Jurnal Ekonomi dan Bisnis

Corporate strategies and tax avoidance: Does corporate social responsibility matter?

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A R T I C L E   I N F O

A B S T R A K

Penelitian ini bertujuan untuk mendapatkan bukti empiris pengaruh diversifikasi perusahaan, konsentrasi pelanggan, dan transaksi pihak berelasi terhadap penghindaran pajak. Selain itu, penelitian ini juga memasukkan tanggung jawab sosial (CSR) sebagai variabel moderasi dalam hubungan variabel independen dan variabel dependen. Analisis dilakukan terhadap data perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia dari tahun 2014 sampai dengan 2019. Penelitian ini menggunakan metode purposive sampling untuk mendapatkan sampel final berjumlah 414 observasi. Pengujian hipotesis dalam penelitian ini menggunakan regresi linier berganda untuk data panel. Hasil penelitian ini menunjukkan bahwa diversifikasi perusahaan dan konsentrasi pelanggan berpengaruh positif terhadap penghindaran pajak sedangkan transaksi pihak berelasi tidak berpengaruh terhadap penghindaran pajak. Selain itu, pengungkapan tanggung jawab sosial perusahaan memperkuat pengaruh positif diversifikasi perusahaan terhadap penghindaran pajak, memperlemah pengaruh positif konsentrasi pelanggan terhadap penghindaran pajak, dan mengakibatkan transaksi pihak berelasi memiliki pengaruh positif terhadap penghindaran pajak. Secara umum, penelitian ini menunjukkan peran CSR yang lebih bervariasi. CSR bisa menjadi alat untuk menyembunyikan aktivitas penghindaran pajak tapi sekaligus untuk meningkatkan loyalitas pemangku kepentingan.

A B S T R A C T

This study aims to empirically analyze the effects of corporate diversification, customer concentration, and related party transactions (RPTs) on tax avoidance. In addition, we analyze the role of corporate social responsibility (CSR) disclosure in moderating the impacts of these independent variables on tax avoidance. We test the hypotheses on Indonesian listed manufacturing firms in 2014-2019, resulting in 414 firm-year observations. Our non-moderated multiple linear regression

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analyses reveal that corporate diversification and customer concentration are positively associated with tax avoidance, while RPTs do not affect tax avoidance. However, the moderated regression analysis reveals that CSR disclosure strengthens (weakens) the positive effect of corporate diversification and RPTs on tax avoidance. Overall, our results indicate the nuanced role of CSR activities. Specifically, firms can use CSR to conceal their tax management activities but also to act ethically to benefit their stakeholders.

INTRODUCTION

Tax avoidance is a controversial issue in many countries. Various large firms such as Gucci, Google, Apple, Starbucks, IKEA, and Microsoft allegedly engage in tax avoidance by moving their profits to countries with lower tax rates (Sukmawijaya, 2017). Since 2013, tax avoidance has been a major concern at the Global Forum - Organization for Economic Co-operation and Development (OECD) meeting (Utami, 2016). The OECD actively releases reports on internationally comparable tax revenues for 21 countries in the Asia Pacific, including Indonesia (OECD, 2020). This report indicates that Indonesia has the lowest tax ratio in Asia-Pacific at 11.9%, based on the 2018 calculation, likely because of tax avoidance. In fact, Indonesia's tax rate decreased to 10.7 percent in 2019 (CNN Indonesia, 2020). Further, according to the Indonesian Minister of Finance, ease of engaging in tax avoidance also contributes to Indonesia's low tax ratio (Kurniati, 2020). Consequently, Indonesia cannot generate higher tax revenues (Sembiring, 2020). Cobham & Janský (2018) revealed that Indonesia lost $6.48 billion annually due to tax evasion and ranked ninth out of 173 countries worldwide in terms of tax avoidance losses.

Several studies indicate that firms' strategies likely affect their tax obligations. Ettredge *et al.* (2006) document that firms with a diversification strategy may shift their revenues across business segments to reduce their corporate tax expenses. Further, Lee & Yoon (2012) observe that business groups can divert revenues through related party transactions to reduce their tax expenses. Numerous tax avoidance cases committed by many firms employing various strategies that negatively affect tax revenues warrant further research on the determinants of tax avoidance.

Studies on tax avoidance predict many predictors of tax avoidance, including firm characteristics such as firm size, business strategy, and multinationality (Higgins *et al.*, 2011), ownership structures such as family ownership, managerial ownership, and institutional ownership (Cabello *et al.*, 2019; Gaaya *et al.*, 2017; Richardson *et al.*, 2016), executive characteristics (Law & Mills, 2017; Olsen & Stekelberg, 2016), auditor characteristics (Gaaya *et al.*, 2017; Kanagaretnam *et al.*, 2016), corporate governance (Jamei, 2017; Richardson *et al.*, 2013), managerial ability (Francis *et al.*, 2013; Park *et al.*, 2016), firm value (Hasan *et al.*, 2014), firm risk (Guenther *et al.*, 2017; Kim *et al.*, 2011), and corporate social responsibility (Goerke, 2019; Zeng, 2016). In a similar vein, studies using Indonesian setting also employ firm size

(Wardani & Khoiriyah, 2018; Wijayanti *et al*., 2017), institutional ownership (Mulyani *et al*., 2018; Sari & Devi, 2018), corporate governance (Asiyah, 2018; Maharani & Suardana, 2014; Tahar & Rachmawati, 2020), executive characteristics (Doho & Santoso, 2020), audit quality (Doho & Santoso, 2020), ownership structure (Niandari *et al*., 2020; Putri & Lawita, 2019), business strategy (Arieftiara *et al.*, 2017; Aryotama & Firmansyah, 2020a), and leverage (Darmawan & Sukartha, 2014; Putri, 2018; Wijayanti *et al*., 2017).

