms the corporate culture theory in Indonesian companies with relatively high share performance. On the other hand, this study also uncovered that corporate social responsibility increases the positive effect of institutional ownership on corporate tax avoidance. The large percentage of institutional ownership balanced by more corporate social responsibility activities could trigger companies to engage in more significant tax avoidance. These findings indicate that institutional investors of 33 companies in the investors index are more oriented on returns than company reputation.

Theoretical contribution/Originality: As far as known, this study is the first to explain the moderating role of corporate social responsibility on the effect of earnings performance and institutional ownership on corporate tax avoidance in the context of companies with high share performance.

Practitioner/Policy implication: This study urges the government to supervise the corporate social responsibility activities issued by companies to ensure that they are not generated as a corporate tax avoidance motive .

Research limitation/Implication: This study did not check for possible bias caused by outlier data. This study also did not control how institutional investors are represented on the board of commissioners, so the effect of IO tends to be difficult to explain based on this perspective.

Keywords: Corporate Tax Avoidance; Corporate Social Responsibility; Earnings Performance; Institutional Ownership

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Introduction

Indonesia's low tax ratio remains a problem that could hinder Indonesia's achievement of becoming a developed country in 2045. The Ministry of Finance of the Republic of Indonesia noted that Indonesia's tax ratio in 2023 was only 10.21%. This value is still left behind compared to the tax ratio in Southeast Asian countries, such as Vietnam with 11.6%, Thailand with 16%, and Cambodia with 18%. One of the causes behind this low tax

ratio is the potential tax losses caused by tax avoidance. Indonesia's average year loss due to tax avoidance reached 69 trillion rupiah, or around 3.2% of the total state tax revenue in 2023 (Putra & Rahayu, 2023). Thus, scholars still pay great attention to the corporate tax avoidance (CTA) phenomenon until now.

Agency theory (Jensen & Meckling, 1976) indicates that one of the variables that may affect CTA is the company's earnings performance (EP). Based on this theoretical perspective, higher company earnings would increase tax avoidance due to the agent's compensation motive. Agency theory also indicates that opportunistic behavior from agents will trigger CTA by arranging complex transactions to pursue their self-interests (Khuong et al., 2020). Besides, high CTA from an agency theory perspective can also occur due to information asymmetry between agents (in this case, company management), principals (investors), and the government as tax policymakers (Suripto, 2021). In this context, investors and the government may have less information regarding corporate taxation than agents. As a result, agents take advantage of regulatory loopholes by avoiding taxes.

Several studies, such as Kim and Im (2017), Jati et al. (2019), Ernawati et al. (2021), Irmaslian et al. (2021), Jannah et al. (2022), and Hamilah et al. (2023), have tested agency theory relevancy in the context of the effect of EP on CTA. They found a negative impact of EP on CTA. Nevertheless, the effect of EP on CTA is inconsistent because several other studies, including Cahyono et al. (2016), Permata et al. (2018), and Umar et al. (2021), found no effect of EP on CTA.

Scholars have also employed the agency theory to examine the effect of institutional ownership (IO) on CTA. From the agency theory perspective, institutional investor participation could affect a company's governance structure and taxation decisions to minimize agency conflicts (Jiang et al., 2020). Therefore, the higher the IO, the better the company's corporate governance will be in reducing the occurrence of CTA. In other words, agency theory indicates that IO could reduce CTA. Several studies, such as Arianti (2020), Darsani and Sukartha (2021), and Chairunesia (2023), uncovered that IO reduced CTA. However, this hypothesis was refuted by several other studies, including Khan et al. (2017), Fauzan et al. (2021), and Eskandar and Ebrahimi (2020), which found that IO increases CTA. Some other studies, for instance, Ardillah and Halim (2022), found no effect of IO on CTA.

Corporate social responsibility (CSR) may explain the heterogeneity between studies regarding the influence of EP and IO on CTA. The amount of the CSR costs incurred by the company depends on conditions of uncertainty. According to the legitimacy theory by Dowling and Pfeffer (1975), companies need to be socially responsible to gain legitimacy from the surrounding environment. This legitimacy is essential to maintain company sustainability. Thus, the company needs to spend more on CSR activities if there is intense pressure or encouragement from the social environment regarding social responsibility.
The level of a company's CSR activities potentially changes the relationship pattern between EP and IO towards CTA. As an illustration, the positive effect of EP on CTA may turn negative due to CSR activities. Companies with high EP and CSR activities will

probably try to maintain their reputation so that they do not avoid tax, as explained by the corporate culture theory Kreps (1990). On the other hand, the negative effect of EP on CTA may also change to positive due to high CSR activities because companies need to divert budgets from high earnings into CSR activities.

Likewise, the effect of IO on CTA may be strengthened, weakened, or even changed direction by CSR activities. For instance, following the assumption of agency theory, the IO initially reduced CTA due to the effectiveness of institutional investors' involvement in the company's corporate governance. However, when the company has to spend more on its CSR budget, management may consider tax avoidance to continue providing a high return level for investors.

In addition, CSR may also affect CTA directly. Risk management theory (Godfrey, 2005) predicted that CSR would affect CTA positively. This theory supported the smoke-and-mirrors phenomenon, where companies issue a lot of CSRs to cover up their tax avoidance actions. Several researchers, including Lanis and Richardson (2013), Dewi and Gunawan (2019), Liu and Lee (2019), and Mao (2019), posit that CSR triggers an increase in corporate tax avoidance activities.

Therefore, this study seeks to examine the role of CSR in moderating the effect of EP and IO on CTA. The use of CSR as a moderating variable in this context is a novelty offered by this study. Thus, by utilizing data from 33 companies in the Investor 33 index magazine, this study contributes to the literature regarding CSR's role in moderating the effect of EP and IO on CTA.