This research focuses on firm strategy's role in explaining tax avoidance, an issue that arguably remains understudied in Indonesia. Firms execute strategies to enhance their competitive advantages and outperform their competitors for profit maximization, commonly manifested in corporate diversification, consumer concentration, and related party transactions. Meanwhile, following the agency theory, managers have more firm-related information than shareholders; hence, they can use firm strategies to benefit themselves (Scott, 2015), including by engaging in tax avoidance. Thus, we predict that firm strategy affects tax avoidance.

Corporate diversification reflects firms' product-related strategies that rely on many business segments (Zheng, 2017). Ardianto & Rachmawati (2018); Wentland (2016) observe the negative impact of corporate diversification on tax expenses. Diversification strategies motivate firms to become operationally more complex, incur higher operating and audit costs, and engage more in tax avoidance. Their findings support Aryotama & Firmansyah (2020a) who observe the positive effect of corporate diversification on tax avoidance. However, Zheng (2017) documents that more diversified US firms engage in fewer tax avoidance activities than less undiversified ones. Zheng (2017) also reveals that firms do not increase their tax avoidance significantly after corporate diversification. These findings are in line with Utama *et al.* (2020); Vahdani *et al.* (2019) who demonstrate that diversified firms exhibit greater sales and more stable cash flows. Consequently, they are less likely to engage in tax avoidance for cash-related purposes.

Meanwhile, customer concentration relates to firms' customer-side strategies, and it measures suppliers' customer base and indicates the characteristics of supplier-customer relationships (Huang *et al.,* 2016). Aryotama & Firmansyah (2020a); Cao *et al*. (2020); Huang *et al*. (2016) find that customer concentration positively affects tax avoidance. Firms with greater customer concentration have more incentives to hold more cash because they exhibit greater cash flow risk, higher commitment to their customers through investments in specific assets, and lower negotiating power (Itzkowitz, 2013; Wang, 2012). Tax avoidance arguably reduces cash outflows. In contrast, Putri (2020) finds that customer concentration negatively affects tax avoidance because managers avoid the risk of losing shareholders' trust. These results align with Irvine *et al.* (2016); Patatoukas (2012) who indicate that customer concentration leads to higher profitability because of more persistent customer-supplier relationships.

Furthermore, related party transactions (RPTs) represent firms' customer-side strategies that seek to preserve customer relationships. RPTs are common; they substantially represent transfers of resources to related parties through sales transactions, although they may take different legal forms. In this respect, firms often exploit these transactions to affect their reported earnings (Mahtani, 2019). Park (2018) documents that Korean firms in business groups avoid taxes through RPTs. Further, *Chaebol* member firms engage in more RPTs and tax avoidance. In a similar vein, Oktavia *et al.* (2012) establish that RPTs negatively affect tax rates. Azizah & Kusmuriyanto (2016); Helfin & Trisnawati (2020) also find that RPTs positively affect tax avoidance. However, Aryotama & Firmansyah (2020b) observe the negative influence of RPTs on tax avoidance. Indonesian firms divert domestic profits to exploit other tax strategies and not divert riskier profits overseas. Meanwhile, Zubaidah & Satyawan (2017) find that RPTs are not associated with tax avoidance.

Kang, (2013) documents that diversification positively affects CSR engagement by increasing stakeholder quantity and diversity. CSR helps firms develop their competitive advantage by producing unique products to maximize profits (Guillamon-Saorin *et al.*, 2018). Meanwhile, firms with greater customer concentration are more motivated to monitor their CSR status because it is related to their reputations to customers (Galbreath & Shum, 2012). Additionally, firms engaging in greater CSR activities are arguably involved in more RPTs (Hendratama & Barokah, 2020) because CSR can enhance the synergy effect between related parties (Lau et al., 2016; Qiao *et al*., 2018). Furthermore, firms can use CSR to divert public attention from tax management strategies (Davis *et al*., 2016) and reduce tax avoidance (Dewi & Noviari, 2017; Sari & Adiwibowo, 2017). CSR implementation arguably increases financial reporting transparency (Firmansyah, Febrian, *et al*., 2021; Firmansyah, Husna, *et al*., 2021) and even competitive advantage (Firmansyah, 2017).

This study employs profitability and leverage as control variables. More profitable firms tend to use income-decreasing accounting methods to avoid public attention and political costs (Watts & Zimmerman, 1986). Fernández-Rodríguez & Martínez-Arias (2012); Irianto & Wafirli (2017); Lisowsky (2010); Wahyuni *et al* (2019) demonstrate the positive impact of profitability on tax avoidance. In addition, Arnan *et al*. (2019); Nobanee (2018); Wahyuni *et al*. (2019) observe that highly leveraged firms use interests' tax deductibility to pay lower interests.

This research investigates the impacts of corporate diversification, customer concentration, and related party transactions on tax avoidance. Prior studies have examined tax avoidance by using one or two previously mentioned independent variables, despite inconsistent results (Aryotama & Firmansyah, 2020a, 2020c; Cao *et al*., 2020; Helfin & Trisnawati, 2020; Huang *et al*., 2016; Park, 2018; Putri, 2020; Zheng, 2017; Zubaidah & Satyawan, 2017). This research is different from previous research in that no prior studies have investigated the three variables in their analysis to explain tax avoidance. We also justify using CSR disclosure as the moderating

variable by using the resource-based view (RBV) theory. This theory argues that firms establish their competitive advantage by developing and managing internal resources (Wernerfelt, 1984). Hence, it is closely related to CSR implementation. CSR generally represents firms' commitments to act ethically, contribute to economic development, and improve the life quality of workers and surrounding communities (Lanis & Richardson, 2012). However, CSR can also be considered a corporate strategy because firms can use CSR to preserve their competitive advantage and eventually their sustainability (Porter & Kramer, 2006). CSR has become an important part of firms' overall strategy. Our study also informs the Indonesian tax authorities about firms' tax avoidance behavior.

The study is organized into six sections. The first section introduces while the second section discusses the literature review. Research methods are discussed in the third section. The fourth section analyzes the empirical results, followed by the discussion in the fifth section. The last section concludes.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

More diversified firms exhibit greater information asymmetry and more complex organizational structures (Wentland, 2016). In this respect, managers can exploit more complex organizational structures to maximize their interests, including higher social status, better reputations, and higher compensation (Aggarwal & Samwick, 2003).

Aryotama & Firmansyah (2020a) reveal that corporate diversification is positively associated with tax avoidance. Diversification increases the complexity of organizational structure, allowing managers to engage in tax avoidance. Their results support Ardianto & Rachmawati (2018); Wentland (2016) who show that diversification negatively affects tax expenses.

Corporate diversification strategy seeks to increase profits. However, this strategy increases information asymmetry and agency conflicts because of more complex organizational structures. Information becomes more asymmetric because firms only disclose firm-related information partially. Moreover, monitoring more business segments is more difficult, providing managers more opportunities to maximize their interests, including tax avoidance. Hence, we propose the following first hypothesis:

H1: Corporate diversification positively affects tax avoidance.

The political cost hypothesis explains that firms choose accounting policies that do not attract public attention and political costs, including tax expenses. More profitable firms pay higher corporate tax expenses. In this respect, firms with greater customer concentration tend to be more profitable than those with lower customer

concentration (Patatoukas, 2012). In addition, the agency theory predicts that managers will choose decisions that benefit themselves due to information asymmetry and conflicts of interest. Information asymmetry increases when firms do not fully disclose customer-related information, while conflicts of interests increase when managers unilaterally offer lower prices to their customers to reduce their taxes.

High customer concentration indicates that sales depend on several large customers, increasing cashflow risk (Campello & Gao, 2017). Firms can maintain cash holding levels through internal and external financing (Itzkowitz, 2013; Wang, 2012). However, investors and banks may ask for higher risk premiums for firms with higher customer risks, thus increasing the costs of debt and equity financing (Campello & Gao, 2017; Dhaliwal *et al*., 2016). Therefore, firms are motivated to seek internal financing through tax avoidance (Edwards *et al*., 2016; Huang *et al*., 2016).

Huang *et al*. (2016) document that customer concentration is positively associated with tax avoidance. Such firms have greater incentives to hold more cash levels due to higher cash flow risks (Campello & Gao, 2017), commitment to customers through specific asset investments (Itzkowitz, 2013), and lower negotiating power (Gosman & Kohlbeck, 2009). Tax avoidance can reduce cash outflows. Aryotama & Firmansyah (2020a); Cao *et al*. (2020) also find a positive relationship between customer concentration and tax avoidance. Firms can reduce the risks by maintaining sufficient cash levels through internal and external financing. However, external financing' higher costs motivate firms to rely more on internal financing through tax avoidance. Consequently, the following is our second hypothesis:

H2: Customer concentration positively affects tax avoidance.

More profitable firms tend to suppress their profits to avoid public attention and political costs, including by misusing RPTs to manage their profits. These transactions may increase information asymmetry and agency conflicts when RPT-related information is not fully disclosed. The condition likely motivates managers to set the transaction prices for their interests (Mahtani, 2019).

 Park (2018) documents a positive relationship between tax avoidance and RPTs. Meanwhile, Lee & Yoon (2012) observes that business groups divert revenues through RPTs. RPTs significantly affect business group affiliates, allowing them to determine the nature and quantity of transactions. Additionally, Azizah & Kusmuriyanto (2016) also indicate that RPTs increase tax avoidance.

RPTs potentially maximize profits. However, these transactions can also increase information asymmetry when information related to these transactions is not fully disclosed. Managers can exploit this condition by adjusting transaction prices, including tax avoidance. Thus, our third hypothesis is as follows:

H3: RPTs positively affect tax avoidance.

The RBV theory argues that CSR creates competitive advantages by positioning firms' products in customers' minds through hard-to-replicate valuable and distinguishable reputations (Boehe & Cruz, 2010). Engaging in CSR can help companies create differentiating elements of profits (Guillamon-Saorin *et al.*, 2018).

Meanwhile, corporate diversification strategy refers to having many business segments with different business lines. In this regard, CSR involvement may also increase the quantity and diversity of stakeholders (Kang, 2013). More diversified firms expand their business to become larger, more politically visible, and more subject to media attention (Strike *et al.*, 2006). Appearing socially responsible helps firms distract the media from their opportunistic managerial behavior, including tax avoidance (Davis *et al.*, 2016). Previous research has found a positive association between CSR and tax avoidance, as firms seek to distract the public from tax management strategies by conducting CSR (Davis *et al.*, 2016). Thus, our fourth hypothesis is as follows:

> **H4**: CSR disclosure strengthens the positive influence of corporate diversification on tax avoidance.