Literature Review and Hypotheses Development

Scholars often used agency theory (Jensen & Meckling, 1976) to explain the effect of EP on CTA. From an agency theory perspective, the larger the size of a company, the greater the agency costs it must bear. Agency costs are needed to minimize agency conflicts between the agent and the principal. Agents tend to act in their self-interests because of information asymmetry. Higher companies' EP would trigger more significant agency conflict, leading them to tax avoidance by agents to obtain specific compensation. On that basis, the high EP of a company is considered to be able to increase CTA. This hypothesis has been successfully proven by several studies, including Kim and Im (2017), Dewinta and Setiawan (2016), Darmawan and Sukartha (2014), Widyastuti et al. (2022), Jati et al. (2019), Mukin and Oktari (2019), Marsahala et al. (2020), Ernawati et al. (2021), Irmaslian et al. (2021), Jannah et al. (2022), Darsani and Sukartha (2021), and Hamilah et al. (2023).

However, this hypothesis does not apply to companies with adequate good corporate governance (GCG). GCG is part of agency costs, which can minimize information asymmetry and the probability of agents acting fraudulently. Several other studies, including Wahyuni et al. (2017), Mulyati et al. (2019), Sunarto et al. (2021), Cahyono et al. (2016), Permata et al. (2018), and Umar et al. (2021), found no effect of EP on CTA. Instead, companies with high EP accompanied by adequate GCG could minimize tax

avoidance. Several studies, such as Kurniasih and Sari (2013), Annisa et al. (2017), and Maharani and Suardana (2014), found that EP proxied by ROA could reduce CTA.

The corporate culture theory (Kreps, 1990) could explain the negative effect of EP on CTA. Based on this theory, all management activities and decision-making would be based on a corporate culture that seeks to maintain 'correct' actions. The stronger the corporate culture in the company, the more management will be hindered from fraudulent and unethical actions. In contrast, one of the characteristics of a solid corporate culture is a high EP. Thus, a high EP company may provide adequate compensation to management to minimize fraudulent and unethical actions, one of which is CTA. This assumption is strengthened by the stewardship theory (Donaldson & Davis, 1991). From the stewardship theory perspective, management or agents act as stewards who do not prioritize profit or personal interests but act to achieve company goals (Keay, 2017). In this context, a theoretical contradiction exists between agency theory, corporate culture, and stewardship theory in explaining the direction of EP's effect on CTA.

Nevertheless, it is suspected that agency theory is more relevant in the context of this study. The reason is that several companies in this study's sample were State-Owned Enterprises (BUMN). GCG mechanisms in state-owned companies are often ineffective due to the practice of political compensation in selecting independent state-owned commissioners. Therefore, this study suspects that:

H_1: *Earnings performance affects corporate tax avoidance positively.*

Agency theory postulates that the GCG mechanism would minimize the CTA. One aspect that plays an essential role in the GCG mechanism is the ownership structure (Lozano et al., 2016). In this context, IO is a GCG mechanism that is considered to affect the CTA significantly. High IO is considered to improve the quality of GCG to minimize the occurrence of CTA (Jiang et al., 2020). From this perspective, IO may reduce CTA. Several studies, including Arianti (2020), Darsani and Sukartha (2021), and Chairunesia (2023), have succeeded in proving this hypothesis. Their study states that IO can be a balancing force that makes GCG mechanisms more effective only if IO representation is on the board of commissioners.

If the IO does not represent the board of commissioners, its existence cannot affect the CTA (Ardillah & Halim, 2022). Moreover, institutional investors are seldom more oriented towards returns, so management tries to fulfill that by increasing CTA. Several studies, such as Subagiastra et al. (2016), Khan et al. (2017), Fauzan et al. (2021), Eskandar and Ebrahimi (2020), and Sunarto et al. (2021), found that IO affects CTA positively. The positive effect of IO on CTA usually occurs in companies with a lower percentage of IO. This study seeks to reexamine how IO affects CTA in the context of companies with high share performance. For this reason, this study suspects that:

H_2: *Institutional ownership affects corporate tax avoidance negatively.*

Another variable that also may affect CTA is CSR. Two theories could explain the effect of CSR on CTA. The first theory is corporate culture (Kreps, 1990), which indicates CSR's negative effect on CTA. Corporate culture in this context is the glue for all elements of the company to work collectively in their respective jobs (Gorton & Zentefis, 2020). This corporate culture is a social foundation within the company that encourages all elements to work together to achieve optimal goals. Corporate culture theory holds that company decisions are based on correct behavior (Kreps, 1990). Hence, actions not under these values tend to be avoided because they hinder achieving optimal company goals.

From the perspective of corporate culture theory, CSR is a shared belief that is considered the correct action because companies should not only focus on profits without considering social and environmental aspects (Hoi et al., 2013). Therefore, the company will issue it voluntarily, especially if it has adequate EP. According to Kovermann and Velte (2021), most studies found a negative effect of CSR on CTA because companies with high CSR indicate an adequate corporate culture, so there is a lower likelihood of tax avoidance. Thus, the hypothesis that can be built from corporate culture theory is that the higher the CSR, the lower the CTA. Several studies have succeeded in empirically proving this hypothesis, including Hoi et al. (2013), Lanis and Richardson (2015), Col and Patel (2019), Goerke (2019), and Rashid et al. (2024).

The second theory that explains the effect of CSR on CTA is risk management (Godfrey, 2005). This theory predicts that CSR activities will have a positive effect on CTA. Risk management theory holds that CSR is one of the company's efforts to maintain its reputation amidst the high number of CTAs. From the perspective of risk management theory, the relationship between CSR and CTA is a smoke-and-mirrors phenomenon (Sikka, 2010). Companies appear ideal because they promise high levels of social responsibility. However, these companies are 'playing behind' by avoiding taxes. Several studies that found a positive effect of CSR on CTA are Lanis and Richardson (2013), Dewi and Gunawan (2019), and Mao (2019). The positive effect of CSR on CTA justifies that CSR is seldom employed to avoid taxes. Companies tend to issue CSR to reduce their taxable profits. Moreover, several CSR activities could reduce taxable profits based on Indonesian tax regulations.

Several other studies, such as Col and Patel (2019), Wardani and Purwaningrum (2018), and Lestari and Solikhah (2019), uncovered no evidence that CSR affects CTA. Therefore, the relationship between CSR and CTA is theoretically and empirically ambiguous. Nevertheless, it is suspected that risk management theory is more relevant than corporate culture theory in the context of this study. Therefore, this study suspects that:

H_3: *Corporate social responsibility affects corporate tax avoidance positively.*

Although the direction of the influence of EP, IO, and CSR on CTA has been determined, a theoretical and empirical gap implies that the relationship between these variables tends to be unclear. To explain these theoretical and empirical gaps, CSR's role in moderating the influence of EP and IO on CTA was also examined.

According to Watson (2015), a relationship exists between CSR, EP, and CTA. If a company's EP is high, the CSR issued by the company tends to reduce CTA. Conversely, low CSR could increase CTA if the company's EP is relatively low. However, this effect will decrease as the company's EP increases (Watson, 2015). Referring to legitimacy theory (Dowling & Pfeffer, 1975), CSR is indicated to increase the positive effect of EP on CTA. From the legitimacy theory perspective, CSR is necessary for companies to gain legitimacy from the surrounding environment. The environment in this context tends to have varying pressures on the company. If pressure from the surrounding environment is relatively high, companies tend to spend more on CSR activities. As a result, the company's high EP will be channeled to CSR activities, thus triggering the company to avoid taxes. On that basis, this study suspects that:

H_4: *Corporate social responsibility moderates the effect of earnings performance on corporate tax avoidance.*

On the other hand, CSR may also change the effect of IO on CTA. Suppose institutional investors who have control over the company are more oriented towards rates of return. In that case, there is a possibility that institutional investors will approve of management's tax avoidance actions, especially if CSR costs are pretty high. In comparison, referring to agency theory, IO could be an effective GCG mechanism in minimizing the smoke-and-mirrors phenomenon of CSR issued by management. When the CSR cost is high, the GCG mechanism will be tighter so that the effect of IO in reducing CTA could be maximized. Thus, this study also suspects that:

H_5: *Corporate social responsibility moderates the effect of institutional ownership on corporate tax avoidance.*

Research Method

This study examined the role of CSR in moderating the effect of EP and IO on CTA in the context of 33 companies in the Investor 33 index. This group contains the 33 best issuers, according to Investor magazine. The authors took the sample purposively, using a list of 33 companies from the 2022 version of Investor 33 magazine. The authors then observed five-year companies' annual financial reports from 2015 to 2022. Thus, this study's total observations were 165 (i=33 and t =5). The authors chose this group because it is considered to have high financial and share performance. Therefore, companies in this group are also considered to have homogeneity in the context of tax compliance, the composition of share ownership by institutional investors, and their CSR performance. This homogeneity may strengthen the accuracy of the study's model estimation results because it does not require too many other variables to control individual heterogeneity, so the estimated regression model can be more parsimony.

This study still considers it necessary to include several additional variables to control individual heterogeneity caused by differences in the company sector, company size, and

changes in the income tax rate (PPh) 25. There has been a change in the rate of PPh 25 in 2020 to 22 % and 20% in 2022. Due to changes in the PPh rate, the CETR value in 2018 and 2019, with a rate of 25%, would be greater than the CETR in subsequent years.

This study measured tax avoidance using the cash effective tax rate (CETR) proxy with the following formula:

$$\mathrm{CETR_{it}} = \frac{\text{Tax Payment}_{\mathrm{it}}}{\text{Earning Before Tax}_{\mathrm{it}}} \quad \text{.....} \quad (1)$$

Tax payment is the total cash the company spends to pay taxes in a year. Earnings before tax are the total value of the company's income before tax in a year.

CETR describes every cent of tax paid from the income received by the company (Cheng et al., 2012). This study chose CETR as a proxy for CTA because this index is not affected by accrual adjustments but rather by the strategy carried out by management (Lee et al., 2015). In this context, CETR is the opposite proxy for tax avoidance, so the higher the CETR, the lower the CTA, and vice versa (Firmansyah & Muliana, 2018; Monika & Noviari, 2021). The lower CETR can also indicate the aggressiveness of tax planning. Therefore, if the causal variables harm CETR, the opposite must be interpreted, namely that these variables positively affect CTA.

In this study, the causal variables tested for their effect on CTA were EP, INST, and CSR. EP in this study was measured by dividing total earnings before interest, tax, and depreciation (EBITDA) by total assets, as Paligorova (2010) has done. However, Paligorova (2010) mentions this earnings proxy as corporate earnings with the following formula:

$$\mathrm{EP}_{it} = \frac{\text{Total EBITDA}_{it}}{\text{Total Assets}_{it}} \quad \text{.....} \quad (2)$$

EP shows the EBITDA percentage of the company's total assets in year t. The higher the EP, the more the company can maximize its assets to generate income. Furthermore, this study measured institutional ownership with the following formula:

$$\mathrm{IO}_{it} = \frac{\text{Institution's Shares}_{it}}{\text{Outstanding Shares}_{it}} \quad \text{.....} \quad (3)$$

IO is the percentage of institutional ownership. Institution's share is the total number of shares of the company i held by institutional investors in year t. The outstanding shares are the total shares of the company i in circulation. This INST index shows the percentage of total share ownership by institutional investors.

In measuring CSR, this study used content analysis of CSR disclosures made by companies. The CSR disclosure contains ten disclosure indicators based on the circular letter of the Financial Services Authority of the Republic of Indonesia Number 16 of 2021. Of these ten indicators, there are 50 sub-indicators. If the company discloses all of them according to

the criteria, the CSR disclosure score is 100%. Based on this, the CSR disclosure calculation used by this study is as follows:

$$\mathrm{CSR}_{it} = \frac{\Sigma X_{it}}{N_{it}} \quad \text{.....} \quad (4)$$

X is the total number of items disclosed by company i in year t, while N is the maximum value if all items are disclosed by company i in year t. This CSR index shows the percentage of CSR disclosure carried out by the company.