The RBV theory explains that CSR can be a strong and sustainable source of competitive advantage by improving firms' image and good customer relationships, and achieving long-term business goals (Zhang *et al.*, 2014). Firms' relationships with their customers and suppliers are a valuable resource that competitors cannot easily replicate. Meanwhile, customer concentration measures the extent to which a firm's customer base is concentrated, an important characteristic of supplier-customer relationships (Huang *et al.*, 2016).

Yu & Zheng (2020) observe that customer concentration strengthens the positive relationship between CSR disclosure and financial performance. Firms reporting CSR activities attract more customers and consequently improve their sales performance. Hence, firms can use CSR to enhance their profits (Ceglińska & Cegliński, 2015). Furthermore, a bad reputation increases cash flow risks as customers may move to more reputable competitors. CSR can preserve firms' reputations toward their customers, reducing business risks along the supply chains (Wen *et al.*, 2021).

Firms with greater customer concentration engage in more tax avoidance (Huang *et al.*, 2016). In this respect, the literature has demonstrated that firms can use CSR disclosure to divert stakeholders' attention from their tax avoidance activities (Davis *et al.*, 2016; Muttakin *et al.*, 2015). Therefore, CSR motivates firms with higher customer concentration to engage in tax avoidance. Thus, the following is our fifth hypothesis:

> **H5**: CSR disclosure strengthens the positive influence of customer concentration on tax avoidance.

The RBV theory explains that CSR disclosure can be a source of competitive advantage by focusing on the importance of unimitable and irreplaceable intangible resources such as reputation, culture, knowledge, and capabilities (Branco & Rodrigues, 2006). Meanwhile, Tanriverdi & Venkatraman (2005) advise firms to synergize cross-business knowledge to reduce costs through coordination, enhancing their values relative to their competitors.

Firms performing better CSR activities tend to exhibit better governance that increases synergies between related parties. Stronger synergies between related parties will increase cost efficiency and profits (Lau *et al*., 2016; Qiao *et al*., 2018). However, more profitable firms seek to constrain their profits to avoid public attention and higher tax expenses.

In this respect, Hendratama & Barokah (2020) discover that better CSR reporting strengthens the relationship between RPTs and firm value. Furthermore, Muttakin *et al.* (2015) indicate that firms can use CSR disclosure to divert stakeholders' attention from their opportunistic managerial behavior, thus allowing firms to maximize their interests through tax avoidance. Thus, we propose our last hypothesis as follows:

H6: CSR disclosure strengthens the positive influence of RPTs on tax avoidance.

RESEARCH METHOD

This study uses secondary data from Indonesian listed manufacturing firms' financial statements, annual reports, and sustainability reports from 2014 to 2019. We only select manufacturing firms in the analysis because this industry dominates the Indonesian listed firms. This sector also contributes the most to Indonesian GDP (Kementerian Perindustrian RI, 2018). Additionally, most Indonesian manufacturing firms produce diverse products because they typically have many business segments. They also have numerous customers because their products are related to our daily needs. Our observation periods start in 2014 because GRI G4 was initially published in May 2013 and effective in 2014.

We employ the purposive sampling technique to generate a research sample from 69 firms each year, resulting in 414 firm-year observations. Table 1 presents the purposive sampling process.

Table 1
Research Sample Selection

Criteria	Number
Manufacturing firms listed in IDX as of November 2020	193
IPO firms after January 1, 2015	-54
Firms with inaccessible data	-2
Firms with negative pre-tax profits	-68
Total usable firms in this study	69
Year	6
Total Sample	414

Source: Secondary data, processed

Our dependent variable is tax avoidance and is operationalized using discretionary permanent book-tax difference (DTAX). In this respect, we follow Rachmawati & Martani (2017) who adjust Frank *et al.* (2009) permanent book-tax difference to the Indonesian conditions. The permanent book-tax difference is better than other tax avoidance measures because permanent differences represent tax shelter activities that indicate the aggressiveness of tax avoidance (Frank *et al.*, 2009). Hence, tax avoidance (DTAX) is obtained by regressing to the PERMDIFF. The regression residual is a proxy for permanent discretionary differences (Rachmawati & Martani, 2017). The following is the measurement of tax avoidance:

$$PERMDIFF_{it} = \alpha_0 + \beta_1 INTANG_{it} + \beta_2 \Delta NOL_{it} + \beta_3 LAGPERM_{it} + \varepsilon_{it} \quad\text{........................} \quad 1$$

where:

$PERMDIFF_{it}$ = total book-tax-differences minus temporary book-tax-differences for company i year t $(PTBI_{it} - (CTE_{it} / STR_{it}) - (DTE_{it} / STR_{it}))$

$PTBI_{it}$ = accounting profit before firm's tax i year t

CTE_{it} = firm's tax expense i year t

STR_{it} = firm's tax rate i year t

DTE_{it} = firm's deferred tax expense i year t

$INTANG_{it}$ = total intangible assets including firm's goodwill i year t

ΔNOL_{it} = changes in net operating loss carryforward firm i in year t with previous year

$LAGPERM_{i, t}$ = the amount of $PERMDIFF_{i, t}$ the previous year

ε_{it} = discretionary permanent difference (DTAX) company i year t

Our independent variables are corporate diversification, customer concentration, and RPTs. This study follows Gu *et al.* (2018) in measuring corporate diversification, i.e., using the Entropy Index. The following formula measures corporate diversification:

$$DIV_{i, t} = \sum_{i=0}^{n} P_{i,t} \, In\left(\frac{1}{P_{i,t}}\right) \quad\text{........................} \quad 2$$

where:

P_{it} = Percentage of revenue from segment i year t

n = Segments

We follow Dhaliwal *et al.* (2016); Huang *et al.* (2016); Patatoukas (2012) in measuring customer concentration. This measurement uses the sales-based Herfindahl Hirschman Index to major key customers who account for more than 10% of a firm's total sales (Goodrich, 2017) with the following formula:

$$CUST_{it} = \sum_{j=1}^{J} \left(\frac{Sales_{i,j,t}}{Sales_{i,t}} \right)^2 \quad \text{...} \quad 3$$

where:
Sales $_{i,j,t}$ = Sale of firm i to major customers j year t
Sales $_{i,t}$ = Total sales of firm i in year t

Following Aryotama & Firmansyah (2020b); Helfin & Trisnawati (2020); Samrotun & Suhendro (2013); Sari *et al.* (2017), we use sales transactions to related parties as the proxy of RPTs. The following is the RPT formula:

$$RPTS_{it} = \frac{Sales\ to\ Related\ Party\ it}{Total\ Sales\ it} \quad \text{...} \quad 4$$

Lastly, following Bednárová *et al.* (2019); Vira & Wirakusuma (2019), our moderating variable (CSR disclosure) is measured with the G4 Global Reporting Initiatives (GRI) indicator, which has 91 disclosure indicators. Specifically, the content analysis gives a score for each disclosure item available in a firm's annual and sustainability reports. We follow prior studies in the scoring process (Estutik & Firmansyah, 2020; Ihsani *et al.*, 2021; Lee, 2017), as depicted in Table 2.

Table 2
Corporate Social Responsibility Disclosure Index Scale

Scale	Description
0	No disclosures
1	Minimum, general, and brief disclosure
2	Descriptive: the impact on the company or its policies is visible
3	Quantitative: impact for companies is defined in monetary terms or physical quantity.
4	Comprehensive

This study then sums up the total disclosure scores and calculates the index with the following formula:

$$CSR_{it} = \frac{Total\ GRI\ G4\ indicators\ disclosed\ by\ the\ company}{Number\ of\ disclosure\ criteria\ according\ to\ GRI\ G4} \quad \text{.................................} \quad 5$$

Our control variables are profitability and leverage. This study follows Irianto & Wafirli (2017); Wahyuni *et al.* (2019) in using Return on Assets (ROA) as the proxy of profitability as follows:

$$ROA = \frac{Net\ Income}{Total\ asset} \quad \text{...} \quad 6$$

Meanwhile, referring to Arnan *et al.* (2019); Nobanee (2018); Wahyuni *et al.* (2019), we divide total liabilities divided by assets to measure leverage.

$$LEV = \frac{Total\ liabilities}{Total\ asset} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\ 7$$

This study employs two models using multiple regression panel data based on the above information. The following first regression model tests H1, H2, and H3:

$$DTAX_{it} = \beta_0 + \beta_1 DIV_{it} + \beta_2 CUST_{it} + \beta_3 RPTS_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\ 8$$

The second regression model tests H4, H5, and H6 as follows:

$$DTAX_{it} = \beta_0 + \beta_1 DIV_{i,t} + \beta_2 CUST_{i,t} + \beta_3 RPTS_{i,t} + \beta_4 CSR_{i,t} + \beta_5(DIV_{i,t}*CSR_{i,t}) + \beta_6(CUST_{i,t}*CSR_{i,t}) +$$
$$\beta_7(RPTS_{i,t}*CSR_{i,t}) + \beta_8 ROA_{i,t} + \beta_9 LEV_{i,t} + \varepsilon_{i,t} \dots\dots\dots\dots\dots\dots\dots\dots\dots\ 9$$

where:
$DTAX_{i,t}$	= discretionary book-tax difference of firm i in year t
$DIV_{i,t}$	= corporate diversification of firm i in year t
$CUST_{i,t}$	= customer concentration of firm i in year t
$RPTS_{i,t}$	= related party transactions of firm i in year t
$CSR_{i,t}$	= CSR disclosure of firm i in year t
$ROA_{i,t}$	= ROA of firm i in year t
$LEV_{i,t}$	= Leverage of firm i in year t
β_0	= constant
β_1, β_2 s.d. β_9	= regression coefficients
$\varepsilon_{i,t}$	= error term

We utilize the Cash Effective Tax Rate (CETR) as an alternative proxy for tax avoidance. This proxy underscores tax avoidance strategies as tax payment delays (Hanlon & Heitzman, 2010). CETR is calculated by dividing the amount of tax paid by pre-tax income, and lower CETR values indicate lower tax expenses paid and eventually greater tax avoidance. Managers engage in tax avoidance to minimize cash outflows to pay taxes. Meanwhile, CETR does not affect accounting profits and is not affected by changes in accounting accruals. However, CETR may reflect the tax deferral strategy (Lietz, 2013). The first regression model of our sensitivity analysis tests H1, H2, and H3:

$$CETR_{it} = \beta_0 + \beta_1 DIV_{it} + \beta_2 CUST_{it} + \beta_3 RPTS_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\ 10$$

The second regression model of the sensitivity tests to test H4, H5, and H6 are as follows:

$$CETR_{it} = \beta_0 + \beta_1 DIV_{it} + \beta_2 CUST_{it} + \beta_3 RPTS_{it} + \beta_4 CSR_{it} + \beta_5(DIV_{it}*CSR_{it}) + \beta_6(CUST_{it}*CSR_{it}) +$$
$$\beta_7(RPTS_{it}*CSR_{it}) + \beta_8 ROA_{it} + \beta_9 LEV_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\ 11$$

where:
$CETR_{it}$	= cash effective tax rate of firm i in year t
DIV_{it}	= corporate diversification of firm i in year t

$CUST_{it}$ = customer concentration of firm i in year t
$RPTS_{it}$ = related party transactions of firm i in year t
CSR_{it} = CSR disclosure of firm i in year t
ROA_{it} = return on assets of firm i in year t
LEV_{it} = leverage of firm i in year t
β_0 = constant
β_1, β_2 s.d. β_9 = regression coefficients
ε_{it} = error term

ANALYSIS AND DISCUSSION

Table 3 presents the descriptive statistics of our research variables. These include the mean, median, maximum, minimum, and standard deviation.

Table 3
Descriptive Statistics

Variable	Obs.	Mean	Med	Max	Min	Std.Dev
DTAX	414	-1.68E-20	-0.001	0.216	-0.074	0.022
CETR	414	0.406	0.277	9.893	0.000	0.652
DIV	414	0.556	0.607	1.461	0.000	0.467
CUST	414	0.119	0.012	1.343	0.000	0.201
RPTS	414	0.193	0.037	0.975	0.000	0.280
CSR	414	0.474	0.341	2.473	0.044	0.407
ROA	414	0.085	0.061	0.921	0.000	0.092
LEV	414	0.406	0.406	0.864	0.069	0.177

Source: Secondary data, processed

Our sample firms exhibit higher corporate diversification, as indicated by the mean value of DIV of 0.556. Meanwhile, they have relatively low customer concentration and RPTs (mean value of CUST= 0.119 and RPTS=0.193). Meanwhile, they are also relatively profitable and highly leveraged, as indicated by the positive mean value of ROA and the mean value of LEV, which is almost 0.50.

The first model involves the non-moderated regression equation, while model 2 includes the moderated effects of the independent variables on the dependent variable. Additionally, the alternative proxy of tax avoidance (CEDR) is reverse-scaled because it represents tax expenses paid. Hence, lower tax expenses indicate that firms commit tax avoidance. The Chow test, Hausman test, and the Lagrange multiplier test for models 1 (main and sensitivity) and 2 (main and sensitivity) suggest that the fixed effect model is the most appropriate for our analyses. Table 4 below presents the results for the first regression analysis using both proxies.

Table 4
The Results of the Panel Data Regression – Model 1

Variable	Exp Sign	Main Model				Sensitivity Model			
		DTAX				CETR			
		Coef	t-Stat	Prob		Coef	t-Stat	Prob	
C		-0.004	-0.860	0.195		0.260	4.805	0.000	
DIV	+	0.014	2.371	0.009	***	-0.089	-1.455	0.073	*
CUST	+	0.019	1.466	0.072	*	0.254	1.699	0.045	**
RPTS	+	-0.004	-0.397	0.346		0.048	0.521	0.301	

Variable	Exp Sign	Main Model				Sensitivity Model			
		DTAX				CETR			
		Coef	t-Stat	Prob		Coef	t-Stat	Prob	
ROA		0.118	6.168	0.000	***	-1.884	-9.681	0.000	***
LEV		-0.037	-4.357	0.000	***	0.778	8.552	0.000	***
R^2			0.514				0.843		
Adjusted R^2			0.410				0.809		
F-statistic			4.930				25.026		
Prob (F-statistic)			0.000				0.000		

Note: ***, **, * denote significance at 1%, 5%, and 10% levels, respectively
Source: Secondary data, processed with Eviews 9

Table 4 suggests that corporate diversification positively affects tax avoidance. Our main result (DTAX) is also supported by the alternative test (CETR). Our findings confirm Ardianto & Rachmawati (2018); Aryotama & Firmansyah (2020a); Wentland (2016). Meanwhile, customer concentration also positively affects tax avoidance, albeit only for the main test. The alternative test produces a converse direction (negative impact). The finding confirms Aryotama & Firmansyah (2020a); Cao *et al.* (2020); Huang *et al.* (2016). In contrast, RPTs do not affect tax avoidance in both models (DTAX and CETR). Our results align with Zubaidah & Satyawan (2017), who analyze listed Indonesian nonfinancial firms. However, the findings do not support Azizah & Kusmuriyanto (2016); Oktavia *et al.* (2012); Park (2018) who observe that RPTs positively affect tax avoidance, likely because of different sample firms, RPT proxies, and observation periods.

Further, Table 5 below displays the results of the second regression analysis using both proxies.

Table 5
The Results of the Panel Data Regression – Model 2

Variable	Exp Sign	Main Model				Sensitivity Model			
		Coef	t-Stat	Prob		Coef	t-Stat	Prob	
C		-0.003	-0.425	0.336		0.168	2.184	0.015	
DIV	+	0.010	1.607	0.055	*	-0.091	-1.116	0.133	
CUST	+	0.041	2.481	0.007	***	-0.121	-0.644	0.260	
RPTS	+	-0.021	-1.374	0.085	*	0.530	3.161	0.001	***
CSR		-0.015	-1.814	0.035	**	0.182	2.097	0.018	**
DIV*CSR	+	0.014	2.216	0.014	**	-0.105	-1.379	0.084	*
CUST*CSR	+	-0.039	-1.840	0.033	**	0.666	2.475	0.007	***
RPTS*CSR	+	0.022	1.308	0.096	*	-0.593	-3.336	0.001	***
ROA		0.151	7.349	0.000	***	-2.276	-10.774	0.000	***
LEV		-0.034	-3.720	0.000	***	0.895	9.047	0.000	***
R^2			0.531				0.872		
Adjusted R^2			0.423				0.843		
F-stat			4.936				29.742		
Prob (F-stat)			0.000				0.000		