The model built by this study was moderate. To test the moderation model, the authors constructed two regression models. The first regression model is as follows:

$$\mathrm{CETR_{it}} = \beta_0 + \beta_1 \mathrm{EP._{it}} + \beta_2 \mathrm{IO._{it}} + \beta_3 \mathrm{CSR_{it}} + \beta_k \mathrm{Xk_{it}} + \mathrm{u_{it}} \quad \text{.....} \quad (5)$$

CETR is the cash effective tax of company i in year t. EP is earnings performance, IO is the percentage of share ownership by institutional investors, and CSR is the percentage of CSR disclosure. Meanwhile, Xk is a variable that controls individual heterogeneity and 5differences in PPh 25 rates. These variables include ENER, SIZE, TARIF25, and TARIF22. ENER is a dummy variable used to differentiate energy sector companies, and SIZE is the natural logarithm of the company's total assets. Meanwhile, TARIF25 and TARIF22 are dummy variables for the 25% and 22% PPh 25 rates.

The regression model in the equation above examined the effect of EP, IO, and CSR on CETR. The effect of each explanatory variable (except CSR) might change after the interaction variable between the explanatory variable and the moderating variable was regressed on CETR. These effects may change larger or smaller. Suppose it is more extensive and statistically significant. In that case, the moderating variable is proven to maximize the effect of the explanatory variable on the variable being explained. On the other hand, if the effect is decreased and statistically significant, the moderating variable is proven to minimize or inhibit the effect of the explanatory variable on the variable being explained. The model to test the moderation effect is as follows:

$$\mathrm{CETR_{it}} = \beta_0 + \beta_1 \mathrm{MODEP_{it}} + \beta_2 \mathrm{MODIO_{it}} + \beta_k \mathrm{Xk_{it}} + \mathrm{u_{it}} \quad \text{.....} \quad (6)$$

The variables Xk are the same as those used in the first regression model (equation 6). MODEP is a new variable obtained from the interaction between EP and CSR (EP*CSR), while MODIO is an interaction variable between IO and CSR (IO*CSR). The significance of the MODEP and MODIO variables determines whether there is a moderating effect or none. If one or both are significant, CSR can be stated to have a moderating role, as referred by Baron and Kenny (1986).

Because this study's data was a panel in nature, each regression model would be estimated with three different estimators, namely ordinary least squares (OLS) (also called common effect model), fixed effect model (F.E.), and random effect model (RE). This study conducted the Chow test, Hausman test, and Breusch Pagan LM test to select the best estimator from the three. The null hypothesis for the Chow test is that OLS is

better than FE. The null hypothesis for the Hausman test is that RE is better than FE, while for the Breusch Pagan LM test, the null hypothesis is that OLS is better than RE.

If the best estimator is OLS, the data is not considered panel in nature and requires checking the assumptions of normality, heteroscedasticity, and multicollinearity to ensure that the OLS estimator is BLUE (best linear unbiased estimator). On the other hand, if the best estimator is FE, the unobserved heterogeneity value B0 is assumed to be constant over time (time-invariant), so a dummy differential for unobserved heterogeneity is needed in the FE estimator. Meanwhile, if the best estimator is RE, the error in the estimate is assumed to be random.

Result and Discussion

Descriptive Statistics

The results of descriptive statistical analysis to describe the general condition of the data are presented in Table 1.

Table 1 Descriptive Statistics of Variables

		CETR	EP	IO	CSR
2018	Mean	0.284	0.175	0.902	0.456
	Std.Dev	0.138	0.117	0.168	0.168
	Min	0.015	0.049	0.139	0.136
	Max	0.730	0.658	0.998	0.716
2019	Mean	0.349	0.155	0.918	0.514
	Std.Dev	0.305	0.101	0.116	0.159
	Min	-0.349	0.043	0.525	0.188
	Max	1.435	0.545	0.998	0.724
2020	Mean	0.280	0.141	0.903	0.572
	Std.Dev	0.279	0.095	0.112	0.123
	Min	-0.383	0.030	0.525	0.280
	Max	1.139	0.514	0.994	0.772
2021	Mean	0.232	0.167	0.915	0.652
	Std.Dev	0.124	0.109	0.094	0.089
	Min	-0.013	0.027	0.527	0.484
	Max	0.630	0.459	0.998	0.796
2022	Mean	0.253	0.182	0.923	0.683
	Std.Dev	0.121	0.134	0.065	0.083
	Min	0.065	0.037	0.740	0.436
	Max	0.700	0.620	0.993	0.800
Overall	Mean	0.280	0.164	0.912	0.576
	Std.Dev	0.211	0.112	0.115	0.153
	Min	-0.383	0.027	0.139	0.136
	Max	1.435	0.658	0.998	0.800

The company's average CETR value has decreased from year to year. This condition does not necessarily mean there is an increase in CTA. The corporate income tax (PPh) rate or

PPh 25 has changed. In 2018 and 2019, the PPh 25 rate was 25%, then fell to 22% for 2020 and 2021. This rate fell again to 20% in 2022. As a result, the CETR in 2018 and 2019 tended to be greater than the following years. Each year's average EP, IO, and CSR are relatively constant, so even if changes occur, the changes are not too striking.

Overall, the company's average CETR was 0.280, indicating that the cash paid for taxes from its income was relatively higher than the PPh 25 rate. According to Rahayu and Subadriyah (2021), the company's CETR of more than 0.25 indicates a low level of CTA. This figure refers to the rate of PPh 25, which is 25%, but in reality, the tax element paid by companies is not only this tax but also PPh 21, PPh 23, PPh 26, and others. Based on this, the CETR figure 0.280 cannot be justified as being in ideal conditions. Moreover, the prominent standard deviation figure shows that many companies still have a CETR figure lower than the average value.

The average EP of companies in the 33-investor group was 0.164. This figure can mean that the company can maximize its assets to become earnings by only 16.4%. However, this EP figure still received a positive response from institutional investors, whose percentage was 0.912. Moreover, the share performance of companies in this 33-investor group is considered the best compared to other companies. More detailed pictures of the average value of the study variables for each company are shown in Table 2.

Table 2 details 17 companies with an average CETR lower than 0.25. If averaged, the CETR of these 17 companies was only 0.208. This figure is sufficient to indicate the efforts of these companies to avoid taxes. In the raw goods sector, companies with relatively low CETR were PT Timah, which was 0.101, and PT Indocement Tunggal Prakasa, which was 0.125. As for the primary consumer goods sector, PT Sumber Alfaria Trijaya had an average CETR of only 0.155, while in the financial industry, Bank Central Asia and Bank Mandiri had a CETR of 0.206 and 0.211.

The CETR of energy sector companies is relatively more prominent than that of other companies. One of the reasons is the existence of mining taxes, which energy sector companies must bear. The high CETR of energy sector companies is also caused by high export taxes, especially for coal commodities. If averaged, the CETR of energy sector companies was at 0.348, followed by the raw goods sector at 0.289. The average CETR for companies in other sectors, namely primary consumers, infrastructure, health, finance, and industry, respectively, was 0.247, 0.260, 0.224, 0.264, and 0.279.

Table 2 Mean Value of Variables Shorted by Companies

Code	Companies	Sector	CETR	EP	IO	CSR
AALI	Astra Agro Lestari	Primary Consumer Goods	0.230	0.122	0.851	0.510
ADRO	Adaro Energy	Energy	0.433	0.234	0.796	0.507
AKRA	AKR Corporindo	Energy	0.424	0.082	0.971	0.561
AMRT	Sumber Alfaria Trijaya	Primary Consumer Goods	0.178	0.176	0.679	0.484
ANTM	Aneka Tambang	Raw Goods	0.442	0.118	0.874	0.677
ASII	Astra International	Industry	0.242	0.120	0.977	0.630
BBCA	Bank Central Asia	Finance	0.206	0.049	0.965	0.718
BBNI	Bank BNI	Finance	0.230	0.039	0.961	0.648
BBRI	Bank BRI	Finance	0.226	0.052	0.982	0.614
BBTN	Bank BTN	Finance	0.478	0.049	0.930	0.634
BFIN	BFI Finance	Finance	0.237	0.133	0.682	0.424
BMRI	Bank Mandiri	Finance	0.211	0.045	0.988	0.614
CPIN	Charoen Pokphand	Primary Consumer Goods	0.287	0.193	0.994	0.438
ERAA	Erajaya Swasembada	Non-Primary Consumer Goods	0.389	0.137	0.873	0.375
EXCL	XL Axiata	Infrastructure	0.278	0.210	0.972	0.517
ICBP	Indofood CBP	Primary Consumer Goods	0.258	0.152	0.987	0.519
INCO	Vale Indonesia	Raw Goods	0.447	0.125	0.962	0.582
INDF	Indofood Sukses Makmur	Primary Consumer Goods	0.307	0.118	0.970	0.519
INTP	Indocement Tunggal Prakasa	Raw Goods	0.125	0.114	0.989	0.661
ITMG	Indo Tambangraya Megah	Energy	0.400	0.336	0.741	0.669
KLBF	Kalbe Farma	Health	0.235	0.189	0.946	0.598
MDKA	Merdeka Cooper Gold	Raw Goods	0.355	0.166	0.826	0.570
MYOR	Mayora Indah	Primary Consumer Goods	0.233	0.176	0.740	0.410
PGAS	Perusahaan Gas Negara	Energy	0.245	0.130	0.899	0.678
PTBA	Bukit Asam	Energy	0.238	0.278	0.923	0.713
SIDO	Sido Muncul	Health	0.213	0.338	0.952	0.660
SMGR	Semen Indonesia	Raw Goods	0.266	0.107	0.979	0.738
TBIG	Tower Bersama Infrastruktur	Infrastructure	0.347	0.127	0.962	0.450
TINS	Timah	Raw Goods	0.101	0.120	0.855	0.684
TLKM	Telkom Indonesia	Infrastructure	0.262	0.284	0.958	0.532
TOWR	Sarana Menara Nusantara	Infrastructure	0.155	0.162	0.959	0.348
UNTR	United Tractors	Industry	0.317	0.213	0.976	0.638
UNVR	Unilever Indonesia	Primary Consumer Goods	0.238	0.524	0.977	0.679
	Overall		0.280	0.164	0.912	0.576

These values are relatively less linear with the EP of companies in each sector. For energy sector companies, the average EP produced was only 0.212. This value was still below the average EP for health sector companies, 0.263. The EP of financial sector companies was only around 0.061. However, the low EP of financial sector companies is caused by the immense value of their assets. For example, in 2022, BTN bank assets were 302 trillion rupiah, BNI Bank assets were 1,029 trillion rupiah, and Bank Mandiri assets were 1,992 trillion rupiah.

Panel Data Analysis Results

Before estimating the regression model, this study correlated all explanatory variables to detect multicollinearity problems, as shown in Table 3.

Table 3 Correlation Matrix

	CETR	EP	IO	CSR	ENERG	SIZE	MODEP	MODIO
CETR	1							
EP	-0.086	1						
IO	0.010	-0.066	1					
CSR	-0.061	0.011	0.169	1				
ENERG	0.137	0.181	-0.170	0.138	1			
SIZE	-0.046	-0.429	0.303	0.232	-0.094	1		
MODEP	0.926	-0.084	0.064	0.271	0.157	0.036	1	
MODIO	-0.049	-0.025	0.519	0.925	0.037	0.317	0.256	1

Notes: MODEP is the interaction variable between EP and CSR, while MODINST is the interaction between INST and CSR

This study set the correlation limit between explanatory variables to detect multicollinearity problems at 0.7. Of all the correlated explanatory variables, only MODEP and MODINST experienced a high correlation with EP and CSR because MODEP and MODINST are interactions or multiplications between EP and CSR and INST and CSR. However, because these two variables would be tested in a moderation model, this study could be declared free from multicollinearity problems. The estimation results from the first model regarding the effect of EP, INST, and CSR on CTA are presented in Table 4.