Note: ***, **, * denote significance at 1%, 5%, and 10% levels, respectively
Source: Secondary data, processed with *Eviews 9*

Table 5 indicates that CSR disclosure strengthens the impact of corporate diversification on tax avoidance in both models (DTAX and CETR). Thus, CSR

implementation motivates more diversified firms to engage in tax avoidance. Further, CSR disclosure weakens the positive influence of customer concentration on tax avoidance in the main (DTAX) and alternative (CETR) tests. Hence, greater CSR implementation leads firms with a more concentrated customer base to engage less in tax avoidance. Lastly, CSR disclosure also moderates the effect of RPTs on tax avoidance. Thus, firms with higher RPTs engage in more tax avoidance when implementing more CSR initiatives.

The Effect of Corporate Diversification on Tax Avoidance

Diversification strategies require careful consideration because the ineffective implementation of these strategies may lead to worse financial performance because it potentially creates cost inefficiency and organizational complexity (Phung & Mishra, 2016). Organizational complexity can hinder managers from controlling segment operations effectively. Furthermore, more diversified firms may incur inefficient resource allocation because of failure to adapt to changing environments. Furthermore, corporate diversification increases information asymmetry and agency conflicts that motivate managers to act for their interests (Wentland, 2016).

Nevertheless, manufacturing firms have more mature production and tax-related strategies (Astuti & Aryani, 2017) that are more careful in implementing a diversification strategy (Rahma, 2020). The ASEAN Economic Community (MEA), commencing at the end of 2015, also increases the product demands of manufacturing products (Budiyanti, 2016). Consequently, manufacturing firms are arguably more motivated to diversify to increase their profits (Lysek, 2019).

In addition, diversified companies exhibit more favorable tax conditions than less diversified ones because they can channel their revenues through their business segments and have higher debt capacity. For example, diversified firms can lower their tax expenses by shifting profits to less profitable or losing segments. They also can borrow more because their cash flow risks are spread to more segments (Campello & Gao, 2017). Thus, they can have higher tax advantages than less diversified firms due to the tax deductibility of interests (Act No. 36 of 2008).

This study confirms the political cost hypothesis in positive accounting theory. Corporate diversification strategy may improve profitability, market share, business growth, debt capacity, risk reduction, and efficient resource allocation (Afza *et al*., 2008). Consequently, more diversified firms are likely to engage in more tax avoidance to reduce their tax expenses and avoid political costs (Watts & Zimmerman, 1986).

The Effect of Customer Concentration on Tax Avoidance

Manufacturing firms' products are typically related to our daily needs, motivating firms to rely less on major customers. Consequently, they incur lower risks due to customer concentration and are less motivated to engage in tax avoidance. However, manufacturing firms with greater customer concentration incur higher cash

flow risks because their sales depend on a handful of major customers (Campello & Gao, 2017). They can maintain cash holdings through internal and external financing (Itzkowitz, 2013). However, external financing is arguably more costly as banks and investors demand higher interests or returns (Campello & Gao, 2017; Dhaliwal *et al*., 2016). Therefore, they are motivated to seek internal financing, including through tax avoidance (Edwards *et al*., 2016; Huang *et al*., 2016). Alternatively, firms with more customer concentration are more profitable because they have lower sales, general and administrative costs, and a higher level of asset turnover (Patatoukas, 2012). They are then more motivated to avoid taxes.

This study confirms the political cost hypothesis in positive accounting theory, arguing that firms are motivated to avoid political costs. Firms with high customer concentration are motivated to maintain cash holding levels through tax avoidance due to higher cash flow risks (Campello & Gao, 2017), commitment to customers through specific asset investments (Itzkowitz, 2013), and negotiating power (Gosman & Kohlbeck, 2009).

The Effect of RPTs on Tax Avoidance

The mean (median) value of RPTs is 0.1927 (0.0372), indicating that Indonesian manufacturing firms engage in less related sales transactions. Additionally, manufacturing firms have more complex production processes because they mainly convert raw materials into finished goods to meet daily needs. Furthermore, the Indonesian government has implemented various tax rules to monitor firms' potential behavior in exploiting RPTs for tax evasion. For example, the Regulation of the Director-General of Taxation No. PER-32/PJ/2011 concerning the application of the fairness and business prevalence principles in transactions between taxpayers and their related parties requires firms to engage in transactions with their related parties at fair prices. Additionally, the Regulation of the Minister of Finance No. PMK-213/PMK.03/2016 confirms that all parties conducting affiliated transactions must implement the fairness and business prevalence principles and maintain documents or information related to those transactions. These regulations are stipulated by Act No.36 of 2008 Article 18 paragraph (3), mentioning that the Director-General of Taxation is entitled to evaluate whether taxpayers implement the fairness and business prevalence principles and impose certain sanctions in case taxpayers violate the principles. Consequently, firms can use other tax evasion means than RPTs, and RPTs do not affect tax avoidance.

The Role of CSR Disclosure in Moderating the Influence of Corporate Diversification on Tax Avoidance

Firms are motivated to avoid taxes to maximize their profits. In this respect, more diversified firms can utilize CSR to avoid taxes. Our results empirically support this argument, highlighting that CSR disclosure strengthens the positive impact of corporate diversification on tax avoidance.