Table 4 indicates that the regression model experiences heteroscedasticity problems. To overcome this problem, the authors applied robust standard errors. Using robust standard errors can increase the accuracy of estimates, as it can minimize the occurrence of too-large variations between individuals throughout the observation time. Nevertheless, based on the Chow, Hausman, and Breusch Pagan LM tests, the best estimator for this study's model was RE. The authors found no heteroscedasticity in the RE model. In addition, because the best estimator is RE, the error in the estimation results is assumed to be random.

Table 4 Regression Estimation First Model

	I	II	III
Constant	0.681* (0.355)	6.88** (2.548)	0.717* (0.394)
EP	-0.304* (0.158)	-0.719** (0.309)	-0.325* (0.184)
IO	0.116 (0.084)	0.181 (0.113)	0.121 (0.079)
CSR	-0.006 (0.165)	0.237 (0.246)	0.005 (0.174)
SIZE	-0.016 (0.012)	-0.214** (0.081)	-0.017 (0.014)
ENERG	0.099* (0.054)	-	0.099* (0.055)
TAR25	0.054 (0.057)	0.025 (0.076)	0.055 (0.059)
TAR22	-0.008 (0.033)	-0.042 (0.041)	-0.008 (0.038)
R^2	0.062	-	-
R^2 Within	-	0.107	0.067

Table 4 Regression Estimation First Model (Cont.)

	I	II	III
R^2 Between	-	0.002	0.083
Overall R2	-	0.007	0.062
F (Prob)	2.35 (0.026)	-	-
Root MSE	0.209	-	-
Wald Chi^2 (Prob)	-	3.46 (0.006)	16.58 (0.020)
Chow (Prob)	1.28 (0.171)	-	-
Hausman (Prob)	-	8.26 (0.219)	-
Breusch Pagan (Prob)	-	-	2.491 (0.071)
sigma_u	-	0.290	0.036
sigma_e	-	0.203	0.203
rho	-	0.670	0.031
JT e (Prob)	25.78 (0.000)	-	29.67 (0.001)
JT u (Prob)	20.07 (0.000)	-	16.16 (0.003)
BP/CW (Prob)	16.1 (0.001)	-	1.88 (0.169)
M Wald (Prob)	-	47,585 (0.000)	-
Wooldgride (Prob)	0.148 (0.703)	0.148 (0.703)	0.148 (0.703)
Obs	165	165	165

Notes: *significant at 0.1, **significant at 0.05, ***significant at 0.001. Dependent variable = CETR. Column I is the OLS estimation result, column II is FE, and column III is RE. Robust standard errors are in parentheses.

This study set the hypothesis acceptance limit at 0.05. Thus, EP, IO, and CSR have not been proven to affect CTA, which was proxied by CETR. EP was only significant at the 90% confidence level because the p-value it produces was more significant than 0.05 but smaller than 0.10. The insignificant effect of EP on CETR was negative, so EP had a negligible positive impact on CTA. Even if EP affects CTA, the effect is relatively shallow. Even though no explanatory variables have been proven to significantly affect CETR, the regression model, as shown in Table 4 above, had adequate goodness of fit. This is indicated by the probability value of the Wald Chi2 statistic, which was lower than 0.05. Furthermore, an overview of the role of CSR in moderating the effect of EP and IO on CTA is shown in Table 5.

The best estimator to estimate the second model was RE. It appears that CSR has been proven to moderate the effect of EP on CETR. CSR can even change the direction of EP's effect on CETR from negative to positive. The impact of MODEP on CETR was positive at 1,648 or 164%. This effect implies that EP moderation by CSR has an enormous impact on reducing CTA up to more than 1.6 times. High EP will increase CTA, but if extensive CSR balances the EP, the effect would be negative on CTA. Simply put, companies with high levels of EP and CSR tend to be more compliant in paying taxes. Conversely, companies with a high level of EP but low CSR tend to carry out higher CTAs.

CSR has also been proven to play a moderate role in the effect of IO on CETR. This is confirmed by the significant regression coefficient of the MODIO variable on CETR. However, the effect is negative, so MODIO positively affects CTA. Companies with a large percentage of IO accompanied by high CSR activities have a greater tendency to carry out CTA. This condition indicates that the primary orientation of institutional investors in

companies sampled is more about returns, not reputation. The high percentage of institutional ownership triggers management to carry out CTA when the company's CSR activities are relatively high. After being moderated by CSR, the negative effect of IO on CETR became 37.9%. A percent increase in IO in a company with high CSR activities will increase CTA by 37.9%.

Table 5 Regression Estimation Second Model

	I	II	III
Constant	0.15** (0.052)	0.192 (0.645)	0.149** (0.071)
MODEP	1.642*** (0.068)	1.658*** (0.09)	1.648*** (0.077)
MODIO	-0.374*** (0.048)	-0.394*** (0.11)	-0.379*** (0.066)
SIZE	0.002 (0.002)	0.001 (0.022)	0.002 (0.003)
ENERG	-0.006 (0.013)	-	-0.006 (0.017)
TAR25	0.027** (0.009)	0.023 (0.017)	0.026** (0.012)
TAR22	0.01 (0.008)	0.008 (0.008)	0.01* (0.005)
R^2	0.946	-	-
R^2 Within	-	0.952	0.952
R^2 Between	-	0.923	0.924
Overall R2	-	0.946	0.946
F (Prob)	126.25 (0.000)	-	-
Root MSE	0.04993	-	-
Wald Chi^2 (Prob)	-	229.82 (0.000)	715.96 (0.000)
Chow (Prob)	1.68 (0.024)	-	-
Hausman (Prob)	-	0.701 (0.983)	-
Breusch Pagan (Prob)	-	-	4.06 (0.022)
sigma_u	-	0.027	0.019
sigma_e	-	0.047	0.047
rho	-	0.250	0.140
JT e (Prob)	25.93 (0.000)	-	27.68 (0.000)
JT u (Prob)	0.17 (0.919)	-	0.14 (0.930)
BP/CW (Prob)	73.56 (0.000)	-	1.24 (0.302)
M Wald (Prob)	-	35000 (0.000)	-
Wooldgride (Prob)	2.17 (0.150)	2.17 (0.150)	2.17 (0.150)
Obs	165	165	165

Notes: *significant at 0.1, **significant at 0.05, ***significant at 0.001. Dependent variable = CETR. Column I is the OLS estimation result, column II is FE, and column III is RE. Robust standard errors are in parentheses.

Based on the results of Table 4 and Table 5, the summary of the results of the hypothesis testing in this study is described in Table 6

Table 6 Summary of Hypotheses Test Results

Hypotheses		Coeff	Remarks
H1	Earnings performance affects corporate tax avoidance positively.	-0.325* (0.184)	Rejected
H2	Institutional ownership affects corporate tax avoidance negatively.	0.121 (0.079)	Rejected
H3	Corporate social responsibility affects corporate tax avoidance positively.	0.005 (0.174)	Rejected
H4	Corporate social responsibility moderates the effect of earnings performance on corporate tax avoidance.	1.648*** (0.077)	Accepted
H5	Corporate social responsibility moderates the effect of institutional ownership on corporate tax avoidance.	-0.379*** (0.066)	Accepted

Notes: *significant at 0.1, **significant at 0.05, ***significant at 0.001. Robust standard errors are in parentheses.

Discussion

The effect of earnings performance on corporate tax avoidance

This study found no significant effect of EP on CTA. This finding indicates that the agency theory is not relevant to explaining the effect of EP on CTA in the context of Indonesian high-share performance companies. However, this finding confirms that high EP no longer triggers an increase in CTA in companies with solid share performance. This condition shows that the management of these companies is trying to maintain their reputation in the eyes of investors to increase share prices. This is confirmed by the high institutional ownership of these companies, which averaged 91.2%. According to signaling theory, one of management's efforts to provide signals to investors is to disclose as much information as possible related to the company's finances and prospects. In this context, tax avoidance is a negative signal, so companies that are more oriented toward share performance will be less likely to do so.

The lack of effect of EP on CTA found by this study contradicts Kim and Im (2017), Jannah et al. (2022), and Darsani and Sukartha (2021). Their study proves the positive effect of EP on CTA. One of the reasons for this contradiction is the differences in the use of proxies, differences in the characteristics of the companies studied, and differences in the estimators used. For example, Kim and Im (2017) measured CTA using book-tax difference (BTD). The proxy used by Kim and Im (2017) to measure earnings is also different from that used in this study, where Kim and Im (2017) measured earnings with ROE. Moreover, the company characteristics used by Kim and Im (2017) are also quite different from those of this study. Kim and Im (2017) used 491 companies listed on the Korean stock exchange. Too many companies make identifying study results based on company characteristics difficult.

Another example of why this study's findings differ from previous studies can be identified by Darsani and Sukartha (2021). They used coal sector companies listed on the Indonesia Stock Exchange (BEI) as samples. Even though several companies are the same as this study, most of the companies used by Darsani and Sukartha (2021) did not have high share performance. Moreover, although their data is a panel, Darsani and Sukartha (2021) directly estimated it using the OLS estimator. Their study did not compare the best estimators between OLS, FE, and RE as this study did. Even though it used the OLS estimator, the study did not display information regarding the results of diagnosing

statistical assumptions to achieve BLUE estimation. As a result, the accuracy of the results from Darsani and Sukartha (2021) tends to be less confident.

Based on the comparison between this study and the two previous studies, it can be understood that methodological differences could cause the differences in study findings. At this point, this study aligns with several other previous studies, including Wahyuni et al. (2017), Mulyati et al. (2019), Sunarto et al. (2021), Cahyono et al. (2016), Permata et al. (2018), and Umar et al. (2021). Their study also did not find any effect of EP on CTA. Given these findings, the study cannot completely confirm agency, stewardship, and corporate culture theories.

The effect of institutional ownership on corporate tax avoidance

In the context of the 33 investor group companies, no effect of IO on CTA was found. Referring to Table 1, the average percentage of institutional ownership in the samples was relatively high. However, the high IO could not affect CTA. Institutional investors also have a strong interest in the rate of return on their investments. There is a possibility that these institutional investors actually 'allow' tax avoidance by management because the CTA is not an unlawful act. However, it may provide a higher rate of return to investors.
The lack of effect of IO on CTA in this study suggests that agency theory is irrelevant in explaining it in the context of 33 investor group companies. The large percentage of IO in these companies has not been proven to play a role in minimizing CTA, as found by Arianti (2020), Darsani and Sukartha (2021), and Chairunesia (2023). In other words, IO in companies with high share performance may no longer be able to improve GCG mechanisms to pressure management to avoid tax.

This study is consistent with the study conducted by Ardillah and Halim (2022). One of the reasons for the lack of effect of IO on CTA is that institutional investors, even though their percentage is high, do not necessarily have a large amount of control over the company. As a result, even if institutional investors have representation on the board of commissioners, their role in improving the quality of the company's GCG remains questionable. In fact, at a certain point, the presence of institutional investors can increase CTA (Fauzan et al., 2021; Khan et al., 2017; Subagiastra et al., 2016; Sunarto et al., 2021). According to Özbay et al. (2023), the influence of IO on CTA can be influenced by how adequate the supervision of institutional ownership itself is.

The effect of corporate social responsibility on corporate tax avoidance

This study uncovered no significant effect of CSR on CTA. Thus, this study could not confirm corporate culture and risk management theory in the context of the relationship between CSR and CTA in companies with high share performance. This study agrees with Kovermann and Velte (2021) that the relationship between CSR and CTA is ambiguous. Even though several theories can explain it, it cannot necessarily be proven empirically in the context and characteristics of certain companies.

The absence of CSR effect on CTA in this study denotes that the CSR issued by the company does not contain CTA motives. CSR issued by companies with high share performance is based more on the company's need to gain legitimacy. Companies consider this legitimacy essential to maintain their reputation and the sustainability of their operational activities. Thus, this study agrees with several previous studies, including Col and Patel (2019), Wardani and Purwaningrum (2018), and Lestari and Solikhah (2019), which also did not find any effect of CSR on CTA.