The RBV theory explains that CSR can create competitive advantages for the implementing firms through irreplicable and inimitable products (Boehe & Cruz, 2010). Consequently, more diversified firms that implement CSR can generate higher profits due to both diversification and CSR implementation. However, higher profits lead to higher taxes, and more profitable firms are motivated to engage in greater tax avoidance.

More diversified firms can also use CSR to divert public and media attention and pressure when engaging in tax avoidance (Davis *et al*., 2016; Muttakin *et al*., 2015). Thus, the arguments explain that CSR strengthens diversified firms to engage in tax avoidance.

The Role of CSR Disclosure in Moderating the Influence of Customer Concentration on Tax Avoidance

The RBV theory argues that CSR potentially creates sustainable competitive advantages by helping firms improve their image, build better relationships with customers and suppliers, and eventually achieve their long-term business goals (Zhang *et al*., 2014). Such good customer relationships are not easily replicated by competitors (Wang & Choi, 2013). Eventually, CSR likely improves customer loyalty (Islam *et al*., 2021) by affecting the intensity of consumers' purchases (Pérez *et al*., 2013) and enhancing customers' trust (Wu, 2013).

Consequently, firms with higher customer concentration that implement more CSR activities are less motivated to hold more cash holdings (including through tax avoidance) than those that initiate lower CSR activities. The latter firms exhibit a high cash flow risk due to their customers' potential switch to other suppliers (Campello & Gao, 2017) and greater negotiating power (Huang *et al*., 2016). However, CSR improves customer loyalty, thus discouraging customers, even the powerful ones, from switching and exerting their negotiating power. Thus, CSR weakens the negative impact of customer concentration on tax avoidance. These arguments explain our finding that CSR implementation negatively moderates the positive effect of customer concentration on tax avoidance.

The Role of CSR Disclosure in Moderating the Influence of RPTs on Tax Avoidance

The unmoderated analysis reveals that RPTs do not significantly affect tax avoidance, likely because stringent tax rules restrict firms from misusing RPTs for tax avoidance. However, CSR activities arguably improve firms' performance through higher customer loyalty (Islam *et al*., 2021), higher employee productivity (Branco & Rodrigues, 2006), and better corporate governance (Lau *et al*., 2016; Qiao *et al*., 2018). Consequently, firms that implement CSR activities likely increase their profits, motivating firms to engage in more RPTs to avoid taxes.

Furthermore, firms with more RPTs may use CSR to divert public and media

pressure away from their tax avoidance activities (Muttakin *et al*., 2015). Hence, they use CSR to develop a good corporate image to distract the public from irresponsible corporate actions, including tax avoidance (Abdurakhman, 2019), and protect their reputation (Li *et al*., 2019). Consequently, firms engaging in more RPTs commit more tax avoidance when they initiate more CSR activities. In other words, CSR increases the impact of RPTs on tax avoidance.

CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Diversified firms enjoy more favorable tax conditions than non-diversified ones because of their higher debt capacity and diversified revenue sources. Furthermore, monitoring complex organizational structures is more difficult than simpler ones. Consequently, managers may exploit these conditions to engage in tax avoidance. In a similar vein, firms with higher customer concentration depend heavily on few key customers, implying higher cash flow risk. Hence, these firms are more motivated to engage in tax avoidance to reduce cash outflows and cash flow risk. However, RPTs do not affect tax avoidance, likely because the current Indonesian tax regulations quite effectively restrict the use of RPTs to manage taxes.

Further, CSR appears to work effectively as a strategy to divert public and media attention to firms' tax management as it strengthens the effects of corporate diversification and RPTs on tax avoidance. However, firms that initiate more CSR activities likely generate higher customer loyalty. Hence, these firms with greater customer concentration are less concerned with cash flow risks because their major customers are arguably more loyal. Consequently, CSR disclosure weakens the effect of customer concentration on tax avoidance. In sum, our results highlight CSR's nuanced roles in moderating the impacts of our independent variables on tax avoidance. On the one hand, CSR diverts public and media pressure and attention from firms' tax management activities. Thus, CSR acts as a 'publicity stunt' to conceal tax avoidance. On the other hand, CSR benefits firms' broad stakeholders that improve their public perception. Consequently, they enjoy higher loyalty from their stakeholders, including customers. They can then significantly reduce cash flow risk when they have higher customer concentration.

This study is subject to several caveats. First, although we have strived to minimize our subjectivity by consulting our CSR measurement with two Asia Sustainability Reporting Rating (ASRRAT) sources, subjectivity remains an issue for any disclosure measurement. Second, we only use the G4 Global Reporting Initiative (GRI) Standards published in May 2013 to measure CSR disclosure, limiting our observation periods to only six years. Consequently, we advise future studies to use alternative proxies of CSR disclosure and tax avoidance.

This study suggests that the Indonesian tax authority improves their tax inspectors' competence to detect tax avoidance activities by using firms' corporate

diversification, customer concentration, and RPTs, especially related to CSR activities. Indeed, CSR may indicate firms' commitment to act ethically and contribute to the betterment of their surrounding stakeholders. However, firms can use CSR activities to conceal their tax management activities and as a publicity stunt to divert the public attention. Thus, the Indonesian tax authority needs to consider corporate taxpayers' diversification, customer concentration, RPTs, and CSR as risk-based criteria in engaging tax audits. Furthermore, the information can be found freely in firms' financial statements, annual reports, and sustainability reports. Furthermore, the Indonesian Financial Services Authority (*OJK*) must improve its regulations to ensure that firms' CSR disclosures are more reliable and verifiable. Thus, firms initiate CSR activities genuinely of their commitment to act ethically and benefit their stakeholders.

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