However, the findings of this study do not support the smoke-and-mirror assumption, which states that CSR issued by companies is an attempt to cover up tax avoidance behavior, as explained by risk management theory. CSR may have become a routine plan for companies with high share performance. It is proven that, if looking at the CSR developments disclosed by the company (see Table 1), some changes tend to be constant from year to year. No particular pattern indicates that the CSR issued by the company aims to avoid taxes.

The findings also confirm that the pressure on companies related to CSR obligations is constant. Companies can anticipate these pressures so that they do not trigger an increase in CSR expenditure. Changes that occur in CSR can potentially change the influence of earning performance and institutional ownership on corporate tax avoidance. If there is tremendous pressure (for example, from the environment), the company may be forced to spend more CSR funds. As a result, even if the company's earnings performance is high, the effect on CTA can be positive.

The role of corporate social responsibility in moderating the effect of earnings performance on corporate tax avoidance

The authors found a pure moderation relationship between CSR, earnings performance, and corporate tax avoidance. The CSR moderated the effect of earnings performance on corporate tax avoidance. Earnings performance could not affect CTA without the role of CSR, which could moderate it. In other words, CSR can be a driving factor for earnings performance to reduce CTA. It has been proven that after being moderated by CSR, the effect of EP on CTA has become negative and significant. The effect is also very high, showing that companies with high EP and CSR will lower the likelihood of tax avoidance. This study's finding supports Du and Li (2023), which states that companies with good CSR performance will have healthier financial performance to reduce CTA.

Nevertheless, the finding refutes the legitimacy theory, which indicates that high CSR will have implications for the positive effect of EP on CTA. On the other hand, these findings support the arguments of corporate culture theory. Companies with high EP and CSR indicate a more adequate corporate culture, making them more compliant in paying their tax obligations. CSR for companies with high stock performance has been considered a correct action that needs to be implemented without coercion or other motives outside of that.

This finding agrees with Marques et al. (2024), who found that the relationship between CSR and CTA is shallow in companies with extreme CSR spending intensity and avoidance. In other words, large companies with relatively high financial performance separate CSR from tax avoidance. It also justifies that EP can only affect CTA if the CSR issued or disclosed by the company is relatively high. In other words, there are indications that CSR activities carried out by companies affect an increase in EP, which can ultimately reduce CTA. However, further proof of this is needed through further studies.

The role of corporate social responsibility in moderating the effect of institutional ownership on corporate tax avoidance

This study revealed the pure moderating role of CSR in the relationship between IO and CTA. Institutional ownership could only affect corporate tax avoidance if moderated by CSR. Corporate social responsibility activities strengthen the influence of institutional ownership on increasing tax avoidance. In other words, companies with a high percentage of IO will have a higher probability of tax avoidance if there is a need for high CSR activities. In other words, IO in companies with high share performance can only increase CTA if the CSR issued is also relatively high.

The increase in CTA caused by IO after being moderated by CSR in this study is relatively similar to several previous studies, including Khan et al. (2017), Fauzan et al. (2021), and Eskandar and Ebrahimi (2020). Their study also found that IO led to an increase in CTAs. However, in their study, the effect of IO on CTA was not accompanied by the presence of CSR. Based on this, this study provides a new explanation: IO cannot affect CTA if high CSR does not accompany it. In other words, this finding is in line with Rakia et al. (2024) that companies with high CSR but balanced by strong GCG would be able to reduce CTA.

If examined by type, companies operating in the energy sector, such as Adaro and Indo Tambangraya Megah, tended to avoid tax less than others (based on CETR values, see Table 2). These companies had a relatively lower IO percentage. At this point, there are indications that institutional investors tend to be unenthusiastic about investing in energy sector companies, one of the reasons being that they are more at risk of damaging the environment. As a result, increasing IO in these companies can improve the CTA level.

The positive effect of IO on CTA caused by high CSR makes policymakers need to be more serious in monitoring the CSR budget issued by the company. Even though CSR is a 'noble' activity and is encouraged by the government, it is not uncommon for CSR to be used as a motive for tax avoidance. Companies tend to issue CSR to reduce their taxable profits. Moreover, several CSR activities reduce taxable profits based on regulations from the Directorate General of Taxes. The government must regulate and direct the CSR companies to be on target, similar to the findings of Liu and Lee (2019), which state that a company's CSR activities will effectively reduce CTA if the government directs the CSR activities.

Conclusion

This study found no evidence that earnings performance (EP), institutional ownership (IO), and corporate social responsibility (CSR) affect corporate tax avoidance. However, this study uncovered a pure moderating role of CSR in the effect of EP and IO on CTA. CSR changes the direction of EP's effect on CTA from positive to negative. Companies with high EP are less likely to avoid taxes if they also spend much on CSR. This finding follows corporate culture theory, which indicates that high EP and CSR are characteristics of a company's adequate corporate culture that make the company more compliant with paying taxes.

On the other hand, CSR changes the effect of IO on CTA from negative to positive. The large percentage of IO in companies with high share performance can burden management in providing a high level of return for institutional investors. This burden becomes even higher if companies must be more socially responsible. As a result, company management is triggered to engage in tax avoidance. These findings imply the government's role in supervising CSR activities issued by companies so that CSR is not used as a motive for carrying out CTA.

This study contributes to the literature by explaining the causal influence of EP, IO, and CSR on CTA in the context of high-share performance companies. In addition, this study also contributes to the literature by explaining the role of CSR in moderating the influence of EP and IO on CTA. Nevertheless, this study has several limitations. First, the authors did not check for possible bias caused by outlier data. Second, the authors did not control how institutional investors are represented on the board of commissioners. Hence, the effect of IO tends to be challenging to explain from this perspective. Third, the authors only measured the study variables with one proxy each, so it could not compare the effect between variables if the variables were measured with different proxies. For this reason, future studies are hoped to fill these gaps.

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Conflicts of Interest

The authors declare no conflict of interest. The funders had no role in the design of the study, in the collection, analyses, or interpretation of data, in the writing of the manuscript, or in the decision to publish the results.